Trading Update Transcript

Monday, 14 November 2016

Trading Update

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Good morning, everybody. Thank you for joining us and thank you, for those of you who've been on the line for a few minutes, for bearing with us. I think this is a fairly straightforward statement. Trading, overall, has continued to be very good through the balance of 2016, following the Referendum mid year, you know, we had a surprisingly solid summer and I would say, you know, sort of anything that happened recent to normal, by the end of the summer has done so over the last couple of months. So, we see a consistent pattern of demand, very stable pricing. Probably not the same pace of price growth we've seen over the last two to three years generally, but we see that as a positive, from a risk point of view, rather than as a negative.

Central London, which we might come back to as a separate topic, has definitely continued to be slower. But I think that post the summer period, we've seen demand returning and see transactions levels starting to gradually edge up a little bit at a slightly slower price point. You can see from the results of the sort of sales overall that our order book is around 9.5% up year-on-year, which, against the sort of trading additions we might've expected, we think is a very strong result that sets us up well going into 2017. And roughly, that 9.5% is about half volume, half price. So, you see the kind of conditions that we've been managing and that that is going through into our forward strategy.

On build costs, we've again not seen any major changes. We expected probably a slightly bigger amount of pressure on exchange-rate-driven inflation on materials. And that's been relatively small and, I think, enables us to give quite confident guidance into 2017 of a similar sort of level of 3% to 4% overall build cost inflation, with the bulk of that coming from labour rather than materials, with materials being up maybe 1%, 2% at most. So overall, pretty comfortable with where build cost sits.

On land, we clearly had a slightly slower summer with the uncertainty in July and August. And I think by the end of the year, we'll be at more or less one-for-one replacement, albeit it does of course depend on the exact timing of deals over the course of the next few weeks. We're not too exercised about that, with the length and the strength of the land bank, you know, if we’re a bit below or a bit above, it doesn't really make a huge difference to us. And we're still continuing to see a good land market. We haven't seen that Central London land market particularly change, and I don't see us being particularly active in that market in terms of new land over the next six months, as we wait and see what happens to selling prices and to the overall market and how that flows through into land. But more generally, we're still continuing to follow our land strategy, heavily weighted towards strategic land, but continuing to pick up short-term sites where we think the quality of the deals is good enough. So, no major change.

And as you can see, we expect to end the year at a slightly higher level of cash than you might have anticipated, at around £360 million. That's a combination of our performance on profitability and the slightly lower land buying over the summer. So, end the year, again, to start 2017 in a very strong place.

If we look forward into 2017, we would still say there are, you know, more risks, more uncertainties in a broad economic sense as a result of the referendum. But I think the housing market specific risks, which were very much about an initial short-term reduction in confidence or a withdrawal of mortgage lending, feel like they have reduced quite materially. So, I don't think our risk as a business today is any greater in our sector than in pretty much any other business in the UK. So, we don't think the sort of volatility that we thought we might see is likely to materialise. There are some slight pressures resulting from that change. We might see a slightly weaker economic backdrop. But its impact on housing, with its strong characteristics of demand over supply, we think that major risk has largely passed. So, we feel pretty good going into 2017. We're expecting that environment to grow pretty much in all the major metrics. So, we expect the volumes to grow; we expect our average selling prices to grow; and we expect margins to grow.

I think on volumes, we are looking at a broadly similar pace of growth for this year, in the 4% to 5% sort of level. I think, on selling prices, it's very hard to call market-driven selling price increases, but we still see a mix-driven 3% to 4% kind of growth. I think as we look at margins, we're clearly into an environment where margins, going forward, will be flatter as we reach a higher level. We do think the Central London changes on selling price create a small headwind, and so, we will still be fighting to get to our 22% operating margin. But I think, as I sit here today, it'll be tough to give you that as our firm guidance – it will depend on the market – but we certainly expect to see some improvements over the course of next year compared to this.

So, as we look at guidance for next year, we're certainly comfortably ahead of consensus which shows a reduction year-on-year. We would have to see some very material changes in trading patterns for that to be the result. But obviously, slightly more uncertainty than usual, so not unreasonable to see a wider range of outcomes. So overall, very pleased with the way the market has performed during the balance of 2016, pleased with how the company is performing and very much still on our strategy, and feel that we're in a strong position going into 2017.

Q&A Session

Mark Howson (HSBC): Good morning, gentlemen.

Pete Redfern: Good morning, Mark.

Ryan Mangold: Good morning, Mark.

