Taylor Wimpey Half Year Results

Tuesday, 1 August 2017

H1 2017 Overview and Operations

Pete Redfern

Chief Executive, Taylor Wimpey

Fairly normal presentation, I think, today. Sort of good run through on first half market operations, a little bit of a strategy update in one or two key areas but nothing fundamental, I don't think. So, you know, sort of hopefully decent amount of time for questions.

First of all, 2017 first half overview, you know, as we have done for the last few presentations, just highlighting our top three financial measures, all in a strong place. Obviously the, yeah, sort of special dividend that we announced for this time next year is key but very much in line with the plans that we've set out. And probably the number I'm most pleased with is the first half return on net operating assets, and as we'll touch on, the asset turn improvement that's gone in line with that.

Just briefly touching on the cash conversion at the bottom of the page, obviously over 100%, very strong performance. We've only been reporting on that really because we didn't want anybody to say you're not reporting on it anymore, it must be bad. So, we thought because it was a measure that people would naturally calculate themselves, we'd keep it there. This is probably the last time that we'll do it. And we see, you know, the sort of underlying level of, you know, maybe 70%, 75% that we've been kind of running out on average over the last three years as probably being where we'll maintain for the next two or three years. It may be a bit higher, but the first half particularly strong on cash and on asset efficiency.

Pulling out a couple of the operating highlights. As I say, probably the financial number I'm most pleased with is that operating asset turn. We've had a debate on a couple of things – sales rates is one of them, operating asset turn is another – about where we think the new normal will be in a very different world with lower land values and a better capital structure, and, you know, 1.45 is the top end of the expectation that Ryan and I have had over the last sort of two or three years. So, I'm pleased to see it's at that level. I wouldn't say it would necessarily be quite as high at the full year but it's not going to fundamentally change. So, I think, you know, we've made a real step forward there.

And I think it's largely because, in an underlying way, we've been buying bigger sites. That involves more investment in work in progress and some more investment in land. But really, we're now at a point where that proportion of bigger sites is delivering and delivering consistently. You can see it in the higher sales rates and the fact that we're able to deliver, you know, sort of production close to those higher sales rates. So, the efficiency of the business has now sort of come in to line. And as we see slower growth going forward, that more efficient underlying, sort of, lower growth phase actually will help us maintain that kind of level of asset efficiency.

The other number that, you know, got a – we had a lot of focus on both at the prelims and even with our AGM statement is that sales rate, running roughly 12% ahead of last year, and last year wasn't a bad sort of year in sales rate terms, particularly strong. And as you can see in the first half, we followed that up with growth in production as well. And, you know, touch on, and sort of in later slides on the first half/second half balance that, you know, sort of will change, but clearly a strong sales rate.

And as I have said before, and you will see from some of the colour in terms of things like brochure requests and website enquiries and the like, it's backed up by a very sustainable level of customer interest, customer demand, and it's not because we've been pushing it hard. It's happened very naturally. And so really, I think it's a testament to the quality of the underlying sites, but also the level of interest from customers that we have seen continuously through the first half of the year even with the uncertainties of general elections, etc.

So, more generally – you know, so more broadly on market performance, that sales rate is the key number. There is nothing, I think, in the first half stats that stands out as unusual and concerning. I think – I don't want to major on this, because I think it would be disingenuous. I've said to you many times over the last six or seven years that we're not overly focused on outlets, but I think the fact that, with that high sales rate, our outlet numbers have crept up over the last six months, you know, sort of really is driven by us getting to a steady state on those larger, longer sites. You know, we're not closing anything like as many, and that's where we wanted to be, so we weren't living hand to mouth. And so having outlets, sort of, sustainable, solid level, so even when we're selling faster, we're not just burning through smaller short-term sites, which has been the historic experience, is important.

And it all, I think, for us, and hopefully for you, gives the sense of a business that is running well under control, that, you know, sort of the first-half delivery is very strong but it's very strong in the areas where we are focusing on it being strong and is very well managed, rather than us striving for every last completion in June, with all of the commensurate issues that that can cause you.

Splitting out, as we have done over the last couple of presentations, the central London market performance and, you know, you've seen – and I will touch on our sense of that central London market later – but certainly, a very stable first half of the year. Prices probably fell slightly less than we expected and flagged six months ago; sales rates have remained stable; cancellation rates, sort of which peaked immediately after the sort of Brexit vote last year, have stabilised; sales prices have continued to grow as our mix has shifted. And those are all with sites that were already in our order book sort of six months ago, so we're clearly no great surprise to us. But as we look forward, I think we have a growing degree of confidence in the environment in central London, not so much about where things will go over the next two or three years, but about the next five to ten years and whether strategically it's the right place for us to be.

Just touching briefly on our UK land pipeline, very stable. We haven't been growing it strongly in the first six months of the year, probably a bit of a phasing difference. The chances are we'll have slightly more additions in the second half, so you'll see, you know, sort of a little bit of land bank growth in the second half and you'll see that little bit in cash. Clearly, the very strong performance in cash is partly to do with land. But also, you see quite a big switch, and, if you compare the sort of owned and controlled split in the first half this year with, you know, exactly 12 months ago, you'll see a swing towards controlled plots, very much part of an overall plan of not being too dependent on land creditors, which we've talked to you about over the last sort of few years, and actually controlling land and bringing it through but without always being fully committed to all of the cash payments, so that actually we have some flex in that land bank investment. But continue to be very strongly supported by the strategic land environment. Ryan will give you a sense on the financial returns we've secured on new investments but certainly nothing there that concerns us; it continues to be very strong.

Now, moving on to one or two softer issues around the underlying business and our overall drive towards continuous business improvement. I'm touching on customer service first of all. The top half of the slide just picks out the measure that, you know, most of our competitors also publish – I think we publish a broader range of statistics – but the Would You Recommend score, which is the one that drives the four or five-star rating. The red line is the 2016 stats. If you went back a year early, you'd see our low point was about 84% in 2015, so we saw in the second half of '16, as our new processes really kicked in, a fairly steady growth, and then, very encouragingly, as we go into 2017, I think an even clearer trend emerges.

We're not overly sort of concerned or focused on the five-star rating as a means to an end in itself. It's more a sort of test of where we are and whether our processes are working right, but certainly very pleased that the processes that we put in place are showing a really significant underlying improvement. And our emphasis has been on getting under the skin of getting things right first time both production-wise, but also communication, of completion timetables, how we kind of interact with customers both before and after completion. So, we see lots of other benefits from that over the next two or three years rather than just one single customer service rating, but it is the thing that you can benchmark against sort of others in the industry as closely as possible. So, I think it's good for us to continue to give you a sense of where that's trending.

