Trading Update

Monday, 13 November 2017

Operator: Good day and welcome to the Taylor Wimpey plc trading update conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Pete Redfern, CEO. Please go ahead, sir.

Pete Redfern: Thank you. Morning, everybody and thank you for joining us. I'll take you through a quick overview first of all and then we can open up for questions.

First of all, and obviously the main focus on trading. I'm not going to labour the point that 2016 was a strong set of comparatives; you all know that very well and that the sort of sales performance particularly was very strong through the year. But what we've seen through the second half of 2017 actually roughly mirrors that. You know, you can see the stats, we've given you a little more detail than we normally do on sales rates to date over the last eight weeks, and, you know, sort of over the whole of the second half, you can see sales rates, cancellation rates remain in line with that very strong period last year, so we feel very positive about that.

You know, our sense is that although the second-hand market remains very slow, the combined benefits of Help to Buy, the ability of a, sort of, developer to sell at a point when the second-hand market can't, and we think our own mix of sites and quality of product and locations are all putting us in a strong position.

On the cost side, cost, as you can see, our guidance remains very much in line with where we were at the beginning of the year and 12 months ago, so no real change there. We are not really seeing any change dynamic. And so, we sort of come close to the end of 2017 still with a very strong order book, with a very strong position for this year, and we feel able to deliver the continued growth in both top-line volume, numbers and also performance statistics that we've been setting out for the year as a whole.

And at this point, we don't see any reason to vary that view into 2018. Clearly, the pace of growth, you know, for the industry as a whole and for ourselves is likely to slow, but we still think that there's the ability to grow both the top-line and the bottom-line in performance terms.

Looking specifically at land, you can see we continued to invest in land through the period. We are still very much at a broadly replacement level. I wouldn't read too much into the fact that our land numbers are slightly ahead right now of where they were sort of at the beginning of the year. We are just slightly closer to the top end of our range. I think over the course of 12 and 18 months that will broadly even out. Our views haven't fundamentally changed, but it does give you a sense both that the land opportunities are there, remain good, and we are still happy to do them as long as we can deliver the right returns. You will have noticed over the summer, and we've just reiterated in the statement, we have bought one site and gone into a joint venture on another in central London. Those we see as very much long-term sort of projects. It should give you a sense that we see that central London market as a place that we want to be in long term, and where we still see good returns.

We also see good opportunities at this point where we see less of the buyers, but we don't see it as sort of purely opportunistic land buying at a low point; we see it as a long-term view of that market. These are long-term sites that we will operate with over a number of years, and it will underpin our central London business over sort of quite a number of years, the sort of nine to ten years for both of those sites. So very much long-term investments, but you should read a degree of confidence in our position in central London and our intent to stay there, for it to remain a manageable part of the business, which we think, and I think you can see at the moment, is a good strategy for us. It means that we are not overly dependent on it, but it's an area where we can add value as we go through changing cycles.

Just picking up quickly on leases, I know sort of over the summer we were able to be quite reassuring about the early stages of our negotiations. I think what is particularly pleasing is, you know, sort of towards the end of the summer and into the autumn, we were able to do deals with the largest of our leaseholders. And now have – and we've said the substantial majority, but I can give you a sort of slightly clearer sense, roughly 90% of our sort of historic doubling leases, we now have done a deal which sets a price that confirms our view of the provision that we've made. So that gives us a high degree of confidence, both that that's the right number, but also that we can deliver the solution for our customers that we had planned on. So, I think we see that as an issue where, whilst we clearly have a lot to do in terms of administration for individual customers, actually the key negotiations are largely done, and that we can look forward.

So overall, pleased with the performance in 2017, pleased with the impacts of our strategy in a market where clearly there is wider economic and political uncertainty, but I think it does give us a sense of resilience and how our business operates, you know, sort of with the environment changes and as we see slightly more uncertainty looking ahead at the next couple of years compared to the last four or five years. But overall, a very strong set of trading stats, and a pretty good degree of confidence for 2017 and beyond.

Anything you'd add, Ryan?