Mark Howson: Just a quick one. Your view that by the year-end, you might be back to one-on-one replacement for land, is that factored into the target of a £360 million net cash at the year-end, or is that taking a view that it may not get to the one-for-one replacement by then?

Pete Redfern: It is, Mark. But you have to remember, if we're buying cash – buying land in December, then quite a lot of it is cash that tends to go into 2017.So, you know, you can't sort of – if we reduce that by 1,000 units or 1,000 plots, it doesn't mean that we then save that cash, if you see what we mean. So yes, but it's not as big as a swing factor as you might've thought.

Mark Howson: Right. Okay, thank you.

William Jones (Redburn): Morning, guys. Just a couple from me around pricing and costs, please. Just on the pricing side, I think – sorry, I missed your very opening remarks, Pete, so apologies if covered. But if you think about net pricing nationally across the Group since June, has there been any change? Is that still edging up slightly when you obviously balance in the Central London point you made in the statement?

Secondly, linked to that, when you look at the order book ASP year-over-year, I think it looks like it's up about 4% or so. Can you give us a flavour at this stage of the inflation mix components? I guess I'm trying to work out in my mind for you to make that degree of kind of confidence, if you like, comment-wise around the margin for next year, what might be needed with the pricing through the balance of 2017 after the order book to deliver that solid margin performance you seem to be indicating?

And then, related to costs, the element of your build costs that you see as relevant to the weaker sterling environment. What proportion do you think is influenced by that, either directly or indirectly? And again, within that 3% to 4% guidance for next year, how are you thinking about the split between labour and materials, please?

Pete Redfern: I'll try and pick up all of those and possibly hand the build one over to you, Ryan?

Ryan Mangold: Yeah.

Pete Redfern: On pricing, yes, we have started to see, overall, some small price increases since June, but you really are into small territory where it's hard to measure, so you're into the 1%, kind of 1.5% range, you know. Now, obviously, that's not over a full year. So, it's a bit meaningless to extrapolate, giving it to a particularly uncertain period. I think, you know, if we cut things today, today's prices, our view of cost inflation is sort of built in, but that takes us to more like 21% margin than 22%. So, you know, to see a 1% impact on margin next year, given timing and the strength of the order book, you probably need to see a 2%, 2.5% selling price inflation coming through in the first half for that to flow through into the bottom-line numbers, because of the mix impact that we've already got quite a lot of it booked. I don't think that's an unreasonable goal, but that's the sort of balance. You know, that sort of growth this year is more likely to come from that inflation than it is from the underlying piece.

Will Jones: Yeah. Okay.

Pete Redfern: And then, build. Ryan, did you want to...?

Ryan Mangold: On the build costs, Will, this – on top of the components that go into the home, there's not a huge number of those that are directly imported. You can say that the timber costs could be driven by an exchange weakness. We could say the fuel price is driven by an exchange weakness. Arguably, anything linked to oil could be driven by exchange weakness. But that being said, I don't think we've actually seen a fall in the oil price from $120 a barrel down to $50 a barrel actually come through the supply chain just yet. So, I do expect to see some upside potential there to mitigate against exchange weakness. You know, net oil, for example, will also impact tarmac, for example, which is obviously an oil-based

commodity ultimately at the end of the day. So, if you look at the total amount of build costs – direct commodity-based build costs that go into a home - it probably only makes up about, in terms of FX-driven exposure, less than probably 2% to 3% of the total.

Will Jones: Okay. And the labour-building materials split between the 3% to 4%?

Ryan Mangold: The split between labour and materials, labour is clearly the largest component of site-based cost and delivery of homes that we expect, as Pete noted, to run ahead of inflation, particularly in an environment where there could be increases in volume production from the sector. And it's really trying to find the labour that has got the high skill in order to deliver on the quality of homes that, ideally, we are looking for. And that will have the labour and the cost inflation against it.

Will Jones: Great. Thanks.

Pete Redfern: I think one thing that slightly surprised us on the upside over the course of the last sort of three to four months, Will, is that some of the areas where we've seen, in materials, volume constraints, particularly in bricks, actually, there's a small surplus now. And so, the price pressure in those areas is not where it was. And we're seeing the odd area where we're seeing price deflation on materials, you know, sort of even with some small sterling impacts. So, you know – so, I think the negotiating balance in the industry is part of what's happening. But also, the fact that the growth is still going on, but it's not as strong as it has been and supply chain has stepped up. So, the pressure points are not quite what it would've been, you know, sort of in a slightly different environment. And I think, if you're an optimist, you'll look forward into the second half of next year and think maybe the labour environment is not actually quite as acute as we've seen or we expect it to be. You know, that kind of labour balance is not a one-way street.

