Half Year Results 2019

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Overview and current trading

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Thanks, guys. Welcome. Morning. Thank you for joining us. I get that there is quite a lot of competition for your attention this morning, so I half-expected an empty room or everybody sat just at the back. So at least we have a few analysts here, but I am sure we will have everybody else watching it on the webcast. I have got a relatively straightforward brief first half of my presentation, then handing over to Chris and then going back and talking about some of the more strategic pieces, which will include, sort of, how those strategic pieces have impacted positively and negatively on the first half, so I think that is where, I see the most interesting pieces; but there are some highlights in the first half that I think are worth focusing on, as well.

So, first of all, an overview and current trading and just talking briefly about how we are seeing the first half environment. I think if I contrast how trading has been, and I am not talking about our sales rates here, I am talking about underlying customer demand, pricing across the market, so in the first half of 2019 against expectations in the last quarter of last year. If I look back, I would have absolutely banked where we are. It has been actually a pretty positive set of trading conditions against what we might have expected. Underlying interest has remained very strong and as you can see on the sales rate, we've been able to execute our strategy and we will talk about why, which elements of that have been tougher than we thought, which elements of that has been, you know, sort of, more successful, more quickly than we thought.

In that broadly, sort of, stable and positive environment, pricing, I would say, has remained broadly flat overall. I think we are going to have to, through the course of the slides, and Chris and I think we are both touch on it, sort of, be quite careful with the precise terminology on pricing, because people tend to look at year-on-year pricing and how much it has moved since we were last stood up in front of you and get, you know, sort of, different phrasing confused. I think my broad overall message is prices are about 1% up overall from a year ago, but most of that inflation we saw in the second half of last year rather than the first half of this. So, when we talk about flat pricing, we are talking about compared to when we set our expectations for this year, but that does not actually contradict the fact that we have seen some, you know, sort of, price increases which you will see on Chris's margin reconciliation slide. I would also say that that pricing has been slightly differentiated between the south east, and, particularly, London and higher price points and the rest of the country, but the difference is not huge. If you took from that, you know, sort of, London and the south east, maybe, down 1%, everywhere else up 1% up in the last six months, that is probably an reasonable overall guide. So, you know, if we contradict ourselves at all on pricing, that is the overall backdrop, but, you know, we are talking about relatively small movements. So, you know, half a percent either way is quite hard to measure.

We have continued to see a meaningful divergence between new build and second hand. There is a limited impact but, again, it comes with those higher price points in the south east. You do see them slower because of that second-hand market, you know, we have those questions from the press, as well and particularly around, you know, our new Prime Minister, obviously,

the thing they latch onto is stamp duty. I think the direct impact of positive stamp duty changes for us is relatively small, but I think the impact on that south east market and, particularly, the upper end of it is more significant, so the indirect impact might be more significant than we think.

The last thing I will say, and I will come back to this when I go through the stats, we have seen signs of, I think, more confidence and more strength in the market in the last month or so. It is pretty early days, so I would not want to make a big thing of that but if, you know, as I will touch on, you look at our sales rates in the last, sort of, month, they have been even further ahead year-on-year than in the period before that and that is because the market is there and has been stronger than we might have expected; and I do not think, you will see yet through more external data, but we can see it consistently enough to at least mention it. Whether that continues through the second half, we will see, but certainly as a short term, you know, sort of, view of how trading is more positive than it has been, rather than less.

For customers, you know, big driver of that is a benign lending environment. Monthly payments for mortgages remain very affordable. I think, you know, sort of, the extended uncertainty over Brexit, clearly, you know, has an impact on our share price, but actually, for our customers, it actually ended up being a small net positive because it has kept mortgage rates low and we have not seen any meaningful decline in, you know, sort of, the availability and structure of mortgages. So that continues to be a very benign, sort of, backdrop, you know. No surprise Help to Buy continues to be a big differentiator. I am not going to spend a lot of time on what I think will happen to Help to Buy. I am quite happy to have the question if you want to talk about it, but I do not think we have got any new news or anything new to talk about, so it is very speculative. I think no big change for customers, but our overall sense of stability remains.

From a regulatory point of view, government attention has very much been on Brexit and leadership and you can take that as we have not seen a lot of change on other things, you know, even things like the new Home Ombudsman has not moved forward as much as we would have expected and I put that entirely down to the focus of individual politicians on that leadership election. I think it will come back, you know, as we have talked about before, it is not something that worries us, but it has not progressed as much as it might have done.

We are seeing, you know, sort of, as you can see, more discussion around reputation, around quality, but not more than we were six months ago, you know, and I think we see that as a positive dialogue and one that, you know, sort of, plays to our strengths. So, you know, sort of overall that has continued but very much in the background.

I would just mention that, you know, the build regulation environment post-Grenfell that remains under, sort of, scrutiny and change, you know, not the big driver of our investment in quality and I will distinguish through the course of presentation between customer service and quality. They are linked, but we see them as slightly different things and when I am talking about quality, I am talking about build quality. Perhaps things the customer does not see, but if you get them wrong, it becomes an issue for customers and for us, three years or 10 years in the future, as opposed to finishing quality which is what impacts on, you know, an eight week survey but, actually, is not necessarily, sort of, that particularly challenging to solve; but, I think, we will see a change in the build regulatory environment over the next, sort of, three to five years. So, we are aware of that but, again, feel that it plays to our strengths and land and planning environment is broadly unchanged.

Moving onto the finance highlights. I, you know, not going to pitch this half year as the strongest half year we have ever had, clearly, on a, sort of, like for like basis. That margin pressure on cost has had an impact for us. I do not think there is anything else in there that we see as being particularly negative. On a cash conversion, we see it is just timing and a combination of land that you can see the investments in work in progress that Chris will talk you through. We feel very comfortable on that. I know many of you would want a degree of reassurance for the second half. To a certain extent, we point you to that as the clearest evidence of our confidence. You know, we did not feel uncomfortable at this point last year with the second half and, you know, we showed it to you that we could step up. We are actually in a materially stronger position in terms of build which tends to be the biggest constraint, particularly given the sales rates and order book that we have. We're in a stronger position this year, so we feel pretty comfortable with that, but that, obviously, comes at a cash cost. You know, the impact on return on net assets purely comes from the operating margin and capital efficiency has gotten slightly better.

Picking out our key operating KPIs and many of these we will come back to, particularly, the customer satisfaction one, and so I will just pick out one or two that we do not particularly come back to. We are pleased the employee turnover, having remained low, has actually fallen and what has continued to be a very competitive environment for employees, and we will spend some time on, you know, sort of, our internal engagement surveys. I think, also, just looking at the Construction Quality Review, seeing that gradually tick up, and under the surface and I will come back to it, seeing, some of the key areas we focused on and particularly making sure that our weaker sites perform well which, you know, across all customer service and build quality measures, that is the biggest issue. It is not where your average is, it is where the weakest is that has the biggest impact. We have seen things continue to slowly improve.