Then dealing – I'm going back to leasehold, which obviously we talked about with the prelims and again in a lot more detail at the AGM. We've made the provision that we flagged at the AGM that we expected to, 130 million. We still view that as very much the right size. We based it on the number of leases that we knew were out there. That number has not changed, so we still feel that we're in the right place on that.

And in terms of cost, we have one deal which we are very, very close to completing, and which would come in line or below that provision level. But more importantly, and I know there has been some concern that, you know, can't freeholders just hold out and charge you whatever they want because you have a reputational issue? You have to remember that we have always retained the option to revert to a cash payment to customers. It's not what we want because we don't think it's the best option for customers because it leaves them with a complex process to manage, but they then have a legal right to either buy back, in the case of houses, the lease from the freeholder at a price that will be set by court in the end, or, in the case of apartments, to extend and reduce the lease to a peppercorn level.

So, there isn't a situation where we kind of have an un-capped negotiation. We always have another angle, but our preference remains to do deed of variation deals because we think it manages the process far more effectively for customers. So, we remain pretty comfortable with the size of that provision, and really with a view that we're doing the right thing for our customers and that sort of we're ahead of that, you know, sort of would otherwise be a very difficult environment I think.

Just touching last of all before I hand over to Ryan. So, I always tended to pull out one softer issue to talk to you about. Three years ago it was customer service, and I think since then you've seen why we felt it was particularly important. And we talked a bit over the last two or three years about all the work that we've done with our employee base and, you know, sort of the single statistic, you tend to see a staff turnover which for us has remained, you know, roughly 13% stable for the last sort of four or five years in very difficult conditions in terms of retaining people, in comparison in previous cycles and I think with many competitors, it had been more like 20%, 22%. So, we feel we can really see the outputs.

But we completed in the first half of 2017 our biannual employee survey, and I just thought I'd flag a couple of statistics. The first thing, which is not an output score but just the response rates, was we pushed our response rate up from 55% to 72%. And the big shift there was 55% felt low because for the first time we'd included all of our weekly paid staff, many of whom are subcontractors in Yorkshire and the Midlands sort of in the survey, but failed to really get them to engage. And we worked really hard over the last two years to get that engagement sort of working well and we really see that coming through.

So, all of the other scores include that subcontract base who, you know, historically, we would have seen to not tend to engage in the survey but also to give lower scores. And you can see some of the scores. You know, on engagement, an overall score of 97%. On health and safety, which we view incredibly seriously but fundamentally important to us that our people believe we're doing it for the right reasons, a 98% score. And across 4 or 5 health and safety scores, all were in the sort of 97% to 99% range.

We've also highlighted a couple of areas, probably the only two areas that jumped out of the survey where we see real room for further improvement around collaboration, and particularly between departments which, in a business like ours with lots of regional businesses, is always a challenge, and technology, tools and resources. So, we will continue to focus on improving those areas.

But as I say, all of that work, all of the work that we've done on development and on people retention, we feel is really paying off. It gives us a competitive advantage and we think, you know, sort of, it – we have become the place that people want to work in the industry.

Ryan?

Strong Financial Performance

Ryan Mangold

Group Finance Director

Thanks, Pete, and good morning, ladies and gentlemen. It's my pleasure to be talking through our very strong results that we've delivered in the first half of this year. I was sort of minded to just only present one slide today because I think all of the key financial metrics that we're really looking for are reflected on this, this slide, other than the one metric which is the dividend that Pete mentioned earlier.

Just as a reminder, the group results include our Spanish business, and our Spanish business has done a reasonably good first half, and, relatively speaking, with generally speaking completions weighted to the second half. Spain delivered £2.8 million worth of profit in the period, and with a strong order book of around about 400 homes currently and demand remaining robust on the ground, we think the business is positioned well to continue to make progress this year as it did last year.

We've maintained our investment in our Spanish business and the Spain business now has a landbank of just over 2,800 plots comparison to 2,300 plots in the prior year. And there's more in details on the Spanish business in the appendix to the presentation as we have always done.

From a group point of view, revenue growth of 18% up year-on-year, driven by both pricing movement as well as volume increase. This has resulted in a gross profit of £444 million which is up 22% year-on-year, and a gross profit margin of 25.7% which is up 0.7 percentage points year-on-year. Further overhead recovery, improvement in the period results in an operating margin of 20.2% which is 1 percentage point higher than 2016. The key drivers of the operational performance in the period, I'll cover later in the presentation.

Overall, interest costs are marginally up year-on-year. This is as a result of lower financing costs following the redemption of the corporate loan of £100 million in the second half of last year. This is offset by slightly higher land creditor unwinds and other financing charges, but expect this trend to continue downwards in the second half of the year.

This results in an underlying profit before tax of £335 million which is up 25.7% on the previous year. The strong return on net operating assets progress made during 2016, in particular at the second half, has continued into 2017, benefiting from both the higher profitability in the period of a slightly lower balance sheet that continues to benefit from the improving quality of the landbank. Tangible net asset value per share at 94 pence is up 6% year-on-year, reflecting the continued investment in the business.

If you look at the UK performance summary, legal completions in total are up by 9% year-on-year and the strong demand on high-quality sites is driving that volume growth, as well as market support through the mortgage availability. The quality of the locations continues to benefit average selling price increases as well as our ability to capture some of the market growth with private prices – private selling prices at £287,000, up 7.9% year-on-year.

We have several new joint ventures coming on line through our major developments business, which has had quite a bit of success recently in the land market, and we expect this to continue to grow particularly from 2020 onwards with our Bordon site in Hampshire coming on stream and three large London joint ventures all contributing to volumes.

Gross margins up 0.7 percentage points. You'll recall the prior year was impacted by some of the £10 million remedial costs that we booked on two specific schemes. However, 2017 has been impacted by the cost of our investment in our customer journey, as Pete noted earlier in the presentation, with the teams now largely in place, and so we're not expecting to see necessarily that same impact in the second half of the year.

Gross profit per completion, at just over £65,000, is up 10% year-on-year. And if you're looking at it from a margin point of view, this ever so slightly higher land cost recovery is offset by low recovery in build costs and of selling expenses. This results in 100 basis points operating margin progress with further recovery in overhead as we deliver more top line growth off a slightly growing overhead base.

This is an indicative margin movement for the UK business. We kind of presented this consistently over a number of years and what it's trying to reflect is to what extent the market drives in terms of inflation, both in house price growth as well as build cost growth, and how our business has performed against that. The net impact of market sales and market led build cost inflation, we think, added 0.4% to top line growth.

