# Half Year Results 2020

Wednesday, 29 July 2020

## UK operational overview

Pete Redfern

*Chief Executive, Taylor Wimpey Plc*

Thank you. Good morning, everybody. Thanks for joining us. It's slightly odd to do a results presentation over the phone and be sort of working the slides and giving you the numbers, but it's been a pretty odd first half, hasn't it? So we probably shouldn't be surprised by that.

I will try and give you the slide numbers as I sort of go through so that you are able to follow. There are some charts in there that I think are useful. We have gone through the presentation to try and give you the information we think is most useful at this point in time, because obviously with such a strange sort of first half and I think, you know, certainly for us and I hope for you, the focus very much on the future, particularly 2021, but giving you enough of a flavour of the second half of 2020, the kind of information that we think is most useful is slightly different. But most of the key information you would normally use is there somewhere in the appendix, so we're not trying to take things away from you, but definitely a different focus today.

I'm going to start with slide five and really just reflect just very briefly on how we have approached the last three or four months. Our focus has been on doing right by all of our key stakeholders, including our shareholders, but also including our employees, subcontractors, our customers and Government. And I think, you know, we feel that we have got that right and that that has put us in a strong place.

It's clearly been a very poor financial performance in the first half and I don't think, you know, that will surprise anybody. I'm sure there are numbers in there that are tough for you to understand and get to grips with and we understand that, and Chris will spend some time trying to help with that. But the key thing for us has been to get things right from a safety point of view for our people and make sure that the business is protected and as strong as possible going into 2021. So, I make most of–no apology for spending a lot of my time talking about how we're setting things up for the future rather than going back and reflecting on the last six months.

So just picking up a couple of points from slide five, we did have very proactive management through the crisis. You know, we tended to be the first out to explain what we were doing publicly across the sector and we feel that in lots of areas the sector then followed us. And that actually helped us and them, and helped the supply base and the subcontractors to get a clear pattern about what the sector was doing and that overall, because of that, we are all in a stronger place.

And I think if you reflect on what you would have expected in terms of production and sales way back at the beginning of April for the sector, I don't think you would have been sort of too disappointed with where collectively we are now. I'll come back to our own particular sales and production sort of stats and performance sort of later, but I think, you know, sort of that leadership and communication has helped. And I'm not going to list, you'll be glad to know, all of the things like Pay It Forward and the Care Home Scheme that we've done through that period, but I do think they are important and I think they have put us in a strong place with all of those relationships.

I think also we’ve seen the benefit of our prior investments in operational strength; in our site management teams and in IT systems. But we've learnt through the crisis as well and, you know, actually have been fairly self-critical about our past speed, particularly with IT, of putting together a plan. And so, actually, we've seen a number of developments, including, if I just pull out one example, a new app developed in a matter of weeks that lets customers see virtual viewings to have precise opening times for all of our customers and to do video sort of calls online with our salespeople sort of through an app.

It's the sort of thing that would have taken us far too long in previous circumstances, and I think we've learned from that about how we can use those kind of more pacey approaches to keep costs down and to be more fleet-of-foot particularly in the customer and sales arena than we've been historically.

I think though then as we look sort of longer term, it's also been an opportunity for us to look harder at the question we raised before the pandemic was sort of a focus of everybody's mind, but back at the beginning of the year about outlet numbers and outlet size. And I do think it's created an opportunity for us to invest in more smaller sites on top of the large sites that we already sort of own and that are coming through our strategic landbank to make sure as we go through into a potentially uncertain, which we would definitely come back to, 2021 market and 2022 to make sure that we've got the maximum number of choices and we all know that higher outlet numbers give more choices.

We believe in our strategy on larger sites, but I've never said that that doesn’t mean that we shouldn't want smaller sites as well. And so I think it gives us the opportunity to get that balance right, and obviously, the capital raise was a key focus of both changing the mix of sites, but also giving us the opportunity to grow outlet numbers over the next 18 months. And we’ll give you an update later on in the discussion over how that's progressed over the last few weeks since the announcement around the capital raise.

Moving on to slide six, just giving a quick overview of operations, and Chris will pick up on some of the stats within this in a little bit more detail. But first of all, on production, we said, you know, when we announced our return to site that we expected to get to around 80% of capacity on average sort of by the end of June. We are at that sort of level today.

I know that some of you have expected, based on more recent comments from one or two competitors, that we might upgrade that number today. I don't think that's right sat here today, but we do have sites that are operating at higher levels than that. And you know, I would repeat what I have said in the past, that we would hope by the end of the year to get to a higher level than that 80%.

