

# HALF-YEAR RESULTS TO 31 DECEMBER 2016

21 February 2017

Peter Truscott, Chief Executive  
Graham Prothero, Finance Director

# Peter Truscott

CHIEF EXECUTIVE



# AGENDA

- Group highlights
- Operating review
- Financial review
- Outlook
- Appendices

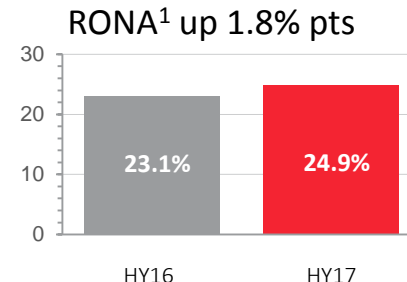
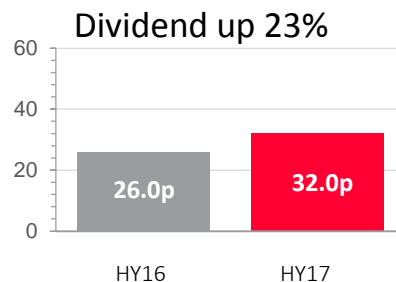
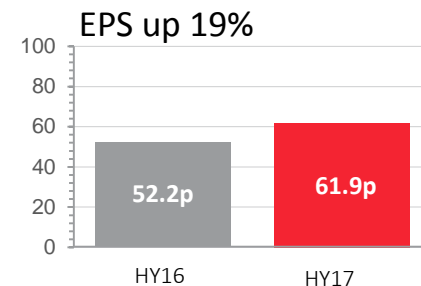
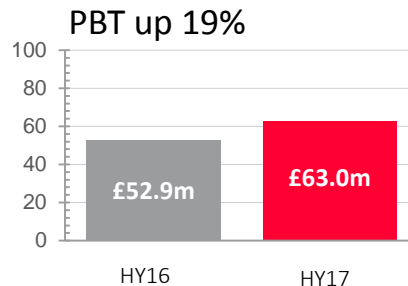
# GROUP HIGHLIGHTS

Half-year results to 31 December 2016



# GROUP HIGHLIGHTS

- Half-year profit before tax up 19% to £63.0m
- Interim dividend up 23% to 32.0p per share
- Net debt of £113.8m
- Return on net assets increased to 24.9%<sup>1</sup>
- Strategy to 2021 targeting sustainable growth and strong returns across all three businesses



<sup>1</sup> Group return on net assets (RONA) is calculated as pre-exceptional EBITA divided by average net assets including goodwill



# LINDEN HOMES

Operating review



Crowdhill Green, Hampshire

# LINDEN HOMES

Operating review

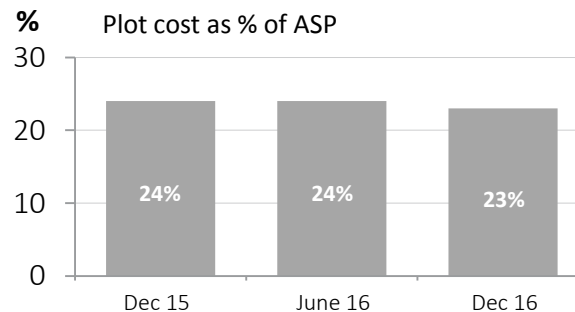
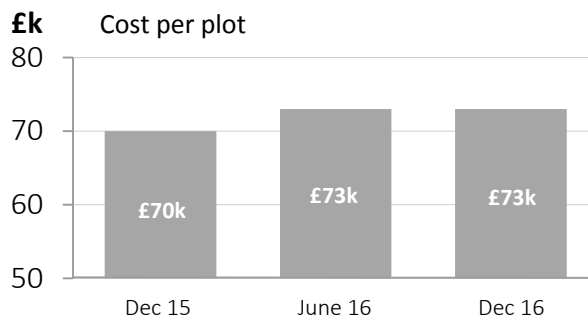
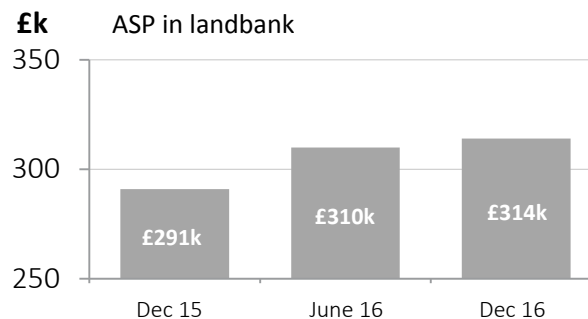
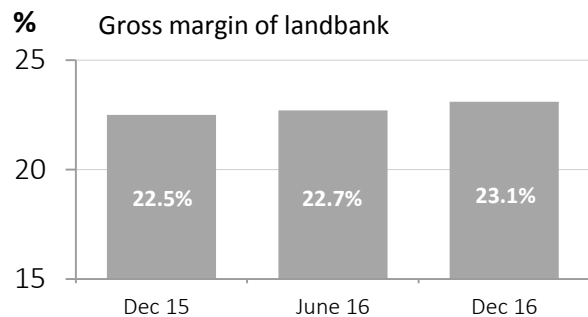
## Overview

- Operating margin increased to 18.2% (HY16: 17.0%)
- Revenue up 12% to £408m (HY16: £363m)
- 1,491 completions in the period, up 10% (HY16: 1,357)
- Strong in-hand position of £857m<sup>1</sup>, up 8% (HY16: £793m)
- Sales per outlet per week at 0.56 (HY16: 0.57)
- 11,500<sup>1</sup> plots in landbank (HY16: 12,800) with GDV of £3.6bn
- New management structure working well

<sup>1</sup>Current at 13 February 2017

# LINDEN HOMES

## Operating review





# PARTNERSHIPS & REGENERATION

Operating review



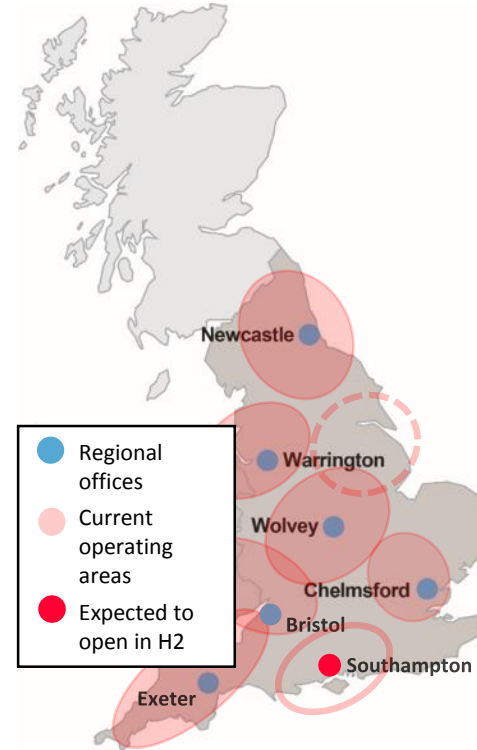
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# PARTNERSHIPS & REGENERATION