Will Jones: Yeah. Got you. Brilliant. And sorry, just coming back to the order book pricing, the year-on-year growth, what element of that you think is inflation versus mix, please?

Pete Redfern: Yeah. It's always tough to measure, isn't it? And I'd say the mix impact is a little bit less because the sort of Central London part of the order book is probably slightly down in volume terms year-on-year. So, I'd say the mix impact, at this point, is probably 2% out of that or sort of 4%, whereas it's probably been running at more like 3% to 4%.

Will Jones: Yeah. Got you. Great. Thanks very much.

Chris Millington (Numis): Morning, guys.

Pete Redfern: Morning, Chris.

Chris Millington: Just a couple of quick ones and then just one on London, if I can. Just outlet numbers, just wondering how they're going to progress for the remainder of this year in that, maybe on an average basis.

Also, what the – could you give us a comp for that 23% forward sold number into 2017, where it was at 2016?

And then, finally, just a slightly expanded comment just around maybe prices and volumes in London.

Pete Redfern: Yeah. Can I deal with the first and the last, Chris? And then, Ryan will take the middle one?

Chris Millington: Yeah, please, please.

Pete Redfern: I think, yeah, kind of going into London, first of all, it's started to find a pattern. And I would say – and we're talking here prime Central London in Zones 1 and 2: I would say actual prices today are somewhere between 4% and 5% less than they were at their peak, which probably came about 12 months ago. The range is sort of anywhere between no movement at all and about 10%. And at that level, we are seeing – and I think others, even if they don't talk about it perhaps quite as openly, are probably seeing roughly similar sorts of range. And I think at that level, we are certainly seeing that we can find traction. And I think sort, you know, even in the more sort of the heavier levels of supply – the obvious Battersea and the like – you know, sort of that sort of range of movements is seeing transactions happen at a, you know, fairly healthy sustainable rate. And I think, over the course of the last couple of months, we've seen that sort of materialise in a way that wasn't clear over the summer where there was lots of interest but not a lot of deals happening as people kind of trying to work out what the right price was.

Pete Redfern: And could you just repeat your first question, Chris? Because I didn't get to make a note.

Chris Millington: It was just really about the outlet numbers based on that.

Ryan Mangold: Yes, outlet numbers, Chris, there's a couple of moving parts there. One of them is the continued delay in planning permissions coming through that are implementable is, probably, on a like-for-like basis, at the same level as it was last year. So, we haven't actually seen any improvement in that. Obviously, this year's market has been slightly stronger than what we anticipated when we set out our store for the year, but a lot more in line with last year. And so, we – given those two points, as well as the slight shift in the way we're doing marketing in that we're only generally trying to sell as much as we possibly can by the time we've got to oversight onsite, which improves the sort of initial customer service scores on getting to site and delivering the homes so we're not sort of impacted by any technical challenges by the time that we open up developments, it's probably taken 2% to 3% of outlet numbers. So overall, average for this year, we expect to be down on last year; overall average going in to next year, we expect it to be up year-on-year. And that would be broadly in line with the expected volume increases.

Chris Millington: Got you. Got you.

Ryan Mangold: And then on the second question, Chris, if you would just repeat that?

Chris Millington: Yeah. It was just the comparison to the 23% forward-sold number for 2017, where it was in 2016.

Ryan Mangold: It's a fraction lower than that, at this point but 2015 had a very strong bulk order in the second half of the year which is driving that. But overall, when we get to the end of this year, Chris, we're expecting to be as forward-sold going into 2017 as we were coming into 2016.

Chris Millington: Right. Right. Okay, thank you for that.

Gregor Kuglitsch (UBS): Morning. Couple of questions as well, just on volumes. So, just to get it right, you think 4% to 5% growth in the next year similar to this year probably should take you slightly through your, I think soft cap, which, I understand, obviously, you've softened a little bit with the last Investor Day. Can you just maybe give us sort of a recap where we should be thinking beyond next year? Is that sort of when you then expect to level out or are you a bit more flexible in that approach? So, just if you expand a little bit on that?

