

# STRATEGY TO 2021

February 2017

# AGENDA

Strategy to 2021



- **11.00:** Group overview  
Peter Truscott
- **11.10:** Linden Homes  
Andrew Hammond / Tom Nicholson
- **11.30:** Construction  
Bill Hocking
- **11.50:** Break
- **12.00:** Partnerships & Regeneration  
Stephen Teagle
- **12.25:** Financial summary  
Graham Prothero
- **12.30:** Summary  
Peter Truscott

# VENUE

Berry Bros & Rudd

## Project overview

- Design, demolition and reconstruction of 62 & 63 Pall Mall
- Nine-storey structure with a rooftop plant room
- £16m contract over 145 weeks

## Challenges

- Only one access point
- Listed façade of 62 Pall Mall retained
- New basement created under both buildings



# OUR TEAM

Strategy to 2021

## Linden Homes



**Andrew Hammond**  
Divisional Chairman West

- Joined Linden Homes in 2015
- Previously held the position of Regional Chairman at Persimmon



**Tom Nicholson**  
Divisional Chairman East

- Joined Linden Homes in 1996
- Previously Divisional Managing Director and held land and sales positions at Berkeley and Ideal Homes

## Construction



**Bill Hocking**  
Chief Executive

- Joined Galliford Try in 2015
- Previously Executive Vice President on the Executive Management Team of Skanska UK plc

## Partnerships & Regeneration



**Stephen Teagle**  
Chief Executive

- Joined Galliford Try in 2006
- Previously Director at Registered Provider DCH and Managing Director of Westco Properties

# GROUP OVERVIEW

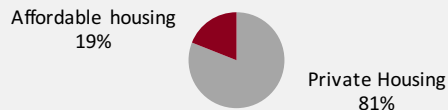
Three strong businesses

## Linden Homes



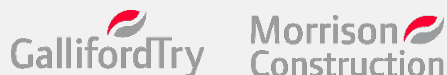
- Top 10 UK housebuilder
- Current principal focus on South and South-East of England and growing in other regions
- Develops private and affordable housing

### Completions by market



FY16 completions: 3,078

## Construction



- Top 10 UK construction business with national coverage
- Strong cash generation
- Strong order book, mainly in public and regulated sectors

### Revenue split



FY16 revenue: £1,503.4m

## Partnerships & Regeneration



- Leading regeneration specialist
- Contractor providing services to housing associations, local authorities and developing affordable housing for private sale

### Revenue split



FY16 revenue: £300.6m

# OUR STARTING POINT

Strengthening our foundations to support further growth

Three strong, growing businesses



Building stronger foundations for growth

Experienced leadership team



Delegated and strengthened leadership

Scope for operational improvement



Driving operating efficiencies across Group

Strong central functions



Aligned to support devolved business model

# MARKET DRIVERS

Growing market share



## Market opportunity

- Government committed to increasing supply with Help To Buy a key tool
- Positive mortgage availability
- Benign land market

- National Infrastructure Delivery Plan 2016 to 2021 presents opportunity
- High market demand in sectors with barriers to entry and capacity constraints

- Housing supply side deficit driving government investment
- Deregulation and diversity creating new partnerships
- Registered Providers (RPs) with capacity and commitment

## Business opportunity

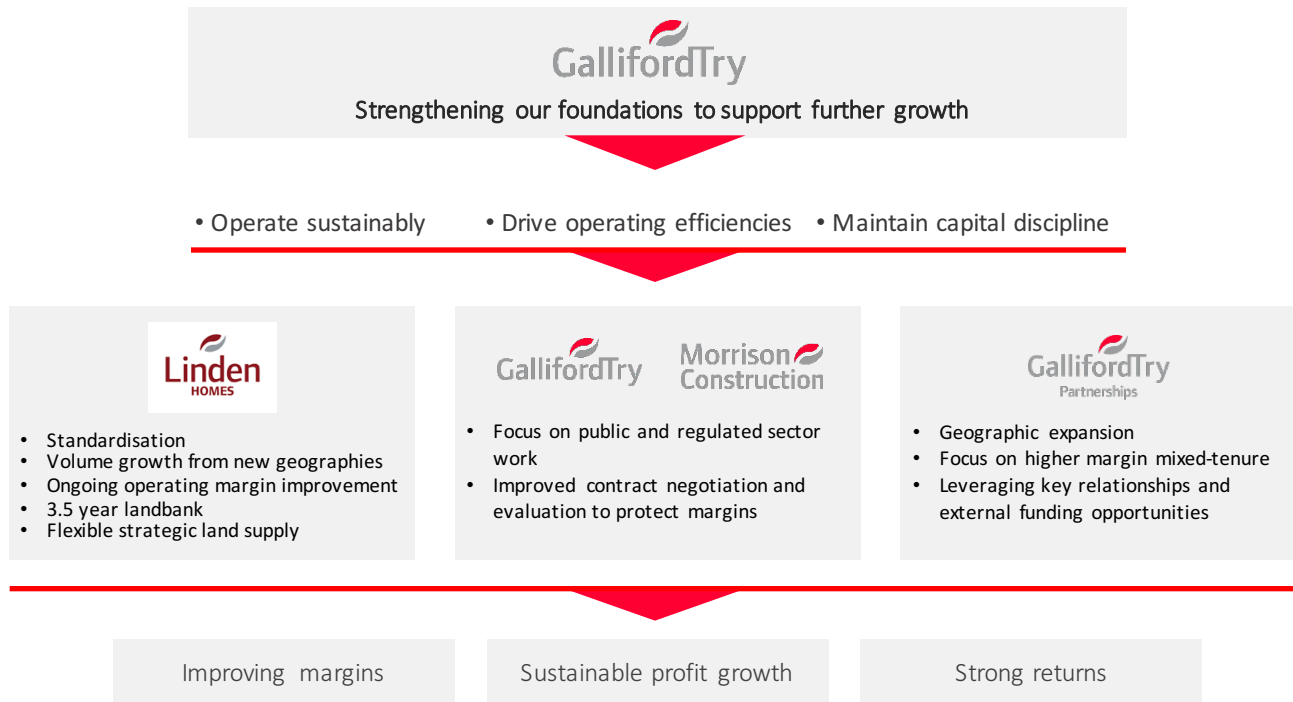
- Standardised product
- Volume growth from new geographies
- Strategic land opportunity

- Stronger relationships through public sector frameworks
- Education, healthcare, defence and infrastructure, key drivers of growth

- Geographic expansion
- Strong relationships with key RPs and housing associations
- Increased investment to grow mixed-tenure

# STRATEGY TO 2021

Delivering sustainable growth and strong returns





# LINDEN HOMES

Strategy to 2021



Crowdhill Green, Hampshire

# BUSINESS OVERVIEW

Top 10 housebuilder focused on first-time buyer and family homes



- Upper quartile Health and Safety performance within housing peer group
- Committed to high standards of customer service
- Proven and experienced senior management
- 10 business units with growth potential and further national expansion
- High-quality, middle-market first-time buyer and family homes
- Award-winning, top 10 housebuilder (8th based on volume and turnover)