Ryan Mangold: Yeah, just to repeat, the cash generation of the business continues to be really strong. We are expecting to end the year round about net cash of £500 million, clearly subject to the timing of some conditional land deals, but that's broadly the kind of level that we expect to end this year. And we've reinforced the message that we gave at the half-year, with declaring the dividend for 2018 of £500 million.

Pete Redfern: Yeah, no, absolutely. Thank you. If we can open up for questions, then, Daniel?

Q&A

We can now take our first question. It comes from Will Jones of Redburn. Your line is open. Please go ahead.

Will Jones (Redburn): Morning, guys. Three if I may.

Pete Redfern: Morning, Will.

Ryan Mangold: Morning.

Will Jones: Morning. Perhaps we could just touch a little bit more on kind of recent trading – perhaps you can just flush out any differences from a regional perspective or a buyer-type perspective. I'm just interested particularly in first-time buyers as well, obviously, there's been some rumours about a potential stamp duty cut for them, and whether you might be seeing any of those guys just hesitating ahead of potentially getting some help on stamp duty post the budget. And maybe tied to that, you've given us some good charts, results historically around lead indicators on website hits and brochure requests. I just wondered where those indicators are pointing up to this moment, please?

The second was just around land buying, obviously you did hit a very high gross margin for land buying in the first half based on the data you gave us, and I think you said, 'Look, expect that maybe to pull back a bit in the second half.' Perhaps you can just give us a broad outline of whether you think – how you think that that gross margin intake is looking through the second half for land buying?

And then the last one was just, I think, Pete, I'm right in saying that you were at Number 10 in mid-October, I think one of the few kind of housebuilders to be in a meeting with the government at that point. I was just wondering if you learnt anything new above and beyond what we might be reading externally around kind of government hopes and intentions for housing? Thanks.

Pete Redfern: No worries. Thanks, Will. So, regional recent trading, I wouldn't say there's been any particularly clear-cut differences. And I would say the same, you know, on first-time buyers compared to second-time buyers. You know, we clearly still see a sort of environment where central London and higher price points are a bit slower and a bit softer. I don't think that's, you know, relatively changed over the course of the last six months, but it's still the case. But I don't see, you know, sort of a dramatic difference apart from that. Yeah, I know you've sort of picked up a slightly more downbeat take from at least one of our competitors. You know, kind of anecdotally, I can kind of understand it, but statistically, we don't see it. I mean if I look – and I know we wouldn't and don't, you know, sort of give you – I wouldn't want you to base your store in sort of sales numbers for last week, but sales numbers for last week were a bit more relative to last year than the data that we have given you. You know, so it's not like there's a downward trend that you can pick out. It remains in broadly the same place overall, whichever sort of number you pick out.

And you asked about lead indicators, we obviously don't tend to give those at trading updates, but there was nothing in that that you will look at and say, that should give you a concern. You know, and we are again looking at our sort of sales routes and how we present ourselves and looking at it from a cost point of view at the moment rather than how do we generate enough leads. We're generating, you know, sort of plenty of leads.

I guess, you know, sort of, we do think our overall strategy leads to more resilience – the structure of the site, the nature of the site, how we sell them – and that does give us more confidence. And also, and I've said this, you know, sort of before, but I think from an analytical point of view, people tend to look at the orderbook and look at it very much as a year-on-year movement, and if it's gone up by X percent then that's a good thing and if it's flat or gone down, then that's not a good thing. I do think that if you look at the absolute length of the orderbook and the absolute scale of, sort of, the industry's individual order books, you get a slightly different picture, and we, as you know if you have looked at it, tend to have run over the last four or five years, not just with an orderbook that is growing faster, but it's bigger as well. So, we're selling further ahead. And so, the people we're selling to are then in a slightly different place, and I think that makes quite a difference, you know, if the market is a little bit softer. So, for all of those, you know, affect both our mindset and, to a certain extent, the stats.