Pete Redfern: You know, I think, Gregor, we are a bit more flexible. I think, you know, you can see from our land strategy that we're not aggressively targeting sort of growing the land bank to match up with a particular level of production, which we do think in, sort of the cyclicality of the business, is the right balance to take. But because the strategic land success is greater, because sales rates are structurally higher without having to impact on price, it does just edge up where we see the natural cap. And I think, you know, if conditions are broadly flat and with the land strategy where – we have, which is sort of, you know, keeping the land bank in the 75,000 to 80,000 sort of scale in terms of short-term plots, then 2017, 2018 and 2019 can all show that 4% level of volume growth, but still keeping very much to the kind of sites, the quality of sites within our existing regional structure that we don't think stretches our risk. And if we do that, keeping the balance sheet strong and paying out a very high dividend, we think that's the right balance. To stick, you know, rigidly to a cap that we set in a slightly different set of land conditions doesn't quite feel right, but the underlying principles there haven't changed. So, you know, there is still some growth to come, it's just that it's at a slightly slower pace.

Gregor Kuglitsch: Yeah, makes sense. Now, the second question is on ASP. So, I can't remember what you had in mind for this year, I had about 9%. I guess, quite a big mix impact. And then you're fighting another – selling 3%, 4% mix impact next year, which, I guess, is a little bit surprising, considering the sort of expected declining proportionality of London. Maybe I'm wrong there. Maybe it's something else going on or maybe it's a 2018 event, but London really starts dropping in terms of P&L. Maybe you can give us a little bit of a sense what you expect?

Pete Redfern: Yeah. No. I think 3% to 4% is the right number. I think it does have a slightly lower impact from Central London, but it's not much, and that doesn't change dramatically in 2018 either. It just shows the underlying shift in the average sites on the – you know, sort of in the business as a whole, in terms of the quality of locations. I think, sort of, there's probably a little bit more to come in 2018. And then, you do probably plateau off, certainly, unless something changes over the course of the next 12 months in land-buying opportunities. But there is still a bit more to come into next year. And it's never been Central London that's been the biggest dynamic of that. So, even if Central London kind of – we don't invest as much in the land, and that slowly sort of reduces over the next two to three years, it doesn't dramatically affect that sort of balance.

Gregor Kuglitsch: Okay. And then, the third question is on sort of the vertical integration. Obviously, as one of your peers, is going to build a brick plant. They make, I suppose, on paper, at least, relatively compelling arithmetic around it. I suspect you've had a look, and I just want to get your commentary as to whether you would ever consider going down that kind of route, or whether, basically, it's not something for Taylor Wimpey?

Pete Redfern: Yeah. I'd never say never at anything. You know, I think that would be naive. I think we're not actively looking at bricks, for instance, at the moment. We are actively looking at about seven different construction methods, not because we think, in two or three years' time, we'll make a wholesale switch, but because having more than one string to our bow where we have scarce resources, particularly, as you will know, labour, and – but at times, materials as well – feels right. We've got some views that I think we'll start to talk about next year as to how that would develop over the next two or three years, in terms of spreading our risk from a pure traditional construction method.

But, you know, sort of we – I think for us, going into a major production facility, you've got to focus your time and effort on the things that you think you are good at and that are going to make a material difference. And that hasn't, you know, to us, felt like it's the right priority. You know, so to – I've got to be honest, I understand the timber frame plants because it's a core part of the structure of the building, more than I understand the bricks side of it. Yeah, we are very focused on looking at broadening our directly-employed labour base over the next two or three years. You know, there's a number of things that we do think we should pull slightly different levers from those we have in the past, but not full-scale vertical integration. We're kind of, as I say, more focused on how we get the build methodology right, how we get our quality control right, how we get our customer service right at the end of that than, certainly in the short-term, big changes there.

Gregor Kuglitsch: Thank you. And maybe a final one. Any views, best guesses as to what the Chancellor will bring, or are you as well or as little informed as us?

Pete Redfern: Yeah. No. It is hard to call, isn't it? I actually had a meeting with a sort of senior minister counsel today, which I'm sure was just down to timing, but, yeah, it would've been interesting to get some sense. But it is hard to know at the moment. There's clearly been quite a lot of conversations going on. I'm not getting a sense of something deeply dramatic, in terms of big, new policies, if you see what I mean. I think there's a lot of – yeah, there's a lot of genuine searching around to work out what they can do, but I'm not getting a sense of big, new policies. But then, of course, I'll be proved wrong and there'll be a big, new policy. But, normally, you can see that coming and I'm not seeing that at the moment. So, I think there will be things around housing, but it may be that it's more of a revising of existing things and a reemphasis on certain issues. We will see.

Gregor Kuglitsch: Okay. Thank you very much. Cheers.

Clyde Lewis (Peel Hunt): Morning, Pete. Morning, Ryan.