Moving back to the market, you know, and I will mostly focus on the post-half year trading period. You can see sales rate well ahead. Outlets, you know, sort of, have continued to be, sort of, under some pressure but more than offset by those higher sales rates. You know, you offset it to actual absolute sales in the first half of that 10% up year-on-year which more than underpins the growth expectations we would have for this year and for the next year. I will come back to why they're up in my second half, and talk a little bit about price, a bit about some of the other things that we have done to make that possible and to do, you know, what we think is the right way; but as I say, probably the main new news on this slide is the, sort of, July period, you see a sales rate of 0.9. I've put a comparative in the bullet point underneath it at 0.68. That is where I was saying it, sort of, continued to be ahead of last year and, actually by a higher proportion than, you know, sort of, in the first half. You would expect July generally to be, sort of, one of the weakest months that we have.

Over the course of the last, sort of, 10 years that seasonality has shifted a bit. So, July has never been a strong month, but it is not as weak as it used to be, but still that's a very, very strong July performance and it is worth reminding you that that 2018 comparative we are trading against was not a weak comparative. It was a pretty strong comparative and it was already ahead of both our historic, sort of, performance and, you know, sort of, as I go back five, six years, but also against the sector generally.

We will come back to outlets. We are definitely finding the quality of larger outlets and the consistency of keeping them open helps us, but we do not have as big a bulk of short term

outlets that are trading in and out of. That gives us, over time, efficiencies and the ability to get quality right, but it does mean the outlets are lower. And you have seen and, you know, I would generally hesitate to mention a competitor and I would not do it in a negative context, but you have seen one of our competitors really look at their outlet numbers and, you know, sort of, test it and I think what they go through there is to a certain extent, it is something that we have been going through over the last five years of that actually when is a good outlet, when should it really be open, both from a quality and a customer point of view, but also from a sales rate point of view, making sure that the outlets you have, have got show homes that are open at the right time with the right information, obviously, helps customers. It also helps us in the end and so, you know, as we have talked about several times, I will steer you away from hanging too much on that pure outlet number. The underlying quality, not just in terms of locations, but how open they actually are and whether you really got the build resources behind them to do the completions from them is more important for driving spreadsheet numbers than a slightly exaggerated number that we have seen in the past.

Lead indicators on the UK market, a slide you have seen before, certainly nothing there that you should be concerned about. You know, you see a decent step up on appointments booked in the course of the last few weeks. You know, I would say that is a characteristic of the market that we have seen, but I will always steer you away from looking at any one of those measures, positively or negatively too closely. It can be driven by our own marketing effort as well, but I will say overall what it does is underpin, you know, what we think is a very stable, very solid market with no, you know, sort of, meaningful change either post, you know, sort of, the conservative leadership election or anything else. The market remains in a solid and stable place and I think this slide just helps reinforce that.

Just talking about politics and its impact on the land market. It remains a competitive market, but still, you know, sort of, as we have seen over the last few years, a, sort of, a fairly benign market for us to operate in compared to our historic expectation. I would say, and we will come back to it, sort of, later on, you know, we do see significantly more competition in small and mid-range sites and it comes back to, you know, sort of, large sites versus small sites and the trade-off. We would like to have a better mix than we have got, but at the same time, we get better returns and better trading from the larger sites and so we have continued to drive that way.

We are finding land decisions in the London market pretty challenging at the moment and I am particularly talking about Central London. Land prices have come down in line with the market, but we are seeing both, you know, uncertain trading and political challenges from mayoral policies and so the trade off for those two is pretty challenging. We have not changed our view on London and wanting to be in that market but, you know, you are well aware that we made a couple of larger purchases, sort of, now, actually, two years ago. Both of those are selling and trading well and we are very comfortable with those, but we have not been able to find significant new sites to invest in that we really think work. It is pretty uncertain environment and, you know, we'd much rather be in a place where we decide we do not want to invest in the short term, but we are maintaining our presence there and we are still looking. Over time that will change but it does not feel like it is going to change in the very short term.

It is the area, of course, though where, you know, sort of, changes to stamp duty do we have a potentially meaningful effect and that might, actually, it is the one area where, you know,

sort of, early signs from a leadership election might have a material impact as on the underlying strength and the, sort of, upper end of the London market.

On the strategic land, not a big change. You know, sort of, I think, if I look back over the last three or four years, you know, sort of, every six months we're saying, promoters are a bit more active or a bit less active, so it is a fairly dynamic, sort of, environment, but not fundamentally changing. You know, I think, you know, a bit easier now than six months ago, but then it was a bit harder than six months before. It does come back to it is a long term game, as you will see from the land slide that I put up shortly, actually, we've continued to be an adder to our strategic land bank. We continue to feel that it adds value to us. A lot of that is about control and getting those large sites, sort of, in a way that we want and set up to operate the way we want from the beginning, but we do think it has significant value.

This last point, I think is right for us to make, but I would not want you to draw a significant conclusion about, you know, sort of, volume forecast and that is an outlet numbers for, you know, sort of, the second half of this year and next year. You know, we do think local elections inevitably have a short term impact on, sort of, the very short term and, sort of, final stages of planning permissions. That is true this time, too. I would say now if you, sort of, a few weeks and months on probably, the impact has been a bit less than we might have expected but overall, we always have a slight degree of caution about short term planning environment when we get elections.

Just touching fairly briefly on overall landbank. Not major changes but as I say, continue to be a net adder to the strategic land bank, continuing to see it as a significant source of value. Short term land bank up a fraction. You can see that in the cash numbers but not a big change and no big steer on a change in land policy but that just continues the discussion around large sites versus small sites and a mix.

You have seen this slide before. The, sort of, darker purple box is the, sort of, first six months of trading. Obviously, it is a smaller box because it is only six months compared to 12 months for the others but what you see most clearly is a bunching. The years before the referendum, you know, sort of, still very strong returns at the point of acquisition and margins and then stepping up post-referendum when we pushed up hurdle rates and very much, you know, sort of, feels like it is the new normal. I do not think any of us can call with any certainty where we will be in five years from now, but it certainly does not feel like we expect any imminent change on the level of margin return on our land acquisitions.

So, overall, sort of, summary. Market is stable. Probably better than we would have expected, given the wider uncertainty. Mortgage market is a big driver of that. Underlying forward indicators continue to be strong and a soft flag that actually, you know, sort of, the trading performance in the very near term has been better than we expected and better than the first six months and I think, I touched on when we last spoke, you know, just a sense that as we go through this year, there is some possibility of more meaningful price movement and I mean, you know, the difference between flat and, you know, 1½ to 2 percent, not going to 5 to 6 percent, but I think, as we go into the second half, I would still say that is possible. It is not in our guidance, so it is not necessarily something we flagged strongly but it is certainly something that is perfectly feasible.

