Taylor Wimpey

Half Year Results 2015

Wednesday, 29 Jul 2015

Pete Redfern – Chief Executive

Good morning. Thank you for joining us. Just Ryan and I presenting this morning. I'll cover the performance and just where we are with land, including some land strategy points first of all and then Ryan will pick up financial delivery, build costs and quality. And then I'll come back and sum up where we see the markets, what trading has been like over the course of the last few weeks and the outlook for the balance of the year and into next year.

Starting off with the main financial measures that we've set out over the last few years. And you'll remember 15 months ago we released our three-year set of three targets on operating margin, return on net operating assets and tangible net asset value and then added the cash conversion. So an update here on all of those. We're clearly very pleased with this performance. Over the last six or seven years we've had the operating margin target as being the key driver of our quality and returns in the business. So seeing another 300 basis point increase is a huge step forward. We'll come back to where we see the balance of this year and the future later on. The 19.2%, particularly for our first half performance, is another record operating margin performance for the business. But particularly seeing the return on net operating assets, which is probably where we see the biggest upside over the next two to three years, stepping up by around 500 basis points to 23%, is a huge step forward for us.

On the cash conversion, 45% for the rolling 12 months, up from 27%; there will be a very significant step-up in that in the second half, which again we'll come back to.

And of course probably the main new news of today that we've announced, our 2016 cash return to be paid in early July next year of £300m, up from £250m this year.

So operating statistics, and just picking out some of the key highlights. I think probably a large surprise, and actually it's been a surprise to us over the last six months, is the scale of the sales rate: that's about 10% up on last year and it has remained strong into July. Again, we'll talk a little bit about that, what's driven it, and where we see it going in the balance of the year.

But bringing another 5,700 plots through the strategic landbank. And we see a pretty strong performance in the second half coming as well on that and particularly into 2016. So a continued outperformance on the strategic land conversion, which has made us significantly less dependent on the short-term market and, as we will talk about quite a lot, gives us some good choices about where we want to invest and what we're trying to achieve.

Now, stepping back and looking at the market for the first half and this graph does come up to date. You've seen this chart before. The red line is sales rates and you can see the extent to which the first half of this year has been, from the beginning, not just after the Election, slightly ahead of last year, particularly last year's second half. And then the blue total is our overall measure of our customer interest, which includes website enquiries, brochure orders those sorts of things, and gives you a sensible snapshot of how we see customer demand and confidence.

Just to highlight a couple of bits from those charts, particularly the blue one - where you get significant spikes, they tend to be because we're driving very conscious website traffic. That won't necessarily increase the overall level in the period, but it will give you that spikey performance. And so when you see in July, that's our summer email blast that drives significant levels of web traffic and we've become far more sophisticated and effective at getting that process right, but even if you stripped out those elements you would still see, as you can see pretty clearly from the chart, a significant step-up in customer interest throughout the first half of the year, and particularly since the General Election. If you look at all of the sales stats we've got, I think what's interesting is we've seen almost no meaningful summer slowdown again at all which, again, we'll come back to. So a pretty solid market in which we've been operating, and sales rates, as I say, running ahead of where we would have expected.

If you put those into some sorts of numerical numbers, again you see the 0.78 sales rate. Though our outlet numbers are slightly below in absolute terms where we would have expected to be, you can see our outlet openings are at a high for the last seven years, running about 20 higher than in any of the last six or seven years. So it's not really about outlet openings; it is about that higher sales rates and faster closings. And you can see in a very strong order book, roughly £2bn today, that that's reflected in where we are with sales and orders. So it isn't a concern for us. We still think outlets will probably be up even with that trend towards the balance of the year; but we're fairly relaxed about whether we have higher outlet numbers or a stronger order book. The balance between the two of them is just timing. So in many ways the strength of the market just naturally drives a stronger order book but slightly lower outlet numbers.

This will be the last time that I talk about the South division and our North division structured this way. And in a few slides' time I'll talk about our management changes and also just how we've tweaked the structure at a regional level. But we've only done that in the last week or two, so the data we're presenting is an historical way of looking at it. We'll give you a bit of a sense of what it would look like on the divisional operating areas that we have.

But you see in the South a small step-up in sales rates, but as you'll see in a second, the bigger drive has come from the Midlands and the North. You see a strong step-up in average selling prices. But probably the most positive statistic sitting there is the cost of land as a percentage of average selling price in the landbank. For that still to be falling at this point in the cycle with the strength of market we've seen is a function of the high levels of strategic land and a function of the quality of the land buying and the quality of the locations. In previous cycles at roughly this point you'd have expected that number to be well into the 20s and peaking around the 30%, even higher in the South, maybe even 35%. So it's fundamentally a very different balance between where value is being driven by the business.

If you look then at the North, as I say, you see a much bigger year-on-year step-up in sales rates. It wasn't quite as strong last year in the North as it was in the South, so it's obviously a slightly different comparative. But we've also seen a very strong performance from a lot of the Midlands and northern regions. Again, a similar dynamic on land as a percentage of average selling price; falling slightly at a time when you'd expect it to be rising. Still adding strategic land, but it is clear the weighing of our strategic land is towards the southern half of our geography.

Just standing back and looking at the short-term landbank, we've grown it by just over another 2,000 plots. But you can see, and probably the most significant signal you pick up, is the weighting towards strategic land conversion being over 60% of the new additions into the short-term landbank. We continue to be active in pretty much all of our geographies in short-term land, but not feeling like there is a need to push that hard. But very comfortable with where the landbank sits; it's within the target range that we've set out. As I've said in the last couple of presentations, we'll probably end up slightly higher than the 72,000 to 74,000 plots that we originally thought, largely because those strategic sites are larger but don't have a high carrying cost. And obviously that falling cost of land means that cash flow-wise it's less expensive for us to hold the slightly larger landbank. But our focus remains on adding great quality locations and great quality deals.