Operating review

## Overview

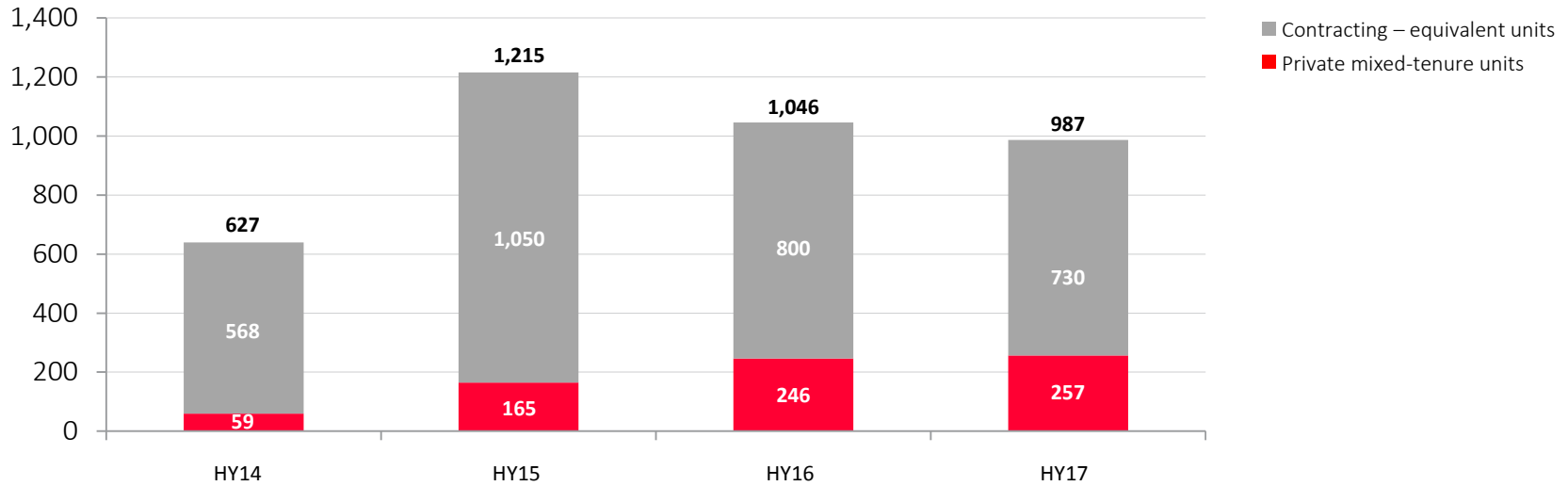
- Solid strategic progress supported by new management structure
- Mixed-tenure revenue up by 16%; contracting revenue 4% down to £144m (HY16: £150m)
- Operating margin increased to 3.4% (HY16: 3.0%)
- Mixed-tenure sales in-hand up 16% at £92m
- Contracting order book up 6% at £925m
- Southampton office on track to open during H2
- Growth in landbank to 2,750 plots (HY16: 2,700) with GDV of £668m



# PARTNERSHIPS & REGENERATION

Operating review

## Units delivered



# CONSTRUCTION

Operating review



Queensferry Crossing, Firth of Forth

# CONSTRUCTION

Operating review

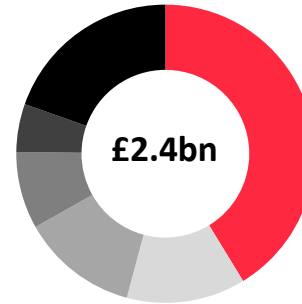
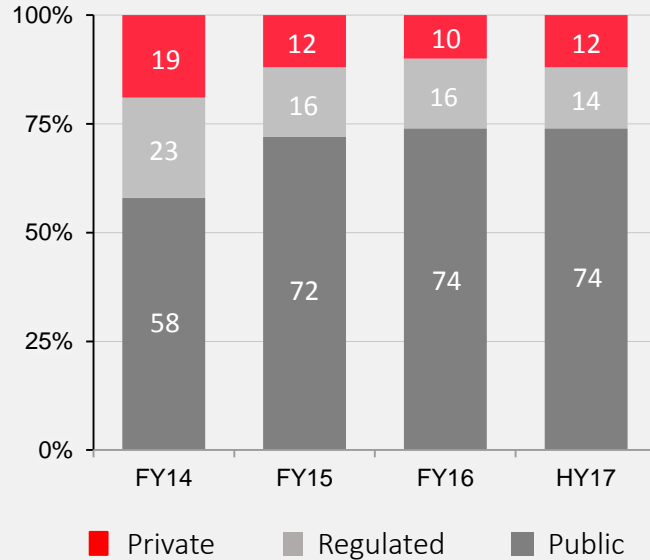
## Overview

- Revenue stable at £742m (HY16: £739m) but margin and cash both constrained pending completion of historical projects
- Making progress resolving legacy contracts and contribution from newer work is very encouraging
- High-quality, solid order book of £3.4bn (HY16: £3.7bn); 62% of work secured for 2017/18
- New work contains appropriate margin and inflation allowances; focus on lower risk public and regulated sector and two-stage negotiated work

# CONSTRUCTION

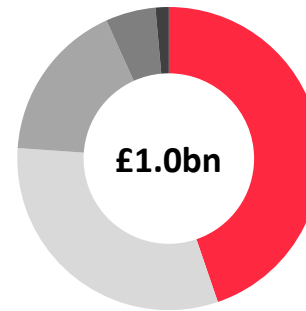
Operating review

By client type



## Building

- Education
- Health
- Commercial
- Other Public Sector
- Defence
- Facilities Management



## Infrastructure

- Water
- Roads
- Rail
- Flood Alleviation
- Other Civil Engineering

# Graham Prothero

FINANCE DIRECTOR





# FINANCIAL REVIEW



40 Brighton Road, Sutton

# FINANCIAL REVIEW

Financial highlights: half-year to 31 December

<b>£m</b>	<b>HY17</b>	<b>HY16</b>	<b>Var</b>	<b>FY to 30 June 2016</b>
Revenue <sup>1</sup>	1,307.6	1,264.9	+3%	2,670.4
Profit from operations <sup>2</sup>	74.7	65.9	+13%	157.5
Profit before tax	63.0	52.9	+19%	135.0
Earnings per share	61.9p	52.2p	+19%	132.5p
Dividend per share	32.0p	26.0p	+23%	82.0p
Group RONA <sup>3</sup>	24.9%	23.1%	+1.8%pts	26.9%