But we're still getting up to full speed in Scotland, there are still some sites, particularly in London, that have slightly more constraints, and we have to allow in how we guide you, particularly in how it impacts on volume numbers for this year, for the potential for localised lockdowns such as that we saw in Leicester and that we might see over the next few months.

So I still think it's good guidance, but it doesn't mean there isn't an upside to it. And given that it's the level we're at, at the moment, or perhaps a little bit better, than I think it's pretty solid guidance. But we don't want to do is create a false expectation of the completion of volume recovery during the course of this year.

We think the implications on costs and speed of build, you know, are likely to be limited to 2020. You know, no real change to that. You know, the additional sort of site costs from our sort of COVID-19 measures is not particularly significant. There is no change there. Clearly the first half impact has been very significant, but that's more about inefficient use of overheads onsite or no use of overheads onsite as we were not able to build or build any reasonable capacity.

And so whilst there is a small impact in the second half, we don't think it is huge, and we don't think that, you know, our base case is that, you know, the sort of 1st January, you know, sort of build is relatively normalised. And I do think it's important our focus has continued to be–and I think this caused some surprise when we returned to site, but it's been true all the way through–we have continued to and will continue to open new outlets.

And you know, you will look at our outlet numbers at the sort of end of the first half and they're above the numbers that we gave you sort of at the prelim stage. And you know, that is not brand new land coming through, it doesn't happen that quickly, albeit some of the sites we're buying will give us quite quick outlets, probably quicker than we expected. I think that is a key dynamic for us going into 2021, but particularly going into 2022. So, I think while some of those may open you know, sort of new outlets may open in 2021, it's 2022 volumes that they start to help.

On the sales side, I'm not going to labour sort of the impact of IT on the future, but there has been a good sales recovery with good sales rates since reopening of about 0.7 a week. I'll touch on some of the sort of detailed numbers. The main constraint on sales today is production. It's the availability of production capacity for completion this year, which, again, I will touch on sort of as we go through.

With suppliers and subcontractors, I think we've been, you know, sort of pleasantly surprised. We expected, you know, what we described as friction. There was the potential for bottlenecks and we've not really encountered any major bottlenecks so far. You know, there have been some areas like plasterboard that slowed things, but for a matter of weeks rather than in any sort of significant or material way.

So, and I think, you know, sort of we have seen some of our subcontractors being slow to have the confidence to bring their people back from furlough. You know, sort of as they wanted real certainty of work. But as the broader sector has returned to sites, we've seen those problems gradually ease.

And again, you know, when we started sort of a plan to reopen sites, we knew it would take a number of weeks. It has done so, but most of those sort of headwinds are largely sort of gone. So the constraints are about the safe operation of sites, about, you know, sort of inevitable bottlenecks on car parking and, you know, toilet facilities and the like rather than sort of underlying macro issues.

If I move over to slide seven and look at the sort of underlying sort of structural backdrop for the market, we're still of the view that it remains favourable. And I think that's why we've seen the housing market very quickly return to something like a normal level of activity. You know, I don't like the phrase "pent-up demand", it feels too trite, but there is a bit of that.

And I think, in those first weeks after opening, a sceptical would say is this kind of an inevitable backlog from that? Won't this just peter out in a few weeks? But at the time that's not what it felt like.

We understand our customer, we talk to them site-by-site, and it gives us a better feel than you get from the statistics. And you have seen and you'll see in our stats, you know, that actually the level of interest and activity onsite has continued to be high, and actually on most measures has run ahead of the equivalent period sort of at last year rather than behind.

I think, you know, from a political point of view, I think the stamp duty change was positive. You can't see a meaningful blip in the statistics, you know, sort of as a result. We saw some increased interest on those particular sort of weekends. I think it is a sort of more impactful help for the second-hand market.

But that's still a positive because I think, you know, we have long been concerned that the level of activity in the second-hand market, the low level of activity in the second-hand market, you know, sort of is the risk for new build. But we see, you know, I think a broadly supportive sort of Government environment.

And actually, you know, if the sales volumes stats returning to normal, then there'd be, you know, the opportunity for prices to start to move forward rather than sort of be stable or go backwards. We increased our prices by about 1% on 1st July. I have to be honest, it wasn't done with the same absolute across-the-board view that we did in January. I think, you know, sort of conditions were a bit more uncertain.

[BREAK IN AUDIO]

And then mortgages, you know, while [BREAK IN AUDIO] change was, I think, a bit of background pressure on Nationwide to then return. And so those mortgages are back, and I think that risk has therefore largely passed.