# WHERE WE WERE

Strong business but volume and margin growth restricted by operating structure

Multi-tiered management structure with slow implementation of change

Bespoke design, with complex builds and long lead times

Inconsistent branding across the business

Inefficient overheads impacting margin potential

High build costs

10 business units with focus on London and the South East

Limited investment in Midlands and North

# WHERE WE ARE NOW: PRODUCT

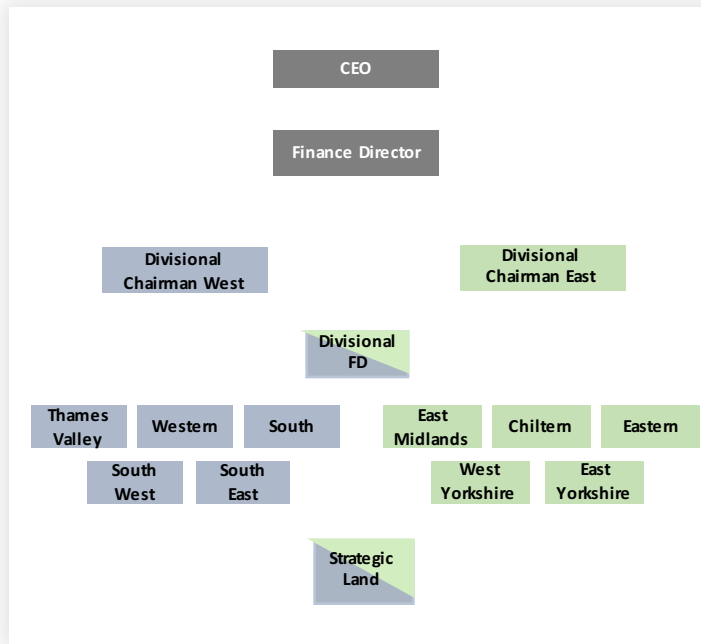
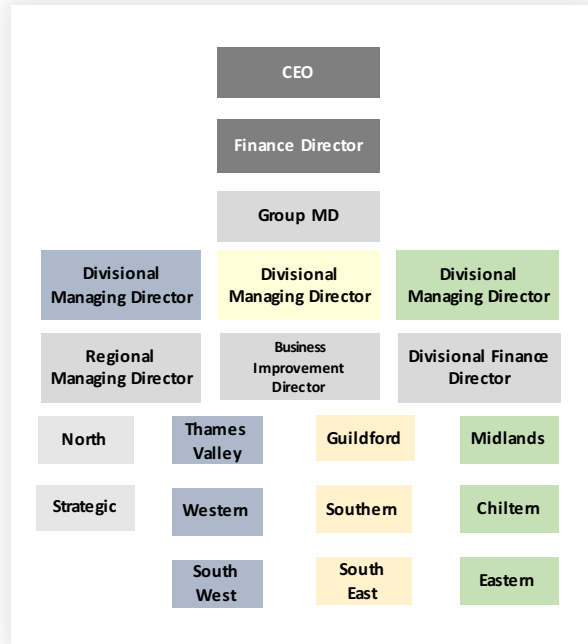
Strengthened business focused on driving growth and operating efficiencies



- Standard layouts
- Lower build costs
- Average selling price reducing
- Efficient lead-in times
- 65% of planning applications
- Operating efficiencies and benchmarking
- Increased certainty reducing risk

# WHERE WE ARE NOW: STRUCTURE

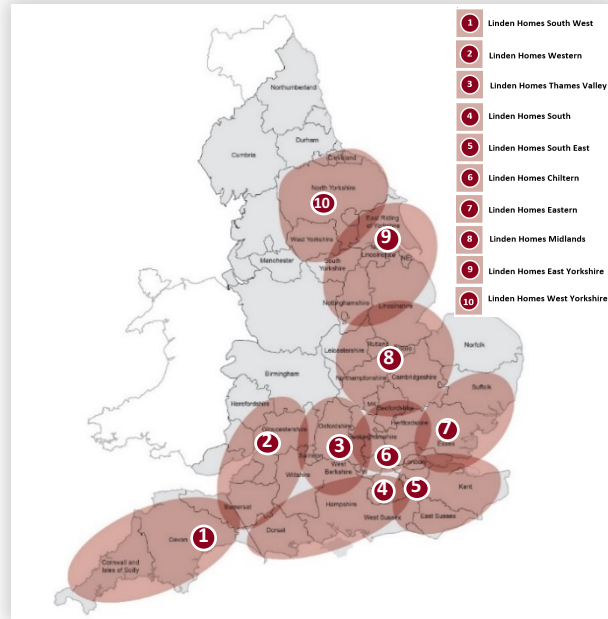
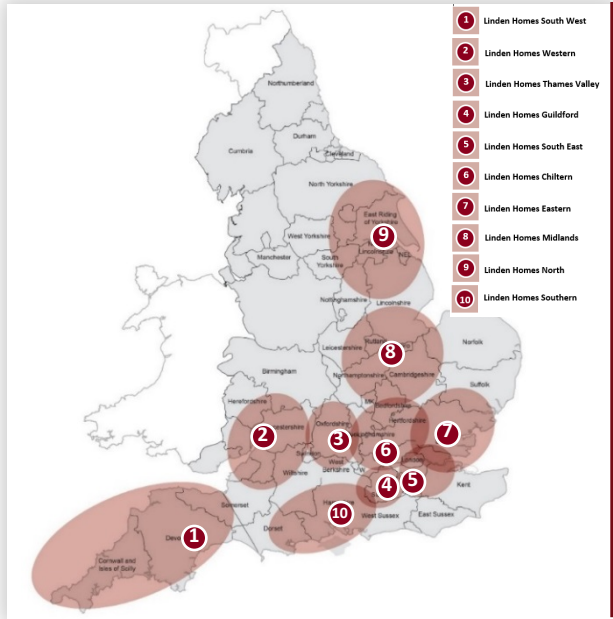
Strengthened business focused on driving growth and operating efficiencies



- More efficient overheads
- Devolved responsibilities
- Rationalised headcount delivering increased productivity
- Experienced regional teams focused on quality, growth and operating efficiencies
- Structure enabling quicker implementation of decisions

# WHERE WE ARE NOW: REACH

Strengthened business focused on driving growth and operating efficiencies



- Northern expansion with West Yorkshire business established
- Southampton and Guildford merged to create South business
- Increased business unit geographic reach due to reduced cost base
- Simplified product and process resulting in increased regional output