The landbank evolution on sites acquired around the 2013 mark which has now been trading out from that have really benefitted – excuse me – benefitted from the more significantly positive housing market from 2014 and '15, trading out and being replaced by newly acquired sites. As a result, the net market impact is a negative 1.4 percentage points on total margin.

This is then compensated for the new sites coming on stream with a slightly higher hurdle rates that we've actually nudged over the past four to five years. Which we think that's contributed 0.8 percentage points to the margin, which sort of offsets a little bit of that market dynamic that flushes through the land bank.

Land sales in the period at high gross margins added 0.4 percentage points and as I said better overhead recovery, you know, if the overhead is up approximately 6% year-on-year with revenues up 18%, adds 0.6% to the margin. As I noted before, the negative impact of the £10 million booked in the first half of last year is not repeated, however this is offset by some of the costs on the customer journey that I noted before, and the higher joint venture profits contribute 0.3% to margins.

For exceptional items and tax, as Pete notes, we booked the £130 million exceptional item on the leasehold provision. This is a full and conservative estimate of what we believe the costs are and, which as Pete notes, we're not necessarily legally bound to incur, but we think is the right thing to be doing by our customers. We expect the cash outflows against this provision to be over a number of years.

With regards to taxation, our underlying effective tax rate for the period is 19.1%, which is just a fraction below the statutory rate, but on a go-forward basis, we'd expect our, the statutory rate broadly to fit for the P&L.

Looking at the balance sheets, the dynamic of capital release from land continues despite the overall scale of the land bank staying broadly the same. Furthermore, there's been a reduction in land creditors in the period. However, I expect in the second of this year that land creditor balance will probably grow to be more in line with the trend we saw in 2016.

There's been a slight overall investment increase and work in progress year-on-year and this is reflecting both sort of high infrastructure costs on the larger sites as well as the active growth that Pete noted before and a bit of build cost inflation which obviously goes into that line.

The change in the provisions is principally as a result of £130 million we've taken for leasehold and the total net asset growth before the £375 million worth of dividends paid or accrued in the period since December is up 8.7% reflecting a strong profitability, some of the pensions deficit movements, which I'll cover a little bit later, as well as the offset by the leasehold provision.

If we turn specifically to the land bank, the total revenues in the land bank are up £1 billion year-on-year to £43 billion on a very similar number of plots. The land bank cost per plot relative to expected revenues is down by a percentage point year-on-year, reflecting the quality of investments and inherent margins.

The actual margins delivered out of our land bank in the first half of this year relative to our investment assumptions on sites acquired since 2009 were 0.9 percentage points above the investment assumption and this is being over a period. And as you'll see in the later charts, we are, our investment assumptions have continued to nudge forward in terms of hurdle rates.

A greater proportion of plots with planning are now in our controlled bucket rather than our owned bucket, which is a tactical shift that we made in the prior year in terms of how we manage and control our land. Hence, as a consequence, we think there'll be a greater capital commitment for that in the future, in the second half of the year, as well as recognising some of this on - in land creditors. The quality of the land bank is a significant underpin for our future profitability and sustainability of the returns from the business.

As I mentioned before, these collection of dots on the chart is just showing how the margins – the contribution margins which is after selling expenses as well as our expected return on capital employed from investments have performed over the last several years. And as you can see in the first half of this year, this continues to trend upwards. This focus on quality of acquisitions rather than just simply volume growth provides us with the stability to continually nudge up return requirements. This is clearly also very much underpinned by our accessibility to lands through our strategic land bank, which gives us a lot more choice in the sites we're wanting to acquire and pursue.

If you turn to managing our working capital balance which is our inventory level, the investment in the business continues to grow. Our output numbers are slightly higher year-on-year, as well as greater levels of infrastructure investment with the largest strategic sites. The profit and loss recovery, which are the two dotted lines, versus the cash spend are getting closer and closer as those large sites become more stable in our total portfolio of outlets.

The effect of our customer journey which is adding more time to the build programme to ensure that the quality is right, that process started in anger in the first half of last year and by the time we've got to this half-year, June, I think is fully reflected in the numbers in a broadly steady state.

We expect in the future completions to be around about 4.5% ahead this year in terms of total volume growth and almost all of the plots for 2017 completions are well on – in production to allow more time for us to focus on build quality.

For the pensions, the level of the pension deficit is materially lower since December. That's primarily driven by asset performance in line with the investment strategy that we worked on with the trustees and this is also helped significantly by the hedging programme that this scheme runs. The actuarial assumptions driving reliability also has a marginal benefit in the period and we have started the engagement with the trustees on the triennial valuation as of December 2016 and I expect to conclude this early in 2018.

Working to managing cash through the cycle, going back to 2012, the land cost per plot recovered through the P&L has largely remained static over the period. With the current cost of plot on the balance sheet, I expect this trend to continue for a number of years ahead.

Deployment of cash into the investment in the balance sheet has reduced marginally in the last 12 months. Some of this reflects the hiatus following the referendum result some 12 months ago and how we own land and control land following the referendum. And this also reflects the stability of the land costs in terms of replacement on to the balance sheet.

The higher proportion of controlled land does mean a slightly higher future cash outflows relative to the first half were expected to go through the cash flow statement. As noted before, the group cash – sorry, the group is cash taxpaying and we spent approximately £132 million in cash tax over the last 12 months and expect future cash tax payments to largely reflect the P&L charge on a go-forward basis.

Net cash is up £313 million year-on-year despite these tax payments as well as returning £392 million to shareholders over the 12-month period reflecting a very strong operational cash generation as well as our balance sheet discipline.

For the balance sheet broadly, and what we believe is an optimal scale with a land bank roughly at about some 75,000 to 76,000 plots, a higher proportion of the quality of earnings generated I think will be converted into cash which will there, then be available for return to shareholders and hence the increase in dividend for next year. And I expect that this trend of strong cash generation supported by the high quality of land bank to continue for the foreseeable future.

In the dividends, we've declared an interim dividend for this year to be paid in November of £75 million or 2.3 pence per share. This combined with the £301 million special dividend paid in July and the 2016 final dividend paid in May means that we will return £450 million to shareholders in 2017. We have today also declared the special dividend for 2018 to be paid in July of £340 million which is roughly 10.4 pence per share which will be subject to shareholder approval at next year's AGM. This combined with our ordinary dividend policy of 5% of net assets means that we expect the total dividend payment for 2018 to be £500 million or 15.3 pence which will be up just over 11% year-on-year. And this declared dividend for 2018 off yesterday's share price is a roughly yield of 8%.