<sup>1</sup> Includes share of joint ventures

<sup>2</sup> Profit from operations stated before finance costs, amortisation, exceptional items, joint ventures' interest and tax, and taxation

<sup>3</sup> Group return on net assets (RONA) is calculated as EBITA divided by average net assets including goodwill

# FINANCIAL REVIEW

Segmental analysis: half-year to 31 December

£m	HY17		
	Revenue <sup>1</sup>	Profit/(Loss) from Operations <sup>2</sup>	Operating Margin
<b>Linden Homes</b>	407.6	74.3	18.2%
<b>Partnerships &amp; Regeneration</b>	144.3	4.9	3.4%
<b>Construction</b>	742.0	2.7	0.4%
<b>PPP Investments</b>	12.8	(0.2)	NA
<b>Group</b>	0.9	(7.0)	NA
<b>TOTAL</b>	<b>1,307.6</b>	<b>74.7</b>	<b>5.7%</b>

FY to 30 June 16
Operating Margin
17.5%
3.9%
1.1%
NA
NA
5.9%

£m	HY16		
	Revenue <sup>1</sup>	Profit/(Loss) from Operations <sup>2</sup>	Operating Margin
Linden Homes	362.7	61.5	17.0%
Partnerships & Regeneration	150.2	4.5	3.0%
Construction	738.6	8.5	1.2%
PPP Investments	12.9	(1.7)	NA
Group	0.5	(6.9)	NA
TOTAL	1,264.9	65.9	5.2%

<sup>1</sup> Revenue includes share of joint ventures

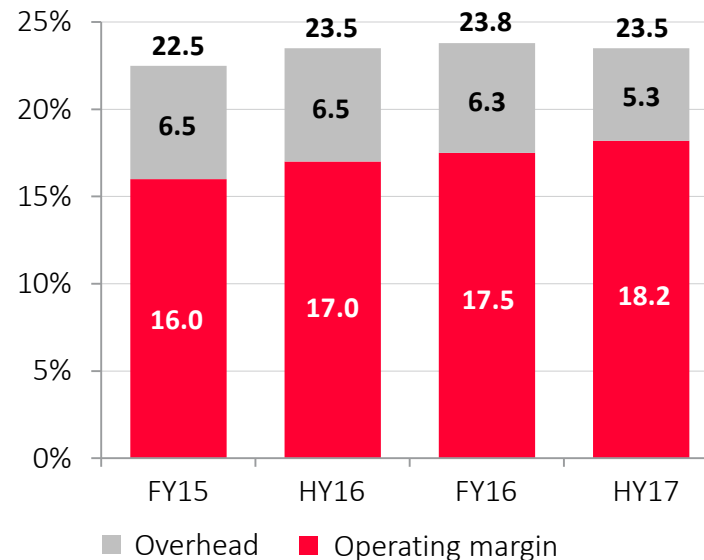
<sup>2</sup> Profit/loss from operations stated before finance costs, amortisation, exceptional items, joint ventures' interest and tax, and taxation

# FINANCIAL REVIEW

Linden Homes

COMPS/REVENUE		Revenue up 12%
<b>Units:</b>	<b>1,491</b>	(HY16: 1,357)
<b>Revenue:</b>	<b>£407.6m</b>	(HY16: £362.7m)
SALES MIX (UNITS)		Units up 10%
<b>Private:</b>	<b>1,155</b>	(HY16: 1,124)
<b>Affordable:</b>	<b>336</b>	(HY16: 233)
AVERAGE SALES PRICE <sup>1</sup>		Up 1%
<b>£338k</b>		(HY16: £334k)
RETURN <sup>2</sup>		Up 4.7%pts
<b>Return on net assets: 31.8%</b>		(HY16: 27.1%)
SALES IN HAND <sup>3</sup>		Up 8%
<b>£857m</b>		(HY16: £793m)

Linden Homes margin



<sup>1</sup> Excludes affordable

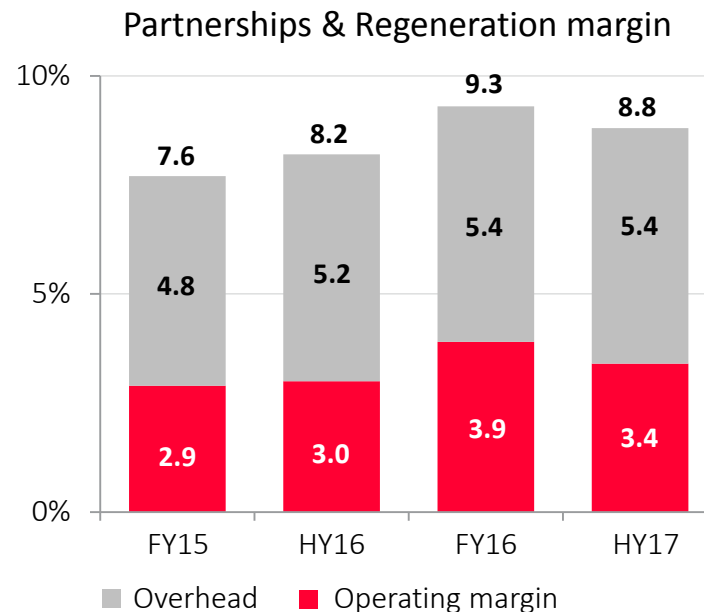
<sup>2</sup> Definition updated effective from June 2016 - see Appendix 1.5

<sup>3</sup> Current at 13 February 2017

# FINANCIAL REVIEW

## Partnerships & Regeneration

REVENUE		Mixed-tenure up £4.9m
<b>Contracting:</b>	<b>£109.7m</b>	(HY16: £120.5m)
<b>Mixed-tenure:</b>	<b>£ 34.6m</b>	(HY16: £ 29.7m)
UNITS DELIVERED		ASP up 21%
<b>ASP:</b>	<b>£188k</b>	(HY16: £155k)
<b>Mixed-tenure:</b>	<b>257</b>	(HY16: 246)
<b>Equivalent contracting units</b>	<b>730</b>	(HY16: 800)
RETURN		Down 6.3%pts
<b>Return on net assets:</b>	<b>29.4%</b>	(HY16: 35.7%)
ORDER BOOK/SALES IN HAND <sup>1</sup>		Up 6%/16%
<b>Contracting:</b>	<b>£925m</b>	(HY16: £875m)
<b>Mixed-tenure:</b>	<b>£ 92m</b>	(HY16: £ 79m)