# MARKET OPPORTUNITY

Context of Strategy to 2021 to drive volume growth and operating margin

- Mortgage availability remains positive and rates competitive
- Government committed to increasing supply as confirmed by recent White Paper
  - Help to Buy remains a key tool in regions and in London
- Position stable in mid-markets where Linden Homes is focused
  - Pricing stable in regional areas
- Land market currently benign with good opportunities
- Strengthening Linden Homes brand and reputation
  - Enables us to compete effectively for staff, particularly site managers and commercial employees

# STRATEGY TO 2021

Three strategic priorities to drive volume growth and margin

S1

Standardisation

S2

Volume growth  
from existing and  
new geographies

S3

Land strategy



# STANDARDISATION

Strategic priorities to drive volume growth and operating margin

- Key advantages
  - Increased build output and quality
  - Attraction and retention of suppliers, subcontractors and staff
  - Lower build costs
  - Shorter lead times and standardisation of build programmes
  - Improved customer satisfaction
  - Ability to benchmark performance across all disciplines and drive best practice
- 3rd generation of Linden Homes standard layouts under development
  - Targeting 80% of planning applications by 2021
- Retained ability to undertake bespoke/high rise projects in London markets



# STRATEGY TO 2021

Three strategic priorities to drive volume growth and margins

S1

Standardisation

S2

Volume growth  
from existing and  
new geographies

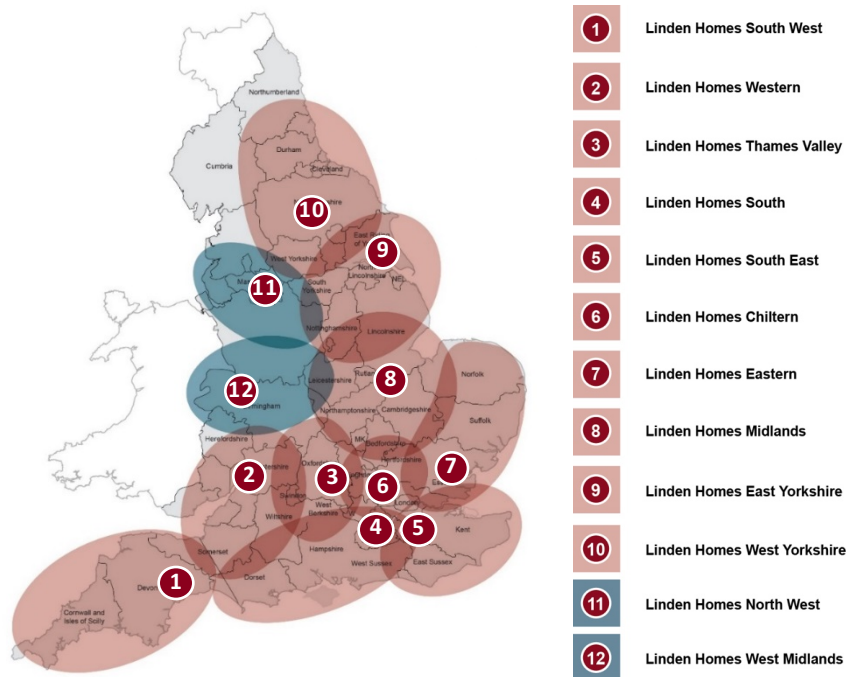
S3

Land strategy

# VOLUME GROWTH

Strategic priorities to drive volume growth and operating margin

- Maximise volume growth from existing business units
- Diversification has reduced exposure to London market
- Targeting strategic land to deliver portfolio across all regions
- Current structure allows for sustainable growth with limited additional overhead
- Potential for additional geographic coverage in the West Midlands and North West



# STRATEGY TO 2021

Three strategic priorities to drive volume growth and margin

**S1**

Standardisation

**S2**

Volume growth  
from existing and  
new geographies

**S3**

**Land strategy**

# LAND STRATEGY

Strategic priorities to drive volume growth and operating margin

- Short-term landbank
  - Target strong WIP and asset turn
  - Increased hurdle rates
  - Relatively short landbank at 3.5 years
  
- Strategic land
  - Better control over land acquisition timing
  - Enhanced margin opportunities
  - Increased pull through targeting 20-25%
  
- Ongoing selective use of joint ventures
  - Sharing risk
  - Additional points of sale
  - Securing larger sites without competing 'flags'

# FINANCIAL TARGETS

Strategy driving volume growth and improved margin

S1

Standardisation

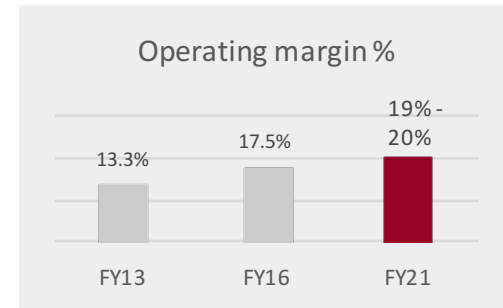
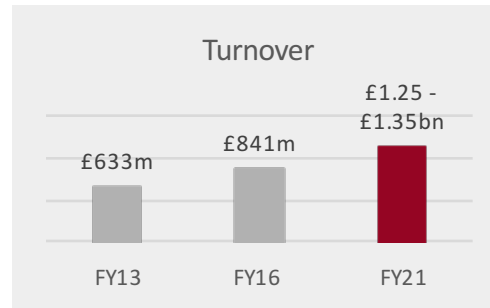
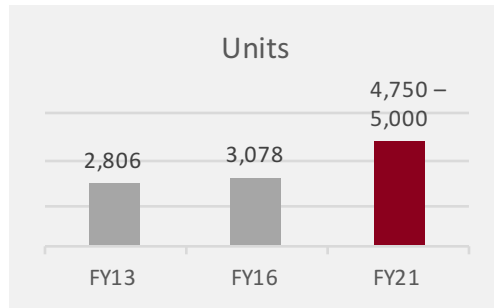
S2

Volume growth from  
existing and new  
geographies

S3

Land strategy

## Ongoing operating margin improvement



# SUMMARY

Leading housebuilder with strong growth and margin potential

- Standardisation driving lower build costs, efficient lead times and increased competitiveness
- Volume growth from existing and new geographies
- Clear market opportunity with Help to Buy a key tool
- Optimal landbank length at 3.5 years
- 20 - 25% of unit completions to come from strategic land
- Continued selective use of joint ventures
- Strategy driving volume growth and margin improvement to 2021
  - Target 4750 – 5000 units p.a. by 2021
  - Turnover growth £1.25bn - £1.35bn by 2021
  - Target 19 - 20% operating margin by 2021



# Q&A

Strategy to 2021



# CONSTRUCTION

Strategy to 2021

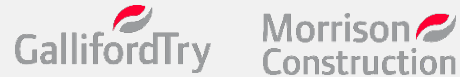


Queensferry Crossing, Firth of Forth

# BUSINESS OVERVIEW

National strength, local delivery

Leading brands in England and Scotland



Three divisions with a focus on public and regulated sectors  
Solid capability targeting contracts between £10m to £80m