So, in summary, I think the business has made good progress against the medium-term target set out in May of last year. The declaration of the special dividend for 2018 means that we have delivered on the £1.3 billion target that we set ourselves for cash returns to shareholders. The net asset growth year-on-year before dividends return to shareholders of 22.3% reflects strong total equity returns generated by the business. And the quality of the business and its people, combined with the quality of the balance sheet and capital discipline, means that the group remains well placed to continue to generate strong returns for the foreseeable future. I'll now hand back to Pete to discuss current trading and strategy.

Current Trading and Strategy

Pete Redfern

Chief Executive, Taylor Wimpey

Thanks, Ryan. Now, as I touched on earlier, though it's headed current trading and strategy, there's not an enormous amount of new stuff on strategy. So, if you go away from here thinking our strategy has changed fundamentally then I've got it badly wrong. But we'll touch on a few elements and update you. But I think probably some point during 2018 will be the right time to kinda of give a fuller sort of strategic planning update.

But first of all, current trading, as in sort of since the half year up to date, nothing has really changed. We've continued to see a good trading environment. We've continued to see statistics on sales rates, sales prices, cancelation rates which are slightly better than last year. You'll remember last year immediately after the referendum that even then the statistics really didn't show any change. So, you know, good against a solid sort of trading comparison.

And as you'll see in the second, you know, the sort of the substance under the surface both regionally and in the way in which customers engage with us really hasn't changed and gives us a real sense of, sort of, stability in the market. You know, I think it is worth touching on and it's not a new trend but the fact that the second-hand market remains, and I've use the word 'stagnant', which is possibly a little sort of overly negative, but certainly remains subdued in terms of trading volumes. You know, it sort of should be a concern to us in terms of the medium term and what that says about market, but certainly we're not seeing any knock-on impact of that for our business, and we've kind of got used to trading in that environment over the last two or three years.

I said I'd show you these graphs. You've seen them before. We don't always put them up because they're not always relevant. They're always included in the appendix. But you can see from the 2017 line, not just the fact that it's run, you know, on all the measures that we use to track kind of customer confidence and interest, that it's not just run best in the last two or three years, but also most interestingly the last of sort six weeks or so has actually shown a step-up on a relative basis from previous years, which we wouldn't have expected. And it all just gives you a sense as to why we feel, you know, sort of pretty relaxed about where short-term trading sits and where customer confidence sits. We don't see any sort of sign from customers of some of the nervousness that you see sort of reported in the press. That sort of surprises us but it feels like it's true pretty much across the board.

Just touching on a couple of things on mortgage lending, I'm not going to talk about the numbers, you know, sort of they say they still continue to be structurally very low. But I think I would just pick up on the third of those bullet points, that there's a lot of talk about exactly when interest rates movements will happen. We remain of the view that sort of small movements and even the signalling of small movements isn't a huge concern to us. It's more the sense of scale about what those movements will be.

That robustness in the market, and particularly how low the base level of interest rate movements – of interest rates is, means that sort of 25 and 50 basis points movements in the level that customers actually pay is not our concern. It's about where – when that changes more structurally and more fundamentally that we ought to be more aware of, not feeling that that's going to happen sort of in the particularly short term, but that's where the focus is rather than exactly what the timing of the base rate movement would be.

Moving on to politics and the economic environment more generally, clearly, it's been, you know, an unusual period within an unusual general election and the ongoing Brexit concerns. As we've touched on and as you can see from those graphs on the slide before last, we can't see that impacting on our customers' confidence in their engagement with us but that does surprise us. I think, you know, the key factors of employment levels which remain high, the mortgage market which remains very available for our customers, and mortgage lenders who very much want to be lending and lending on new build homes, all help us. We can't duck the fact that Help to Buy is a significant component of that and has definitely helped new build relative to second hand over the course of the last few years, but we're not picking up any short-term political signals of that changing at the moment. I would say our political dialogue has been more muted over the last few weeks than we're used to, but that's, I think, because politicians have been very much focused on other issues, such as Grenfell Tower, the Brexit negotiations, the results of the general election, etc., so conversations about Help to Buy just seem to have, sort of, disappeared into the long grass for now.

And just touching on labour availability, we still haven't seen any noticeable impact at site level of, sort of, changes to, you know, people's expectations for overseas labour. We remain focused on taking some control of that ourselves and have active pilots running in four of our businesses, and just looking at extending those around direct labour on site, as we touched on in our, sort of, last presentation.

Moving on to central London and I really don't want you to overplay this too much. As we've touched on, our trading in the first half in Central London has been stable and probably slightly better than we expected. The sorts of price reductions that we expected, sort of, at the beginning of the year were in the order of 6% or 7% average across prime central London. What we've actually seen is a bit lower than that; more like 4.5, maybe 5, sort of, at tops, and also it seems to have bedded in and trading seems to have, sort of, then normalised at a new level.

That's, sort of, just a short-term, kind of, trading environment; I think what's more important for us is our longer-term plans for Central London and we've not completed our work on this. But our central London business has a relatively short land bank, so if we chose to we could sit here, run out sites for the next two years, generate good returns, a significant amount of cash and, effectively, exit that business. I think what's switched for us a little bit over the last couple of months, because we were open-minded about that, is we think that's very unlikely to be our plan, and so we are happy to continue to invest in that business and start to see land opportunities which are significantly better than we're used to seeing in that Central London business.

That doesn't mean – which is why I don't want you to overplay it – that, at a Group level, the level of cash invested will be particularly material or change any of the targets that we've given, nor have we changed our overall view about where that Central London business goes. But I think we've just, kind of, reached the point where we've said, 'No, actually we do want to be here,' and so it's about timing and about whether the opportunities that come up work and deliver what we, sort of, need to.

But we have, as I say, seen a land environment where, for the first time in a long time, actually the deals on offer are better than they are in the rest of the business and don't depend on future price inflation in that central London environment. So, we still think it'll be an uncertain environment for the next couple of years, but it's more a sense of our longer-term plans remain, sort of, with the Central London business as part of the overall business. I should say that if – pretty much whatever we do from here, 2019 will be a pretty lean year for that business because we haven't invested in new sites for the last 18 months, so it will generate cash in that year but the profit flow from that business won't be as significant. But if you look at an overall Group level, I doubt you'll really notice that in the overall flow of the results. So, I am not flagging a significant shift, but I think our longer-term view remains it's a business that we want to invest in.