The land market is still very stable and attractive. Nothing has changed over the last six months. I think we all continue to be pleasantly surprised that the market for land hasn't stepped up. But that doesn't mean it's uncompetitive. And you shouldn't take that as a signal that there's some hidden dynamic, that we're worried it's suddenly going to get more difficult in the next 12 months. But I do think it's important to put it in context: every piece of land that we buy, or almost every, there is some degree of competition. Just have it in mind that yes, it is an attractive market from which we buy land relative to what we've seen over the past 15 years, but that doesn't mean that we don't have to compete. And having that optimum landbank means our competition can be more selective than most.

Our particular focus at the moment is on making sure we get the allocation of capital that we are spending right. Although we see our land investment as fairly neutral that still means we're investing about £700m a year in new sites. And how we allocate that is particularly key. We'll talk about that a little bit when we look at the geographic split of the business in a moment. But our priorities are maintaining that high margin position but growing the returns on capital – and Ryan will show you the balance between margin and returns on sites we've acquired this year – growing that return on capital and the capital efficiency of the business is where we see, as I say, the biggest upside.

But it is also managing risk. We think the high quality locations help us do that. Deal structures, getting deal structures right, particularly on big land deals is important. It's not generally about growing land creditors significantly, because though they improve your cash flow they don't necessarily improve your risk profile. But it is very much focused on getting the location quality right.

And we're particularly focused at the moment on adding sites with slightly different deal structures where actually we're not taking the full land risk, particularly when we look at London and the Southeast, looking at sites where there is significant potential upside but we're not always going to be the full outright land owner. Slightly less upside in an inflating market but a lot less risk. And so as we look at where growth comes from in the future it will be weighted that way, particularly in higher value markets.

We have set up a new business unit as part of our overall structure that looks at, specifically, deals with different structures: they're generally large; a lot of them are government-sourced, not necessarily through the HCA. There is one we've talked about in the statement today in Bordon in Hampshire, we have a half share of 2,400 units but we're actually acting as the development manager and have the option to buy land over time. It's quasi short-term land, quasi strategic land, but it lets us be very capital efficient and balance up the risk.

You may remember this chart from about 15 months ago. And we showed you how we were assessing the quality of the land that we were buying and the quality of the sites that we had. And at the time we'd been doing it for about two years and we hadn't got to a point where we were totally comfortable with the data because it is clearly subjective. So every site before we buy it we put into one of these 16 blocks in the matrix and we assess it on its macro location: so the quality of the town or village in context of the region. So if you're in the North West you'd put Chester quite high up or Alderley Edge quite high up; you'd put other cities, which I won't name, slightly lower down your list. You've always got to be careful because people get very offended. Normally I pick out Stoke and there's always somebody in the room who lives in Stoke. In fact one of our Board members I think was from Stoke. Sorry Kate. And then we assess the micro location: the quality of the particular site and the context of that particular village, town or city. And that gives us a really good comparative measure of one site next to another.

We're not trying to be an AA business. You tend to find they are the most competitive sites. You tend to find that if you chase them too hard that's where you can overpay. But we are trying to be heavily weighted into those four green blocks, and reasonably weighted into those five yellow blocks; and only to buy sites in the weaker locations when we have a very different deal structure, where there is very significant upside because of the land deal and the cost. And that tends to be the exception rather than the rule.

The main thing is we force our regional teams to really challenge themselves on the nature of the site that they buy, and to actually put some science and some discipline into it. Because it's very easy, without a process like this, to convince yourself that a particular site is a BB when actually it really isn't. It's a subjective process, but having been doing it for four years we think we've driven out a lot of the subjectivity. So for the first time we think the data is of a high enough quality to show you.

So the next slide gives you a sense of where we map those sites today after four years of going through it. And you'll see we're very heavily weighted towards the green and the yellow. You can see there is an AA block in the background; it's significant but it's not the biggest part of what we do. Most of the sites in red are either historic or fit the kind of deal structures that we talked about, and only make up about 3% of our total landbank.

It's very hard for you to look at it this and judge whether it's fair. But it's the data that we use internally to assess site quality. And the main message is this we see as being a big driver of the business: it's a big part of strategy; it's a big part of the capital allocation, because whether the market is very strong or very weak, these are the sites that tend to be most resilient. It's the places where people choose to live and perform best in almost all market conditions.

So we're very pleased with where that sits at the moment. We have wondered whether we could go back and recreate this data for 12, 13 years ago, but I'm not sure I'd be brave enough to show it to you if I could actually map it, because I think there would be a very high proportion of the reds and yellows. The most important thing is that we really challenge people to think about the site and where it is and whether their pricing is realistic.

Then moving on to the management team. You will, I think, all know that Peter Truscott has left us to run Galliford Try, and we wish him luck. He's been with us for a long time. He's been in his current job for 11 years and he's made a huge contribution. It's also though an opportunity for us. We've had very good strength and depth of our operational management team. And in many ways we've held onto a slightly deeper senior team knowing that a change like this would come somewhere around now. And so for many of you - you will know the individuals that we've put into those roles.

So we've replaced Peter with two divisional chairmen. We've divided that business in two, and I'll show you where the geography of that maps in a second. Nigel Holland, who I think is in the room, Nigel's at the back. Many of you know Nigel. He's been running our division in the South West for some time before stepping up to this bigger role. Originally he was in sales, but we won't hold that too much against him; but has great depth of knowledge of our business, the people, the land market and this geography.