Land market opportunities still good but we have to watch the political situation. The question that I have touched on and which will come back to and having to talk about in questions, you know, what we are very focused on is having a very strong trust in strategy for large sites. We think over the next 10 years, there is a huge competitive advantage in taking a different approach than to history and to our peers and not passing them up, not selling them off but having a real structure to how you run them effectively get the sales rates that make them work. Put in the infrastructure in the right way, run them professionally. We would like to supplement that with more small sites but actually at the moment with the uncertainty over, Help to Buy and, you know, sort of, the political uncertainty, investing at lower margin and more small sites does not feel right so at the moment, many of our acquisitions are weighted towards larger sites.

I do not mean, you know, sort of, that our average, you know, sort of, site size is going up to a, sort of, 500 to 1,000 range, our average site size is, probably about 300 of our acquisitions but the balance is higher than I would have expected and strategic land remains a very strong, sort of, level of performance. Chris.

Financial review, costs and efficiency

Chris Carney

Group Finance Director, Taylor Wimpey plc

Thanks, Pete. Good morning, everyone. So, starting as usual with the summary group results. Overall housing revenues increased by 2.6% in the period as a result of growth in both volumes and prices, but a reduction in land and commercial sales meant that the overall increase in revenue was 0.8%. Gross and operating margins both reduced by 2 percentage points due mainly to build cost inflation and an increase in completions from Central London causing the gross and operating profit – pardon me – to decrease by 8% and 9% respectively, and more on that in a minute.

Net finance charges were slightly reduced to £12 million, delivering PBT of just under £300 million for the half. There were no exceptional items in the period which means that the basic EPS and the adjusted basic EPS were both 7.4 pence.

In the 12 months to June, we paid dividends totalling £544 million or 16.6 pence per share and in addition to that, our tangible net asset value per share over that same period has increased by a further 3.9 pence.

Return on net operating assets has dipped slightly below 30%, reflecting the increased investment in both land and WIP.

In the UK, volumes increased by 1% with all of that increase coming from affordable homes which represented nearly a quarter of all completions in half one. That increase weighting towards affordable homes which are, obviously, at lower prices, selling prices that the private homes means that the average blended selling price increased by just 1.6% compared to first half of last year. Like last year, I would expect completions in the second half to be more weighted towards private homes.

There was a pickup in the volume of JV completions from our Chobham Manor site at the Olympic Park and our site at Borden in Hampshire. The small loss relates mainly to our Winstanley and York Road JV at Clapham, which is due to deliver its first completions towards the end of 2020.

Looking in more detail at the movement in the operating margin, you can see that the income statement continued to benefit from some inflation on selling prices compared to the first half of 2018 as inflation worked its way through the order book. Build cost inflation at around 4% reduced operating margin by 2.3% as build cost on average represent 59% of revenue. Whilst inflation was the biggest contributor to the increase in build cost, it was not the only one and I will come back to that on the next slide.

In the first half of last year, about 1/3 of our private completions came from sites acquired before the end of 2012. That reduced to a quarter in the first half of this year as the proportion of completions from newer sites increased and that dynamic is, you know, what we described as landbank evolution. Older sites with the benefit of cumulative inflation but lower input margins, being replaced by newer sites with higher input margins but less historic inflation benefit and at minus 0.5% it shows that dynamic was reasonably, finally balanced in half one, demonstrating that the improvement in acquisition margins largely offset the loss of historic cumulative inflation benefits as the landbank evolved.

So, the average net land cost per plot was unchanged at £41,000 as a greater proportion of affordable homes with a lower land cost offset the impact of the increase in completions from London and south east which, as you would expect, attract a higher land cost. Build cost per plot increased by 6% with market inflation as I just said, accounting for 4% of that and an increase in completions from London and south east, Central London in particular, accounting for most of the remaining balance.

Just looking forward to the second half of the year for the UK business as a whole, there are some similarities to the second half of last year. Last year, there was a 260-basis point difference between the UK operating margins in half one and half two. That difference is mainly due to the volume weighs in 43% half one, 57% half two and the greater affordable mix in the first half at 24% compared to 22% in the second half. This year, we have a similar dynamic. At the AGM, we said we expected the volumes to be weighted towards the second half, a touch more than in 2018 and also affordable homes for half one this half year represent 25% of total UK volume. So, 1 percentage point more than the first half of last year.

In February, I said that, you know, the affordable mix expectations for the full year were round about 21% mark. That is probably more like 22% now but that is still less than last year's mark of 23%. So, all of that boils down to expectations for the full year, operating profit and PBT continuing to be in line with consensus expectations but probably with a little bit more volume than consensus which is currently showing 1% up on last year and, therefore, a slightly lower margin than consensus.

A lot of our cost and efficiency programme is enabled by technology and that sort of change can be tricky to deliver so I am really pleased with the amount of progress that we have made with that in the last 14 months. We have designed, tested and fully deployed changes to our core ERP systems to deliver WIP forecasting which was previously a manual process. We have reconfigured elements of our ERP system to facilitate EDI, and we've also made progress with

the development of some bespoke apps designed to allow our Site Managers to spend more time where it matters most on build quality and customer service. And that type of software development and systems integration is complicated, and it's not been plain sailing, but we are getting there. This time last year, I said that, you know, whilst there wasn't a burning platform and there wasn't much in the way of easy wins, but there were clear opportunities for us to improve. You know, the inflation dynamic as you've just seen, has got tougher since then. And so what was a disciplined margin enhancement program, has taken on a greater degree of importance across the business. And as we're making progress in line with our expectations overall, you know, the timing of the benefits haven't changed, we still expect them to start from 2020 and increase gradually through to 2023.

I thought it might be interesting to show you some examples of the positive impact that the improved technology has on some specific job roles. I won't run through all of them, just pick the first one, because that's been recently delivered. When our ERP system was originally rolled out in 2013, the Bill of Quantities wasn't fully integrated. So it didn't automatically get updated with variation orders. And as a consequence, that involved quite a lot of re-entry and reconciliation work for our QSs. And we've now fixed that, and the feedback is that processes that used to take hours, now take minutes.

One workstream that isn't technology enabled, I'm really quite excited about, I probably need to get out more, is the groundworks procurement training for our commercial teams, which is being launched next week. And this is going to bring more consistency and professionalism to how we estimate, we tender and we manage our groundworks contracts. And the groundworker is pretty much always the first trade that, you know, you need on site, which puts them firmly on the critical path. And as a consequence, there's more pressure on the QS to let the groundworks contract. And that dynamic can result in, you know, unintended outcomes that this training will help us avoid.

So turning to the balance sheet, our gross investment in land has increased by 2% since December with £340 million worth of land spend in the first half. £68 million more than the same period last year. That investment means that 88% of our completions for 2020 are already owned with planning, which is a strong position at this stage. Land net of land creditors increased by 4% in the same period as land creditors reduced. Pardon me. With land creditors now representing 26% of gross land balance, a reduction of 1% since the year end.