Just picking on dividends, and I am not going to repeat what Ryan has said, I'm not going to read out the words from the slide. There was really just one thing, the second bullet point, that I want to comment on, and that's just to reinforce – I know this is not new news, but it remains our expectation that, in 2019 and beyond, we will continue to pay material special dividends, and, you know, we see the level that we've just announced for 2018 as being a good signal of where our thought process will start for that debate. But we expect to give a fuller update on how we'll calculate those dividends, how we'll communicate them, because we recognise that our announced, sort of, policy on special dividends, kind of, finishes in 2018, so we'll give you a fuller update in the first half of next year, either at the prelim stage or at, you know, an analyst day, sort of, in, sort of, probably April/May time.

And just flagging, you know, sort of, strategic priorities again, nothing particularly has changed, but very much medium to long-term focused strategy. Balanced growth; you know, we remain of the view that there's a natural level for the business, we remain of the view that we shouldn't be chasing land to generate, sort of, long-term, sort of, growth as cyclical risks start to grow. But we still think there's track for us to run, and you can see in the first half and our, sort of, flags for the full year, we expect growth this year and growth next year.

Continuing to continuously improve our, sort of, land bank and our land strategy, no big changes, but every site we buy we want to be slightly better in financial terms, in customer quality terms, in desirability of product than the site that we've just finished. And then really focused on maximising and taking a step change in some areas of operational performance, particularly customer service but, as I've already touched on, interaction with our employees; our investment in future programmes around direct labour, around, you know, sort of, how we build; really starting to run the business with a longer-term mindset, you know, which has historically been hard in a very cyclical industry.

And then just overall summary and outlook. A very strong first half of 2017, very strong underlying financial performance; you know, sort of, the dividend announcement today kind of completes that three-year, sort of, dividend plan to get to £1.3 billion. The environment we see is stable today; we're not unaware of the risks but our base case remains for, sort of, low price inflation market. You know, the market not giving us any free wins but also quite stable as well, if you take it over the course of a year. Some build pressures but remaining at a manageable level, and a land market which is still very attractive. But keeping that discipline, which you can see coming through every number that we report, remains key. There are risks out there, we're not unaware of them, but the strategy of the business, the structure, the balance sheet, the focus on a sustainable growth rather than pushing, you know, sort of, every single element, every single December, sort of, I think, it puts in a strong place to manage those risks. And we really do continue to see value in getting some of the underlying premises of the business around how we deliver to our customers, how we interact with our people; we really do see that can create a long-term advantage for the business in a sector which hasn't focused as much on those elements as it should of in the past. And our value case remains that disciplined growth, high cash returns, but balance between the two and investing in good land opportunities. Questions please.

Shall we start at the front here and then work backwards? I mean, can you bring the mic down here?

Q&A

Gregor Kuglitsch (UBS): Gregor Kuglitsch from UBS. I've got three questions. Can you elaborate on your point in London that seems to be something that has changed? I think you were linked with a relatively large site from Royal Mail. But I guess you don't want to comment on specifics, but if you could give us a sense what's changed in payment terms which make you, perhaps, more optimistic of being able to conclude land deals in London, that would be helpful?

The second question is on asset turns, your 1.45 first half; I mean, is the thinking that your sustainable run rate's a bit lower, 1.4, something like that, because obviously you have some timing on cash, on land payments, I believe, in the first half?

And then if you could elaborate a little bit what you think sustainable growth is. So, this year it's 4% or 5%, I think, in terms of volumes; is that what you're gunning for? Also, over the medium term I appreciate it's subject to market conditions, but assuming market conditions prevail as they are right now. Thank you.

Peter Redfern: Do you want to take the middle one and I'll take the first and the last? Do you want to do the middle one first, Ryan?

Ryan Mangold: Yeah. I think, Gregor – I think the balance sheet scale that we've currently got and how we are approaching that investment into the balance sheet; you know, a combination of land creditors as well as continued work in progress focus, I suspect that a asset turnover of about 1.45 is probably the new norm for us, it is probably the new norm for us. Clearly, what can change in that regard is that if we did have a period of more significant build cost inflation, which is not – we're not expecting, and volume growth to be much greater than our current guidance, which we're also not expecting, as well as a land market that shifts, but all our indicators from the land market is it seems to continue to be fairly benign and we can replace it at levels that are attractive to us. You know, clearly also supported by the strategic land bank, which is a bigger and bigger contribution to what we're acquiring. So, 1.45, I think, is probably about the new norm.

Peter Redfern: Yeah. I mean I, you know, sort of made slightly more cautious noises, but it's not because I fundamentally disagree with Ryan on what he's just said, it's just that, when you've just delivered a number that's slightly surprised you, you want to deliver it twice before you say that's the new normal. So, it's not the structure I think that's wrong, but it's somewhere there or thereabouts, you know, sort of, would be my take, but it's – you know, sort of, it slightly surprised us, this period.

On sustainable growth, I mean we talked, sort of, I can't remember if it was six months ago or a year ago, about, probably, annualised sustainable growth over the next two or three years in the 3% to 4% range, and, you know, we're kind of guiding you to 4% or 5% this time. Clearly, what we do this year impacts on next year, and if it's 5% this year then I'd say it's more likely to be at the 3% end of the range next year. But I still think that, you know, averaging over time of 3% or 4% is about right. This year's a bit stronger because the land bank is there, the market has been stronger, but what we're not trying to do is fundamentally then change our build operations; we can step it up a bit, but it's become very, very important to us to maintain the consistency for delivery on site. And so that, kind of, acts then as a constraint; it's not going to run much out of that band.

And then on London, I think, as I say, it's not that there's been some fundamental change. If – our London business, our Central London business has always been, sort of, based on short-term sites, and by 'always' I mean over the last five or six years as we've got – as we've, sort of, developed that business, effectively from scratch, but off the learning of a lot of historic experience in previous cycles. And actually, we've been cautious, and because we came into that business not right at the beginning of this cycle, we've always recognised that the opportunity to go in and buy bigger sites, whether on, you know, sort of, joint venture type deal structures or on a, sort of, on a land partnership type structure, or buying them outright, you know, sort of, on land creditor terms, was likely to be muted, because what we were committed to not doing was going and trying to buy in big sites with ten-year profiles at a point when the market, both land and housing, was at its peak.

We've seen that in the past, I saw it, you know, sort of, in a very significant way in the US when we were, kind of – as we were coming out of that market, so we've been committed to that. And so we haven't been searching for those deals, but we are open-minded that if current conditions give us the opportunity to buy long-term value added sites to underpin that business at strong financial returns in an environment we're confident in, then we would take it. If it doesn't, it doesn't, but it's, you know, we're happy to look at them and you refer to one. Yeah, it's a sort of – it's not a secret that that's a site that we've been looking at, but it's not the only one. But actually, if none of those large sites happen, then we'll buy some more sites, so it's not that we're wedded to it; it's a possibility, but we're open too.