In terms of the stamp duty cut, I do think it's quite hard to make a meaningful difference to first-time buyers through stamp duty. I don't mean that, you know, I think most of the sort of wins on that have already been achieved. I think, you know, sort of, it will be, if you took about a more balanced view of the market, more sensible to look at the upper end. That doesn't mean that it would be a problem to have a sort of cut in stamp duty for first-time buyers. It would clearly be a small positive, but to me, the focus is probably on the word 'small' in that. And with that view, I don't think we've seen certainly any measurable hesitation. I can't pretend there's not a buyer somewhere that has taken that view, but I don't see any trend and I don't see that in the stats that people are kind of sitting on their hands and waiting.

We're still in a mode where the second-hand market is very slow; there are still more people out there who would like to move onto the housing ladder than there are houses available to buy, and if you're at the right size and the right mix, then you can sell them. But we're not trying to pretend to anybody that we're also not looking over our shoulder at the political uncertainty and customer confidence as we go through, you know, what's already a pretty choppy, uncertain Brexit process. It's surprised us how well it's held up so far, so we expect the next couple of years to be, you know fairly, sort of less certain and have risk in them. So, you know, we are, you know, we remain pretty cautious.

Land buyer margin, I think, Ryan, I'm right in saying it's not changed. We've certainly not seen any structural change.

Ryan Mangold: No. As regarded – well, sort of between 2016 and the first half 2017, we think it will land probably about in the middle of that.

Pete Redfern: Yeah.

Ryan Mangold: And that differential seems right.

Pete Redfern: And in terms of the Number 10 meeting and broader sort of political piece, I'm – my own sense of political risk for our sector is that it's actually relatively reduced over the course of the last sort of four months. Again, we've tended – and we've seen this through, you know, sort of multiple different governments, you tend to go to an early phase, where, you know, sort of new politicians are looking at the sector, and they're looking at the press take on the sector rather than getting in the reality, and then actually as people get closer and have been in post for longer, they see some of the realities of how we operate.

And that's particularly true with land banking, because, you know, as we've talked about many times before, the sector doesn't sit on sites. And actually, when you take people through the details, they kind of say, 'Ah, you don't really do that, do you?' and so that makes quite a big difference, and I think you can see that trend. I think we should take broad directional confidence from the announcement of additional money for Help to Buy at the sort of conference, both positive kind of views for Help to Buy and its existence through to 2021 and almost definitely in some form beyond.

But also I think the tone and the conversation is, you know, has gone back to a much more balanced, constructive, look, you know, the major housebuilders are delivering most of the housing that we are building, actually, what we really need to focus on is how we get more affordable housing, sort of, through how we get a healthier private rented sector. Still some conversations around smaller housebuilders, which I don't think is wrong, but I don't think is likely to make a big difference to numbers. But we are back into much more of a rational conversation around, you know, sort of how actually we can sort of move numbers.

And our views remain sort of that you know, actually there probably is – you certainly don't need any more support for the newbuild sector than we have at the moment. What you need is more investment in affordable housing and a better, clearer, long-term political strategy around the private rented sector. So, that was, you know, the sort of tone of that meeting at Number 10, and I think it's become a bit more the tone of general dialogue with – between, you know, the government and industry., You know, there is a lot of work going on on skills and resources, but that feels much more like a bipartisan effort. You know, I'm glad the industry isn't banging the drum and saying, 'You need to make us a special case through Brexit,' because everybody wants to be a special case and it's a bit naive to ask something that the other party can't possibly give you. You know, it's our job to do some work on that.

So overall, you know, sort of, again, a bit like the markets, not that I would say there is no political risk, you know sort of the – we are clearly a sector in political focus, and that clearly has – has both risk and upside. But the nature of the conversation is a generally positive and constructive one about how we can achieve mutual goals, rather than a – kind of a one-sided one. And I think that meeting actually signalled a slight change in direction towards that more balanced view than you'd seen possibly over previous months.

Will Jones: Great, thanks, and could I just pick up on one comment you made there, Pete, around – I think you said 'almost definitely' some form of Help to Buy beyond 2021. Is that something that the industry has kind of been told, or is it just your inference from looking at, essentially, the numbers, given funding wise, but in reality it would take you beyond the 2021 kind of timeframe?