Our WIP balance at the half year has increased by £67 million compared to a year ago, consistent with an increase in build cost, and build for this year's completions as Pete mentioned earlier, is well progressed as we head into the holiday season. The other creditor balance is in line with year-end, but reduced from what was a high 12 months ago, that reduction is spread across a number of areas including customer deposits, repayable grants and trade creditors, which were high in June last year as sites drove to catch up from the bad weather, and where we now have more consistency in our payment practises. The pension deficit is reported at the present value of the future obligations to the scheme, and the movement is mainly spent against those provisions. The - oh sorry, against the - well, into the scheme in the period, the provisions obviously relate to the leasehold or mainly relate to the leasehold in ACM cladding provision and the movement is mainly spent against those.

So in line with our expectations, we ended the half with £392 million of net cash reflecting the timing of the increased land and WIP, together with the enhanced dividend and payments

against the leasehold provision. And notwithstanding that increased investment in the business, we still remained within our target range on operating cash conversion at 71%. And our adjusted gearing including land creditors ended at 10.8%, you know, retaining plenty of flexibility for the future. There's no net change in cash guidance for the year end, which remains around the £500 million mark, subject of course to the timing of land spend in the second half.

Today consistent with our ordinary dividend policy, we're declaring an interim dividend for this year to be paid in November of £125.8 million or 3.84 pence per share. And this together with £350 million special dividend paid in July, as the 2018 final dividend paid in May means we will return £600 million to shareholders in 2019.

We have also today announced a 2020 special dividend of £360 million, or 11.0 pence per share to be paid in July 2020, subject of course to shareholder approval at next year's AGM. And that, together with the ordinary dividend, generates a total dividend expectation of around £610 million for 2020.

And as you would expect this on my presentation from February, you know, we continue to have a high degree of confidence that the ordinary dividend will continue to be paid throughout the cycle, even in the event of a reasonably severe downturn involving a 20% drop in price and a 30% drop in volume.

So looking at the results, there are some things that I'm really pleased with. Some - and others that I'm sort of less pleased with, but overall they represent good, solid, early progress towards delivering that strategy that we set out in May last year. The margin dynamic is a challenge and there's lots of moving parts within that, but we'll, you know, continue to work hard both on business as usual, cost control, but also in securing those productivity and efficiency savings identified as part of the cost and efficiency program. What we're not going to do is compromise on quality, because we know that delivering quality consistently for our customers is what will create long term value for us.

But as I said, there's plenty to be pleased about in these results. A record sales rate. A 9% increase in order book value. A high-quality landbank and a very strong balance sheet, all of which gives us the confidence that we're on the right track to achieve those stretching financial goals that we've set for ourselves. Pete.

Strategy progress and outlook

Peter Redfern

Chief Executive, Taylor Wimpey plc

Thanks, Chris. I'm not going to spend a long time on the first slide which you've seen before, but it's always nice to repeat one strategy slide, because it just reinforces that we haven't changed our strategy. I will pick out a couple of words from the very final bullet point though. Highly professional, robust business model. What we're trying to do is create something for the long term that gives us a platform to deliver better for customers, but also a platform to deliver more strongly.

One of the biggest frustrations over the last six or seven years is that we haven't as a sector, been able to step up professionally our build capacity to meet what the market potential was. Land environment has been good. Customer demand has been good, and I stood here, several times through that sort of five or six years and said, it's not selling fast enough that's our constraint, you know, we can build the order book, what we can't do is match that with build.

What we're trying to do is lay the groundwork so that we can actually match with build where the market is there. And we need to be able to be flexible. If the market hasn't been there in the first half, if we haven't achieved the sales rates that we had, or we'd have to sacrifice significantly on price, then we'd have to use that capacity in a different way. So it does need to be flexible. But what we're trying to do, is to build something that gives us the potential to move with the market, when the market improves as well as when the market gets more challenging.

So moving onto an overview of some key areas. Customer service and quality, and I'll come back to the stats on a later slide. The - you know, sort of from a functional point of view in the business, the customers facing side of our teams is very - is fully in place, and we don't expect to change it. Where our focus has been is on, you know, what I term build quality improvements, which I would distinguish from finishing improvements. We're seeing some significant improvements in that, but we're into that process rather than having finished it.

We are still seeing - and it's there in the stats, effects on customers from build delays. You know, last year was challenging from a build point of view because of weather in the first quarter. We're very confident in the quality of homes that we've handed over throughout that year, including December, but there's no doubt that the timing of that handover had an impact on, sort of, customer service performance. Not so much build quality, but sort of timing.

Our broader customer service, customer-centric projects are in place and under way, so, you know, sort of and this fairly near-term functional things, like online options configurator and, you know, sort of a scheme which lets customers stay in touch with us online and through apps, rather that everything happening by phone. Our business is tending to seem pretty archaic to our customers, I think, as you look at the last, sort of, four or five years. We're also quite focused on development of some community-building schemes. That's really about how we help our customers form communities as soon as they move in, or actually sometimes even in advance of that, whether that be electronic, sort of, communication, or whether that be face to face resources. And so it's not a huge investment, but it's the thing that our customers said to us over and above build quality, service, communication and trust that they felt we could make a big difference to them on, was helping them to quickly build a community as they moved into their new home.

The rollout of our new house types begins in half two, they're fully designed and specified. You'll remember through the last 18 months we were consolidating our house-type range, but we told you at the beginning of the year that we were also working on the next phase of that. So, having consolidated and simplified the range, we've now updated those core house types. It gave us a much smaller platform to work on to really move forward. And we think what we're delivering is a much better, you know, sort of, home with some modern choices for customers, rather than just a tweak to existing house types. And we're still looking at, and we'll come back to probably at the pre-lims next year, at different routes to market via pilots. So, we've got a

number of, sort of, investor-based, you know, sort of, and, you know, sort of, build to rent type schemes that we're looking at.

We've touched on, and I won't dwell on here, but that change strategy on large sites is going well. You can see it in the sales rates. But what we can also see on the ground is just on those larger sites, which actually is probably about 60% of our portfolio, just a very different approach and feel around build. More forward planning, more infrastructure in place so that actually we can respond, more resources in site management. You know, and actually, it remains a challenge. Not so much a cost challenge, but just making sure that we can source the right quality of site management consistently as we try to grow the level of sight management on individual sites, and as I will slightly come back to, you know, we can see a real momentum in our investment in people and skills, both in terms of our engagement surveys and staff retention, but also actually how those teams, you know, sort of are performing across the business and the consistency across the business.

Just, sort of, focusing in detail from a moment on the drivers of those higher sales rates. Quality of locations and products. We've said for years that our focus has been on higher-quality sites as well as larger sites. And you can see that. We think our products and also the breadth of our product mix at site level is very good. And actually, as we went through the second half of last year, our businesses were very much focused on making sure that they had availability across the board, you know, sort of, to step up to a higher sales rate, so if we can attack a much broader part of the market in each location that has a huge help. The reputation, the strength of the sales teams and processes.