Speaker: Thank you.

Pete Redfern: If you just want to hand it back and work back down this row and then go [inaudible] across.

Gavin Jago (Peel Hunt): Yeah, morning. It's Gavin Jago from Peel Hunt. I've got a couple, if I could. The first one's just around, kind of, the dialogue with the government. Kind of, there's a consultation been opened on, kind of, the leaseholds and the ground rents. Are – in terms of what you're kind of building in for your hurdles when you're appraising sites, particularly in London, do you build in an expectation that you get revenues from freeholder reversionary interests and also the ongoing consultation, or are you expecting them to be capped at zero and therefore you've got to reset your hurdle rates?

And the second one was just around Help to Buy, obviously, limited dialogue, you said, over the last couple of months, but do you think there's a chance that the government might look at that, maybe go back to, kind of, the days of First Buy, where the shared equity was kind of split between the housebuilder and the government, and if so, would you have an appetite to do that with the balance sheet where it is?

Pete Redfern: Okay. I mean, just touching on the consultation first of all, I mean, I think two – two main elements. One, you know, sort of, the strength of the government view that houses, as in the houses as opposed to apartments, shouldn't – shouldn't be sold leasehold. Well, as you'll all remember, we announced in January that we were moving down that route anyway, so – and, yeah, we feel we're ahead of that curve.

In the other one, you know, and both of these elements are largely forward-looking, but the other one in terms of their level of ground rent on, you know, leasehold apartments which, you know, sort of, the consultation's not entirely clear, but certainly they want to exert downward pressure on that. When we buy land, we don't build in any, you know, sort of, value for future leases. We're kind of aware of it, but we don't put it in the numbers, so whenever, you know, Ryan's put up his slides, as he did today, the talks about margins, that doesn't, at that stage, sort of, involve leasehold.

Once we enter a short-term, sort of, budgeting and planning cycle, if we're on a site and it's been sold, then we do tend to – to, sort of, build it in. But in terms of the underlying land bank hurdle rates it has actually no impact for us. I actually don't know what others in the sector do, but we've never built in a value for it as a separate piece. So, we don't see, you know, sort of, our concerns about leasehold are about historic customers and getting it right, not about it being a, sort of, meaningful profit stream or value stream for the business. It never – it never really has been, it's about getting the history right, has been – has been and remains our focus.

And on Help to Buy, as I say, it's – it's not impossible. I think it's very unlikely that the government would do anything, sort of, short term, before their own, sort of, 2021 deadline, but I don't think it's at all impossible that they would, you know, sort of, announce some sort of taper-down at that point. I guess, you know, it could in theory be a taper earlier than that, and that's – that's, I would guess, fairly possible at some point in the next 12 months. There's been no dialogue about, you know, sort of, a sort of First Buy type scheme or any of the other, kind of, home buy direct type policies. I think we – we have had and will continue to have conversations about as we've always assumed at some point that it would go, and so, you know, even if that's four, five years out, then, you know, sort of, we start to think now about how we would set that up and making sure that we've got other things that we could do. Whether we go down the route of using our own balance sheet, it depends on the trading circumstances and – we'd want to be geared up so we could if we needed to, if that was the best option; it obviously wouldn't be our preferred option if there were other choices. I think our main focus is on making sure that the product that we have, how we sell it, how we focus on it, is more desirable than everybody else's, you know, sort of, which may sound pretty obvious but actually, I think, sometimes gets missed in this. You know, a lot of our high sales rates are driven because we're in the right places with the right product, yeah, more than it's driven by Help to Buy.

Yeah. Let's just move across.

Jon Bell (Barclays): Jon Bell from Barclays. A couple from me, if I can. Just on the leaseholds, are you able to share with us how many freeholders you're dealing with and how many properties it relates to?

And then secondly, on central London, I think you've referred to deals there looking now more attractive than they are in the rest of the business. I'm assuming that you've referring to gross margin, but could you elaborate on that, please? What kind of things are you seeing?

Pete Redfern: Yeah. Happy to talk about the number of freeholders, you know, to give you a sense. There are really three material ones and then a long tail, so if you're looking at it numerically, you know, it's three main negotiations, but there's a long tail, and obviously for each individual customer they've got one, so that long tail, in some ways, matters just as much, but it does, obviously, make the process more complicated. Still not going to give you a number of leases and, you know, the reason remains the same. You know the absolute amount, if – if we put a number of leases out into the press, then everybody can calculate the amount per lease and that just weakens our hand with those same freeholders, and that's just not a smart way for us to do it so, you know, we've always been very upfront about how we approach these things, we think we've done it in a reasonable way, you know, sort of, so I'm afraid you'll have to take that one on trust.

On Central London, it would be wrong to get the sense that our conversation about Central London is about one site. You know, Gregor, you, sort of, said we don't tend to comment on one site, and you're right, and it's not because we're, sort of, particularly secretive about that particular site, but actually no site really impacts significantly enough on the business for it to fundamentally change our approach and our strategy. And we wouldn't be having the conversation we're having on Central London if it was just about one site, you know, we are seeing other deals that have very different structures, that, you know, where we're really not paying for the land upfront at all, that we're not used to seeing in that environment and that opens up some choices that we – that we haven't had around larger – larger sites.

So, the general comment is not just about gross margin, you know, sort of, although it applies to gross margin, that generally the deals that we're seeing are higher margins than, you know, sort of, an ordinary land purchase in the business, but they're also pretty healthy returns on capital, which is harder, as you'll understand, to achieve in Central London with higher land costs and higher price points, even in a – in a, sort of, more subdued market. So, it's both, although margin stands out more.

Okay. Thank you. Do you want to just go to Emily, just on the row behind?

Emily Biddulph (JP Morgan): Morning guys, Emily Biddulph from JP Morgan. I've got two questions, please, just the first one on operating cost inflation. You were obviously talking about putting cost in to improve the customer experience, but presumably, some of the cost inflation in the first half was about the volume growth and some of it was about that. Just wondered if you could give us a sense of what OPEX as a percentage of sales might be for the full year, or what the cost of this customer experience is overall, year on year?

And then secondly, just on build costs, are there any, sort of, moving parts that are changing in there, or – I just wondered if you could give us a split out, or any, sort of, change on visibility there? Thanks.

Ryan Mangold: Sure. Yeah. On the cost inflations, I presume, Emily, you're talking specifically about almost the overhead or, you know, because the customer journey costs go into two places, one of them into overhead, in terms of the infrastructure that we put in centrally, you know, and that's from systems, in terms of how we're engaging with the customers, all the way through to the home quality inspection, operatives that we've got that are now examining every single home before we hand them over to customers. You know, that – the average staffing per business unit probably increased by about seven or eight just in that regard, year on year.