Pete Redfern: It's more the latter. That and, you know, sort of body language. There's nothing specifically that anybody's been told, but clearly that's where the main focus from government is at the moment. But you know we've had a – we as Taylor Wimpey have had a slightly different view on the industry, you know, to the industry on that, but we kind of have to have our own plans and sort of assume worst-case and actually wouldn't be advocating – I mean, I would never advocate for a cliff-edge reduction, but you know, sort of I wouldn't be advocating for a, you know, permanent extension or a long extension or an extension without some kind of taper. So, I think that then makes us more sanguine about exactly what the detail of the conclusion is. I think, if we get to 2021 and then we stop completely, conclusion is very unlikely, and that's the only conclusion that I would, you know, be concerned about.

Will Jones: Yeah, understood. Thank you.

Pete Redfern: No problem.

Operator: Thank you. We can now move along to the next question. It comes from Gregor Kuglitsch of UBS. Your line is open, please go ahead.

Gregor Kuglitsch (UBS): Hi, good morning guys.

Peter Redfern: Morning, Gregor.

Ryan Mangold: Hi, Gregor.

Gregor Kuglitsch: Hi, how are you? Sort of two or three questions. The first one is on margins. Can you just update us where we are now in terms of the margin progression? I know that you've got some headwinds this year on some of the customer care issues that you've been sorting out. And perhaps if you can comment, I know obviously you have the target out there, which I think you for a while flagged you're going to be a little bit shy of, but I want to understand where the exit rate is, once the kind of incremental costs on that subject matter annualise out.

And then, Pete, you'd said you'd expect sort of a growing but perhaps less growing business or industry into the next couple of years. Can you just kind of frame what you mean by that? I think this year you're going to do, say, mid-single-digit growth in terms of volumes, are you kind of saying that slows down to the low single-digit? I just want to understand what you actually meant with that.

Then finally, so we've seen a couple of Spanish housebuilding IPOs this year. Do you think it's time to [inaudible] your business, there seems to be quite a lot of appetite, you know, to – in capital attracted to that part of the market, and it seems a little bit of an orphan in your business. Thank you.

Pete Redfern: No worries. So, you largely want us just to tell you what 2018 numbers are like, don't you, Gregor?

Gregor Kuglitsch: Trend-wise.

Pete Redfern: I think on margin progression, no change to our previous updates: we still expect to make progress this year, we still think the 22% average target is tough. We would like to get to a – I mean, we'd like to get to that 22% average, but with central London, and you know, sort of the balance of where the market is, it's probably sort of too tough. But I'd like to think that 22% is not a bad view of an exit rate, but roughly, you know, without getting too precise around the sort of decimal points either side of that, but order of magnitude.

In terms of volume growth, what we'd guided to was a broad view year-on-year for the next three years, and we are roughly through that three years now with an average of about 3% to 4%, and if I took a two-year total, for 2017 and 2018, then I still think that, you know, as an annual total in that is about right. So we are talking about 6% to 7% for the two years from 2016 to 2018. And the reason I put it that way is, if 2017 happens to be a hundred units stronger than we thought, then the growth will come a little bit more percentage-wise in 2017 rather than in 2018, but roughly, that gives you a pretty good view of where we think 2018, you know, sort of will be, and doesn't mean were trying to land on the head of a pin in terms of 2017 volumes, because we don't want to be moving our customers around to suit our own sort of short-term targets. So, you know, sort of still very much overall in the same place.

I think, you know, if you look at where we are now compared to 12 months ago, I think we've ended up with a slightly higher guidance for 2017 then we would have thought a year ago, and we're pretty happy with that, and 2018 is in exactly the same place as I think we thought it would be, you know, sort of 12 months ago. So, sort of overall pretty comfortable.