I would also touch on our quality of specification. And we've been gradually working on that specification over the last four or five years across the sector, and, you know, we were no different, as went through the downturn we effectively de-specced. In some areas, that was the right thing to do at the time, and in some areas with hindsight, we bear the cost for that and our customers bear the cost for that later. We won't be going through that process in the same way again. We feel our specification at the moment is in the right place and we see some of our competitors going in the opposite direction. And actually, if you talk to our salespeople, it's actually the area that makes the most difference. And I'm not talking about granite worktops on, you know, sort of an entry-level home. I'm talking about things that are at first sense imperceptible, but give a huge impact to customers reactions as they actually walk around the home, the weight of doors, the quality of fixtures and fittings, the way that the home is designed, whether you actually, sort of, box in the consumer unit and how you design the home around that. So actually, some areas of specification that individually are quite small, but collectively make quite a big difference to the quality of the home. That all makes a difference.

I'll come back to price. But why did I split off the bottom two? Because actually the first - the top, sort of, group of bullet points, mostly we were doing, sort of, through the last couple of years. What has changed is we've stepped up the sales and production release strategy and our investment in WIP and the site management resource to be able to match those sales rates. That doesn't come through instantly. But it's why our guidance is towards more volume and completions this, sort of, year, whereas in the past we've had the higher sales rates, but then actually we've not been able to step up production without compromising on quality to match it. This time we've done the two together, and that's probably the single biggest change. Come

back to price, which I've consciously put a question mark against. Are we consciously trading volume for price? The answer is no.

Actually, the drive for slightly higher volumes this year is coming from our businesses as they implement the strategy and see that they can get the sales rates and they've put in the investment to get the build. You know that our pricing structure is a live one on every plot. So of course, there's always a very active dynamic, but we are absolutely not driving them to achieve those sales rates, all the volume on completions at the expense of price. It's very hard to be absolutely sure there's not some trade-off, of course, there is a small amount of trade-off. But at most, if we look at the data and sort of analyse it, it's fine, at most it's half a percent, and our view is it's probably not that much. It might be a quarter of a percent on price to actually achieve those higher sales rates. And it's impossible to totally screen it out. You know, at the end of the day, we've got people taking local decisions. We guide them on the overall direction, you know, and actually even on that, sort of, quarter of a percent, it's probably weighted towards the south east where the market is a bit softer rather than anywhere else. So not - not a big driver. You know, what we are - if we felt we had to sacrifice significantly on price, then we would question whether we've got the right balance. Where the pressure on margin comes from, is a combination of genuine underlying cost pressure and our investment in the future capacity of the business and trying to do this in the right way. That's - that's the cost - that's the margin pressure, not, not on price.

Sort of, on customer in terms of looking at the stats, it's obviously very disappointing for us having, you know, sort of, saying all we're saying about customer service to see a dip in the short term, sort of, eight-week survey. You can see from a quarterly perspective that dip effectively came in quarter four 2018, and that goes back to my comments about timing. We're very confident in the quality of homes. And in fact, if we get under the skin of those surveys, you can see the issues are about - you know, and it actually wasn't even December completions, it was heavily weighted towards October and November and the impact of the weather conditions and its impact on build in the, sort of, first and second quarter. It's not where we would want to be. The sort of, 2% movement isn't particularly significant in its own right. But obviously, the fact that that 2% movement is in the margin between five star and four star is uncomfortable for us, but you can see from the performance as we come into this year that - that it stepped up again, and we are pretty confident that that's a blip. But we are, you know, sort of always going to, sort of, have a challenge I think, managing that timing peace until we get real consistency on build delivery and you get back to the controllability and deliverability that we're trying to achieve. We can hand the customer - a home over to the customer in very good condition and have no issues. But if we hand it over two months late, then, you know, we're never going to get a good return.

A couple of slides - and I won't talk about them - talk about every detailed point on them about the investment in build quality. And I'm just going to pull out some stats. So, we've continued to follow through our investment in apprentices. That really has momentum within the business. If you remember last year, we were doing a series of pilots. We moved in the tail end of last year from pilots to full implementation. We have the structure in more than half of our businesses now to manage apprentices, and we're seeing the apprentice numbers, you know, sort of, continue to increase. We're at about 400 as opposed to about 300 this time last year. And we will continue to see that increase. It's not - I don't expect us to get to 2000. If you do

the maths, you actually need, sort of, about 800 to source the level of, sort of, internal direct labour that we would like to get to over a long term, and that's a long term measure. But at the moment, we're bearing some of the cost of those apprentices, you know, as we grow that, I think as we go into 2020, that will start - sort of, tend to net off as more apprentices come through into the direct labour pool.

We're also implementing a Quality Manager role across each of our business units. You know, I touched on the changes in build regs that we expect to see over the next three to four years. We can't manage our business and not have consistency across - across the board. And whether you'd be looking at something which is incredibly important from a safety perspective, like fire stopping or whether you look at issues which might cause us costs further down the line, like the quality of foundations. We need consistency, and actually the industry has tended to work historically from such a locally managed perspective that it's been very hard to guarantee that. This helps get that consistency.

I won't touch on specification again because I've, sort of, covered it, but picking out just one other example, the second bullet point down on the fire barrier supplier. It's the kind of thing that we're doing, it's a good example. So, twelve months ago, we implemented a colour-coded installation system for fire barriers on our normal housing. What that means is our Site Managers can see from a distance the colour of the fire stopping to make sure that it's right. They can - they don't have to go and inspect every fine element. It's a quick check that is easy for somebody to do without lots of technical knowledge. It makes it an enormous amount easier for our Site Managers to be confident that it's been properly installed and therefore, we are not dependent on a large body of subcontractors. We've now moved with the supplier to a kind of self-certification for supply - for installers. So, everybody who installs that fire stopping has to have gone through a clear training program, which we can assess.

I think we will end up on those key issues of having to be able to trace back to that fire stopping was installed by that person, who works for that business and that was the system that they used, which you see across lots of other industries and I think that will become much more of a feature for us. This gives us the groundwork to be able to do that. Last thing on that, you can see the CQR that we set out sort of at the beginning of the year, the Construction Quality Reviews has continued to improve. I think, as I touched on before, the key thing for us that the worst performing businesses are the ones where the improvement has come. That's what we care about most is being able to reliably know that the worst performing sites are still very good. I'm not going to go through all of these, these stats, I think the level of staff turnover, which has shrunk and these give a sense of the mood within the business. It's quite a lot of change against an environment that's quite uncertain for people. And so we are very pleased and very proud of this performance in that context. And I think if it gives you confidence that the people in the business believe in the changes that we've made, that's what we're, we're trying to do by putting those numbers up there.