## BUILDING

FY16 revenue: £1,014m  
FY16 op margin: 0.9%  
FY16: £2.3bn order book

## INFRASTRUCTURE

FY16 revenue: £490m  
FY16 op margin: 1.4%  
FY16: £1.2bn order book

## PPP INVESTMENTS

FY16 revenue: £25m

Strategy focused on safely delivering disciplined growth

Retain

Improve

Deliver

# WHERE WE WERE

A solid business with scope for operational improvement

Skilled employees with a reputation for quality and performance



Legacy contracts impacting margin



Business covering multiple sectors and frameworks



Private sector contracts delivering unpredictable and often low returns



Systems and processes not capable of supporting enlarged business



# WHERE WE ARE NOW

Operational improvements provide solid platform for sustainable growth

Skilled employees with a reputation for quality and performance



Further investment in HR with consistent messages communicated across the business

Legacy contracts impacting margin



Disciplined approach to contract selection and delivery which best reflects our core skillset

Business covering multiple sectors and frameworks



Optimising framework opportunities across divisions

Private sector contracts delivering unpredictable and often low returns



Focus on lower risk public and regulated sector work and two-stage bids

Systems and processes not capable of supporting enlarged business



Continue to invest in technology – intranet, BMS, agile working

# MARKET OPPORTUNITY

## UK construction market

- Underlying demand for more and better social and economic infrastructure
- Stimulus for economic growth

## Focused on core markets in:

- Education
- Healthcare
- Defence
- Infrastructure

## Not operating in:

- Nuclear
- Fixed price infrastructure contracts

Education



Health



Defence



Infrastructure



# BUILDING

## Key sectors and markets

### Education

- An industry leader
- Established relationships with major universities
- Growing market – 700,000 more pupils by 2021<sup>1</sup>
- Well positioned on frameworks

### Commercial

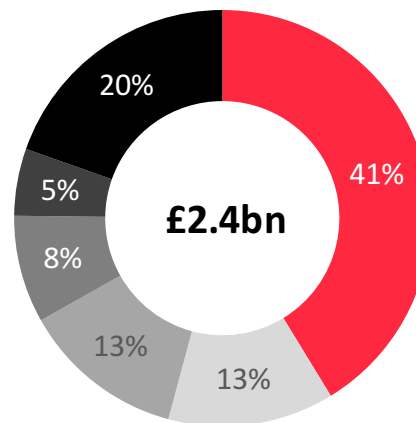
- Focused on South East with increasing presence in Midlands
- East London growth, HS2 and Crossrail hubs driving growth
- Offices, industrial, PRS and student residences

### Health

- Positioned on key NHS ProCure22 framework

### Defence

- Growing sector
- Positioned on four DIO frameworks with pipeline >£2.5bn



### Building Order Book

(HY17)

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

<sup>1</sup> Scope (public sector procurement specialist)

# INFRASTRUCTURE

## Key sectors and markets

### Water & Wastewater

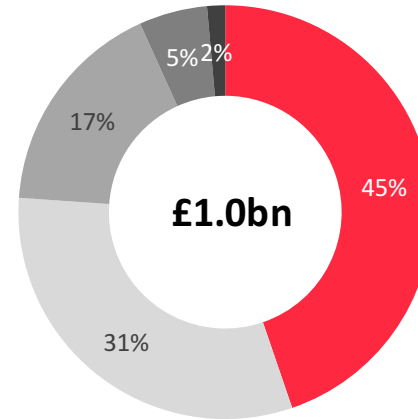
- Secured five-year frameworks with Scottish, Yorkshire and Southern Water AMP6

### Transport

- Local authority and Highways England frameworks and major projects
- Major projects include Queensferry Crossing and Smart Motorways
- Three frameworks with Network Rail (CP5)
- Manchester Airports Group (MAG) framework
- Gatwick Airport

### Flood Alleviation

- Mixture of flood and coastal defence works
- Long-term framework position with Environment Agency



### Infrastructure Order Book

(HY17)

- Water
- Roads
- Rail
- Flood Alleviation
- Other Civil Engineering<sup>1</sup>

<sup>1</sup> Includes Energy, Power & Windfarms



# STRATEGY TO 2021

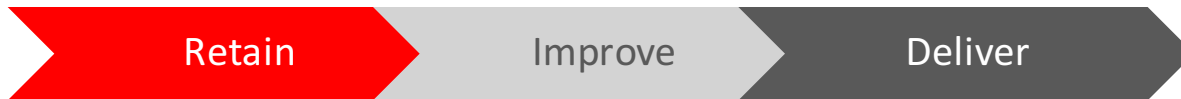
Three strategic priorities to deliver sustainable growth



# RETAIN

Solid business fundamentals provide platform for sustainable growth

- High-quality people
- Regional structure providing national coverage
- Local delivery enables:
  - Deep understanding of local market
  - Good relationship with clients and suppliers
  - Employee continuity and retention
- Excellent position on frameworks (85% of work)
- Focus on public and regulated sectors



# IMPROVE

Operations to drive margin progression

- Health and safety
- Risk management in project selection and operations
- Attract, develop and retain a diverse workforce
- Continuing to invest in modernising systems
- Enhanced communication tools to increase efficiency
- Supply chain alignment



# DELIVER: FINANCIAL TARGETS

Strong, predictable cash flows and margin improvement

S1

Retain

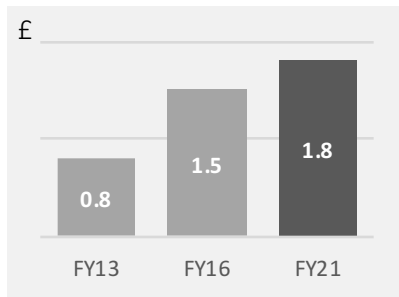
S2

Improve

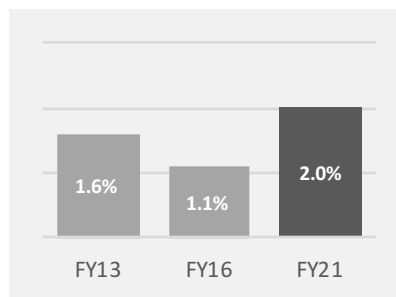
S3

Deliver

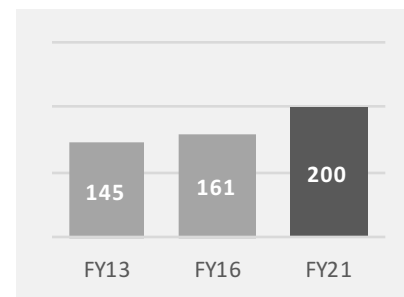
Revenue (£bn)



Operating margin



Cash (£m)



