Press release

Paris, January 30, 2020

KAUFMAN & BROAD

# 2019 ANNUAL RESULTS

✓ **Confirmation of the capacity to generate profitability and cash flow to pave the way for future growth:**
- **Gross margin and EBIT margin in line with expectations**
- **Financial capacity up by more than €100m at €458.1m**

✓ **Significant growth in development indicators:**
- **Backlog: +16.8% to €2.5bn**
- **Property portfolio: +9.9% to 33,090 units**

✓ **Dividend for 2019: €2.50 per share**

♦ **Key components of sales activity (2019 vs. 2018)**

- **Orders**
  Total: €2,177.1M incl. VAT (-2.4%)
  *Of which:*
  Commercial: €467.5.0m incl. VAT (+30.1%)
  Housing: €1,709.0m incl. VAT (-8.7%)

- **Take-up period for Housing*:**
  5.8 months vs. 5.0 months
  (+0.8 months)

♦ **Key financial data (2019 vs. 2018)**

- **Revenues:**
  Total: €1,472.2m (-5.5%)
  Of which Housing: €1,334.0m (+3.1%)
- **Gross margin:**
  €283.9m (19.3% of revenue)
- **Adjusted EBIT:**
  €139.2m (9.5% of revenue)
- **Attributable net income:**
  €76.3m (+4.5%)
- **Cash net of financial debt:**
  €56.0m (vs. €50.0m at end-2018)
- **Financing capacity:**
  €458.1m (vs. €353.4m at end-2018)

♦ **Key growth indicators (2019 vs. 2018)**

- **Overall backlog:**
  €2,545.0m (+16.8%)
  Of which Housing: €2,069.3m (+5.5%)
- **Housing property portfolio:**
  33,090 units (+9.9%)

Kaufman & Broad SA announced its results for the 2019 financial year (from December 1, 2018 to November 30, 2019) today. Nordine Hachemi, Chairman and Chief Executive Officer of Kaufman & Broad, made the following comments:

*"The results for fiscal 2019 are in line with our expectations and confirm the quality of Kaufman & Broad's fundamentals. In more muted market conditions, they show that its growth model is capable of generating profit and cash flow. This gives us greater financial leeway to increase our payout capacity, and also to choose our future development options in the face of profound changes in the market.*

*In 2019, the new housing market, estimated at between 120,000 and 125,000 units, was characterized by sustained demand, but also by a significant drop in issuance of building permits, the effects of which will be felt above all in the first half of 2020.*

*The pre-municipal election climate weighed more heavily on Kaufman & Broad's launches and orders in the second half of 2019, due to a significantly higher rate of sales than the market (Kaufman & Broad's take-up period was less than 6 months, vs. 10 months for the market), which resulted in a much lower level of inventory.*

*Sustained sales resulted in a sharp increase in the overall backlog (+16.8%), driven notably by the Commercial business, which confirmed its good momentum with orders totaling €467.5 million including VAT.*
*A sale-before-completion agreement concerning the office part of the Austerlitz project (around 50,000 sq.m) is expected to be signed in the coming days, thereby making the program fully marketed. Final administrative approvals are not expected to be granted until early 2021.*

*The adjusted EBIT margin of 9.5% reflects solid operational management of selling prices and operating expenses. This resulted in a positive net cash position of €56.0 million, an increase of more than €32 million in shareholders' equity and financial capacity of €458.1 million at end-November 2019.*

*In 2020, market fundamentals will continue to support demand for new housing. Assuming a resumption of the issuance of building permits after the municipal elections, the market is expected to represent between*

*Calculated on the basis of a 12-month financial year

*115,000 and 120,000 units. However, current trends will continue to impact Kaufman & Broad's launches in the first half, leading us to anticipate stable order intake over the full year.*

*As regards Kaufman Broad's business and earnings outlook for fiscal 2020, out of caution and due to the municipal election context, we do not expect order intake in the Commercial segment to have an impact until 2021.*

*After a slower first half, full-year revenue is expected to remain stable compared with 2019. The gross margin is expected to be around 18.5%[1] and the EBIT margin[2] between 8.0% and 8.5%, both reflecting the return to normative margins in the Commercial business.*