And on Spain, you're right. I mean, clearly there's – you know, sort of, you wouldn't want to do anything particularly sort of committed at this moment with the political uncertainty in Spain, where they seem to have taken, you know, independence referendums to a new level beyond where we took ours, and so, you know, sort of a – I wouldn't expect to see anything happen in the short term. But in terms of the overall environment in Spain, both for housebuilders and for investment in housebuilders, you're right, and you can see that in our sort of guidance on our Spanish business, you know, sort of in the statement.

Gregor Kuglitsch: And maybe one question on cash. So, I'm a little bit surprised to hear £500 million of cash, because I think it kind of implies, if anything, your land buying isn't – in cash terms is maybe not as high as I would have expected it to be, but then I think you do mention that actually you're running a little bit at the upper end. So, I want to understand, is there anything going on in terms of phasing and timing of that, in terms of cash out, or is there really nothing untoward with the £500 million? I guess the underlying question is, is it a sort of – is some of the projected cash out projected to fall into next year, so we need to think about an unwind, or is that really sort of what you think is the underlying cash generation of the business?

Ryan Mangold: No, it's more group-driven underlying cash generation of the business. You know, we had a very, very strong first half on cash generation. Clearly, we did indicate that we don't think it's sustainable at that kind of level, but overall conversion of profitability into cash in excess of 80 percentage points we think is about right, based in terms of what we see in the land market and what we are seeing from a build cost point of view, and what we're seeing from our strategy from a delivery perspective. You know, if there's a significant scheme that we're currently progressing that gets the discharge of certain of the contingent aspects that we then end up paying at this side of the year end, the cash might be a fraction lower, but generally speaking, we think it's more on the positive than the negative. You know, the cash generation remains incredibly strong in this business.

Pete Redfern: I think what you see also, Gregor, is, you know, there's a pattern over the last five years: whereas our site size has grown, we've, you know, been laying down infrastructure investment and site investment and, to a certain extent, land investment as well. You know, sort of we've now been, you know, sort of in relatively stable state for a while and then that efficiency starts to come back as – so that – so, put differently, our volume growth at the moment isn't really needing any net new investment, because that investment had already happened, so you just get a bit of efficiency back on the other metrics.

Gregor Kuglitsch: Okay, thank you.

Operator: Thank you. We can now move along to our next question. It comes from Chris Millington of – Numis, sorry, excuse me. Your line is open, please go ahead.

Chris Millington (Numis): Thanks. Morning, Pete. Morning, Ryan.

Pete Redfern: Hi, Chris. How are things at Numis?

Chris Millington: Yeah, they're okay, they're okay, but I just got moved a few weeks ago. Just a couple of quick ones from me, actually, please. Firstly, just on the order book, I just wonder if you could give us a number as to how much of that is contracted. That's the first one, and maybe you can just put that in a historic context for us.

And the second one's just really kind of pricing against your budget and kind of what you're seeing on underlying inflation generally.

Pete Redfern: Yeah. Yeah, no, I'm not sure I can give you the contracted number off the top of my head. I certainly don't think the pattern has changed. I would expect it to be a very similar proportion to last year and possibly even slightly higher, just because, you know, sort of we've been running at a more stable order book level rather than growth, so it would tend to be just slightly ahead of the game relative to last year, but I can't give you a percentage. I don't know, I don't think you can either, Ryan.

Ryan Mangold: Not a precise percentage, but Chris, if that's important, we can get back to you, but echo Pete's view that the actual level of contracted is about consistent with the previous year.

Pete Redfern: And we're not getting any pattern of finding it hard to get people to contract and over the line. You know, I think – you know, you saw a little bit of that when the market changed in central London 18 months ago, but that's well worked through now, so as I say, I don't see any reason why it wouldn't be at least at last year's level. And if you look at the order book over a whole, you know, the fact the order book is down marginally is all really central London. We had a couple of big schemes that completed in central London in December last year; we don't have those equivalent schemes, you know, this year, so, you know, sort of that's just a like-for-like difference that will now work its way out through the comparatives, you know, as we go through the next few months.