<sup>1</sup> Current at 13 February 2017

# FINANCIAL REVIEW

Construction

## REVENUE

**£742.0m** (HY16: £738.6m)

## CASH

**£110.8m** (HY16: £154.7m)

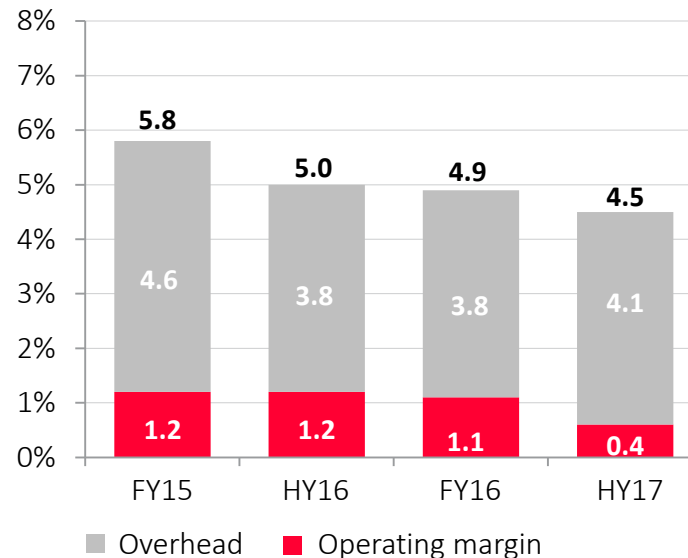
## ORDER BOOK<sup>1</sup>

**£3.4bn** (HY16: £3.7bn)

## WORK SECURED<sup>1</sup>

**62% (for FY18)** (HY16: 71%)

## Construction margin



<sup>1</sup> Current at 13 February 2017

# FINANCIAL REVIEW

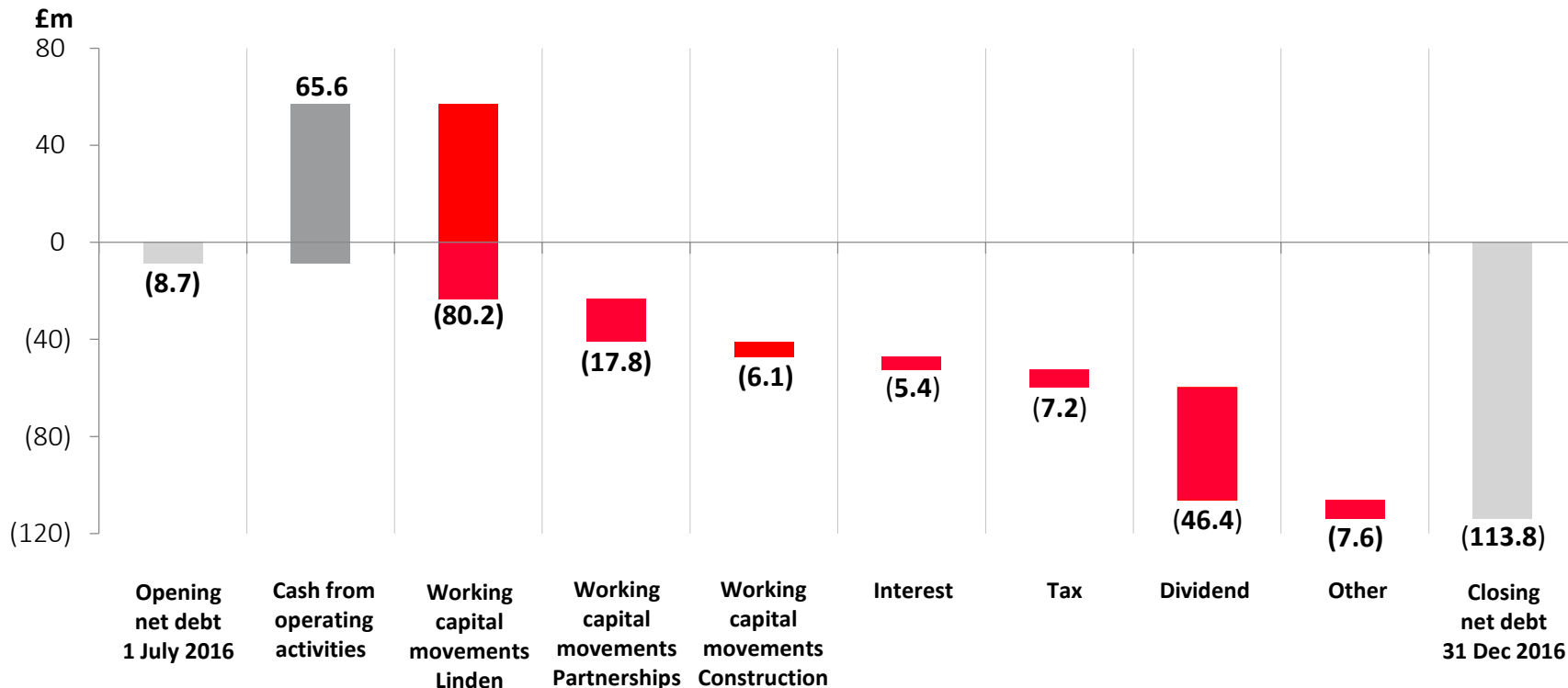
## Cash management

- Strong focus on working capital management
- Debt facilities enhanced to provide flexibility and resilience
  - Bank facility extended to 2022 on same terms
  - Debt private placement of £100m fixed-rate 10-year notes
- Average net debt for the six months of £231m
- Period-end gearing of 19%, well below our target maximum 30%
- Continue to benefit from deferred land payments, with land creditors at £193m



# FINANCIAL REVIEW

## Cash management



# FINANCIAL REVIEW

## Balance sheet highlights

£m	December 2016	June 2016	December 2015
Net asset value	598.1	600.0	570.0
Tangible net assets	447.5	447.8	415.7
Net (debt)	(113.8)	(8.7)	(95.7)
Gearing %	19%	1%	17%

# FINANCIAL REVIEW

## Segmental balance sheet

Net assets £m	Linden Homes	Partnerships & Regeneration	Construction	PPP Investments	Central	Total
<b>31 December 2016</b>						
Goodwill & intangible assets	52.9	5.9	84.4	-	7.4	150.6
Working capital employed	681.9	55.8	(103.1)	21.6	(94.9)	561.3
Net cash/(debt)	(620.4)	(26.9)	110.8	(14.5)	437.2	(113.8)
<b>Net assets</b>	<b>114.4</b>	<b>34.8</b>	<b>92.1</b>	<b>7.1</b>	<b>349.7</b>	<b>598.1</b>
<b>31 December 2015</b>						
Net assets	79.9	27.0	85.2	7.5	370.4	570.0
<b>30 June 2016</b>						
Net assets	130.1	31.9	90.4	7.6	340.0	600.0