Chris has been with us for about nine years. He's on holiday today so he isn't here; but we will be getting both Nigel and Chris to present to you over the course of the next 12 months. Chris has been running our business in Southwest Thames for the last four or five years. Chris is a finance guy by training. I won't hold that against him but Nigel probably will. But both of them are people we know well, who know the market and know our business. And it gives us a chance to look in detail at those two regions and work out how to approach each of them, and they're slightly different in terms of their priorities, and really focus on them.

I said we'd set up a new business looking at slightly different ways of buying land; that's led by Lee Bishop. Lee has been with us for about 25 years, and I'd be very surprised if there were any of you in the room, who have been following us for a while who haven't met Lee in that process. Lee is a land buyer by nature, and what we have asked Lee to do is really look at the way we buy those bigger sites, particularly in the Southeast, and work out how to get more value, particularly higher capital returns out of them.

I'll just take the opportunity to flag two other new joiners, Anne Billson-Ross, who is also in the room sat next to Nigel, joined us a year ago as our HR Director. Jennie Daly has been with us about a year, she was with Redrow and Steve Morgan before that, she ran Harrow Estates for about five years and was a member of Steve's team for about 11 years. She's a very strong planning professional but she's also a very commercial land person and will help us drive and really squeeze the value out of those big strategic land sites sitting on our management team and replacing Peter Andrew.

So a reasonably significant change but actually all driven from people internally, the vast majority of it driven from people who have been with us for a long time, and two new recruits that have been with us a year and are already starting to add some real value. The slide which you've got in the pack just gives you a bit of that background, I've covered most of it as I've kind of gone through the overall chart.

And then I said, and I'll just finish with this, the new operating areas, rather than divide the South into East and West we've divided it into areas where we see similar constraints and issues, so we're looking very much at a London and Southeast division which in capital terms is broadly similar to our other businesses, but in terms of number of business units is less, but these businesses tend to share more complex products, a slightly different customer mix, different market dynamics, and particularly has become more scientific at our capital allocation between divisions, it lets us really focus at that divisional chairman level on how much capital we want to put into that patch relative to the central and southwest division or the north.

The central and southwest division which Nigel will run is again broadly similar in terms of overall capital scale, more business units, slightly simpler in many ways than that Southeast business, slightly lower planning risks, slightly more tendency to be able to buy land on conditional contracts rather than unconditional so a slightly different set of issues that has scale and is more affected by London price movements and the price impacts of the Southeast than say the North.

So our reason for choosing those divisions is partly about the fact that they are good, solid sizes that enable us to manage capital effectively, but also about them having quite similar characteristics, and we will generally be reporting on those businesses to you, giving you a sense of their performance, their scale, and where we see the investment in probably more depth than we've tended to historically. And I just think that structure's a better way for us to run it, but it's also a better way for you to understand the regional dynamics of our business.

Ryan Mangold – Group Finance Director

Thanks Pete, and good morning ladies and gentlemen. I'm going to be covering the continued good progress we've made against our medium-term targets that we set out back in May 2014 and hopefully you're going to get a good sense of the value creation that we've delivered in the six months, as well as the sustainability of the returns which points to the quality of the business.

In the half year revenue was up 12.2% to £1.34bn and most of that is driven by price and growth, we had a small amount of volume growth in the UK, up by about 2.6% but most of that revenue growth is from pricing, and I'll come to talk about that a bit later in the presentation. Gross profit of £330m is up 27%, driving a gross margin of 2.9 percentage points, up to 24.7%. Further overhead efficiency from the scale of the operations from a revenue perspective, so overheads as a percentage of revenue in the half up 6%, compares to 6.5% in 2014, and clearly with a greater volume weighting to the second half is going to be further recovery from overheads to drive margin improvement into the second half.

Overall margin growth 3.1% to 19.2% and we delivered £256m worth of profit in the period. The operating result includes Spain which was marginal profit positive at £0.9m versus a £1.9m loss in the previous year and the strength and the quality of the order book in Spain, as well as the new locations that they've acquired that they're trading from positions them well to continue to deliver positively against this.

Interest in the period benefits from the 'amend and extend' that we signed in February of this year to reduce bank borrowing costs, but does include some once off charges, non-cash charges into the P&L in the first half and the settlement of a legacy issue that we've been dealing with, as well as slightly higher land creditor unwind offsetting. That's driven profit before tax and exceptionals of £238m which is up 33% on the prior year.

The effect of tax rate in the period is 20% and it largely reflects the statutory rate and we clearly will be a business that's going to benefit from the announced Corporate Tax reduction down to 18% by 2020, this has meant that EPS on an adjusted basis of 5.9 pence per share is strongly up in the period, 37.2%.

Tangible net asset value per share at 82.1 pence, and this is before the accrual of the dividend that we paid in July, so excludes the £250m is up year-on-year by 11.5%. We've completed a net realisable value review as part of the half year and that resulted in a small net charge to the P&L of £0.8m on specific legacy sites which remain challenging, and that's not expected to make a too material impact to the trading results on a go forward basis.

From the UK perspective we've got year-on-year marginal growth in volumes up by the 2.6%, but we are positioned very strongly for the second half delivery with the order book on a like-for-like basis at over 8,000 plots versus 7,500 at this time at the end of June last year. The value focus pricing growth has meant that private average selling price is up by 10.7% to £248,000 and this has benefited somewhat from the market dynamic year-on-year but also most importantly by the mix impact from the quality of the locations as you saw from Pete's earlier chart on the landbank. And this has driven a 31% increase in operating profit in the UK business and a margin of 19.3%, 2.9 percentage points up on the half.