And on sort of pricing generally, I would say 1% to 2% higher than we sort of set out when we kind of – we do a re-budget exercise in, you know, kind of April time; 1% to 2% higher than that, so marginally up. You know, probably 3% compared to this time last year, although, you know, you're getting into sufficiently small numbers that, you know, you could read too much spurious accuracy into all of those, but definitely, net-net, up, you know, sort of, but at smaller growth. You know, broadly, the way we see it, you look at that, you know, sort of build cost inflation and, you know, sort of the small but underlying land cost inflation of last year's coming through, it more or less washes its face. So, you know, you think, it's why on the margin, you know, anything we grind out we're grinding out through improvement rather than, you know, we're not – we're getting neither a headwind nor direct help from the market overall at the moment.

Chris Millington: Got you, got you, thanks very much.

Operator: Thank you. We can now move along to our next question. It comes from Clyde Lewis of Peel Hunt. Your line is open, sir, please go ahead.

Clyde Lewis (Peel Hunt LLP): Thank you very much. Morning, Pete. Morning, Ryan.

Pete Redfern: Morning, Clyde.

Ryan Mangold: Hi, Clyde.

Clyde Lewis: Two, if I may. One, I suppose, sort of following back on Will's comments about sort of, you know, the sort of update you had with the Tory Party with regards to the housing market. I'm just wondering whether the discussion about actually getting local councils to get the – certainly the reserved matters speeded up in terms of that process, sort of came up in terms of the whole discussion about land. And, you know, again sort of, you know, I think the government again have published another consultation paper with regards to upping the estimate for sort of housing need, you know, and as part of that mix, whether they're again trying to speed up that end of the process. And, I suppose, linked into that, how are your thoughts about that land bank, which is, you know, obviously sort of well above historic numbers, sort of starting to evolve?

And the second one I had was on sort of, you know, I suppose, speed of build and sort of whether you've been thinking harder about, sort of, off-site construction or redoing your core models to try and speed the build up. And if so, where have you got to in terms of those thoughts?

Pete Redfern: Yeah. So, in terms of that, you know, the Number 10 meeting, there wasn't any particular discussion on reserved matters or specifics about planning. Somebody – not me – mentioned green belt. I'm, personally, fairly uncomfortable with the idea of sitting in that kind of political meeting and banging the table about either of those issues, because it seems sort of fairly disruptive and actually not particularly smart or grown up; a bit like, you know, my earlier comment about sort of saying we need to be a special case when it comes to labour and Brexit. You know, our view is the planning system has improved under the coalition and this government. It's still a cumbersome system and we could still have more sites and, therefore, build more houses if it was slicker, but at the same time, it would be naïve of us not to actually see that both macro-political level and at a regional level, that's got all sorts of challenges and, actually, working towards gradually knocking down the sort of objections and the problems, and dealing with our own side of those and making sure we're properly resourced up as well is part of it. So, it's still there. I don't – you know, we've seen a gradual improvement in the planning system. I don't expect to see a dramatic sea-change beyond that, and I don't necessarily think, you know, that it would be a smart political move for them to drive on.

And similarly, on green belt, you know, I think it would be smart, as a country, for us to have a much more grown-up conversation on green belt, but I think it would be naïve of us to stand there in this environment and say, 'Ah, that's the only problem.' It's a problem in certain counties and certain locations; you know, there are plenty of other restrictions at the moment as well.

In terms of land bank length, you know, that's something we're looking at quite closely at the moment and we will come back, as we've talked about before, and give you our sort of updated sense of it, you know, sort of if we do a capital markets type day sort of in the late spring, early summer. The – you know, our sense is we ought to be able to continue to drive some volume growth from our existing land bank. I think it's making sure we've got our attitude to large sites and our, you know, resilience on that right in a different marketplace that we really want to make sure that we've got right, because we can't just, you know, assume that the trading environment stays exactly as it can, but certainly I think there's more volume efficiency from the existing land bank rather than less.