# FINANCIAL REVIEW

## Investment in Linden Homes and Partnerships & Regeneration



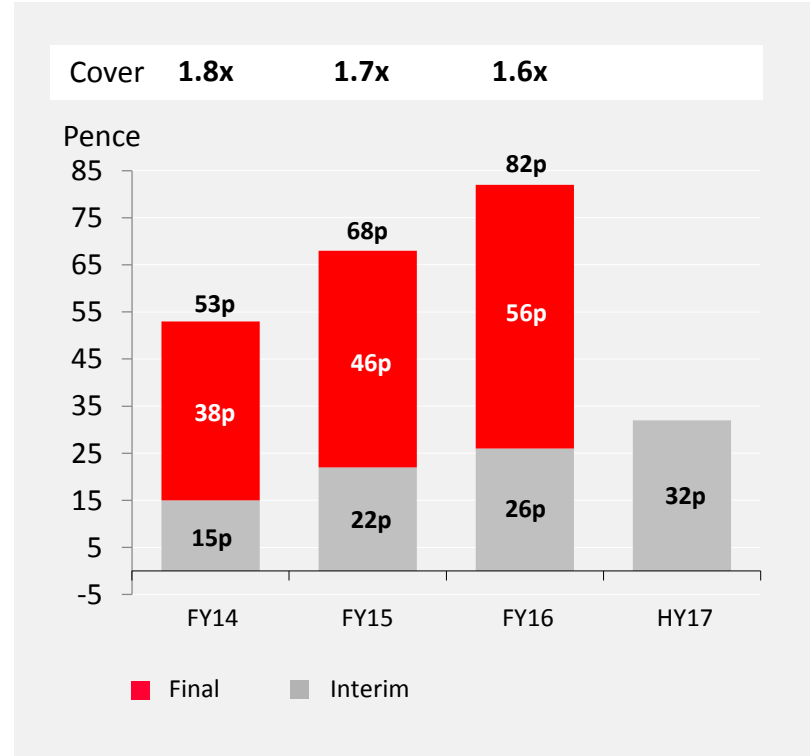
£m	December 2016	June 2016	December <sup>1</sup> 2015
Amounts invested in joint ventures	232.4	198.0	202.3
Land	553.6	538.7	606.5
Work in progress	293.7	282.1	253.4
Total invested in housebuilding developments & JVs	1,079.7	1,018.8	1,062.2
Land creditors	(193.3)	(202.8)	(240.7)
<b>TOTAL</b>	<b>886.4</b>	<b>816.0</b>	<b>821.5</b>
Linden Homes	808.7	749.8	778.6
Partnerships & Regeneration	77.7	66.2	42.9
<b>TOTAL</b>	<b>886.4</b>	<b>816.0</b>	<b>821.5</b>

<sup>1</sup>Restated - definition updated effective from June 2016 – see Appendix 1.5

# FINANCIAL REVIEW

## Dividend

- Sustainable and progressive dividend policy
- Interim dividend up 23%



# Peter Truscott

CHIEF EXECUTIVE



# OUTLOOK



George Green, Nottingham



# LINDEN HOMES

## Outlook

- Significant improvement in forward sales
- Pricing stable
- Well positioned to deliver and improve operating margin versus FY16
- Land market remains positive; 3.5-year landbank
- 97% of land secured for FY18 and 74% for FY19
- 1,992 acres in strategic land

# PARTNERSHIPS & REGENERATION

## Outlook

- Political imperative to increase supply driving client activity
- Well placed to extend track record on future public land releases
- Capturing value through HCA funding award
- Continuing margin improvement driven by mixed-tenure opportunities
- Further expansion underway

# CONSTRUCTION

## Outlook

- Public and regulated sectors continue to invest, although demand in private sector initially slowed following the EU Referendum
- Good order book visibility; continue to be very selective
- Key sectors of roads, education, health and defence strong drivers of growth
- Finalisation of legacy contracts continues to restrict margin progression, anticipate reported margins will begin to improve from 2018
- Projects commenced in the past two years performing well reflecting disciplined approach to securing work and a strong underlying business

# SUMMARY

## Outlook

- Continue to monitor market conditions and consumer confidence closely
- Recent Housing White Paper generally positive and confirmed Affordable Housing remains high on the political agenda
- Government investment in infrastructure continues
- Focus on operational improvements
- Group order book of £4.8bn
- Continuing confidence in the outlook for all three businesses

# Q&A

Half-year results



King's House, West London

# APPENDICES



Holywell Learning Campus

## 1. Group

- 1.1 Cash flow summary
- 1.2 Net finance costs
- 1.3 Completed housing units
- 1.4 Forecast land creditors' payment profile
- 1.5 Land creditor restatement

## 2. Linden Homes

- 2.1 Revenue analysis regional
- 2.2 Analysis of sales reserved, contracted and completed
- 2.3 Sales, completions by buyer type
- 2.4 Trading overview
- 2.5 Private sales, analysis of incentives on reservations

- 2.6 Strategic use of joint ventures (Dec 16 and Dec 15)
- 2.7 Landbank valuation
- 2.8 Landbank analysis
- 2.9 Movement in landbank
- 2.10 Forecast outlets and revenue

## 3. Partnerships & Regeneration

- 3.1 Business model

## 4. Construction

- 4.1 Segmental analysis
- 4.2 Order book



# APPENDICES

## 1.1 Cash flow summary – half-year to 31 December 2016

£m	HY17	HY16
Cash from operating activities	65.6	52.3
Working capital movements	(104.1)	(62.0)
Net cash used in operations	(38.5)	(9.7)
Interest, tax and dividends	(59.0)	(55.9)
Other	(7.6)	(12.8)
Net cash outflow	(105.1)	(78.4)
Opening net debt	(8.7)	(17.3)
Closing net debt	(113.8)	(95.7)
<b>Cash Analysis - £m</b>	<b>HY17</b>	<b>HY16</b>
Linden Homes (includes loans to JVs)	(620.4)	(640.2)
Partnerships & Regeneration	(26.9)	(2.6)
Construction	110.8	154.7
Group and others	422.7	392.4
<b>TOTAL</b>	<b>(113.8)</b>	<b>(95.7)</b>