# SUMMARY

A progressive, people-orientated business delivering for our clients

- Stable markets with education, healthcare, defence and infrastructure key drivers of growth
- Solid pipeline with excellent access to all significant public sector frameworks
- Improved risk management processes and systems to support margin improvement
- Strong leadership team with further investment in people critical to continued successful delivery of strategy
- Strategy focused on high-quality delivery for clients to 2021
  - Turnover growth to £1.8bn
  - >2.0% operating margin
  - £200m cash

# Q&A

Strategy to 2021



# PARTNERSHIPS & REGENERATION

Strategy to 2021



# STRATEGY FOR GROWTH

## Agenda

- Business overview
- Market opportunity
- Market position
- Strategy for growth
- Enablers and financials



Cannon's Road, North London



# BUSINESS OVERVIEW

Leading regeneration specialist

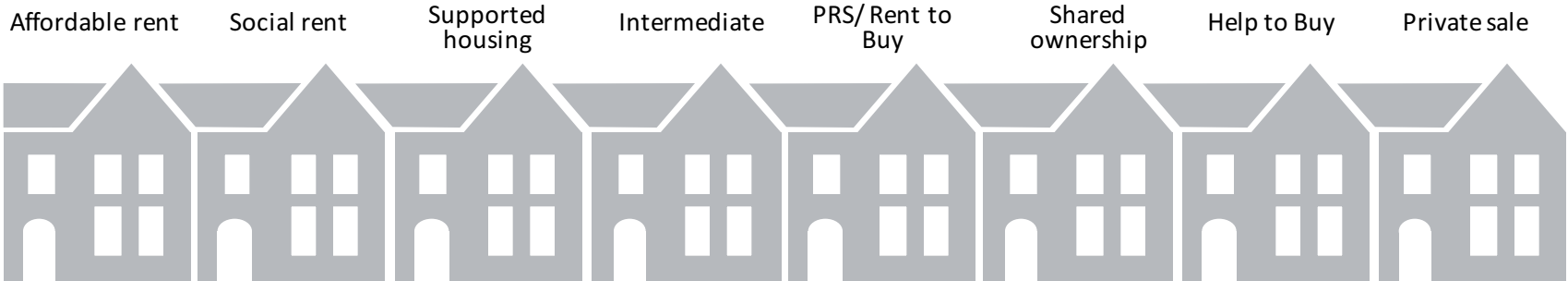


A leading brand

Contracting and commissioning  
Revenue FY16 - £234m

Development and joint ventures  
Revenue FY16 - £67m

Focused on occupancy across all tenures



# WHERE WE WERE

Excellent foundation as partner of choice

Long-term client relationships for contracting turnover

Leading sector position and excellent relationship with HCA and GLA<sup>1</sup>

Established success in winning public sector land disposals

Significant platform of joint venture and mixed-tenure turnover

Model is optimum solution for value-driven sector

Embedded sector knowledge integrated within operational business

<sup>1</sup> HCA: Homes and Communities Agency; GLA: Greater London Authority

# WHERE WE ARE NOW

Integrated division with unique offering to the market

▶ Aligned capability across two divisions

▶ Restructured Executive to drive growth

▶ Regional expansion underway

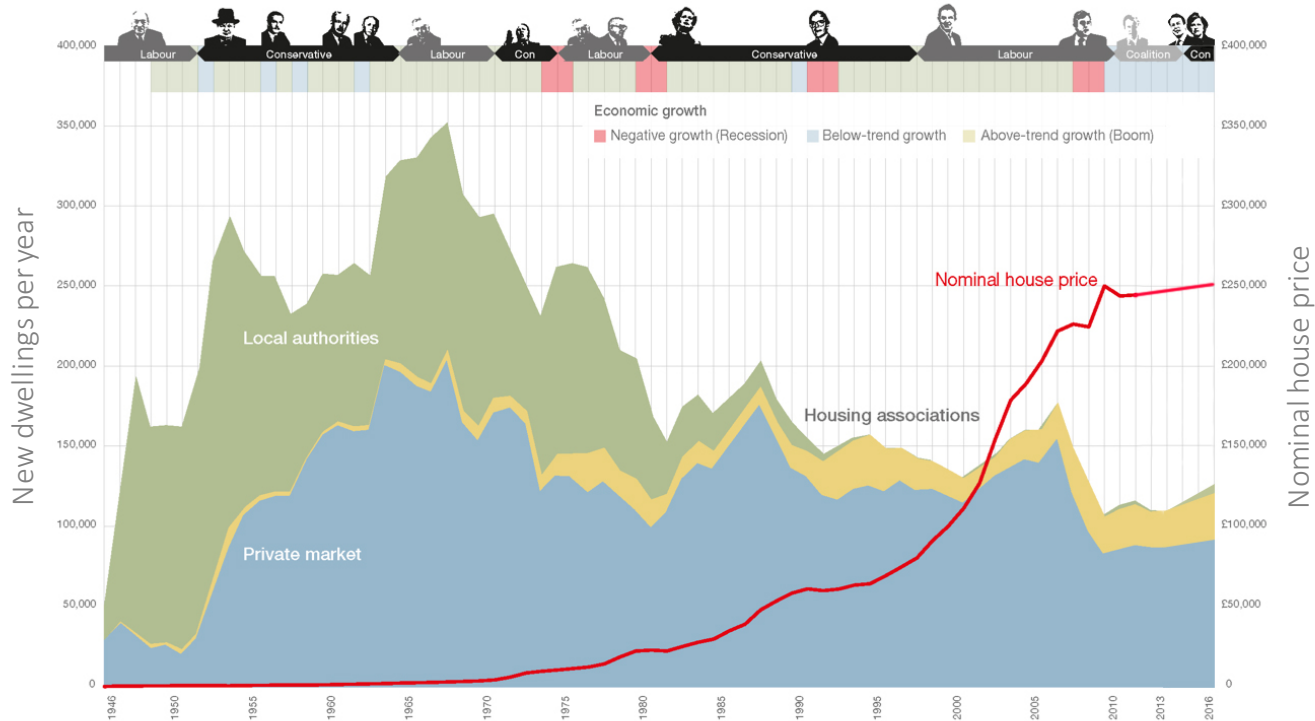
▶ Secured £19m of HCA funding

▶ Strengthened bid winning resources

▶ Strategic PRS partnerships formed and initial Starter Homes win

# MARKET OPPORTUNITY

Supply equation - the politics of delivery



## Housebuilding since 1946

# MARKET OPPORTUNITY

## Key fundamentals

- Historic supply side deficit driving demand
- Registered Providers and partners with capacity and commitment
  - Deregulation and diversity creating new partnering opportunities
  - New entrants in Private Rented and Affordable Housing sectors stimulating demand
- Continued reliance on the private sector to deliver supply
- Shortage of operators with necessary skills in market place
- Sustained Government intervention to encourage supply