And in terms of speed of build, we've been looking at, you know, an awful lot of different aspects of how we build at both the detailed process level on existing sites with existing construction methods and what other new methods are available. We are particularly focused on the former. We think there's a lot we can do and there's a lot we are doing which, you know, ranges from training programmes for our site managers to, you know, changing quality control processes to really trying to make sure we understand the getting the right labour on the right site at the right time in a lot more detail than we have done historically. I do think there are, you know, sort of more technological improvements we can make, but I don't think – and we've looked closely – that there is any large-scale, factory-based or similar solution. It's a case of improving the existing and being a bit more creative and a bit more flexible than we've tended to be historically rather than there being some radical solution. And that's both a shame and, you know, a relief as well, when you, you know, clearly we have resources and skills in, you know, existing construction types, but I don't think it's going to fundamentally change at, you know, sort of at the sort of large scale in the UK over the course of the next few years.

Clyde Lewis: Okay, thanks very much.

Operator: Thank you. We can now move along to our next question, it comes from Kevin Cammack of Cenkos. Your line is open, sir, please go ahead.

Kevin Cammack (Cenkos Securities): Yeah, morning to you both.

Pete Redfern: Morning, Kevin.

Ryan Mangold: Hello Kevin.

Kevin Cammack: Two from me really, both referring to land. I'm just slightly – well, perhaps you can flesh out why the Wandsworth development that you've just signed up for, why is that being done through Major Projects rather than London Division? Perhaps you can just talk through that.

And secondly, sort of bringing in Mount Pleasant as well as the Wandsworth thing, could you actually detail how much is currently – in that £500 million of net cash, how much actually has been cash spent on these two sites in the year and how much is being carried as deferred?

Pete Redfern: Yeah, so, with Major Developments and Central London, it's actually both. So, the sourcing at the early stage was entirely done by Major Developments, but some time ago now, at least nine months ago, maybe even 12, the Central London team have been very close to that Wandsworth scheme and will be the main delivery body. And the reality is that we've got a fairly seamless sort of split between the two and we actually moved our Major Developments business into the Central London office a few months ago and so they're working very closely. And obviously, you know, not all of our Major Developments schemes are in central London, so there are some schemes they do that don't involve in the Central London team, but particularly, you know, sort of in the land environment we're seeing in central London at the moment, using those two sort of core skills on the sourcing and planning of joint ventures and that Central London delivery piece, you know, hand in glove is, you know, sort of very helpful and they're working pretty well together. So, you know, if you looked at it in terms of individuals, you wouldn't really see a gap between the two, so I think it's just the way we've announced it, because of the way the deal was set up in the first place.

Kevin Cammack: And the partner –

Pete Redfern: In terms of the 500 – sorry, go on, Kevin.

Kevin Cammack: – sorry, the partner presumably is the local council, yeah?

Pete Redfern: Yes, yeah, that's absolutely right. I think, you know, sort of – and it's interesting if you look at, you know, sort of clearly our investment in central London has been lower over the course of the last 18 months and actually being able to use some of that Central London skill, project management skill particularly, on some of the Major Developments' schemes that we're looking at that aren't central London has also let us get the maximum use out of that skilled and still scarce resource, so we've maintained that sort of overall team at the same level whereas, you know, in some instances in competitors we've seen people downsize. We haven't, we've been able to switch that into a sort of a different part of the business where we see investment as being, you know, sort of the right thing at this point in time.

In terms of the amount of investment that's sort of from those two on the balance sheet either now or at the end of the year, I don't have the number, but it's not huge.

Ryan Mangold: Yeah, Mount Pleasant, Kevin, has the biggest quantum of money already spent on it in terms of what we did on completion with the Royal Mail. Not much has gone into work in progress just yet, because we're still getting – you know, finalising the detailed working drawings and are out to tender from a cost point of view.

On Wandsworth, because it is a structured joint venture basis, we essentially will only be funding the work in progress ostensibly, and that work in progress is slightly slower in delivery. I think the scheme's just going in for planning on the first phase, you know, as we speak at the moment, and there's quite a relatively large amount of decamp that needs to happen [inaudible] new buildings that get constructed off the back of that planning permission, so it's a bit more of a phased delivery in terms of capital commitment and will probably be at its peak by the time we get to 2021 on both of those schemes actually.