So just moving on to outlook, I think from a market point of view our base case continues to be stability. As I said before, we see some potential for that stability to have positive price movement, but not enormous positive price movement, just ordinary underlying inflation. But employment levels are healthy. We don't see obvious risks to the level of mortgage lending, which is key. I think current political uncertainty continues to push out the risk of interest rates, which I continue to believe is the single biggest risk to overall market demand and pricing. And,

you know, it's a little bit dull but structural under supply continues to underpin the long term; but actually is, you know, we're not probably as concerned about the second half of this year, the first half of next year as we were 6 or 12 months ago. Political regulatory environment, I think focus will come back onto more normal issues hopefully as we go into 2020, things like the introduction of the new Homes Ombudsman and general focus on quality and customers we see as an opportunity rather than a threat.

You know, we will watch Help to Buy closely and coming on to our guidance for this year and just reinforcing some of Chris's points. We are confident that full year results will be in line with expectations. We get that with a lower margin in the first half and you know, sort of the need for more of a second half weighting, that that will make people uncomfortable. That was true last year, but actually we have more confidence. You can see in the build, and that's actually the thing that's the biggest limiting factor and the biggest risk. And you can also see it in the sales rates and the trading, but actually we've got quite a lot of head room in the sales rates and the trading. It will be the build that will be the constraint and we feel pretty confident with where that is placed.

I think you've sort of seen the impact of flat pricing and build cost inflation, but we are not flagging that that means a change to our longer-term margin measures. And we've not kind of got our head in the sand. We've asked ourselves the question, looked in the mirror. Does this change the dynamic? Sort of, for the longer term. Actually our forecast still has us getting into the range that we set out for our strategy. You know, it's been a challenging half year because of the balance of price inflation and cost, but nothing that we've seen over the last six months has changed our overall perspective and we'll continue to watch what continues to be a stable market, but with lots of external risks.

Thanks very much. Questions? Could we start with Will at the front, and then move to Glynis and then move across?

Q&A

William Jones (Redburn): Thanks. Will Jones from Redburn. Three if I could, please. The first, just coming back to the sales rate improvement of give or take 20% year to date. I think back in April you highlighted that around a quarter of the uplift have been due to what we might call the bigger bulk deals. What is that same figure, I guess, at the seven months stage, is that something that you're still looking at or can you step back a little bit from that area, given the order book over the next couple of halves?

Second one is whether you might be willing to just explore in a little bit more detail as best as you can at this point, how you might be thinking about margins next year? Clearly that all lies ahead, but just I guess early thoughts on the possible price cost interplay, particularly bearing in mind perhaps some savings starting to come in on the build side and then what you know about the landbank evolution, I guess, that lies ahead next year.

And then the last one is really just around the interplay of net cash and dividends. Obviously, the guidance for next year is the base case that you kind of chip into the net cash balance at the end of 2020 as a result of the 600 or so dividend payments, or do you think you can hold that net cash balance flat? And I guess what is the preferred capital structure in the more medium term? Thanks.

Peter Redfern: Okay. So I'll definitely hand the cash one over to you, Chris, and I'll answer the first two and then give you a chance to add anything you want to on the first two? There haven't been any more significant investor sales in the second quarter. So the major investor sales, you know about, there was one relatively small one at the end of the first half but hasn't had a particularly meaningful impact. So the quarter of overall sales is probably reduced slightly, but it's in that, it's in that same ballpark, still, because the bigger ones were in the first quarter. And will the order book let us or you know, sort of where we choose to stand back from those? It's very much case by case. Very much depends on the relative pricing, how we see that particular site. And there is a slight margin trade off in that, but of course, it also impacts on how it comes through in terms of balance sheet sales costs, which we then save and, you know, sort of, you know, to generate a slightly lower price. But we don't see them being a big feature of the second half, but we'll continue to look at them where, you know, sort of where they work for us.

Just on the price cost interplay and going into 2020, I think our overall, you know, guidance for this year, clearly the bottom line guidance is clear: we're guiding you towards, you know, sort of a slightly lower margin than you would've expected, but slightly more volume growth. And we do see the margin going up in 2020 over 2019, it's a bit early for us to guide you too strongly on quantum, because it does depend on how pricing particularly goes into the second half. We're, I would say, slightly more sanguine today than at the AGM about cost. You know, and if you think of the timing of the AGM, we were just off the back of, you know, what we think was more meaningful than I think others have pointed to in terms of the impact on additional stock sort of building within the supply chain as we went to the first phase of a No Deal Brexit. As we've gone through the last couple of months, we've seen some of those cost pressures ameliorate. We think, given the uncertainty around the second half on that, we'd be foolish to say, okay, that's all done. But that's kind of already built into our guidance, if that makes sense. So you know, we think that's allowed for and we might get to the end of the year and it'd be a bit better than that. We'll see as we look back with hindsight.

But again, you're talking about half to a quarter of a percent, you know, sort of trade-offs, not huge numbers, so guiding you more finely than that is difficult. But our overall sense is, you know, and I go back to – whilst the first half margin is slightly lower than we thought and the volume is coming through slightly quicker, there's not something fundamental there that that's changed things, that impacts on our view of where 2020 and 2021 get to. Probably 2020 compared to a year ago is, you know, the same sort of balance or a bit more volume than we would have guided or a bit more confidence in that volume and a bit less margin. But actually, the gap starts to close again and we still think we'll get back to more or less the same trajectory we were looking at a year ago, when we set out the strategy. And all of our guidance tends and always has been based on a broad assumption that selling prices and costs inflation more or less offset each other, if you see what I mean, and actually we've not quite had that environment in the first half. That's probably the only, you know, meaningful difference. And as we look forward, we think we more or less returned to that, to that world as our base case. Chris, I'm sorry, feel free to comment on those bits and pieces, if there's anything I've missed.

Chris Carney: It's all good. On cash, obviously, the guidance for the end of this year, £500 million. I think I said, you know, it's dependent on land spend, and certainly guidance for 18 months out is very much dependent on that and, you know, a whole heap of other factors, not

least, you know, volumes and, you know, if we had stable market conditions all the way through that period, then we would expect volumes in, you know, in 2020 to be greater and therefore generate more cash from operations before land spend. So, you know, a massive amount of where we end up is dependent on the – where the land market is, and the quality and the opportunities. And obviously, we've got quite a substantial strategic land bank that is providing those opportunities to us and it's a balance about, you know, how much risk we want to take.

William Jones: And medium-term thoughts around – philosophically around the balance sheet?

Chris Carney: Yes, I mean I think it's a nice position that we find ourselves in at the moment with a very, very strong balance sheet. You know, £392 million of net cash is sort of, arguably more than we need, but at the same time that gives us a tremendous amount of flexibility as we navigate our way through uncertain times. So, you know, we're really pleased with the position that we're in. Thanks.

Peter Redfern: Do you want to, hand back to Glynis.

Glynis Johnson (Jeffries): Glynis Johnson, Jeffries. I'm going to brave four, if may, actually. The first one is on selling rates versus build, as you alluded to, you know, the constraint of last few years has been build rate rather than necessarily selling rates. Do you still think that's the case, given how you much you've stepped up your own build? Should we be asking you about stock levels in the future? Whereas we haven't really concentrated on that in the past.