Pete Redfern: Hi, Clyde.

Clyde Lewis: Couple from me. One probably sort of following on a little bit from Gregor there, asking about London, and just really maybe just if you can say a little bit more about the opportunities on the land front that you're seeing, and again, whether that bias that you feel is sort of starting to creep back into Zones 1 and 2 opportunities, or again still remaining very much on the outside of London?

And the second I had was, again, I suppose, linked in with some of the government, the budget. But there's been, again, another little bit of, sort of dose of land banking comment

from the government, and also, a particular sort of, you know, jibe that the big three – you know, yourselves included – about, in terms of not delivering a step-up in volume. I mean, I know the numbers and I'm sure you know the numbers, that the big three have delivered compared to other parts of the industry. But are they starting – is the government starting to put more pressure on you as one of the lead players in the industry to boost your output?

Pete Redfern: On land opportunities and particularly land opportunities in Central London, we've not seen a significant sea change in the Central London market. And I should qualify that because we have seen a significant reduction in the number of bids for any site. But we've not seen land vendors changing significantly their expectations on price and terms. Probably, as is always the case, a little bit more on terms than on price, but not a fundamental change. And that means to us, you know, where we've seen some actual price declines and certainly significantly more risk, until that market gets back into balance then, whilst we're still looking, it's unlikely that we're going to be buying a lot of land in Central London until that mix changes.

And it's the same as the housing market in Central London. There are so many people who are actively interested in land and see, potentially, any short-term softening in price as opportunity. But it tends to find a floor very quickly. So, you know, whilst we will continue to look through the first half of next year, I think it'll be kind of into the half-year stage maybe when we'll be giving you of an update on that because I just think it will take us that long for us to really be sure how the housing market is playing out and certainly for there to be any kind of clear change in the land environment.

I think we're seeing, you know, sort of a reasonable number of our London competitors move out into Greater London into the next range of price points down. We're a bit cautious about that at the moment because I think, you know, to a certain extent, when everybody else is doing it, then is it the right thing to do it? It tends to push up land prices. And it would be wrong to say that there's no risk in those next price points down.

And we do think, you know, it goes back a bit to our slightly increased yield volume and the fact that the strategic land environment is stronger that we have more capacity to do schemes in our kind of core business that fit what we do every day and have got very strong returns than we thought we would have. So, you know, if we are naturally taking capital out of Central London because we're not buying new sites, and our pipeline in Central London is not long. So, you know, if our capital base there is reducing, we have somewhere to put that. So, we're not trying to find the next opportunity for that business too hard. If the opportunity is there and it's good enough, we'll invest; if it's not, that business will naturally shrink. We don't plan to exit, but, if it's smaller, that's never been a big issue for us.

So, you know, I think it'll be a while before you see that London land market really change. And in terms of the political land banking comments, it's hard to know what it says because they have kind of been doing this job for ten years and running the UK for three years before that, and I think this is about the fifth cycle of those comments that we've kind of been through, and not a lot has changed in the facts about what actually happens, as you all know. For us to actively hold on to land that we're not developing that has planning commission would be financially very stupid and, you know, just doesn't really happen.

There has been, as I think is well known, over the course of the last 12 months, a fairly active dialogue between the industry and government about the pace of build-out of larger sites, and I think that's a reasonably valid discussion point. And you see it a little bit in our views about pushing some of our bigger strategic sites harder than we have been, you know? So, it's a kind of a mix of things that drives us to that. But it's hard to say because it's such a – you know, it really is barking up the wrong tree. You always worry that there's going to be a policy change that has lots of laws of unintended consequences about it. But, you know, as I say, been here many times and that, so far, hasn't happened. That risk is not zero. But hopefully, we are – will be able to make the fairly clear case that, you know, actually the constraints are things that we can't control. And for us, we're not buying up large numbers of sites and taking them out of action. We're continuing to grow and our land bank is stable. So, you know, our output relative to our land position will continue to improve over the next three years, that'll help our returns, but it'll also help the volume balance from an overall point of view, even though we're one of the less aggressively growing of the businesses.

Clyde Lewis: Yeah. Great. Lastly, can you give us an update as to when your report might be coming out?

Pete Redfern: Wednesday.

Clyde Lewis: Okay.

Pete Redfern: Happy to have a conversation through that the time. So yes, Wednesday.

Clyde Lewis: Excellent. Okay. Thanks a lot.