Kevin Cammack: So, would I – I don't know, would I be right in thinking it's sort of, you know, round figures, £100 million that's in?

Ryan Mangold: No, not nearly as much as that, no, no, no, no.

Kevin Cammack: Not as much as that.

Ryan Mangold: No, less than 30 in total.

Pete Redfern: Yeah, and, you know, but to put it into perspective, Kevin, I think, apart from the peak on Mount Pleasant, you know, which will be relatively short-term, I don't think there will ever be anything like – ever be £100 million invested in the two of those schemes combined. Yeah, there probably will be in the very short-term on Mount Pleasant, and that's the point: it's not – you know we're uncomfortable about the idea of just thinking, 'It's okay because it's all in land creditors.' You know, we still retain that view, so, you know, on Wandsworth the deal structure does not end up in land creditors and it – our investment is quite carefully managed as part of the overall joint venture structure. I think on Wandsworth it is a more traditional deal structure, but it's very conscious, with a long-term plan and the nature of the phasing and how that works, and how we can split that Mount Pleasant site up if we wanted to, that we retain a lot of flexibility. So, I don't think on either of those schemes or the combination of them you will see a material change in balance sheet metrics, with the one exception: Mount Pleasant will be in land creditors at, you know, at a point as we go through each phase.

Ryan Mangold: As we go through each phase. It's some enabling works that the Royal Mail needs to complete subject to the second part of the development and at that point it will be recognised as a land creditor, not the entire sum up front.

Pete Redfern: But it comes back to two things from a central London point of view, as we've, you know, operated in central London over the last sort of six or seven years in a different way to how we've done previously. It's always been clear that having large sites would be good for the business tactically and strategically, but you've got to time those right. You've got to get the right sites and you've got to structure those right and that's why those two sites are particularly appealing for us, because we think they do a bit of all of those in terms of the price is right because of where the land environment is at the moment, but the deal structures also work well for us.

Kevin Cammack: Okay, thanks very much.

Operator: Thank you. We can now move along to our next question. It comes from Aynsley Lammin of Canaccord. Your line is open, please go ahead.

Aynsley Lammin (CanaccordGenuity): Thanks, morning. Just two from me, please. I wonder if you could comment on some of your peers have mentioned there's some kind of building material shortages in some products and regions, I wonder if you're seeing anything there, whether that's kind of you'd expect that to impact build programmes in 2018 anymore?

And then, secondly, just on Help to Buy, I think it was running at 45% of sales in the first half, I just wondered whether that's been a consistent rate you've seen also in the second half and particularly the kind of last eight weeks? Thanks.

Pete Redfern: Yeah, on Help to Buy, nothing fundamentally different either in the second half or the last eight weeks; you know, broadly still the same level.

On material shortages, again no change in the overall pattern. You know, sort of they pop up in a particular product in a particular region, but nothing that, you know, we don't think we can manage or that we would expect to be sort of impacting on 2017 or 2018 in terms of volumes; it's just part of the sort of management of the business. Again, I'd go back to, you know, sort of where our focus is, it's on, you know, getting our own systems and processes as right as they can be, right both for site starts and then for how we source and resource as we go through each site, where, you know, I think we're getting a lot better, but I still think, you know, sort of the industry, you know, could be a lot more structured than it is.

Aynsley Lammin: Great, thank you very much.

Operator: Thank you. We have no further questions at this time, so I will hand back to Mr Pete Redfern, CEO, for concluding comments. Thank you.

Pete Redfern: Thank you, everybody, and thank you, Daniel, for chairing the questions. As I say, I think, you know, we're not naïve as we look forward into 2018. It's clearly, you know, sort of a more uncertain world than we've seen over the last few years, but our sort of market at the moment seems to be holding up well, we're very pleased with how our sites are trading and operating and, you know, sort of have a high degree of confidence in 2017 results and our ability to perform well as we go into 2018. Thanks very much.

Operator: That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

[END OF TRANSCRIPT]