The second one is on the completions growth for next year, actually. Given the step up of volumes this year versus where we thought we might be, how should we think about next year completions? Is it growth? Is it an absolute number? Is it an absolute outlets number? I know you hate talking about outlets, but how should we think about that? Just give us a little bit of help, please.

Next, in terms of – I hate to go ahead and reference it, but the HBF surveys, can you just explain the differences between slide 7, slide 28, the half-year numbers don't seem to tie to the Q1, Q2 and I suspect it's about the time period, and also just the difference between the eight-week and the nine-month. Is that just about, do you think, the weather and how that impacted delivery? Is it about bringing up the weaker sites? You know, if you could just give us a little bit more colour, because that four star versus five star's a big one. And actually…

Chris Carney: What slide was it, again?

Glynis Johnson: 7 and 28. And then, lastly, just in terms of the build regulations step up that you alluded to, are you talking about more than just the fossil fuel neutral 2025 targets? If so, what do you think it could entail, but also how is that reflecting in your viabilities that you're doing now? Do you have enough clarity to add it in or is that something that may start to impinge later?

Peter Redfern: Okay. So sales rates versus build rates, I think the gap has closed, but the balance of constraint is still on build today and it's probably close to a reasonably comfortable level, because given the overall broader, you know, sort of market uncertainty, I think you'd always slightly rather, you know – you feel you should be able to control the build rate. You know you can't always control the sales rate. You can be in a strong position relatively, but you

can't control it. And so, I would quite like it to be that way around, but the gaps probably been 20 or 25% at different points through the course of the last five years. And that feels like you're not geared up there to take advantage of the market that's there. And when we've seen and, you know, we resisted sort of driving short term to build sort of through that period, but we have many conversations about some of our smaller competitors who are driving volume growth and you can see the pressures that that gave; what we're trying to do is get the structures and the investment right to better do it properly. But I would still rather that we had a slight buffer between where we were on sales or where we were on build, because then – so if you look at your question about, you know, sort of the level of stock, we still have very low levels of finished stock. And actually, you know, sort of it is still very focused on the roofs that we're putting on now for sort of completions in November and December to make sure that they're really in line. We don't feel like we're playing catch up, but it's pretty balanced.

So I would say still, right now, it's sales versus build, but I'd rather it was slightly the other way around, but just close the gap. Chris, I'll go onto the HBF from the service issues, but then leave you to come back on the completions growth afterwards, if I can?

On the stats, you're absolutely right, it's timing. I haven't got the two slides open in front of me, so I don't know which is which, but you know, sort of on the eight-week survey, you know, obviously there's time for the survey to come back. So we've got nothing like a full set of data for the first half. And so, the two slides when we have them, we'll be looking at completions in the period, and the other will be looking at survey returns in the period. There's not huge gaps, but actually it does give you a discrepancy between the two. The difference between the eight-week and the nine-month survey, that was far more structural. It's not just timing. Obviously, if you are seeing an improving, you know, sort of set of kind of quality and customer service, then the eight weeks scores at any given time will give you better results than the nine-month scores, because they lag. But the bigger difference is always – it's always been true and it's true across the board, people's level of satisfaction nine months after they've moved in is different to eight weeks after they've moved in.

And that's one of the reasons we're flagging the nine-month survey, which others aren't. Because we think actually, whilst, you know, we led people being focused on the eight-week survey is how we see it, but we don't think it's by any means perfect. You know, it's a decent measure, but you've got to look at a whole series of other things and we want to see that gap close over time between nine months and eight weeks. They are slightly different questions, you know, sort of, I think it's important to – they'll never be the same. So the nine-month survey, it doesn't just mean that sort of people who then got serious issues after nine months that they didn't have after eight weeks; the nine-month survey asked questions about things like road and development layouts and things. But the work we're doing on communities, for instance and placemaking on those larger sites we feel should help that, as well. You know, historically, I think there's tended to be a sense of, oh, well, there’s different questions so we can't do anything about that. I think we're trying to take a more proactive view of actually we should get under the skin of what can we do to make that different. But they do measure slightly different things.

Glynis Johnson: What was the government focus? I didn’t realise the two surveys were different, what's government focusing on?

Peter Redfern: Government focuses on the eight-week, because that's what they can see and benchmark. Nobody else quotes the nine months results; like many things we've talked about over the last few years, I am pretty confident that will change. And so, you know, sort of we think it's right to be, to get what's really happening. You know, I was there when the eight week survey was put together 17 years ago and it's sort of, I know the background, how it was put together and why. It's useful, but it's not perfect.

And I'm not saying that because our results have dipped a bit. It's always been true. If you look back, we were sort of saying, you know, sort of eight, nine months ago, we want to look at a broad range of measures. We want to look at all of these and it's uncomfortable for people to lift the lid on a nine-month survey score which isn't as good, you know, sort of. But we still think it's right.

And just on the build regulations piece, no, I'm not particularly referring to a sort of environmental-related regulation. It is still a bit early for us to quantify that. It's a lot better conversation around environmental regulation and, you know, sort of climate change related regulation than it was 10 to 15 years ago. It's a lot better educated and a lot more helpful to the real issues, which is positive, but it's very hard for us to quantify at the moment because we don't quite know what the answers will be, but it's a much more real world, rather than, you know, sort of the box-ticking-led exercise that it felt like it was, you know, sort of 15 years ago. But what I'm talking about is, though government will not say this, it is very clear if you look at the various different reviews post-Grenfell, part of the issue is that build regulations were not clear and part of –and that's not the industry's sort of issue; but the industry's issue is a lack of consistency.

And so, I think what will naturally come out of that is as we get the next sort of wave of build regulations, they will be much clearer and sharper. They will have to be, I think, you know, deep down, government knows that's one of the big sort of failings, is that actually the regulations are not clear and then, therefore the way that they've been interpreted is very broad brush. That will get – that is inevitably going to get tighter. And actually, I think, you have to be – we therefore have to be in a world, and it's not just about regulation, it's because we're learning from that as well, where we're able to guarantee that, just because that fire stopping on that site – and it's not just about fire stopping, I've used that as an example, but it's across the board, particularly on anything safety-related, but actually anything about long term resilience of housing, about foundations or anything like that that we're able to look back and think, not just which subcontractor we were using, but which individual actually fitted it. And in the same way as we see those regulations across gas safe and the electrical side of what we do, I think we'll see some of those in some other areas, as well, because we will need them to be able to guarantee the underlying quality of what we're building. And it's not that I think that's certainly going to dramatically change in the next sort of six months, but I think as you see the next three, four years, that will be the general trend.