This is a reconciliation which is an indicative reconciliation of our margin progress year-on-year so this is the percentage operating margin delivered by our UK business so it doesn't include Spain, where we look to judge ourselves as how we performed against the marketplace and for the marketplace we've just used an average of the indices of Nationwide and Halifax and tried to drill those down to the submarkets that we operate in, so it's a relatively scientific way of doing things but not a precise way of doing things, it's the best indication that we've got, and we also try and compare ourselves how we are performing against the build cost inflation in the marketplace, and the only indicator we've currently got is from BIS but that unfortunately only goes to the second quarter of 2014 which has been maintained at that 6%, I think that they are due to publish fairly soon, but this gives us a broad sense of where we think the actual marketplace is in any event.

So from a market perspective we think that we've captured about 5.5% growth in price, we've lost about 3.2% in terms of the impact of build costs from a market perspective and that's resulted in net economic benefit captured effectively of 2.3% if you're just purely looking at market fundamentals. The market inflation on selling price, impacting slightly lower than market, is due to the timing of when the order book progresses through to the P&L. But one thing we've added this year which is slightly new is the market impact of landbank evolution, so following three years of pricing growth in the marketplace you can just imagine a site that was acquired say in 2012/2013 that has benefited from a number of years of incremental market growth from a pricing perspective, as those sites come off and are replaced by newly acquired sites, because the average site we trade on for approximately three years and it's on average in our landbank for approximately six years. As we trade through those longer dated sites that benefitted from compound market pricing growth, those are replaced with sites that are acquired more recently that don't have the same benefit, and so there's a slight negative that comes as a consequence of that landbank evolution of half a percent. I'm sure that this is going to be something that's going to create a great deal of debate and I look forward to having that with the analysts who might do it in a slightly more sophisticated method than ourselves, but that's our broad sense in terms of the evolution of the landbank.

The NRV provision release is a lower and lower consequence year-on-year, you might recall we had a relatively material write back to the P&L last year which takes a little bit of the gloss off as that slightly higher land cost comes through of 0.3%. So the overall market impact we think we've captured in the half is 1.5%.

We think that we've got some efficiencies in our build costs relative to the market, from a construction perspective and delivery perspective, of 0.4% improvement to margin as well as improvement in the land mix coming through the P&L from the slightly lower quantums of previous legacy sites we traded through in the P&L, as well as the fact of its better quality locations of sites coming through and strategic land as well, which results in net land improvement of 1.6%.

A small amount of benefit on affordable housing pricing which comes through the P&L in the period, clearly the government as part of the Summer Budget has announced some slight changes in terms of pricing for affordable housing on a rental perspective, we don't think that that's going to make a material difference to the Taylor Wimpey result but clearly it will have an impact when it comes to affordable housing pricing on a go forward basis.

Marginal increase in overheads year-on-year, on the half, £3.7m or 4.9% but this is despite an 11.5% increase in revenues in the period, so it does reflect better recoverability and clearly there's more to be done as we get to optimal scale.

On a UK per plot analysis perspective we've got a steady trend of reducing land costs to average selling price, this is a combination of better quality locations driving down price as well as the impact of improving contributions from our strategic pipeline which is a lower average plot cost. Build cost is a little bit impacted by mix in terms of quality of locations, most notably London coming through in a bit more anger, but also through just underlying market inflation. And clearly with a greater proportion of strategic land sites coming through the P&L those have got slightly higher infrastructure costs, and ever so slightly higher build costs as a consequence which we do need to bear in mind as well.

Selling expenses were broadly static, and as Pete says we're becoming more sophisticated as to how we access the market through the internet and for direct marketing, but those are slightly higher in the half than they were in the previous first year half and that's primarily as a result of a greater number of outlets opening in the first half of 2015. Gross margin per unit was up to 24.9%, and that's up 2.9 percentage points on 2014.

The level of apartments trading, a little table below the chart, being 11% is quite a little bit lower than what we'd expect relative to the number of apartments in our landbank, and so we expect that to increase ever so slightly in the second half but it's never going to be a huge contributor to the P&L based on our current landbank and the level of investor sales currently also remains very low at 7% and we expect that also to continue, so not too much of an influence or dependency on that following the Budget announcement changes on the buy-to-let market.

Our total build cost per square foot has increased to £116 and we think that there's an underling increase of roughly about 5% half-on-half. There's a bit of a marginal impact from mix continuing to impact the build costs as well as the improvement in specifications where we think we probably took a little bit too much out of our houses through the downturn and that will contribute a little bit to build costs as we improve their specifications to meet customers' demands.

For our centrally procured commodity items, so these are the items that we buy through our central procurement function run out of Newmarket on a forward looking basis, those have increased by approximately 2.4 percentage points and so most of the additional build cost pressure is really coming through the sub-contractor and labour market. Whilst it's still a positive trend in terms of inflation it is significantly lower as more capacity comes back to the marketplace as they react to the more stable sector that we're operating in. We still believe that our build cost inflation for this year will remain at roughly about 5% year-on-year but it's on a declining balance which is positive.

Our growth in net assets, very good progress in this regard, up 15.6% if you take out the dividend distribution, which is how we are judging ourselves, and almost all of this is driven by operating profits and profitability in the period. There's a small impact from pensions where actuarial assumptions have gone against us over the 12 month period, slightly higher inflation assumption with the discount rate not quite reacting at the same pace, but offset also by some cash contributions we've made in the period. In total, growth, as I said, 15.6% is slightly higher than our medium-term targets that we've set out and so it's very positive to be in such a strong position so early on those three year targets.