# GOVERNMENT RESPONSE

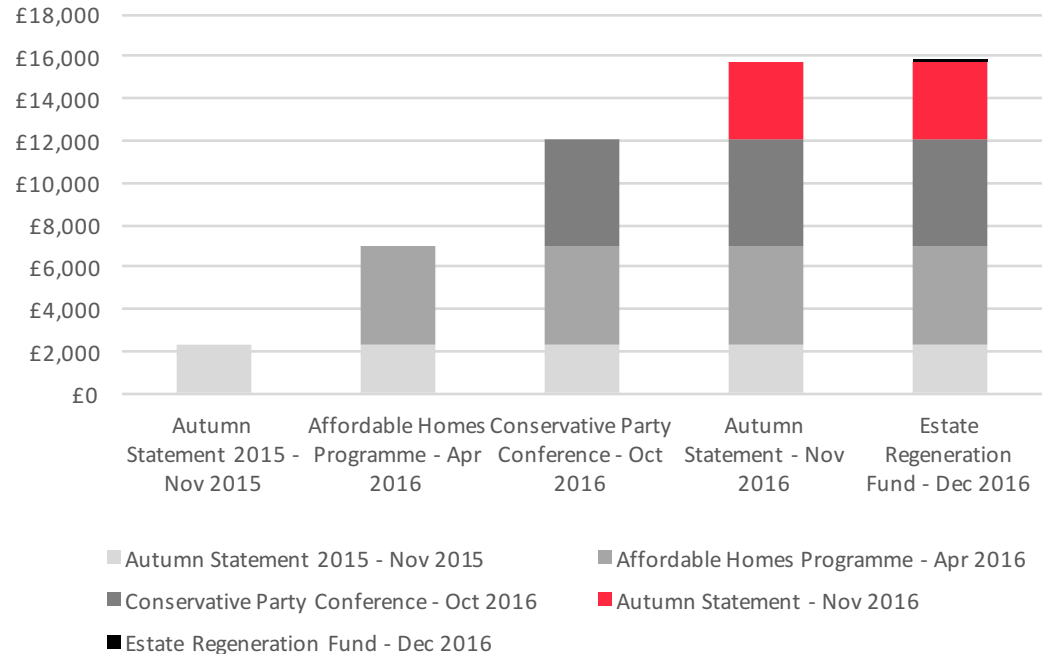
Historic housing supply side deficit driving Government investment

## Supply side

- Public Land Releases
- Accelerated construction
- Housing Infrastructure Fund
- Home Building Fund
- Large Sites and Housing Zones Fund
- Estates Regeneration Fund

## Demand Side

- Help to Buy
- Affordable Housing Programme
- Starter Homes
- Affordable Homes Guarantees
- Right to Buy replacement



# MARKET POSITION - BUSINESS OPPORTUNITY

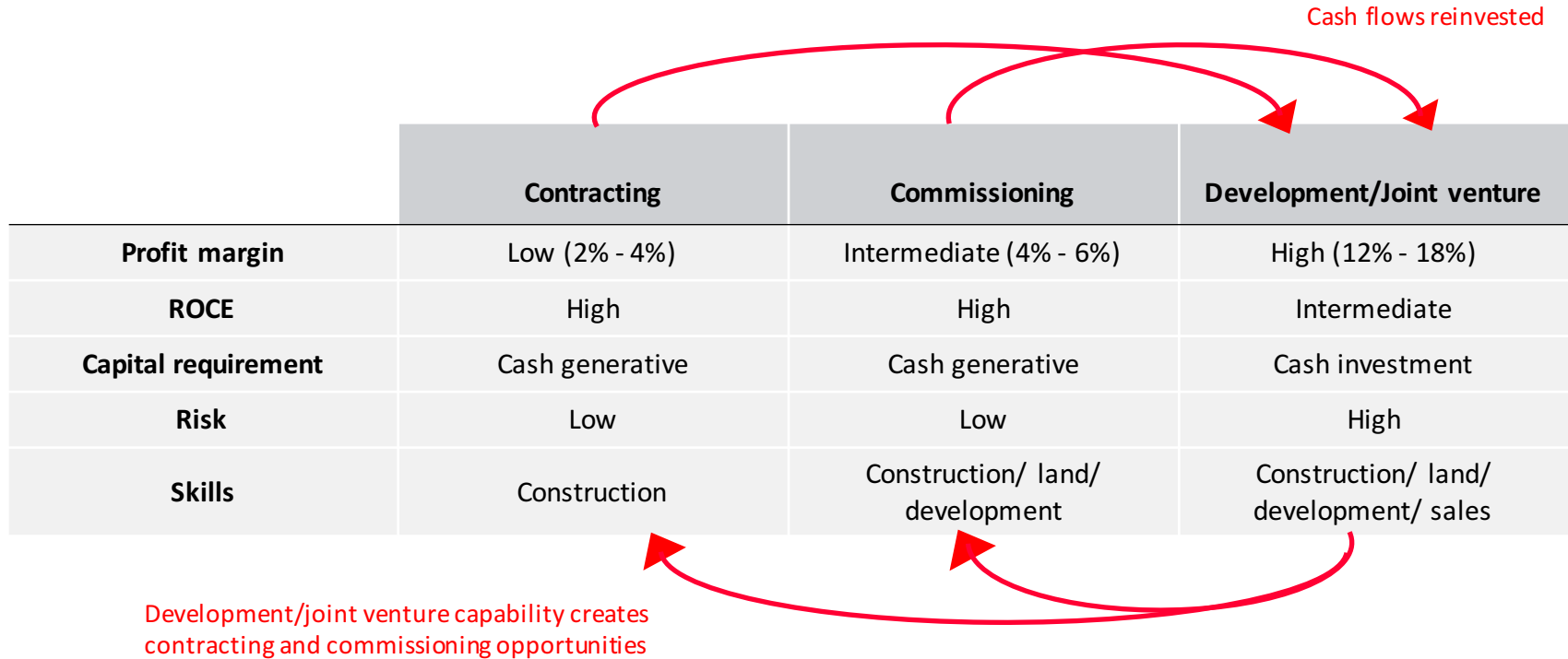
Unique position to capitalise on demand

	Galliford Try Partnerships	Volume housebuilders	Contractors	Registered Providers
Residential contracting	✓	✗	✓	✗
Residential forward sales	✓	✓	✗	✗
Client commissioning	✓	✗	✓	✓
Residential development	✓	✓	✗	✗
Joint ventures	✓	✓	✓	✓
Retail sales and marketing	✓	✓	✗	✓

- National market position
- Strong housebuilding brand
- Deep sector knowledge
- Mature joint venture platform