Chris Carney: I think, yes, on volumes, if you'd asked me at the start of this year, you'd have got a different answer on 2020 volumes, because we came into the obviously guiding to flat for 2019 and then with more growth in 2020. And you know, you might have got from me being at say 5% in that scenario, assuming that obviously the market conditions stayed the same to the extent, you know, that we've, you know, just said that we're expecting volumes to be a bit

more than the 1% that’s in consensus at the moment. And let's say that's 3% this year, then you would expect more like 2% next year because, you know, that's the way it works.

Alex Fries (Goldman Sachs): Hi, good morning. Alex Fries from Goldman Sachs. A couple of perhaps fairly obvious ones from me. First, on construction cost inflation, you've spoken to a 5% number; pretty universally, most of your peers have been talking to a 4% number. So are you being conservative? Are they being optimistic or is there actually an underlying difference there? That's the first one.

And then the second one is on the HBF surveys. So only a percent or so in absolute terms, perhaps not meaningful, but people will pay attention to the direction of travel. You've spoken a lot about build delays and delivery delays. Those delays have been a problem for every home builder, for all of history. So is there anything you can actually do about it? And if so, how much does it cost?

Peter Redfern: Okay. On construction costs, I do think there is a difference in what we're saying and what our peers are saying. I have to say a 1% difference in what we're actually saying is kind of in the bounds of experimental error anyway. So if that bit, you know, sort of the exact number is kind of sentiment, you know and as I've already touched on, I think, you know, if we kind of came up with an honest number of our view at the time of the AGM it would've been 5%, at the moment it might be 4.5%, you know, so actually – and we consciously decided because of the uncertainty around Brexit in the second half to leave it as it was. But I do think you can see in the numbers, you know, sort of in actual P&L trading a slight difference, that we're not trying to hide from that. And it's very difficult for us to really pin down how much of that is some of the investments in build quality you're talking about, how much of it is real underlying inflation, how much of it is just the mix of size? There is a slight difference. I don't think it's huge. And I think, as we look back over the course of the next 18 months, you know, sort of we'll see how big that difference actually turns out.

We are very confident, because we've seen the bigger part of that inflation in the first half of the year come from materials, we are very confident that what we're seeing on material price inflation ain't that different from what our peers are. And you know, I would say, that we always tend to be more honest with you and more upfront than anybody else is about good and bad stuff, if you see what I mean and history, we tend to say we generally turn out to be right. So it would not surprise me if that changes over time, but I can't guarantee it.

And we know we're spending more money on things that others aren't, because for all the reasons that we've talked about. So I think there's a few moving parts and a 1% difference. So I don't think it's that hard to understand why we are slightly at the other end. I don't think there's a dramatic difference in what we're seeing on the ground, what we really want to be confident on. And this to me, from an investor point of view is, and it goes back a bit to the specification, but also to the build quality piece, that in three, four and five years’ time, we're not dealing with some of the historic underlying build quality issues that we have dealt with and that actually we've seen some of our peers deal with them. We all have our own kind of particular areas where it's been a challenge, you know, sort of, but the reputational impact of that is not good and not sustainable.

You know, it's not, not actually seriously damaged anybody at this point with the exception of Bovis, but it could and it's just not right, either. So a lot of what we're spending money on is to make sure that, you know, yes, there is a cost now, but actually that in three years' time, or in five years' time that we're not facing that same set of problems that does tend to be a short term reactive strategy to that.

On the survey side, you know, sort of there's not a huge amount more that I can say. It is timing. It was a particularly acute impact on timing last year because of the weather conditions, which were quite extreme, you know; and so, whilst we are more sort of June and December weighted this year that we want, we're actually much more, you know, sort of on top of the volume and the communication to customers, because it does not have the big change through the process that we saw last year. I don't think there's a big cost to us getting that completion phasing sort of in our timing onsite better; certainly to getting it more consistent or deliverable, that's what we're spending money on at the moment and we can see the benefits of that. It just takes time to get it right. But I don't think you can ever take it away completely, either. You know, it's always something that you have to manage.

Sam Cullen (Berenberg): Yes. Morning, everyone. It's Sam Cullen from Berenberg. I think you mentioned in your opening comments, Pete, you're seeing more competition on small and medium sites. Can you just go into kind of what's driving that, if at all, where's that coming from?

And then secondly, I guess on your expectation that 2020 / 2021 margins on margins, what gives you the confidence that underlying price inflation, cost inflation will broadly net off you seeing anything in the market? Or is that just a kind of a gut feeling that you guys are going with?

Peter Redfern: I think on small and medium sites, I'd point you to, actually, very recently and I couldn't tell you exactly when, I think sometime last week, Savills report on land prices and that will actually give you an independent, but reasonably good – and I don't think I've ever before referred anybody to an agent's report on anything, you know. I hate the fact that we use it even though we don't really focus on it as benchmarking for our own land. But actually it is a pretty good analysis of what we're seeing land market-wise. On the larger sites, there aren't that many of us who can compete and actually the choices that we make and the infrastructure and ability to be able to manage those large sites effectively is much more limited. So it's a different, you know, sort of pricing and competition dynamic between smaller and large size. So that's there in the background. I think it's more acute in the short term as well, because we are all as, you know, our investors and as are you, you know, very aware of the broader uncertainty in the overall economy. So actually, the number of people who want something that they can get onsite, you know, sort of deal with quickly and be off again, you know, sort of is probably more significant than it was a couple of years ago.

I struggle with the idea of focusing our investment on things that lower returns, actually knowing that the majority of that return will be delivered in such an uncertain period. So it's a trade off on what you need to do and whether your view is short term or long term. It's not a new dynamic, but it's probably just a bit more acute right now because of that wider market uncertainty.

And sorry, the 2020 to 2021 margin trade off. I think, you know, we think we saw a slightly unusual pressure on build costs in the first quarter of this year and we've touched on whether there's some chance that's there in the second half, therefore, we're not going to sort of wind back our guidance, but we don't think tha’st certain. And at the same time we know we've seen a very flat pricing environment. I sort of touched on reasons why I think there is some chance in the second half, and particularly once we see, you know, sort of a bit more certainty around Brexit, why there is a bit of price upside, you know; the fact that we've seen the stability of demand that we have over the course of the last three years I think is amazing and you gives you a real sense of the depth of the underlying market. So there has to be some upside against that. Now, that doesn't mean there isn't future downside risks, but I touched on that, so that's more about interest rates than anything else.

So that's why we see, actually a fairly sensible base case is that the two net off; you could argue there's a case that's a bit of a catch up relative on price, but I think that's a bit too sort of bullish. But I think it's a reasonable base case. But it's a base case, it’s not a guarantee, you know, sort of. But I come back to: nothing has fundamentally changed from what we set out a year or so ago. It's very unlikely that, you know, sort of build costs, will it continue to inflate meaningfully in a totally flat pricing environment? The competitive dynamic changes, and actually our ability to source labour, more labour than materials is probably better than it was three years ago. So that's why we see the pressure on materials, rather than labour, I think.

Any final questions?

Thank you very much. Thank you for choosing us over the various competing, you know, sort of options that you had today, and look forward to catching up again later in the year.