*Reflecting the quality of Kaufman & Broad's financial structure and the strength of its medium-term outlook, the Board of Directors will propose the payment of a dividend of €2.50 per share in respect of 2019 to the General Meeting of Shareholders, including an option for payment in cash, shares, or in cash and shares. Assuming a stabilized economic environment, the Board of Directors also envisages a dividend of the same amount for the financial year 2020."*

## Sales activity

### ✓ Housing

In 2019, housing orders were down 8.7% by value compared with 2018 at €1,709 million (including VAT). By volume, 8,222 units were ordered, a 9.9% decrease compared with 2018.

The program take-up period was 5.8 months in 2019, compared with 5.0 months in the previous year, an increase of 0.8 months.

Housing supply, with 95% of projects located in high-demand, low-supply areas (A, Abis, and B1), totaled 3,990 units at the end of 2019 (3,781 units at end-2018).

#### Breakdown of the customer base

In 2019, orders from first-time buyers accounted for 16.8% of sales by value (excluding VAT), 1.1 points less than in 2018. Orders by second-time buyers were also down 1.5 points, accounting for 8.0% of sales. Orders by investors increased by 3.0 points to 34.2% of sales (26.0% for the Pinel scheme alone). Block sales were stable at 41.0%, of which more than 49.2% were managed accommodation (for tourists, students, business travelers, and seniors).

### ✓ Commercial Property

Over the 2019 financial year, the Commercial Property segment recorded net orders of €467.5 million including VAT, corresponding to three office complexes, a logistics platform and two property development contracts.

In particular, Kaufman & Broad signed sale-before-completion agreements or property development contracts for:

- a 27,000 sq.m office building complex in Bordeaux Euratlantique, the future headquarters of Caisse des Dépôts for its pension management arm,
- an office building of approximately 13,000 sq.m at La Défense,
- The Austerlitz project, for the part of the business and commercial premises,

[1] *IAS 23 – Borrowing Costs: The IFRS Interpretation Committee has issued clarification of the standard, setting out the accounting treatment of borrowing costs. The capitalization of interest is not applicable to sales contracts involving over-time transfer of control, such as sales before completion, and the Group must adjust its treatment accordingly for the recognition of revenue and cost of sales, and the determination of the cost price of real estate inventory. These changes will be taken into account in the group's financial statements from the start of the 2020 financial year.*

[2] *Following the change in interpretation of IAS 23, the EBIT margin will be comparable with the adjusted EBIT margin in the year ended November 30, 2019.*

- a new logistics platform of approximately 36,000 sq.m located in La Chapelle d'Armentières on the outskirts of Lille.

Kaufman & Broad (through its subsidiary Concerto) also delivered two new-generation XXL logistics platforms in 2019:

- a platform with a total surface area of 74,000 sq.m in MER, created on behalf of its user, the LAPEYRE Group and its investor DWS (Deutsche Bank Asset Management),
- a platform with a total surface area of 70,000 sq.m in MONTBARTIER built on behalf of its user EASYDIS (Groupe Casino) and its investor Invesco.

Kaufman et Broad currently has around 266,000 sq.m in office space and around 74,500 sq.m in logistics space under marketing or under study. In addition, nearly 73,000 sq.m of office space and more than 36,000 sq.m of logistics space are currently under construction.

### ✓ Leading sales and development indicators

At the end of 2019, the Housing backlog amounted to €2,069.3 million (excluding VAT), the equivalent of 18.4 months of business. Kaufman & Broad had 191 housing programs on the market at that date, representing 3,990 housing units, compared with 203 programs representing 3,781 housing units at the end of November 2018.

The Housing property portfolio represents 33,090 units. It was up 9.9% compared with end-2018 and corresponds to more than 4 years of sales activity.

The Group plans to launch 22 new programs in the first quarter of 2020, of which 11 in Île-de France (883 units) and 11 in the other French regions (742 units).

At the end of 2019, the commercial backlog amounted to €475.6 million.

## ♦ Financial results

### ✓ Business volumes

Total revenue amounted to €1,472.2 million (excluding VAT), down 5.5% compared with 2018.