We have announced the £300m capital return for next year in July and if you add to that our maintenance dividend policy which is 1% to 2% of net assets and we're currently paying out at 2% of net assets, that means that we're going to be returning approximately £355m to shareholders during the course of 2016 and that's approximately 14.7% of our current net assets which is going to be all funded out of profitability with a small amount reinvested back into the business.

Our short term landbank, as Pete says, is probably slightly higher than optimal scale but there's obviously the timing of completions into the second half going to be slightly more stronger weighted, but at 77,000 plots this is absolutely in line with our strategy for the business and we've got £2.4bn invested in our short term landbank and that covers £18bn worth of revenue with most of the growth in the landbanks being funded through equity. A small amount has been funded through land creditors, approximately £40m and the continued quality of locations is improving the mix in the landbank and our average selling price has increased to £237,000 per unit at a plot cost ratio of 16.4%, which puts us in a good position to continue to deliver positively into the future.

Our strategic pipeline remains at roughly about 107,000 plots, and this covers now £22bn worth of revenue. So we've either got under our ownership or our control over £40bn worth of revenue at very attractive margins if it's in our landbank, but also very attractive margins as the strategic landbank comes through to the P&L.

And in the UK, land creditors are up to £500m, which is approximately 19% of the landbank value, and land creditors will continue to be used on a deal by deal basis where it makes most commercial sense for us to do so.

In terms of quality of the landbank, the evolution and the heritage of the land, be it old land or be it strategically sourced, continues to drive margin growth in the period from a delivery perspective, but also continues to drive our confidence in delivery into the future from the inherent margins contained in the landbank, and it's more than 75% of our landbank to end of June has been sourced post-downturn, of which the majority have come through our strategic pipeline, which is a great underpin to our confidence in delivery of our future operating results and our medium-term targets.

We have a small number of legacy sites in the UK that are impaired, with the total NRV provision carried on the balance sheet at £139m, with a carrying value of inventory of £233m. But a significant proportion of that is on sites that are not currently opened and are mothballed.

In terms of our disciplined approach to capturing value from an investment perspective, we are very critical to judge ourselves on how we're performing against the investment thesis that supports the investment of, in land in the first instance. And as you can tell here with the gold circle, the operating margins are a fraction softer year-on-year by about 0.5 a percentage point, but a significant increase in the return on capital employed expectation from the investments that have been incurred in the first half of 2015. This reflects the dynamic that we apply for every single site that we acquire, which is a balance between returns as well as operating margins.

In the first half of 2015 we completed about 62% of homes on sites that were acquired post-downturn, and we've outperformed the investment thesis on those particular sites by 3.8 percentage points in the period, which is a great underpin for us in terms of having certainty of delivery of the margin from our landbank.

Turning profit into cash, this is looking back over 12 months, so it's a trailing 12 months to June 2015. We have invested £231m in work in progress, some of that is funded by trade payables, by about £105m. We expect capital growth in outlets to continue as the pace of inflation as well as the scale of the business continues to increase, with a small amount of net investment continuing to the London business. Net land investment, including payments of land creditors and the impact of land debtors to the extent that we've sold some sites, we have a net investment of £176m into the balance sheet, and we expect to be a net investor going forward in land as the dynamic of maintaining the balance sheet scale at ever so slightly higher cost.

We have sold £7.4m worth of our shared equity in the 12 months, and all of that above original loan value. We've paid £25m into the pension scheme, resulting in a cash generator from operations of £244m, which as Pete said before is 45% conversion rate, but we are well placed for the second half.

We've then deployed £100m into dividends, and we've paid £30m in interest. We've paid no tax in the period, albeit we've started to pay tax now as the deferred tax asset is going to be fully exploited during the course of 2015, and will be more substantial cash tax paying in 2016 as almost a direct flow from profit before tax in the P&L through to the cash flow statement, and that results in a net increase in cash of £124m in the period.

We ended the half year net cash of £88m, and adjusted gearing including land creditors of only 17.3%, which underpins our flexibility and our business options on a go forward basis. It is very good that Standard & Poor's have recognised the quality of our trading performance as well as our funding strategy and balance sheet strategy, and have returned us to investment grade after the full year results, which is very pleasing.

So overall in summary, we've made good progress on our medium-term targets that we set out last year. We've exceeded the RONA target, return on net operating assets, by 3.2 percentage points and expect to continue to make good progress in that regard. Our operating margin of 19.2% is slightly below the 20% average that we set ourselves out for 2015, '16 and '17, but the quality of the landbank puts in very, very good stead from a trading perspective to meet that.

We expect to make good progress on our cash conversion in the second half of 2015. On a comparative basis, the second half of 2014 we converted about 76% of our operating profit into cash, and so we're well positioned to meet those targets. And we enter a phase of more sustainable returns to shareholders, with the £300m announced as well as the maintenance dividend policy of roughly £55m for next year committed, which is still subject obviously to shareholder approval at next year's AGM.

I'll now hand back to Pete for the market outlook.

Pete Redfern

Thanks Ryan. Now just to bring you up-to-date on the market during the course of July. I'm conscious that this year we didn't do a trading update around the close as well, so I may spend a little bit longer on it. For sales rates in July to be at 0.79 is fairly unprecedented, it's a sign of a very strong market with a high degree of confidence, and again the quality of those locations. Through that same environment back end of the first half and in that month we've seen slightly more meaningful price inflation than we saw in the first three or four months of the year. We're not talking about 8%-10% annualised levels but more like 5% annualised than 2% annualised that we were seeing in the first quarter. So it is definitely a more positive environment.