Mark Howson (HSBC) : Hi, chaps. One more question, if I may. Just on the – you know, I think it was mentioned earlier on – the Capital Markets Day for one of your peers, the larger big three player. The one thing they did go on about in that with quite a lot of confidence, was that they believe so much in the regenerative capability of land buying in a downturn, a natural way of regenerating returns, land bought on residual value, that they were saying that, even if – they were very much focusing on the cash flow pre-land spend, being more of an issue rather than the P&L or income statement after tax profit. So, they were saying they were prepared to pay out special dividends, provided they've still got enough cash on the balance sheet before going into the downturn – pay-out of special dividends even if it wasn't covered by after-tax profits on the income statement. What's your view on that for Taylor Wimpey?

Pete Redfern: I think – and you've got to be standing with some maths in front of you, so I'm going to be very careful with my words, Mark, as I don't want it to be over read. But our special dividends are not about the profitability in a given year. So, the core of your question: would we potentially pay out a dividend even if it wasn't covered by profitability in that year? Yeah. Because that special dividend is a strategic view of the balance of where the right place for us to invest our money is. So, in a downturn, you know, in the very short term as the market is changing, you're likely to invest less in land in the very short term because you don't know what the end game is. And then you hit what you feel is the bottom or near it, and then there's a really clear investment period. In that sort of initial period, profits are probably starting to fall. I think that's where it's most uncomfortable. You probably would be

able to pay out some special dividends, but it's most uncomfortable. I think, after that, it's about where you see the balance of risk and reward, how much capital you've managed to conserve on the way down. But certainly, in principle, there – we've said we don't think that the special dividends that we're paying are a short-term thing. What they are more likely to be is a bit more volatile in that circumstance than, you know, sort of an ordinary dividend, and the ordinary dividend is something that we think we can be very confident of not being volatile. But just because they're volatile, doesn't mean that they're not there nine years out of ten.

Ryan Mangold: And Mark, it's one of the reasons why we've got out ordinary dividends no reference to the P&L at all. The ordinary dividend is a part of the same payment again funded assets, as opposed to our profitability, because profitability can be volatile, but our cash earnings is completely disconnected from the P&L. Very disappointed you didn't actually describe this EBITLA, but you came quite close.

Mark Howson: It's just interesting, your comments and those from Persimmon, and then there's Barratt, on the other hand, sticking with a very rigid dividend cover for the ordinary dividend that's rather static, so a bit of a contrast. Okay. Well, thank you very much.

Pete Redfern: No problem.

Andy Murphy (Bank of America): Morning, guys. I had several questions, but so late and many of them have been answered. So, I've got two left. First, could you just confirm, you mentioned –

Pete Redfern: It's not a competition, Andy, you know?

Andy Murphy: Yes, I know. The site growth you mentioned earlier on, you didn't put any figures around it. Could you give us some flavour for the average growth – well, site growth 2017 over 2016?

And then just going back to the dividend again, can you remind us, on the special element, how you arrive at the figures that you arrive at?

Pete Redfern: Yeah. Can I take the dividend one and then pass back to Ryan to follow up on the outlet question? I think, again, it comes back, at least partly, to the answer to Mark's question. You know, it's a strategic view. And therefore, not in a formal way, but in reality, we look at the next couple of years. We look at the level of land investment we think we may want to do. We look at the trading conditions. We look at where the cash balance sits, not particularly at year-end cash balance, but more through the year, because the year-end cash balance can be distorted by short-term timing of land. And so, we look at what sort of level of dividends can we then sustain for a foreseeable period of time. So, whilst the special dividends will be more volatile, we're also setting a level that we think we can continue to pay for quite some time. So yeah, we've always felt pushing it an extra 10, 20, 30 million just because we should in the short-term adds very little value compared to setting a level that we think there's enough flex in there that actually we probably continue to pay that for quite some time.

So, it's a balance of all of those things. So, the fact that we are likely to end this year with more cash than we expected doesn't particularly change in a direct sense the sort of dividend

that we're likely to announce in the half-year to be paid out in 2018. But what it does do is add a significant positive colour to the background in which we set that because it says that our underlying trading is performing well even in some uncertain circumstances, that our land investment is playing out as we wanted, and the level of investment in land has been lower than we expected per plot. So, it's a point of direction that should make people feel positive about 2018 and beyond. But it's not that it's kind of, if it had been 300 million, that that would've had a 60 million impact on that dividend. It's not as direct as that.

Andy Murphy: Right, thanks.

Ryan Mangold: Then on the average outlets, Andy, as I've mentioned before, that growth in outlets will pretty much drive the growth in the volumes. And that's on the land that we're already in the process of getting the detail of planning consent or already on site. And so, overall, we'd expect the outlets roughly to be about 3% to 5% higher on average in 2017 than 2016.