Housing revenue amounted to €1,334.0 million (excluding VAT), compared with €1,293.8 million (excluding VAT) in 2018. This represents 90.6% of group revenue. Revenue from the Apartments business rose by nearly 1.0% year on year to €1,232.4 million (excluding VAT). Revenue from Single-family Homes in Communities totaled €101.6 million (excluding VAT), compared with €73.0 million (excluding VAT) in 2018

Revenue from Commercial Property amounted to €130.4 million (excluding VAT), compared with €254.2 million (excluding VAT) in 2018.

### ✓ Profitability highlights

Gross margin for the 2019 fiscal year was €283.9 million, compared with €300.0 million in 2018. The gross margin ratio was 19.3%, stable compared with 2018 (19.3%).

Current operating expenses amounted to €155.1 million (10.5% of revenue), compared with €162.8 million for the same period in 2018 (10.4% of revenue).

Current operating profit amounted to €128.8 million, compared with €137.2 million in 2018. The current operating margin ratio was 8.7%, compared with 8.8% in 2018.

The group's adjusted EBIT amounted to €139.2 million in 2019, down 6.5% compared with 2018. The adjusted EBIT margin was stable at 9.5% (9.6% in 2018).

Attributable net income was €76.3 million, compared with €73.0 million in 2018, an increase of 4.5%.

✓ **Financial structure and liquidity**

Gross debt stood at €152.1 million, down €51.3 million compared with end-2018. After taking into account cash assets totaling €208.1 million, net cash stood at €56.0 million as of November 30, 2019, an increase of €6 million compared with end-2018. This includes €6.6 million in share buybacks in 2019. The group's financing capacity was €458.1 million (€353.4 million at the end of 2018).

Working capital requirement amounted to €151.5 million (10.3% of annual revenue), compared with €110.8 million at the end of 2018 (7.1% of revenue).

## ♦ Dividends

At the General Meeting of Shareholders of May 5, 2020, Kaufman & Broad SA's Board of Directors will propose the payment of a dividend of €2.50 per share, in line with the dividend paid in respect of 2018. A proposal will also be made to this Shareholders' Meeting to give Kaufman & Broad's shareholders the option to receive this dividend in cash, in shares, or in cash and shares.

## ♦ Governance

At the meeting of the Board of Directors of Kaufman & Broad of January 29, 2020, Frédéric Stévenin, a member of the Executive Committee and the Investment Committee of PAI partners, expressed his desire to resign from his position as Director, which was due to expire at the General Meeting of Shareholders called to approve the financial statements for 2020. The Board of Directors of Kaufman & Broad expressed its warmest thanks to Mr. Stévenin for his contribution to the development of the company throughout his eleven years as director.

On the proposal of the Compensation and Nominating Committee, the Board co-opted André Martinez as director on the same day. He will sit on the Board for the remainder of Mr. Stévenin's term of office, i.e. until the close of the General Meeting of Shareholders called to approve the financial statements for the 2020 financial year.
The next Annual General Meeting of Shareholders, to be held on May 5, 2020, will be asked to ratify this co-optation in accordance with the provisions of Article L. 225-24 of the French Commercial Code.
A graduate of HEC and Sciences Po Paris, Mr. Martinez has served notably as Managing Director of the budget hotel business and then as member of the Accor group's Management Board, Director and Chairman of global lodging at Morgan Stanley Real Estate from 2006 to 2009, Special Advisor to Minister for the Economy and Finance Pierre Moscovici, and Minister for Foreign Trade Nicole Bricq, and from 2015 to 2019 as Chairman of the Board of Directors of Icade. Since January 1, 2020, Mr. Martinez has been a member of the Board of Directors and Chairman of the Strategy and Investments Committee of SNCF SA.

## ♦ 2020 outlook

After a slower first half, full-year revenue is expected to remain stable compared with 2019. The gross margin is expected to be around 18.5%[3] and the EBIT margin between 8.0% and 8.5%[4], both reflecting the return to normative margins in the Commercial business.