As we've said in the statement, we'll be surprised to see that continue through the year. In fact, it will give us a practical problem in terms of customer service and delivery of product if it were to continue at that sort of sales rate level. So our focus will definitely be on price as we go through the balance of the year.

Our order book at the moment is touching £2bn, which again is pretty unprecedented, particularly at this time of year, so we're in a very strong place. Although the volume increase in the first half in terms of completions is relatively low, you can see in the strength of the order book the high levels of work in progress. We expect to deliver a pretty consistent even flow of completions through the second half, so we're not dependent on a very strong December, for instance, to deliver the sort of level of overall completions we expect for the year.

And so our guidance to completion numbers for the year as a whole is an increase of about 7%, it hasn't changed from the beginning of the year, but again finishing with a stronger order book, and hopefully finishing with a stronger order book with some price growth and therefore a stronger growth in margins than we might have originally thought going into '16.

If you look at selling price, also for this year our guidance is similar but perhaps with a little bit more upside, 7%-8% price growth year-on-year on completions, but as I say slightly more upside on that than on the completion numbers. So we sit at the middle of the year in a very good place in a stronger market than we anticipated, but without the rampant price growth we saw in the 12 months to this time last year. It would concern us if we saw that. And that gives us context to our views on interest rates as well, which I will come back to.

Standing back and looking at our marketplace overall and not just the sales environment, we're clearly in an environment where Government housing and planning policies are positive. We saw today for the first time 200,000 annual new planning approvals. It is early for us to fully absorb the impact of the more recent Government changes to planning, but they are definitely incremental positives and adding up to significant positives to the planning environment that we operate in.

There are no meaningful negatives within those changes. There are some things that we think will have a more meaningful impact than others, and there are some changes, particularly resourcing to local authorities, which we think has been missed and should have been a key part because it's one of our biggest challenges in getting new sites open, but generally it's a very positive environment, and the dialogue with Government is positive.

There were risks coming into the Election around Government views around the industry I think for both major political parties coming into the Election, however there was a sense of yes we want more but we can only push the existing industry so far, so we've got to look at how we create an environment for new competition. So we sit in a very positive place in terms of those kind of dialogues and the environment that has been created. It is, from a Government point-of-view, a real opportunity to create more stability. If you don't push it too hard in the short-term but create a much more positive planning environment then you can afford to invest far more carefully.

As I say, land availability remains good. Those planning policies are helpful in that land market. We're not expecting that to change in the near future, we're not seeing significant new competition or big hotspots of competition. I'd say in London particularly the land market is a little bit more balanced than it has been. Obviously concerns about future strength of the London market colour that. Demand strength, as you can see from the July stats is very good. Mortgage availability has continued to improve. Mortgage cost is good. We don't worry significantly about the interest rate rises that are flagged.

There are two main reasons for that. One, the strength of the demand is so solid that actually it can absorb some cost rises, and probably needs to, otherwise there is a risk we'll see more significant inflation over the next 12 months than we would like to see. And that I think will pose a risk for us. Therefore we can't argue with a signal of some interest rate rises, whether it be back end of this year or halfway through next year, the signal is almost as important as the rise itself. I think the other reason we are more relaxed about interest rate rises is that our business is far less dependent on selling price inflation than it has been historically. We start from a higher margin base on our land acquisitions, we're delivering that higher margin base through to completions, far less of our profitability is coming through market inflation than it was in the course of the last cycle. And so of course a significant rise in interest rates and a significant downturn in the market affects us, but our resilience to it is better than it's ever been.

And then moving onto costs. As Ryan says, our guidance for this year still remains about 5%. I'd say at the beginning of the year we'd say that was 5% with a bit of risk because we were still seeing pressure in some markets. I would say that risk has reduced during the course of the last six or seven months, particularly in London and the Southeast where we've seen a more meaningful shift in the second quarter in terms of a reduction in the upward pressure. There still is upward pressure but it's not as significant as it was seven months ago and 12 months ago.

Labour and materials remains a challenge to a point, but the supply chain and the industry's investment in people is making a difference, and so those pressures are easier than they were historically.

I think the key bit for us is recognising that there's an opportunity in that as well as a risk. Our development skills, particularly around bringing forward those big sites remain in short supply, and that gives us an opportunity to use those skills without always using our balance sheet.

Moving onto cash, and Ryan's covered it so I won't spend too much time. We expect to exceed the 65% in the second half quite significantly. For the year as a whole we think we'll probably be around the 60% level. We never thought we'd get to 65% during the course of 2015. We're still highly confident of getting to it and probably exceeding it over the three year period. But high margins improving return on capital employed will lead to growing cash generation over the next two to three years. You know the cash return numbers so I won't point them out. Next year is likely to be £350m in total order of magnitude with a maintenance dividend at broadly the same level as this year.

So overall going back to those financial targets, we are getting very close to the operating margin target that I said with the full year results that we didn't quite expect to get to 20% this year, we might, we might not. I think sat here today with a more positive market environment, more confidence particularly in the selling prices, slightly more confidence in the cost, I think we would now be disappointed if we didn't get to 20%. I don't think you should go too much above 20% because we are 90% sold for this year so there's not a lot of upside to that for this year, the upside goes into next year.

The return on net operating assets, we do see the biggest upside to the target that we set. We knew it was the easiest of the targets when we set them 15 months ago, and that's why we've broken through it already. We will be disappointed over time if that didn't have a 3 in front of it at some point, but I'm not ready to give you a guidance on quite when that is yet.