# APPENDICES

## 1.2 Net finance costs – half-year to 31 December 2016

£m	HY17	HY16
Net interest payable on borrowings	(7.8)	(7.3)
Interest receivable from joint ventures	1.7	1.5
Unwind of discount on payables	(0.5)	(1.1)
Other	0.1	0.2
<b>TOTAL</b>	<b>(6.5)</b>	<b>(6.7)</b>

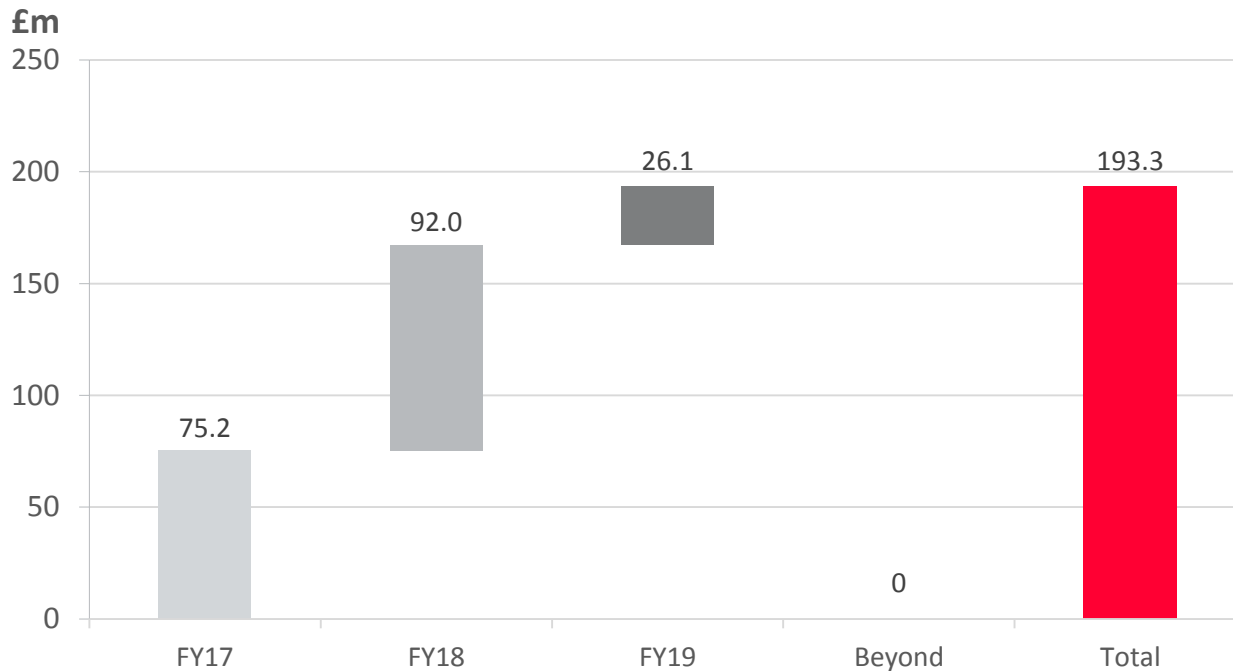
# APPENDICES

## 1.3 Completed housing units

	Linden Homes	Linden Homes	Partnerships & Regen	Partnerships & Regen	TOTAL	TOTAL
		net of partner share		net of partner share		net of partner share
Units	Incl JVs		Incl JVs		Incl JVs	
Private	1,155	1,018	165	110	1,320	1,128
Affordable	336	301	92	76	428	377
<b>TOTAL</b>	<b>1,491</b>	<b>1,319</b>	<b>257</b>	<b>186</b>	<b>1,748</b>	<b>1,505</b>
Contracting (equivalent units)	-	-	730	730	730	730
<b>TOTAL HY17</b>	<b>1,491</b>	<b>1,319</b>	<b>987</b>	<b>916</b>	<b>2,478</b>	<b>2,235</b>

# APPENDICES

## 1.4 Forecast land creditors' payment profile



# APPENDICES

## 1.5 Land creditor restatement

- Policy updated at 30 June 2016 to recognise land and land creditors on unconditional exchange of contract or once land acquisition has completed, rather than at exchange of conditional contract

£m	Dec 2016	As restated Dec 2015	As previously stated Dec 2015	Variance Dec 2015
Land	553.6	606.5	708.5	(102.0)
Land creditor < 1 year	137.8	101.8	173.6	(71.8)
Land creditor > 1 year	55.5	138.9	169.1	(30.2)
<b>Land creditor total</b>	<b>193.3</b>	<b>240.7</b>	<b>342.7</b>	<b>(102.0)</b>

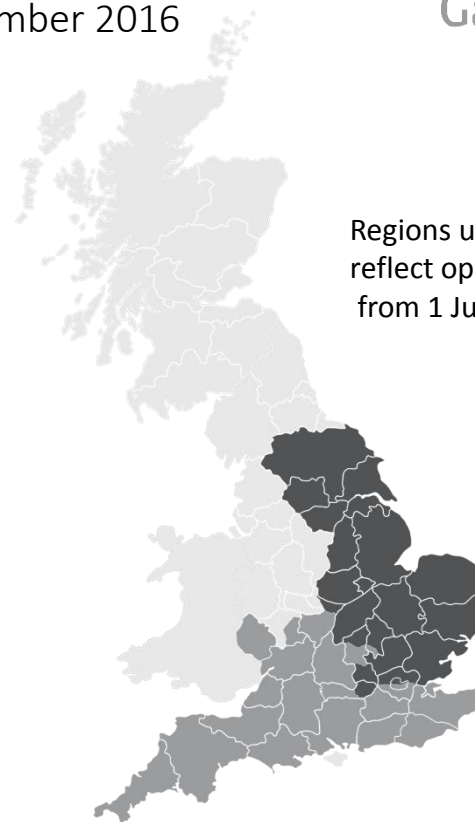
# APPENDICES

## 2.1 Linden Homes – revenue analysis, regional at 31 December 2016

TOTAL	
Units	1,491
Revenue	£407.6m

EAST DIVISION		
Units	695	(47%)
Revenue	£199.2m	(49%)

WEST DIVISION		
Units	796	(53%)
Revenue	£208.4m	(51%)