**This press release is available at www.kaufmanbroad.fr**

## ♦ Next regular publication date:

- ✓ April 9, 2020: Q1 2020 results (after market close)
- ✓ May 5, 2020: Shareholders' Meeting


**Contacts**

**Chief Financial Officer**
Bruno Coche
01 41 43 44 73
infos-invest@ketb.com

**Press Relations**
Media relations: Hopscotch Capital: Violaine Danet
01 58 65 00 77 / k&b@hopscotchcapital.fr
Kaufman & Broad: Emmeline Cacitti
+33(0)6 72 42 66 24 / ecacitti@ketb.com


**About Kaufman & Broad** - Kaufman & Broad has been designing, developing, building, and selling single-family homes in communities, apartments, and offices on behalf of third parties for more than 50 years. Kaufman & Broad is one of the leading French builder-developers due to the combination of its size and profitability, and the strength of its brand.



[3] *IAS 23 – Borrowing Costs: The IFRS Interpretation Committee has issued clarification of the standard, setting out the accounting treatment of borrowing costs. The capitalization of interest is not applicable to sales contracts involving over-time transfer of control, such as sales before completion, and the Group must adjust its treatment accordingly for the recognition of revenue and cost of sales, and the determination of the cost price of real estate inventory. These changes will be taken into account in the group's financial statements from the start of the 2020 financial year.*

[4] *Following the change in interpretation of IAS 23, the EBIT margin will be comparable with the adjusted EBIT margin in the year ended November 30, 2019*

## ♦ Glossary

**Adjusted EBIT:** corresponds to income from current operations restated for capitalized "IAS 23" borrowing costs, which are deducted from gross margin.

**Backlog:** in the case of sales before completion (VEFA), this covers orders for housing units that have not been delivered, and for which a notarized deed of sale has not yet been signed, and orders for housing units that have not been delivered for which a notarized deed of sale has been signed for the portion not yet recorded in revenue (in the case of a program for which an advance of 30% has been received, 30% of the revenue from a housing unit for which a notarized deal has been signed is recognized as revenue, while 70% is included in the backlog). The backlog is a summary at a given time, which enables the revenue yet to be recognized over the coming months to be estimated, thus supporting the Group's forecasts – with the proviso that there is an element of uncertainty in the transformation of the backlog into revenue, particularly for orders that have not yet been signed.

**EHU:** the EHUs (Equivalent Housing Units) are a direct reflection of business volumes. The number of EHUs is a function of multiplying (i) the number of housing units of a given program for which notarized sales deeds have been signed by (ii) the ratio between the group's property expenses and construction expenses incurred on said program and the total expense budget for said program.

**Gross margin:** corresponds to revenue less cost of sales. The cost of sales is made up of the price of land and any related costs plus the cost of construction.

**Financing capacity:** corresponds to cash assets plus lines of credit not yet drawn.

**Lease-before-completion (BEFA):** a lease-before-completion involves a customer leasing a building before it is built or redeveloped.

**Orders:** measured in volume (units) and in value terms; orders reflect the group's sales activity. Orders are recognized in revenue based on the time necessary for the "conversion" of an order into a signed and notarized deed, which is the point at which income is generated. In addition, in the case of multi-occupancy housing programs that include mixed-use buildings (apartments, business premises, retail space, and offices), all of the floor space is converted into housing unit equivalents.

**Property portfolio:** represents all of the land for which any commitment (contract of sale, etc.) has been signed.

**Property supply:** it is represented by the total inventory of properties available for sale as of the date in question, i.e. all unordered housing units as of this date (minus the programs that have not entered the marketing phase).

**Sale-before-completion (VEFA):** a sale-before-completion is an agreement by which the vendor transfers its rights to the land and its ownership of the existing buildings to the purchaser immediately. The future structures will become the purchaser's property as they are completed: the purchaser is required to pay the price of these structures as the works progress. The seller retains the powers of the Project Owner until the acceptance of the work.

**Take-up period:** the take-up period is the number of months required for the available housing units to be sold, if sales continue at the same rate as in previous months, or the number of housing units (available supply) per quarter divided by the orders for the previous quarter, and divided by three in turn.