So good progress on asset growth and on the cash conversion. It's been a very good half. I think the Election result has helped stabilise the market and we've seen a step up from there. Most of the value impact of that probably goes into next year. But we sit in a very strong position at the middle of the year.

Q&A

Question 1

Will Jones, Redburn

Three if I could please. Firstly, there's a slide I think where you talk about the new land buying, the margin of new additions. The margin of new land buying, I think it looks like it's stepped back about 50 basis points or so first half on full year last year. Is that a tactical move because of the increased ROCE you're able to get on the sites, is it less strategic or anything around competition just to bear in mind on that one?

Secondly, just on the zones that you mentioned for the land mix. I think you said you've been doing that analysis for about four years. Can you give us any broad indication as to what extent the completions are either up to speed with the land mix and the zones, or still have something to catch up with?

And then the last one was just around the value of strategic land on the balance sheet. I think in the slide, Ryan, it showed 134 from 243 last year – apologies if I missed it but it's quite a big step down and just to understand that number. Thanks.

Ryan Mangold

The value of strategic land is mostly promotions, Will, out of our owned strategic landbank, and in the back of the presentation there's some further granular detail on that in terms of where the changes principally happened. And that's really just taking advantage of a more buoyant land market where we would have taken the capital risk before, during the course of 2013 and into '14, which has driven that change.

Pete Redfern

On the land margin, you shouldn't take that as a signal that we've reduced our hurdles or that there's a tactical view of margins being slightly lower, it's just mix, so you have one site that will drive that difference and it's just as likely that the second six months will be half a percent higher than the first half, or even half a percent higher than that.

The consciously focusing on higher return on capital deals and making sure we use our money carefully is more of a strategic shift, and so we would expect to see that running at a higher level than it has historically on new deals and that's starting to feed through the balance sheet. But the operating margin one is, if it's around that kind of 19.5 to 20.5 level, we feel that's about right, and so it's unlikely to significantly change from that.

And then on the zones, a lot of it has come through and you've seen that in the selling price rises relative to the market. You can see we think the market impact of selling prices in the first half of the year is about 5% and the other 4.3% is all to do with that shift in locations. But there is still more to come and that's why we say there will be more price inflation in the second half, without any market inflation, and there will be more on price increases into next year, without any price inflation.

When does it taper off? Certainly not next year, or the year after, or the year after that. It's continually surprised us, with the focus on quality and the less aggressive growth strategy, how much difference we can make to that dynamic, so it may run for longer than we've expected.

<u>Question 2</u>

Chris Millington – Numis Securities

Good morning. Again, three if I may, please. You mentioned, obviously, how you're well placed to cope with that increased delivery in the second half of the year from a sales point of view and the order book, but can you just give us an update on where you are on build delivery, because it is going to be quite a big ramp-up in completions on a year-over-year basis?

The second one really is what exposure do you have to sites which you haven't secured a HA provider on, in light of the changes there?

And the final one is really if you could just give us an update on where your overhead aspirations are, a useful step-down in this period, can you just give us an update on where you hope to be?

Ryan Mangold

I think from an overhead recoverability perspective, I think the way that you could look at that, Chris, is we're going to have a step-up in completions in the second half to get to the 7% volume growth year-on-year and we'll continue that trend into 2016 as we head more towards that optimal scale of roughly about the 14,000 units from a delivery perspective. And that's going to be done on better quality locations, from a mixed perspective that we've just been talking about, which is going to drive price, but at a very fairly similar overhead cost, and so we'd expect that recoverability to continue on a downward trend, earning probably basis points to margin or so there or thereabouts.

Pete Redfern

And on build delivery, I think if you had asked me the question three months ago, there was a degree of tension and nervousness about that. Today, and you can see it in the work in progress, and a lot of that increase in work in progress is in build in the ground; some of these houses have completed in July. And it's why I say we expect December, actually, to be quite a lot easier than June, even with that increase.

We have focused very hard, and not just the last six months but twelve months, and it takes about six months for it to impact on getting that delivery right in a market which has changed in terms of getting the right people on site at the right time with the right materials. And so yeah, we see a key measure of that as being customer service and customer service skills.

About two years ago, we were running about 90% in terms of our overall customer service scores. At the worst point, to the back end of last year, that had dipped to about 85%. We're not prepared to accept that, it's not how we want to run the business. We were getting it slightly wrong. The last three months have been back up to 88%/89% and a lot of that is factored into that view of build and where it comes through, so we've bought our teams a bit more time in how they deliver, to make sure they absolutely get it right, and also that they can really set out clearly for the customer when the house is going to be delivered.

So sitting here today, we're very confident of that second half delivery, but it has been a process to make sure that we, not just that we're building at pace, because that's easy, but we're building at pace and we're building well, which is a little bit more difficult.

And then on HA providers, I can't give you an absolute quantum. There will be some deals that are fully signed up and negotiated. You can see the order book and the scale of the provisions, so you can actually work out the maths of what is secure, and then you can work out what the gap is compared to what you expect the volume. It's not huge. The only sites that really worry us in terms of the pricing impact of those government changes are ones between pricing the land and doing that deal.

There has been an upside that's already baked in and there will be some additional competition for units. Margins on HA units are quite high, if you look in the order book at the moment, but I don't think the downside impact will be at a level that you would be able to particularly see and measure from the outside. There will be individual deals where the price isn't quite as good, but I don't think it's going to massively change the overall economics of how the affordable housing business works. And, of course, once it's worked through, in probably nine to twelve months of pipeline deals, the impact is negligible because it's built into land pricing.

Ryan Mangold

And also further to that, there will be a continued shift towards home ownership as opposed to through affordable housing, which in theory should continue to make the private side of the business more buoyant as an offset, so I don't think you should just look at it in isolation.