Regions updated to reflect operating structure from 1 July 2016

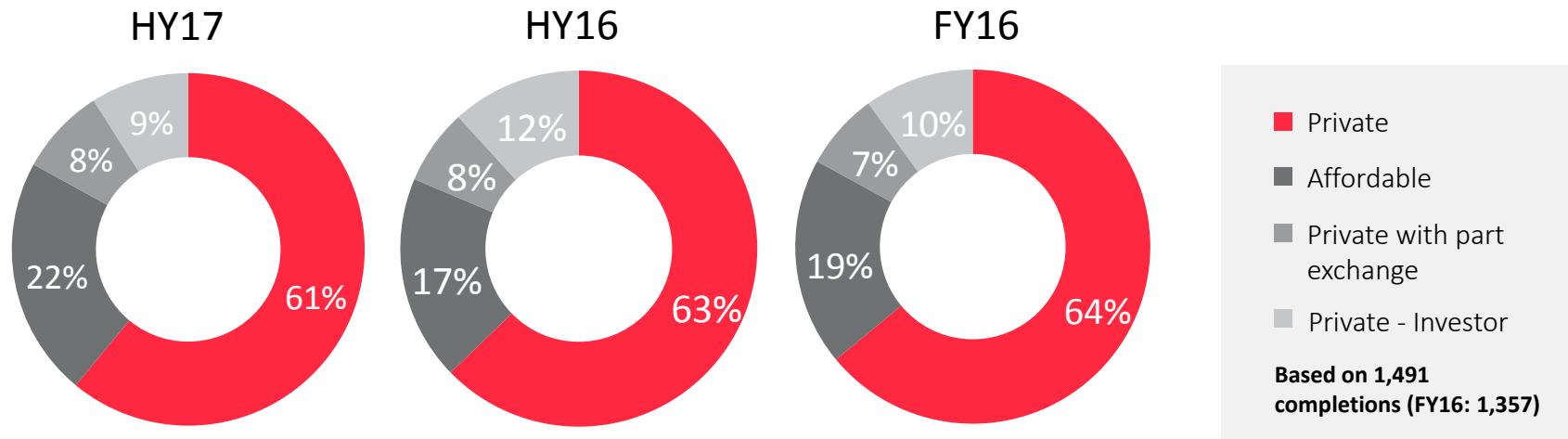
# APPENDICES

## 2.2 Linden Homes – analysis of sales reserved, contracted, and completed

£m	Feb 17	Dec 16	Feb 16
Private	684.1	578.3	644.3
Affordable	163.0	158.3	143.4
Land Sales	10.3	10.3	5.6
<b>TOTAL</b>	<b>857.4</b>	<b>746.9</b>	<b>793.3</b>
For completion in FY17	699.4	611.0	619.7
For completion post FY17	158.0	135.9	173.6
<b>TOTAL</b>	<b>857.4</b>	<b>746.9</b>	<b>793.3</b>
<b>Units</b>			
Private	1,996	1,702	1,933
Affordable	1,389	1,366	1,325
<b>TOTAL</b>	<b>3,385</b>	<b>3,068</b>	<b>3,258</b>

# APPENDICES

## 2.3 Linden Homes – sales, completions by buyer type





# APPENDICES

## 2.4 Linden Homes – trading overview

	HY17	HY16	FY16
Revenue (£m)	408	363	841
Land cost	23.4%	25.1%	26.8%
Build cost	53.1%	51.4%	49.4%
Gross margin	23.5%	23.5%	23.8%
Overheads	5.3%	6.5%	6.3%
Operating margin	18.2%	17.0%	17.5%

# APPENDICES

## 2.5 Linden Homes – private sales, analysis of incentives on reservations

Proportion of units	H117	H216	H116
No incentives	33%	36%	44%
Incentives			
Part exchange	13%	8%	7%
Assisted move	3%	4%	3%
Help to Buy	44%	42%	34%
Investor sales	7%	10%	12%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

# APPENDICES

## 2.6 Linden Homes – strategic use of joint ventures (Dec 16)

	HY17			
	Completions (Units)		Revenue (Linden Homes only)	ASP
	Gross	Net of JV partner	£m	£000
Direct - private	881	881	285	323
- affordable	265	265	29	111
Other income, including land sales			29	-
JOs <sup>1</sup> - private	88	44	12	269
- affordable	-	-	-	-
	<b>1,234</b>	<b>1,190</b>	<b>355</b>	
JVs <sup>2</sup> - private	186	93	48	514
- affordable	71	36	5	139
Other income, including land sales			-	
<b>TOTAL</b>	<b>1,491</b>	<b>1,319</b>	<b>408</b>	<b>287</b>

<sup>1</sup> Joint operations (JOs) proportionally consolidated within Linden Homes under IFRS11

<sup>2</sup> Joint ventures equity accounted under IFRS11

# APPENDICES

## 2.6 Linden Homes – strategic use of joint ventures (Dec 15)

		HY16			
		Completions (Units)		Revenue (Linden Homes only)	ASP
		Gross	Net of JV partner	£m	£000
Direct	- private	804	804	252	314
	- affordable	181	181	19	104
Other income, including land sales				17	-
JOs <sup>1</sup>	- private	120	60	16	262
	- affordable	10	5	1	104
		<b>1,115</b>	<b>1,050</b>	<b>305</b>	
JVs <sup>2</sup>	- private	200	100	55	548
	- affordable	42	21	3	166
<b>TOTAL</b>		<b>1,357</b>	<b>1,171</b>	<b>363</b>	<b>295</b>

<sup>1</sup> Joint operations (JOs) proportionally consolidated within Linden Homes under IFRS11

<sup>2</sup> Joint ventures equity accounted under IFRS11

# APPENDICES

## 2.7 Linden Homes - landbank valuation<sup>1</sup>

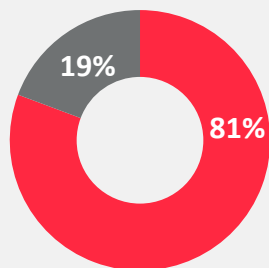
Cost per plot £000	December 2016		December 2015		June 2016	
	East Division	West Division	East Division	West Division	East Division	West Division
Opening landbank	79	69	76	65	76	65
Closing landbank	80	68	74	67	79	69
Weighted ASP in landbank	305	322	283	295	301	317
Plot cost as % of weighted ASP	26%	21%	26%	23%	26%	22%

<sup>1</sup>Excluding strategic landbank of 11,400 plots

# APPENDICES

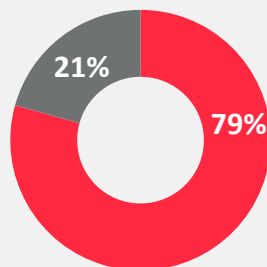
## 2.8 Landbank analysis<sup>1</sup>

### By business



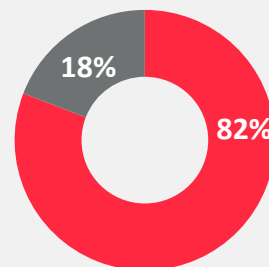
Linden Homes	11,500
Partnerships	2,750
<b>Total</b>	<b>14,250</b>