And then there's the actual costs onsite, from physical delivery of the homes to better quality and a better standard, which has a preliminary cost that goes with it, which is also slightly up year on year. I mean, I can't give you definitive split between those two, but I suspect that they're probably about equally weighted overall, as a broad sense.

In terms of a wider build cost inflation, you know, Pete noted before in terms of labour availability in the sector, we haven't seen any of that sort of reduce, it seems to be broadly keeping pace. We do, however, expect labour costs to be a fraction higher than inflation, but on the flip side, you know, overall, for the basket of commodities that we acquire through central resourcing pools, which covers about 15% of cost spend overall, that cost increase year on year is below inflation, so net net, we think that 3% to 4% is still a reasonable guide on a go-forward basis on build cost.

Pete Redfern: I think - it's interesting and mildly surprising that what we have seen over the last 12 months has remained driven by localised conditions, whether that be localised in the sense of one nationally procured material or localised in the sense of what bricklayers are doing in the North West, but has been driven by that rather than by macro-economic trends, exchange rates or anything else, so actually we've seen not really a sea change in where the cost inflation is coming from and what mix it is, and it's why our guidance has, you know, ended up being exactly the same today as it was a year ago.

Emily Biddulph: Thanks.

Ryan Mangold: You know, as Pete – sorry, as Pete noted before, you know, we continue to invest where we can in direct labour, to try and encourage a bit more site-based staff onto the books, just as a way of, sort of, feeding that pipeline of employment for the future.

Aynsley Lammin (Canaccord Genuity): Thanks. Aynsley Lammin from Canaccord. Just two, please. Firstly, on Help to Buy, I wondered if you could give us the numbers, the percentage of sales made using Help to Buy, both in London and outside and how you see that trending? Have you got the, kind of, allocation and capacities to continue there?

And then secondly, just on London, coming back there again, wondered what your thoughts are on PRS? Is that something you consider using a bit more in London to, kind of, manage risk, etc.? Thanks.

Pete Redfern: Do you want to pick up that one, Ryan.

Ryan Mangold: Yeah, yeah.

Pete Redfern: I think it's in the presentation somewhere.

Ryan Mangold: Yeah, the stat is in the – it is in the announcement. You know, 45% of the sales are under Help to Buy, of which 42% of the total of that is to first time buyers, so clearly it is a solution that is working well for the government in being able to – getting customers on to the property ladder, as well as of, clearly, the domestic sponsorship that comes from that, in terms of economic activity, so it's a fairly useful tool. I don't have specifically the split in London, but even if I did, I think it would be relatively meaningless, given the pricing points variety that we've got on operating inside the M25. It'll be very, very much scheme-specific, you know, we could have one scheme that is targeted purely at that price point below 600,000, and other schemes which sit in the Central London business that none – none of the sales, really, would be under Help to Buy other than GMV, because of the price point that we're selling at.

Pete Redfern: And on Build to Rent, I mean, I make a distinction between tactical site-level Build to Rent and what I think of as meaningful strategic decision to go into a Build to Rent model. We are and, you know, this is not a new thing, doing some of the former, so we have sites that we are looking at, we have the odd site on the books that has a Build to Rent component and, yeah, often in that case, because, you know, it's either desired by the landowner or the planning authorities, part of the overall deal structure, and sometimes because it assists the return on capital and the certainty of delivering on prime high infrastructure sites in London.

I would very much like to believe that in – you know, over the course of the next few years, we can do something more strategic on Build to Rent, which is not, kind of, oh we built it, we haven't really got a route to market but it's a conscious decision that it's a route to market for a component to the business. It still remains not totally straightforward, and while the market has been strong, it's been a bit too easy, almost, to go down the outright sale route, but I still think, strategically, it will be a healthy component to broaden the business, but we're not doing anything active on that at the moment, except trying to work out how we would make it work and make it a real, viable long term, sort of, part of our business, rather than, it works on this site and it helps make the numbers work and let's just buy a site that we wanted to buy, actually for it to be something more structural than that.

Do you want to pass it back to Will, who's a couple of rows behind?

Will Jones (Redburn): Thanks. Will Jones at Redburn. A few if I could, please. The first, just back on the ground rents, can you just give us an indication of the degree of, kind of, customer incoming on taking up your offer, since you announced it, whether you're still happy to leave it as them coming to you rather than you being, kind of, proactively going to them?

Then on – a couple on land. I think you gave that margin split, clearly margin's better again in the first half of this year, in terms of the land buying additions. Is that just a strategic open market mix or are you getting better margins on either one of those two segments? And I think back at the full year on land bank length, you had talked about the fact you were thinking about where the right level was and maybe scope to bring it in by a quarter or a half a year, compared to what you'd said previously.

Pete Redfern: Yeah.

Will Jones: Where's the thinking on that, particularly given the comments around major developments growing?

And then the last one was just around the special dividend. I think in the past, when you've talked about the special – you've told us, I think, about next year's announcement as a base and potentially it could be one that moves higher thereafter. I appreciate 2019's a couple of years away, but would that still be the kind of thinking that, potentially, we should think of that as a base that could go higher if the budget comes to fruition?

Pete Redfern: Okay. I think I got all of those, Will, but I was slightly struggling to hear you and also you were moving at speed, so if I missed one and – and, sort of, come back, I think – margins on land acquisition was the second, wasn't it?

Will Jones: Yeah.

Pete Redfern: Sort of – because from a pick up, I think it's been pretty much in line – on the ground rents, pretty much in line with what you expect, so we've had a material number of customers come forward, sign up to the – to the scheme. It's nothing like the whole universe at the moment and it's not – you know, it's sort of been patchy, geographically. And, you know, yes, we are comfortable that we're approaching that – that the right way. It's been well publicised, clearly if people get an increase in their ground rent then that flags it, we're not – it – I might feel differently if we'd said we're going to run this scheme, you've got to apply in the next three months, but we haven't put a deadline on it. And it's driven by a view that what we're focused on and what we believe we have, you know, a moral duty to focus on, is the suggestion that these houses, they're either unsaleable or unmortgage-able, you know, sort of – and actually, if that is an issue for people then it's flagged and therefore they can, you know, sort of, come forward and the scheme is well publicised.