**Take-up rate:** the take-up rate represents the percentage of the initial inventory that is sold on a monthly basis for a property program (sales per month divided by the initial inventory), i.e. net monthly orders divided by the ratio between the opening inventory and the closing inventory, divided by two.

**Units:** units are the number of housing units or equivalent housing units (for mixed projects) for a given project. The number of equivalent housing units is calculated as a ratio between the surface area by type (business premises, retail space, or offices) and the average surface area of the housing units previously obtained..

# NOTES

## ♦ Financial data

### Key consolidated data

| € thousands | Q4 2019 | Year 2019 | Q4 2018 | Year 2018 |
|---|---|---|---|---|
| Revenue | 442,476 | 1,472,154 | 461,892 | 1,558,229 |
| *Of which housing* | 413,886 | 1,334,000 | 406,856 | 1,293,750 |
| *Of which Commercial Property* | 25,752 | 130,410 | 51,293 | 254,150 |
| *Of which other* | 2,838 | 7,744 | 3,742 | 10,329 |
| | | | | |
| Gross margin | 85,414 | 283,859 | 88,159 | 300,002 |
| *Gross margin ratio (%)* | *19.3%* | *19.3%* | *19.1%* | *19.3%* |
| Current operating income | 40,060 | 128,761 | 38,911 | 137,185 |
| *Current operating margin (%)* | *9.1%* | *8.7%* | *8.4%* | *8.8%* |
| Adjusted EBIT* | 42,582 | 139,190 | 42,663 | 148,921 |
| *Adjusted EBIT margin (%)* | *9.6%* | *9.5%* | *9.2%* | *9.6%* |
| Attributable net income | 22,311 | 76,272 | 21,207 | 72,972 |
| Attributable net earnings per share (€/share)** | 1.01 | 3.45 | 0.97 | 3.34 |

** Adjusted EBIT corresponds to current operating profit restated for capitalized "IAS 23" borrowing costs, which are deducted from the gross margin.*

*** Based on the number of shares that make up Kaufman & Broad S.A.'s share capital, i.e. 21,864,074 shares at November 30, 2018 and 22,088,023 shares at November 30, 2019*

### Consolidated income statement*

| € thousands | Q4 2019 | Year 2019 | Q4 2018 | Year 2018 |
|---|---|---|---|---|
| **Revenue** | **442,476** | **1,472,154** | **461,892** | **1,558,229** |
| Cost of sales | -357,062 | -1,188,295 | -373,733 | -1,258,227 |
| **Gross margin** | **85,414** | **283,859** | **88,159** | **300,002** |
| Sales expenses | -9,064 | -30,800 | -10,302 | -36,433 |
| Administrative expenses | -20,173 | -68,903 | -26,225 | -74,541 |
| Technical and customer service expenses | -5,440 | -22,200 | -5,055 | -21,487 |
| Development and program expenses | -10,678 | -33,196 | -7,666 | -30,357 |
| **Current operating income** | **40,060** | **128,761** | **38,911** | **137,185** |
| Other non-recurring income and expenses | | | | |
| **Operating income** | **40,060** | **128,761** | **38,911** | **137,185** |
| Cost of net financial debt | -2,265 | -5,509 | -1,709 | -8,707 |
| Other financial income and expense | | | | |
| Income tax | -10,817 | -32,915 | -11,611 | -39,335 |
| Share of income (loss) of equity affiliates and joint ventures | 1,041 | 3,424 | 677 | 3,894 |
| **Net income of the consolidated entity** | **28,019** | **93,761** | **26,268** | **93,037** |
| Non-controlling equity interests (P&L) | 5,708 | 17,489 | 5,061 | 20,065 |
| **Attributable net income** | **22,311** | **76,272** | **21,207** | **72,972** |

*Not approved by the Board of Directors and not audited.