### By sector



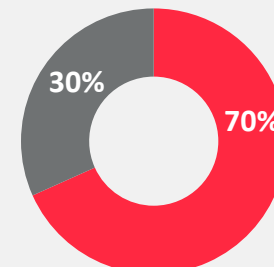
Private	11,200
Affordable	3,050
<b>Total</b>	<b>14,250</b>

### Product mix<sup>2</sup>



Houses	7,500
Apartments	1,700
<b>Total</b>	<b>9,200</b>

### Product mix<sup>2</sup>



Houses	1,400
Apartments	600
<b>Total</b>	<b>2,000</b>

<sup>1</sup> Current at 13 February 2017

<sup>2</sup> Excludes affordable

# APPENDICES

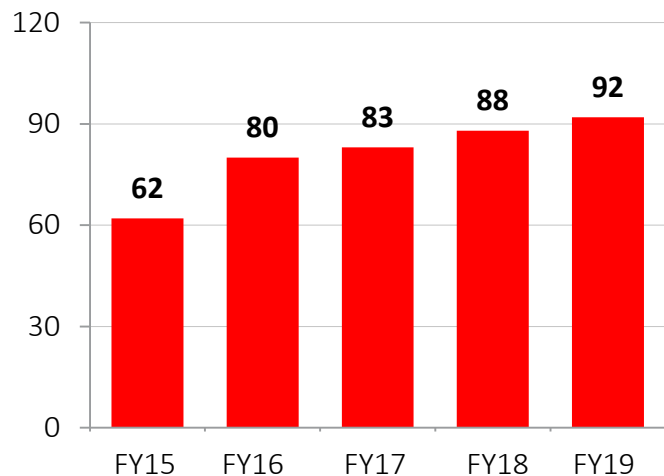
## 2.9 Linden Homes - movement in landbank

	Total Landbank	Owned	Controlled
At 30 June 2016	11,500	9,648	1,865
Legal completions	(1,319)	(1,319)	-
Land acquired	1,865	1,244	621
Land sales and transfers into JV	(380)	(380)	-
Transfers	-	281	(281)
Aborted	(125)	-	(125)
Planning changes & other	(41)	(20)	(21)
At 31 December 2016	11,500	9,454	2,046
At 13 February 2017	11,500	9,440	2,060

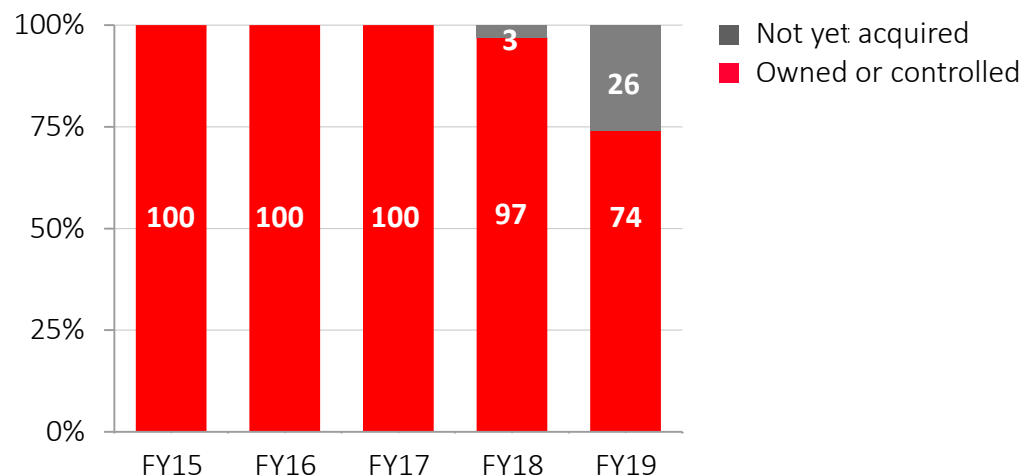
# APPENDICES

## 2.10 Linden Homes - forecast outlets and revenue

### Number of sales outlets<sup>1</sup>



### Revenue by period %



<sup>1</sup> Average for the year



# APPENDICES

## 3.1. Partnerships & Regeneration – business model

- Contractor/developer hybrid perfectly aligned to market
- Attractive financial characteristics with strong blended margin and returns
  - Good margin and strong cash generation in contracting
  - Further investment in mixed-tenure development sites
  - Strong cash management and return on capital
- Mixed-tenure value enhanced through use of Linden Homes brand
- Visible growth in ExtraCare and Build to Rent sectors

# APPENDICES

## 4.1 Construction – segmental analysis

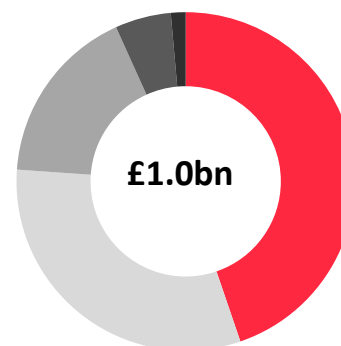
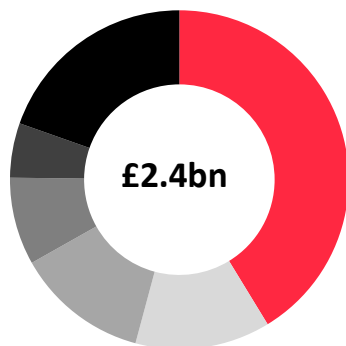
£m	HY17			FY16
	Revenue <sup>1</sup>	Profit from Operations	Margin	Margin
Building	492.2	1.5	0.3%	0.9%
Infrastructure	249.8	1.2	0.5%	1.4%
<b>TOTAL</b>	<b>742.0</b>	<b>2.7</b>	<b>0.4%</b>	<b>1.1%</b>

£m	HY16		
	Revenue <sup>1</sup>	Profit from Operations	Margin
Building	517.8	3.7	0.7%
Infrastructure	220.8	4.8	2.2%
<b>TOTAL</b>	<b>738.6</b>	<b>8.5</b>	<b>1.2%</b>

<sup>1</sup> Including share of joint ventures

# APPENDICES

## 4.2 Construction - order book



### Building

	£m
Education	998
Health	312
Commercial	306
Other Public Sector	202
Defence	126
Facilities Management	474

### Infrastructure

	£m
Water	444
Roads	311
Rail & Aviation	170
Flood Alleviation	53
Other Civil Engineering	14

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The financial information set out in this document does not constitute the Company’s statutory accounts. Statutory accounts for the financial year ended 30 June 2016, which received an auditors’ report that was unqualified and did not contain any statement concerning accounting records or failure to obtain necessary information and explanations, have been filed with the Registrar of Companies.