Andy Murphy: Great. Thanks very much, guys.

Pete Redfern: No problem.

Kevin Cammack (Cenkos Securities): Good morning, gentlemen.

Pete Redfern: Hi, Kevin.

Kevin Cammack: Two, please. Firstly, just on Central London Zones 1 and 2. Could you say how many sites you've actually acquired in the current year in that market?

And the second question I had was a sort of more general one. You know, strategy-wise, if we look at your management through the cycle strategy, it's clearly survived one potential Armageddon of Brexit. Is there anything on the horizon that you feel you're especially looking out for from here? Or is it, you know, completely business as usual in that sense?

Pete Redfern: Okay. On how many sites acquired, I think the answer is zero. But if you'd asked how many we'd acquired in the last 12 months, the answer is probably one. And the reason I'm not quite sure is because I can't remember quite what the timing is. But we've acquired one site in Zone 1 and 2 in roughly the last 12 months and weighted right towards the beginning. And we've looked at quite a few others. We were looking at two or three in January and February and, in the end, decided not to progress for obvious reasons.

In terms of strategy, I mean, you know, I would say that strategy hasn't yet survived Armageddon. And I know that's kind of not quite what you were saying because, obviously, the risks from the referendum haven't actually materialised. I think what are we concerned about, looking forward, I think there are two main things. And actually, now, the outwash of the rest of the referendum result is quite a long way down our risk list, because, whilst I do think we're likely to have a period of economic uncertainty, housing seems to be driven, you know, sort of not so much by that level of uncertainty, but by much more significant changes. So, unless that materialised in a sharp reduction in lending or a sharp increase in interest rates, you know, we might see a softer period of trading. But I don't think we'd see a dramatic downturn because there'll – you know, enough demand.

So we're not particularly – whilst we see there are risks ahead from that, we're not particularly concerned about those major risks of driving, you know, an Armageddon or a major downturn in our sector. I think the two bits that I do worry about and they're very different, one we've already touched on, which is politics. And it's the sort of the policy that thinks it's trying to solve a problem that isn't there, whether it be an artificial reaction to land banking. And I think the risks of that are low but they're not zero, as we touched on before. And so, that will be –

Kevin Cammack: Would you say they've increased a bit?

Pete Redfern: To be honest, Kevin, I wouldn't. But it ebbs and flows. They're higher today than where they were three months ago, but they were very high, I think, back in March/April last year. And it tends to change as key individuals in government change, because initially there's a presumption – and an honest presumption, even if wrong – that the industry is actively controlling sort of volumes. And when actually people get into it and they've been longer in their roles and seen some fact base behind it, they kind of understand that that isn't the case. And that's why the risk normally reduces. So, it's increased a bit at the moment, because we have politicians that haven't actually been through that sort of cycle of learning. But there's always a risk that somebody takes a decision before they have the actual facts. So, I don't think we can say that risk is zero.

But I think the more fundamental risk is the very basic one – interest rates. And I don't think it's about – you know, in fact, I think the referendum actually pushes the risk off into the future. It just doesn't remove it, which is about interest rates. Interest rates are very low at the moment, and that's why house prices, you know, didn't dip as much as we might've thought in 2008 and 2009 and have recovered, and has then continued to increase since then. So, I don't worry about, you know, kind of a quarter-point, a half-point movement in, you know, 18 months', two years' time. But at some point, over the next five years, it feels unlikely that people will be able to borrow money as cheaply to buy a house as they can today and that has an impact. And if that happens quite sharply, then that can drive a real change in confidence. I think, you know, I was concerned about that back in April and May, and I thought the risk was probably two, maybe three years out. Today, I'm still just as concerned about it. But I think the risk is probably pushed out further because of the referendum because we're more likely to use lower interest rates to stimulate more general economic demand. But it hasn't gone away. You know, that is still the most likely thing that will impact on the housing market because they are very, very low. And, you know, that's why house prices are – continue to grow.

Kevin Cammack: Okay. Thanks very much. Very helpful.

Pete Redfern: No problem.

John Bell (Barclays): Good morning, gents. Three from me, if I can. First of all, on concrete bricks, do you use them? Would you use them?

Secondly, Help to Buy take-up: have you seen any change in the mix recently?

And then, thirdly, you referred to consensus for next year. Could you just give us your interpretation of what consensus actually is as a benchmark for the next year?