# BUSINESS MODEL

Sustained long-term growth through the cycle



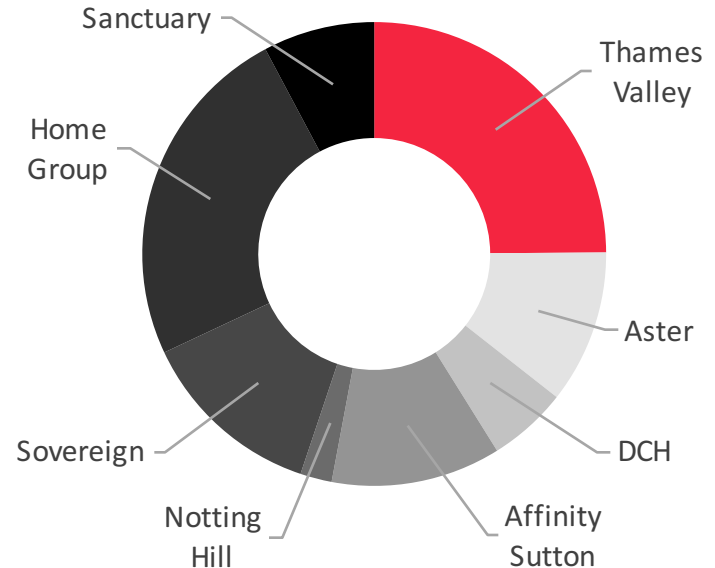


# STRATEGIC ASSETS

A differentiated proposition underpinned by strong relationships

- Mixed-tenure differentiation with Linden Homes retail brand
- Land acquisition in Partnerships and Linden Homes including strategic land
- Largest strategic joint venture portfolio - £2.9bn
- Progressive funding and delivery relationship with HCA
- Public sector commissioning expertise – 40% success rate, 11% market share of Delivery Partner Panel (DPP)
- Long-term client relationships and business plan alignment
- Synergies between Linden Homes and Partnerships on S106 sites
- Contractor cost discipline and supply chain efficiencies

## Joint venture turnover<sup>1</sup>



<sup>1</sup> Source: Galliford Try as at 31 December 2016

# STRATEGY TO 2021

Aligning growth with partner ambitions

**S1**

**Grow national footprint  
through continued  
expansion into new  
geographies**

**S2**

Drive margin improvement  
through leveraging mixed  
tenure expertise

**S3**

Unlock partners' capacity in  
sub-markets

# GROW NATIONAL FOOTPRINT

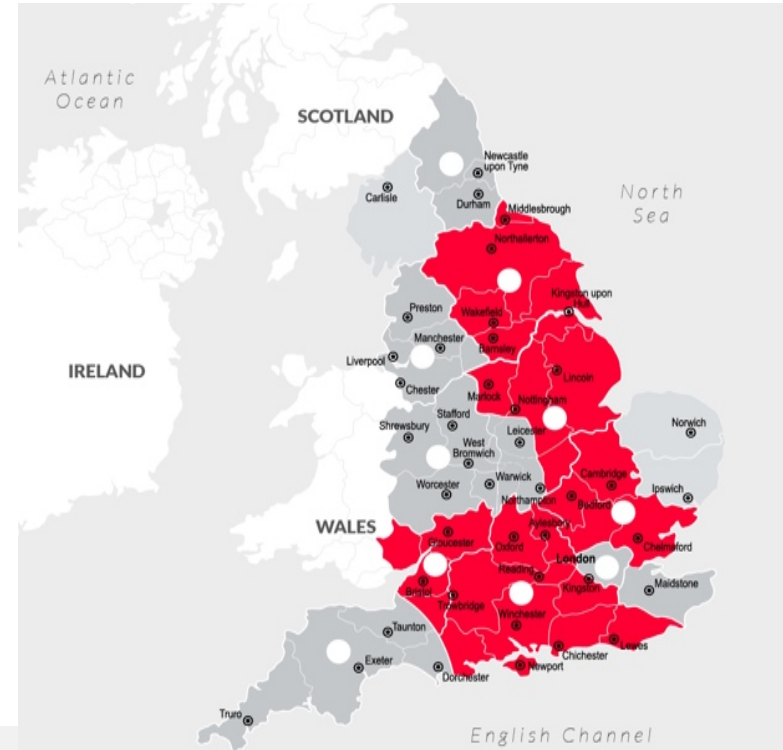
Continued expansion into new geographies

## Rapid planned expansion

- Western FY16
- Southern FY17
- East Midlands FY17
- Yorkshire FY18

## Potential further expansion

- East Anglia
- Scotland



# STRATEGY TO 2021

Aligning growth with partner ambitions

**S1**

Grow national footprint  
through continued  
expansion into new  
geographies

**S2**

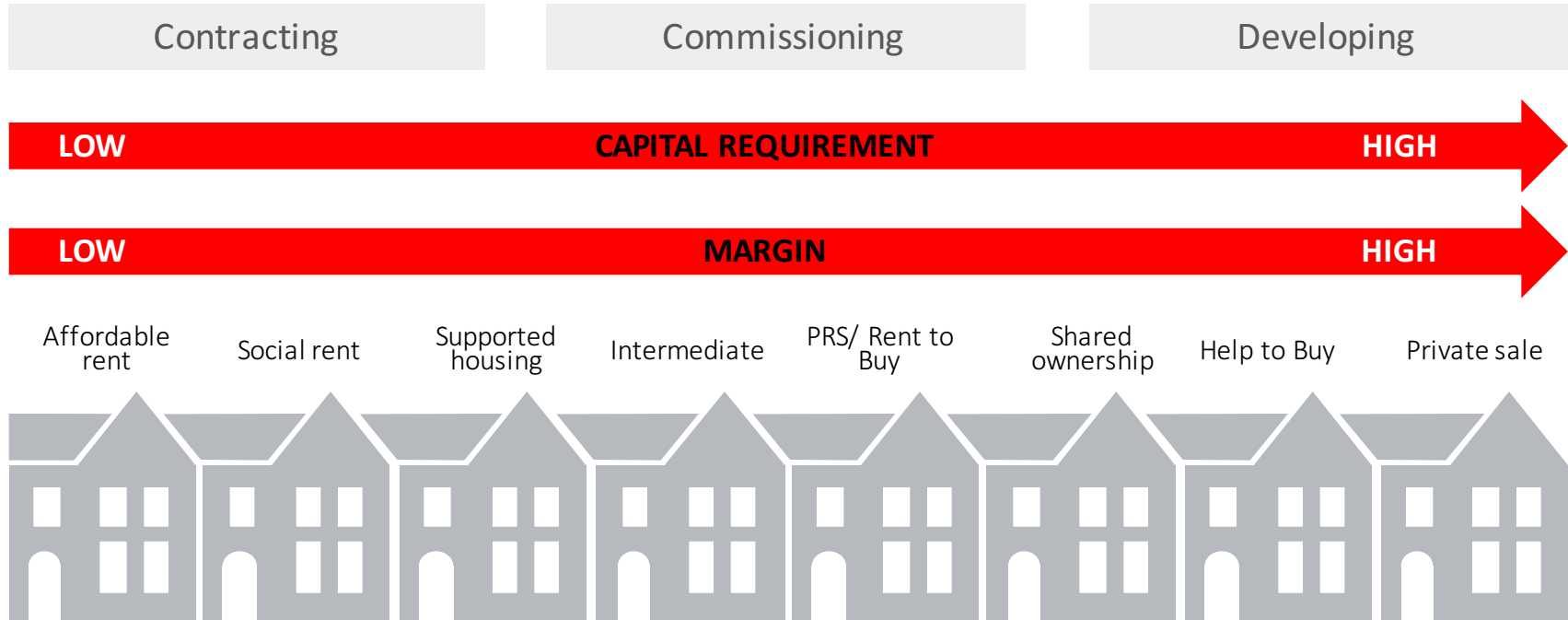
**Drive margin improvement  
through leveraging mixed  
tenure expertise**