## Consolidated balance sheet*

| *€ thousands* | **Nov. 30, 2019** | **Nov. 30, 2018** |
|---|---|---|
| **ASSETS** | | |
| Goodwill | 68,661 | 68,661 |
| Intangible assets | 91,209 | 90,017 |
| Property, plant and equipment | 5,976 | 8,407 |
| Equity affiliates and joint ventures | 6,087 | 6,185 |
| Other non-current financial assets | 1,756 | 1,826 |
| Deferred tax assets | 4,002 | 4,233 |
| **Non-current assets** | **177,691** | **179,330** |
| Inventories | 457,321 | 396,786 |
| Accounts receivable | 511,907 | 406,309 |
| Other receivables | 211,501 | 172,172 |
| Cash and cash equivalents | 208,102 | 253,358 |
| Prepaid expenses | 1,435 | 1,100 |
| **Current assets** | **1,390,266** | **1,229,726** |
| **TOTAL ASSETS** | **1,567,957** | **1,409,056** |

| | **Nov. 30, 2019** | **Nov. 30, 2018** |
|---|---|---|
| **LIABILITIES** | | |
| Share capital | 5,743 | 5,685 |
| Additional paid-in capital | 200,879 | 168,816 |
| Attributable net income | 76,272 | 72,972 |
| **Attributable shareholders' equity** | **282,894** | **247,473** |
| Non-controlling equity interests (balance sheet) | 11,140 | 14,282 |
| **Shareholders' equity** | **294,034** | **261,755** |
| Non-current provisions | 37,706 | 33,402 |
| Non-current financial liabilities (maturing in > 1 year) | 148,900 | 199,652 |
| Deferred tax liability | 50,928 | 42,692 |
| **Non-current liabilities** | **237,534** | **275,746** |
| Current provisions | 2,529 | 2,265 |
| Other current financial liabilities (maturing in < 1 year) | 3,189 | 3,705 |
| Accounts payable | 907,498 | 705,958 |
| Other payables | 123,047 | 159,199 |
| Prepaid income | 126 | 428 |
| **Current liabilities** | **1,036,389** | **871,555** |
| **TOTAL LIABILITIES** | **1,567,957** | **1,409,056** |

* Not approved by the Board of Directors and not audited

## ♦ Operational data

| Housing | Q4 2019 | Year 2019 | Q4 2018 | Year 2018 |
|---|---|---|---|---|
| Revenue (€ million, excluding VAT) | 413.9 | 1,334.0 | 406.9 | 1,293.8 |
| · *Of which apartments* | *381.7* | *1,232.4* | *384.9* | *1,220.8* |
| · *Of which single family homes in communities* | *32.2* | *101.6* | *22.0* | *73.0* |
| Deliveries (EHUs) | 2,303 | 7,056 | 2,386 | 7,566 |
| · *Of which apartments* | 2,174 | 6,664 | 2,292 | 7,255 |
| · *Of which single family homes in communities* | 129 | 392 | 94 | 311 |
| Net orders (number) | 2,596 | 8,222 | 3,141 | 9,122 |
| · *Of which apartments* | *2,502* | *7,856* | *2,909* | *8,613* |
| · *Of which single family homes in communities* | *94* | *366* | *232* | *509* |
| Net orders (€ million, including VAT) | 562.6 | 1,709.0 | 638.0 | 1,871.5 |
| · *Of which apartments* | *533.7* | *1,599.6* | *582.8* | *1,735.7* |
| · *Of which single family homes in communities* | *28.9* | *109.4* | *55.1* | *135.8* |
| Property supply at the end of the period (in number) | 3,990 | | 3,781 | |
| End-of-period backlog | | | | |
| · In value terms (€ million, excluding VAT) | 2,069.3 | | 1,960.8 | |
| - *Of which apartments* | *1,959.6* | | *1,839.7* | |
| - *Of which single family homes in communities* | *109.8* | | *121.1* | |
| · In months of business | 18.4 | | 18.2 | |
| End-of-period land reserve (number) | 33,090 | | 30,116 | |

| Commercial | Q4 2019 | Year 2019 | Q4 2018 | Year 2018 |
|---|---|---|---|---|
| Revenue (€ million, excluding VAT) | 25.8 | 130.4 | 51.3 | 254.2 |
| Net orders (€ million, including VAT) | 348.8 | 467.5 | 13.3 | 359.5 |
| End-of-period backlog (€ million, excluding VAT) | 475.6 | | 218.3 | |