Pete Redfern: Yeah. Concrete bricks: no, we don't use them. We trialled them about four years ago when the brick shortage was at its peak and starting, and we didn't feel they delivered a high enough quality product for our customers in terms of finish. And they're relatively difficult and expensive to lay. And we've kind of gone back and looked at them since and they have slightly improved, but still not to a point where we think that they properly compete with – and that the cost saving is big enough to justify their difference in quality.

Help to Buy take-up: we saw a bit of an uptick over the summer and, you know, it's continued to stay reasonably high through the balance of the year. We'll give you a fuller update, but it's not massively changed, but slightly higher than in the pre-referendum period.

And consensus, Ryan, about £720 EBIT is roughly where…?

Ryan Mangold: Yeah. Consensus for next year, John, and there seems to be a bit of a difference between Bloomberg and the analysts that we're looking at. Consensus has got EBIT for next year at about £720 million, with profit before tax at £693 million versus Bloomberg of £677 million. I suspect that, you know, Bloomberg is probably a slightly more accurate number of overall consensus than the analysts that we are tracking, so as Pete noted before, it seems quite different to our expectations.

Pete Redfern: Yeah. I think one thing we wouldn't comment in any detail on consensus, John, because quite understandably, particularly in the post-referendum period, you've got some forecasting meaningful market decline and then some not. You know, you've got some widely varying numbers. And I think what we're saying is, look, you know, we can't say there is no risk of a market decline next year, but that's not what we're seeing at the moment. And therefore, we feel that the range of numbers that don't assume that are probably pretty sensible but the ones that do are – it's a predicting world that we're not seeing signs of it yet.

John Bell: Yeah. Okay. Thank you.

Gavin Jago (Peel Hunt): Morning, gents.

Pete Redfern: Hi, Gavin.

Ryan Mangold: Hi, Gavin.

Gavin Jago: Just one from me, okay, please? Just wondered if you could give some commentary around the regional picture. I think we've talked about inner London. But can you give us a sense of what you've seen in the outer zones and how important, if at all, London Help to Buy's been since its launch earlier this year? And also, maybe just kind of how the kind of market just outside London in the South East has been affected, if at all, by maybe some weakness in Central London as well? What do you see there on sales rates?

Pete Redfern: Yeah. I mean, I think outside Central London, the regional picture is very even. So, you know, there aren't massive sorts of differences to draw, probably less than at any point in the last few years. I don't think we are seeing any knockout effect of confidence in sort of prime Central London on even Greater London, let alone sort of the South East in a more widespread sense. The only place in those markets we're seeing any softness in – and it's still in transaction levels rather than in price – is in those affected by the high levels of

stamp duty, you know, so really, a market we're not really in at all, but you can see it in agent's comments and, you know, maybe at on one or two sites where it's right at the top-end of our price points in those markets, you know, where stamp duty has a more meaningful impact. But you really are seeing a complete disjoint in terms of market confidence between, you know, sort of prime Central London and the rest. But apart from that, elsewhere, into the North East and to Scotland, etc., generally similar conditions to those we're describing generally.

Gavin Jago: Okay. And London Help to Buy?

Pete Redfern: It's having an impact, but I think we'd still be selling those homes anyway. I don't think it's key. You know, it's there and we're using it. But I don't think we're using it in vast quantities. And that market was pretty healthy before London Help to Buy and I don't think it's massively changed.

Gavin Jago: Okay. Do you think that's partly because of the length of the mortgage on some of the London product, i.e. kind of…?

Pete Redfern: It doesn't help the time scale you have, yeah, particularly for an apartment scheme, to go from reservation to completion, using any of the Help to Buy schemes, it's pretty short for an apartment purchase, particularly in London. So yeah, it doesn't help. But to be honest, you know, if – I mean, if production that could be delivered could be sold anyway, then the scheme isn't particularly needed, if you see what I mean, certainly from a supply point of view.

Gavin Jago: Okay. That's very useful. Thank you.

Pete Redfern: No problem.

Emily Biddle (JP Morgan): Morning, guys. Just a very quick one from me and possible sorry if I missed it at the start. But I don't think that you've commented on the margin guidance for this year. Should we still be thinking about something in the lower end of that 50 to 100 bits range year-on-year?

Pete Redfern: Yeah. Sorry, Emily, I don't think we did comment, and, yeah, that's absolutely right.

Emily Biddle: Thanks.

Pete Redfern: Thank you, everybody, for those questions. Gone into quite a lot of detail there, which is great. Look forward to seeing you again and talking to you again in the new year.