**S3**

Unlock partners' capacity in  
sub-markets

# DRIVE MARGIN IMPROVEMENT

Increased focus on mixed-tenure regeneration driving margin growth



# STRATEGY TO 2021

Aligning growth with partner ambitions

**S1**

Grow national footprint  
through continued  
expansion into new  
geographies

**S2**

Drive margin improvement  
through leveraging mixed-  
tenure expertise

**S3**

**Unlock partners' capacity  
in sub-markets**

# SUB-MARKETS

Unlock client partners' capacity around tenure products





- Leverage sector capacity by placing risk with those best placed to manage it
  - Joint ventures
  - Build to Rent and PRS
  - Private affordable housing providers
  - Public sector direct commissioning programmes
  - ExtraCare specialist platform

"The sector has £7.4bn of additional borrowing capacity to deliver 44,000 extra new homes a year"

Savills Research

# CASE STUDY: BRISTOL - OPEN FOR BUSINESS

Maximising the benefits of our business model

	1. ExtraCare village	2. Multi-tenure brownfield site	3. Regeneration of former hospital site	4. Regeneration of inner-city estate
				
Solution	<b>CONTRACTING</b> ExtraCare housing	<b>COMMISSIONING</b> Private, affordable, PRS	<b>JOINT VENTURE</b> Public land	<b>DEVELOPMENT</b> 80 new private homes
Cash flows	↑ Cash generative	→ Neutral	→ Neutral	↓ Net investment
Profit	LOW	MODERATE	MODERATE	HIGH



# ENABLERS AND FINANCIALS - FINANCIAL TARGETS

Strategy driving profitable growth and improving returns

S1

Grow national footprint through continued expansion into new geographies

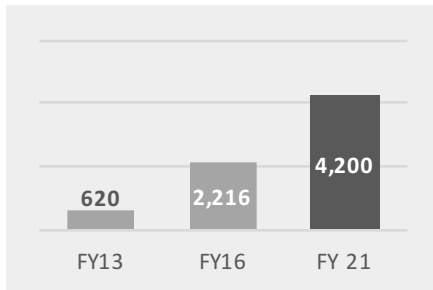
S2

Drive margin improvement through focus on mixed-tenure

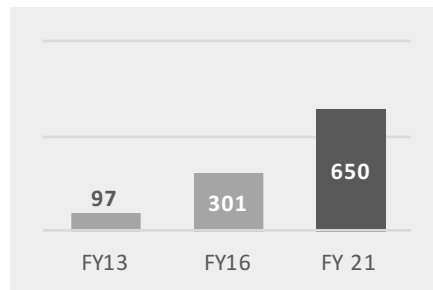
S3

Unlock our partners' capacity in sub markets

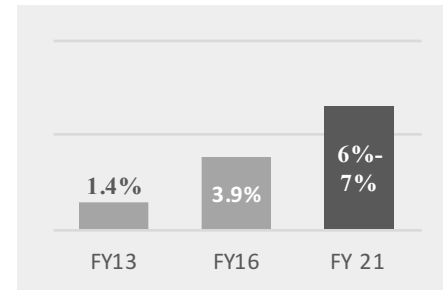
Units



Revenue (£m)



Operating margin



# FORWARD ORDER BOOK & LANDBANK

## Visibility of future work

- Strong contracting order book of work in all regions - £925m
- High percentage of order book is negotiated and repeat work
- Valuable landbank of 2,750 plots
- Network of LA, RP and PRS clients with pipeline of schemes nationwide
- DPP, London Delivery Panel (LDP) and RP frameworks with national coverage
- Rapidly increasing opportunities to bid
- New business units 'pump-primed' prior to becoming operational

# SUMMARY

Partnerships – Leading regeneration specialist

- Clear strategic vision
- Differentiated regeneration business
- Strengthened divisional structure to focus on performance delivery
- Disciplined approach to margin enhancement and capital management
- Strong relationships with partners to manage risk exposure
- Entering accelerated growth phase
- Pace aligned with market and policy direction



**Click to watch**

# Q&A

Strategy to 2021



# FINANCIAL SUMMARY

Strategy to 2021



62-63 Pall Mall, London

# BALANCE SHEET

Building strength and resilience

- Extended banking facility to February 2022, with improved covenant profile
- Issue of £100m 10-year private placement notes provides enhanced funding headroom and liquidity
- Period-end target maximum gearing remains at 30%
- Return on net assets (RONA) is key

# FINANCIAL TARGETS




## Assumptions

- No significant slowdown in macro environment or consumer confidence
- Banking and mortgage markets remain positive
- Political context remains supportive



# FINANCIAL TARGETS

## Business targets

Business	Metric	FY16	FY21
	Units	3,078	4,750 - 5,000 p.a.
	Revenue	£0.8bn	£1.25bn - £1.35bn
	Operating margin	17.5%	19% - 20%
	Units	2,126	4,200
	Revenue	£301m	£650m
	Operating margin	3.9%	6% - 7%
	RONA <sup>1</sup>	35.7%	>50%
	Revenue	£1.5bn	£1.8bn
	Operating margin	1.1%	>2%
	Cash	£161m	£200m

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

# FINANCIAL TARGETS

## Group targets

- PBT growth to 2021: >60%
- Group RONA in 2021: >25%
- Dividend 5-year CAGR<sup>1</sup>: >5% at cover of 2.0x

<sup>1</sup> FY 2016 to FY 2021 Compound Annual Growth Rate (CAGR)

# SUMMARY

Strategy to 2021



Honeystones, Gloucestershire

# SUMMARY

Strengthening our foundations to support further growth

Strong brands underpinned by long-term relationships

Business diversification provides resilience to economic cycles

Experienced leadership team and efficient management structure

Growing market share in attractive markets

# STRATEGY TO 2021

Delivering sustainable growth and strong returns



Strengthening our foundations to support further growth

- Operate sustainably
- Drive operating efficiencies
- Maintain capital discipline

Improving margins

Sustainable profit  
growth

Strong returns

# Q&A

Strategy to 2021



King's House, West London