So, you know, it's not that we think they're broken, it's – you know, so if – if it's causing people issues, they can come – come forward. But as I say, I would feel slightly differently if we'd put, sort of, some firm deadline on it, then that doesn't feel quite morally right, so, you know, we will see what happens. Flagging it at a point when we haven't got deals done with many of the freeholders also doesn't feel like it's particularly helpful. And what we've found is, the relatively small number of initial customers that we had, you know, some real, sort of, angst from, understandably, over the course of the back end of 2016, early 2017, remain those that are most concerned, people who have only become aware of the issue after we started the scheme have generally signed up to the scheme, are fairly relaxed about it, because as soon as they became aware of it, they can see there is a solution and that it's not quite as frightening as it might be if you started it from scratch, and I think that shows that it's the, kind of, healthy way to approach it. So, you know, it's not a perfect system, it never – never would be or could be, but we do think the balance is right.

On margins on – on Land, I mean, it's a bit – it's a bit like my answer to the asset turn, when you've delivered at a level that's higher than you expected to, you're always a bit nervous and I – and I do think, you know, sort of, that our land buying was slightly more muted in the first half, just the timing of deals that came through, and I think, yeah, you just take a bigger, kind of, population over the whole year. I'd be surprised if the slide for 2017 as a whole has got quite the same numbers in it that Ryan put in for the half year. It's not that I think it'll be below 2016, that it'll probably be above, but that, you know, probably not quite so much, just because it'll be more statistical. But fundamentally we're still finding, you know, sort of, deals that are in that range.

We had a – sort of, an internal debate, discussion, April, May, because people were struggling to find deals at that – at that level, as to, should we soften it a bit. We decided we'd, you know, sort of, hold firm and actually, you know, kind of, at the back of the half, suddenly, you know, some deals come through and we're looking at an awful lot at the moment that's at very strong returns which says, you know, sticking to that discipline is right. But it does underline what we've been saying for the last few years, if we wanted to, sort of, grow the land bank significantly and buy twice as much as what we're using, we would have to compromise on those principles, so there is a clear trade-off between, you know, you know, the aggressiveness of the growth and those financial returns, and so it's continually trying to find that sweet spot.

And in that, you know, sort of, the views haven't changed on land bank length, you know, sort of, it – I haven't looked at the maths, but it must have tightened slightly and shrunk slightly in the first half, just because of where the volumes have gone and the fact that the land bank has been stable. And that's, as I said earlier on, is a natural result of us operating on a bigger proportion of the larger sites we've generally been acquiring through both the strategic and the short term land bank and that – that dynamic will probably continue a bit, I haven't fixed a new number and if we do, kind of, give a fuller strategic update sometime next year, we'll probably talk a bit more in that detail, but nothing has fundamentally changed on that, I do still feel it'll tighten from what we said, sort of, three or four years ago.

Major developments again will probably give you a good update next year. We've got, you know, sort of, three or four sites that are right on the cusp and so, you know, we continue to see it as a good value-added part of the business, but it takes time to get up ahead of steam, feels like it's, kind of, right at that point now, so, you know, again, next year, it'll be a good time for an update.

And last of all, special dividends. I think I answered this, so maybe I misunderstood the question, but we see the level we've announced for 2018 being the right base level for 2019. We would never say never have, that it – that it won't necessarily be higher, but it'll just depend on market conditions and certainty, so that's just our start point.

Did I answer them all?

Will Jones: Yes, thanks. Yeah.

Pete Redfern: Okay.

Charlie Campbell (Liberum): Hello, it's Charlie Campbell from Liberum. Two from me. Just the first one on mortgage availability and just wondering if you've seen any changes in mortgage availability or the percentage success rate of applicants?

And secondly on house price inflation, just wondering if there was any changes in the level of inflation you've experienced, sort of, through the first half, so were price rises easier to come – sort of, come by in the beginning of the half rather than the end, or has that been fairly uniform throughout?

Pete Redfern: Yeah, I think, no changes in mortgage availability that we have – we have seen at all, no changes in success rates that I've picked up, and you kind of see that in those broad statistics and in the – the sales rates as well, so – so nothing that has particularly changed. And I think I'm going to go back to, I know that mortgage approvals overall are down, but that's so dominated by the second-hand market, sort of, reduction. In a way it helps us, you know, and I don't like that in many ways, but certainly, in short to medium term that's helpful rather than a – than a problem for us, even though I don't necessarily feel it's healthy longer term.

And on house price inflation, it – it's not been big enough to see a discernible difference first quarter, second quarter, you know, it's – is it, kind of, 2% from, you know, kind of, October, November last – last year, it's in that sort of range. We'd always see the first quarter as – as being where we would put through most price movements, but I would still say you see positive price movements in the second quarter, probably it's smaller but not really anything out of what I would see as a normal seasonal trend.

Looks like that's all – no, got one more down here. We'll make this the last question.

Andy Murphy (Bank of America): Morning. It's Andy Murphy from Bank of America. Just a quick question, really, around a margin and, really, following up on – on a previous question. You – I think you said in the statement that you thought the – the 20% margin target over the three years was probably one of the harder metrics that you've put in place, but with your land buying on that – on that chart, you mentioned a couple of minutes ago, looked like you are probably, sort of, getting to a point where you are, sort of, over a – over a hump, and therefore margins on a – sort of, a – on a run rate basis are likely to be edging up rather than plateauing. Would that be the correct interpretation, from what you're trying to – the message you're giving?

Pete Redfern: Yeah, I think – I think both are true. So, we do think, and I don't think this is new news, that of the three targets, the 22% operating margin averaged over the three years is the toughest, you know. Sort of, to get there, really, we need to be at 22% this year, and it's not where we're guiding people and it's not where we expect to be, it would – you know, sort of, a couple of extra things would have to go our way to get there, so we do think it's tough. That means the average, you know, I kind of feel is probably more likely to be 21 point something than 22, so it's not – it's not a long way off, but that's most likely.

But at the same time, you're right, the land acquisition has crept up in the background, but most of those sites deliver into 2019, 2020 and beyond, so I don't think necessarily our margins plateau at 21.5%. I think 22%, sort of, and you know beyond is probably achievable, because the pattern of land buying has been better than we expected it would be. I just don't think it takes us a bit longer to get there than we would have hoped. The biggest difference and really, the only major difference between our expectations, you know, sort of, just over a year ago and now, is around Central London. That headwind on prices in Central London is probably something like three quarters of a percent for us, and that's probably the, you know, sort of, slightly more than the gap will end up between where I think we'll get to and that 22% target. But as I said when we announced it, if we hit the other two and we get to 21 point something, I won't throw myself off a bridge.

Thanks very much. Thank you for all the questions, look forward to seeing you again, well, beginning of next year.

[END OF TRANSCRIPT]