<u>Question 3</u>

Olivia Peters – RBC

Good morning. My first question is really around your three-year targets and it seems to me that you're almost achieving the margin one, you've achieved the returns one, you're about to achieve the cash conversion one in the second half. What's stopping you upgrading that guidance going forwards?

Pete Redfern

I don't think anything is stopping us upgrading the guidance. So, for instance, the guidance on return on capital that I've given you today is different to that target. We certainly don't expect to go backwards from the 23.4% in this period and we see the potential, but we're not quite sure what the timeline is going to be to be growing that to 30%.

I don't think releasing new targets every six or twelve months is desperately helpful, so where we see meaningful potential above those targets, particularly that return on capital, we will tell you and we will flag it. There will come a point, and I don't know whether that's six months away or twelve months away or eighteen months away, where it's right to re-examine the targets as a whole, but they were set for three years and we're only six months into that three year period. The environment has been more positive, the track of that location quality change has given us more upside on price and margins more quickly than we thought, so we're ahead of them, but we will tell you where we think they're easy to beat.

I think the bit on the cash conversion; we always knew that over three years it would grow. I'd say we'll probably get a bit closer than we thought this year, probably into the very low 60s. Margin, we should get to 20 this year. There's upside on that in the following two years, but we don't think the new number is 25/26; the growth slows as you get to a point where land is coming through steady state, unless you get big selling price inflation that we don't want to see.

Olivia Peters

And then just on land buying trends, you said that although the market is quite helpful and positive, there is competition on sites. I'm wondering, are you seeing new players coming into the market, given the returns that you're making, and has that dynamic changed substantially?

Pete Redfern

No, not really at all, and as you'll know, the areas where we tend to see the most new entrants tend to be London and the Southeast and that's the area where those new entrants, who aren't already in the market, are less certain about it being a guaranteed one-way bet than they were maybe two or three years ago. So if anything, we're probably seeing slightly less rather than more, but not a major change either way. And as we've said many times, the smaller housebuilders that everybody would argue, in principle, should be growing more quickly, that should get the support to enable them to grow quickly, which I wouldn't argue with in principle, don't really exist in any scale with the resources. Or anything that's a challenge for us in terms of build or the processing of sites through the planning system or resources is a ten times bigger challenge for a smaller player. So it would be wrong to think that it's easy to execute all of that.

Question 4

Gavin Jago – Peel Hunt

Morning, just a couple of quick ones actually. First one on the dividend. I think the £200m you originally set out last year was pushed up to £250m. Is the £300m set in stone and can we see it as a new base level?

And have you see anything from the mortgage valuers on down valuations, any pressures given what's been happening with underlying pricing?

Pete Redfern

The £300m for next year is set in stone, but yes, you can see it as a new base level, so we wouldn't have increased it to that level thinking that there was a material risk and that we'd then be reducing it the following year. But we're not going to get into a cycle of every year changing it and last year was the first year we'd done it and we were still going through the phasing of where it's at, so you should view it as the right number, but as a good baseline for future years.

And no, we haven't seen a material shift in anything on valuation on the London market or anywhere else. In fact, I wouldn't say just we haven't seen a material shift, we haven't seen any shift. The London market was definitely cooler in the run-up to the Election. It's probably the bit that's bounced back most notably, but really just recovering to where it was at the end of last year in terms of traction, it's not running with the heat of sales rates and price growth that it was 18 months ago but it's pretty healthy. There are, of course, some spots you'd rather you weren't heavily invested in, but they're not particularly material in terms of the overall coverage of the market.

Question 5

Emily Biddulph – JP Morgan

Good morning, I've got two, please. The first one is the ASP and the private order book. It's up 10.6% and is there anything in there that we should think about the mix of London having a differing effect year-on-year, or can we think about actually the ASP growth year-on-year, the difference between the growth and the growth in the order book stopping being a wider year-on-year and actually maybe getting a little bit closer?

And then it might be a bit of a big ask at the moment, but that 50bps drag that you talk about because of the mix of old sites where you have a big uplift on house inflation coming through, if we think about that 50bps for H2, is it likely to be materially different, or should we think about it being a similar order of magnitude?

Pete Redfern

I think on the average selling price in the order book, it is a significant gap, and it goes back again to the location quality and the comments earlier. It's a forward look of what's happening in the mix. I don't think there is any material shift in the proportion of London sales in the order book compared to a year ago. In fact, if anything, just because the market there was slightly quieter in the back-end of the year, it's probably just slightly lower, but maybe offset by our own underlying growth. So definitely not a fundamental difference from where we have been historically.

It's always impossible to tell you what the second-half view of that 50bps might be. At the point when land that was bought during the price rises of 2013 and early 2014, that 12 month period of roughly double digit price rises, as we said consistently at the time, land margins were stable through that, but that does mean that land was inflating as it kept that balance. You'll see that number will increase, and that's one of the factors that means we'll plateau, and we don't know for sure whether we plateau in margin terms at 21.5 or 22.5 or 23, but it won't cause it to go down but it's one of the things that will cause that plateauing. You know the maths, if you had a 3% inflationary market, then your margins don't just add 3% every year, because sooner or later you drop off the year of inflation that was before the land that you currently bought. So it's just because we've been doing that reconciliation for two / two and half years, three years is about where you start to see that impact, otherwise you'd have it always going up, which you know doesn't work in practice.

The key thing for us is to know that that's less than the overall inflation and still driving that overall net gain from quality of land in total.

Closing Comments

It looks like we're out of questions. Thank you for joining us this morning and we look forward to seeing you at the full year.