Emerging stronger for our stakeholders continued

Our investors

Our focus has been to protect the business in the short term while ensuring we position ourselves to take advantage of opportunities which will strengthen the business for the future and increase shareholder returns.

Material issues

Progress for 2020

- Successfully completed an equity raise of £510 million by issuing new shares in order to take advantage of attractive opportunities in the land market
- Made progress in aligning with the SASB disclosure framework and will disclose our performance against most of the criteria identified for our sector in our Sustainability Report for the first time this year
- Completed a detailed review of our organisational and cost structure which will result in annualised savings from 2021
- Included in Standard & Poor's Sustainability Yearbook 2021

Priorities for 2021

- Implement our new environmental strategy
- Deliver annualised savings of c.£16 million from 2021 as a result of organisational and cost restructure (with the costs to achieve these of £12 million incurred in 2020)
- Make progress towards our medium term operating profit margin of c.21-22%
- Move towards integrated reporting supported by an ESG Addendum, reflecting the Company's increased focus on ESG

BM Read more on page 21

Read more on pages 24 and 25

Read more about our investment case on pages 16 and 17

We run our business for the long term and so sustainability in the widest sense has been always been a key underpin to our culture and way of doing business. The Group has a robust balance sheet and a growing high-quality landbank, which will enable us to grow the business whilst generating compelling returns.

Our primary performance focus is on returning the business to c.21-22% operating profit margin and we continue to target a number of areas to achieve this; focused on cost, process simplification and enhancing the core drivers of value for our business. In November 2020, we announced that we had undertaken a detailed review of our organisational and cost structure in addition to cost reduction and management programmes already in place. We have delivered the planned savings outlined in November 2020, which will be realised from the beginning of 2021. These changes will not affect the ability of the business to generate future growth or to deliver a high-quality product and service to our customers.

We continued to prioritise opening new outlets throughout 2020 and remain focused on developing our new land acquisitions through the planning system and opening new outlets efficiently.

More information on guidance for 2021 can be found on page 17.

Equity raise

Our focus has been to protect the business in the short term while ensuring we position ourselves to take advantage of opportunities which will strengthen the business for the future and increase shareholder returns. This includes significant investment in land, given the short term opportunity, and investing in and opening new sales outlets, which we expect to continue to grow in the medium term.

On 17 June 2020 we announced an opportunity-led equity raise where we raised net proceeds of £510 million to take advantage of near term opportunities. These investments, which are continuing to meet our returns criteria, will support sustainable future growth and deliver long term value to shareholders. More information can be found on pages 12 to 13.

Shareholder returns

It continues to be our aim to provide a reliable income stream to our shareholders, throughout the cycle, including during a 'normal downturn'.

Ordinary Dividend Policy

Our Ordinary Dividend Policy is to pay out to shareholders approximately 7.5% of net assets, which will be at least £250 million per annum, paid in two equal instalments in May and November.

We propose to resume ordinary dividend payments in May 2021, starting with the 2020 final dividend payment of 4.14 pence per share equating to c.£151 million, subject to shareholder approval at the AGM.

This means that, in the 2021 calendar year, we intend to return c.£301 million in cash (c.8.28 pence per share) via the payment of the 2020 final dividend in May subject to shareholder approval and the 2021 interim dividend in November.

Approach to return of excess capital

As we look forward, our intention remains to return cash generated by the business in excess of that needed by the Group to fund land investment, all working capital, taxation and other cash requirements of the business, and once the ordinary dividend has been met.

We are not proposing to return excess capital in 2021. We will review the level of excess capital and potential return in respect of 2021 at the time of the 2021 full year results in February 2022, for payment in 2022.

This represents a shorter period between proposing and distributing excess capital returns and we expect to continue with this timing going forward.

The method of returning excess capital, either by way of special dividend or share buyback, will be considered at the appropriate time.

Approach to ESG

We maintain a dialogue with investors on our approach to managing environmental, social and governance risks, including implementing the recommendations of the Task Force on Climate-related Financial Disclosures. More information can be found on page 44. We are also disclosing our performance against the criteria identified for our sector by the Sustainability Accounting Standards Board, in our Sustainability Report for the first time this year. More detail on our approach to ESG risks is included in the risk section and our Sustainability Report.

Reflecting the importance of ESG issues, we are moving towards integrated reporting. We have increased disclosure of ESG topics in our Annual Report and Accounts this year. In 2022, our goal is to publish an integrated report supported by our sustainability web pages and an ESG Addendum for social and environmental performance data.

We are a constituent of the Dow Jones Sustainability Europe Index and the FTSE4Good Index series, the leading responsible investment indices.

We participate in the CDP Climate report and received a score of B in 2020 (2019: B) and in CDP Water, scoring B (2019: B). We also participate in CDP Forests, disclosing our approach to timber sourcing and received a B rating in 2020 (2019: C). We received a Supplier Engagement rating of A- from CDP for our approach to engaging suppliers on climate change.

We are a member of Next Generation, a rigorous and detailed sustainability performance benchmark of the UK's largest homebuilders, and were awarded silver in 2020.

Research and development

Our R&D initiatives span our Supply Chain, HSE, Design and Production and the Sustainability functions and are responsible for introducing technology advancements and process efficiencies that improve quality and operational delivery and seek to add value through continuous improvement.

In 2020, the focus was on quality improvements and regulatory changes such as the impacts of the Future Homes Standard. We committed to funding a PhD with the University of Birmingham to investigate cost-effective scalable construction solutions and strategies to overcome overheating and improve the indoor environmental quality of future new homes as the regulatory changes drive increased thermal efficiency and air tightness.

Throughout the year we worked with universities and experts to explore the impacts of future regulatory requirements to design, specification, and health and wellbeing in new homes. The R&D teams are currently trialling a range of energy efficient and low carbon technologies including energy efficient lintels, Wastewater Heat Recovery, and Flue Gas Heat Recovery systems. This will help us to meet our climate change targets and comply with expected changes to building regulations.

We continually assess modern methods of construction (MMC) trialling those that meet regulations, deliver quality, are safe and comfortable for our customers and can deliver at scale with a robust and reliable supply chain. In the short to medium term, combining traditional construction with panellised MMC components and panellised construction such as Timber Frame will continue to fuel practical innovation.

2021

Engaging with our investors on sustainability

A major investor engaged with us over our approach to sustainability reporting. The investor wanted to see reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) metrics.

We continue to align our climate reporting to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) but had not previously formally reported against SASB standards.

Management requested a review, led by our Director of Sustainability, to establish our ability to report against SASB requirements and establish the processes necessary for data collection.

We also engaged directly with SASB to ensure we correctly understood its requirements and are now reporting against the majority of its disclosure criteria for our sector in our 2020 Sustainability Report and will work to further improve our alignment over time.

SR Read more in our 2020 Sustainability Report

March

Cash preservation

Implemented measures early in the pandemic to manage our working capital, including pausing discretionary land spend, cancelling the ordinary and special dividends and drawing down our Revolving Credit facility.

June

Equity raise

Raised net proceeds of £510 million by issuing new shares to take advantage of near term opportunities in the land market.

October

Chairman's roadshow

The Chairman met a number of key investors during a virtual roadshow. Topics discussed included ESG and the Board's involvement in strategic decisions.

November

Organisational review

Completed detailed review of our organisational and cost structure. Removed a tier of operational management and rationalised our London structure delivering annual cost savings of c.£16 million.