I think in the risks, there are the obvious inevitable ones. You know, the risk of unemployment increasing will affect the housing market. I think, you know, it's impossible to say. I think, you know, it could definitely go either way. I think there is a tendency to think actually it's bound to be a negative and it's bound to impact on house prices negatively.

I don't think that's true at all. I think if we've learned anything over the last four or five years, it's how resilient the housing market is and that it is not inevitable, in periods of uncertainty, that it will go backwards. I do think, and you've heard me say it before, it's about interest rates. If interest rates stay low and mortgage lending, you know sort of stays resilient, then actually, the market stability, we might lower sales rates for a time, but market stability can weather most things.

And you know, we do start to have to then refocus again on new regulations and policies, particularly Part L and Part F, which the Government is still committed to bringing forward, albeit I think now the impact is absolutely going to be into next year rather than late this year, which was the sort of situation we were looking at the beginning of 2020.

If I move on to slide eight and just on sort of sales momentum, you know, sort of the normal kind of stats that we split them by different weeks because we thought it would be more useful. You've seen quite a lot of these, apart from the very most recent period. You know, sort of you've seen them as we've done announcements through the last few months.

Probably the one though I would pick out, that I would ask questions on, if I was you, is cancellation rate. It did peak in the sort of weeks immediately after reopening for sales. It was never high enough to be a concern. As a proportion of a very large order book it was tiny, but of a relatively low initial sales base it was higher than usual, as you can see, at the sort of 30% level.

The last two or three weeks, that's come down to the low-20s. And you know, with the level of low sales that we need this year, you know, that is a very manageable level. And it's just individual customers, in some cases, just swapping from one plot to another because it changes the build time; in some cases, changing their mind about buying a house because of their own personal job security. But you know, the fact that that has already started to normalise I think is, you know, doesn't really give us any concern.

Our constraints on sales is absolutely about construction. You know, you'll see in the statement we're 98% sold for this year**,** if you work through the math of that, you'll see that means we have roughly one plot to sell per site for completion this year, and so, you know, trying to generate sales rates of one a week, but consistently through the balance of this year, is not going to happen and actually will give us an order book that was difficult to manage, you know, in terms of scale at the end of the year. That does give us the chance though to manage any of those cancellations, to make sure we've got the right customers in the right places, and to make sure that we finish this year with as strong an order book as possible for next year. And I go back to, you know, our focus is on making sure that we go into next year with as much momentum as possible. And that order book value is good.

I think the other thing that is sort of–you know, does warrant comment is the level of exchanges, again, they were sort of running lower than usual through the crisis. I think, you know, you sort of have to ask the inevitable question as you get back to normal, were you going to see more cancellations and therefore less exchanges? Again, we've started to see those normalise over the last month and see exchange–the level of exchanges pick up. You know, it is running slower than it would normally do, but I don't think that should surprise us or concern us when you look at the expectation we have for the second half of the year.

And you see at the bottom, you know, just a couple of the charts that we have, you know, sort of used over the last few years, giving you, you know, the level of immediate customer interest, and actually that plays out across the board. You know, as you've heard me say, the number of brochure sort of requests has dropped off structurally over the last few years, but the measures that we look at, at the moment, have increased materially. I would place more store proportionately in the website visits than the appointments booked, because obviously we're using a different selling approach, and therefore, you know, the number of appointments booked is always going to be significantly up, but the website visits, I think, is a much better sort of more real indicator of underlying demand at this point in time on a relative basis.

Just briefly, on slide nine, an update on the NHS and care worker scheme that we introduced during the crisis. Both from our existing order book, and you know, sort of from new sales, we've had significant interest from that. We went into that scheme very much because we felt it was the right thing to do. You know, I think it was something that we decided as a management team that was appropriate; we've been pleased by the way it's operated. From a reservation point of view, it comes to an end at the end of this year, and obviously with the level of availability, you know, sort of the number of additional sales is not likely to be huge, you know, sort of, so it is a point in time, but we do think it's an appropriate scheme and will be effectively, you know, sort of a COVID-19 cost in the second half of the year.

Moving on to land, on slide 10, we still continue to see land market opportunities running at a significantly higher level and at better quality and with less competition than we are used to. And I think, you know, it's not many weeks since the capital raise, so I don't want to repeat what we said there but certainly the environment that we were seeing then has continued to be the case. We have seen, as we expected to, one or two of our larger competitors return to the land market in a more active way, but we haven't seen, you know, sort of most of the smaller ones, and that was the dynamic that you know, sort of that decision was based on. I think, you know, one thing that has changed is that we have seen more opportunities coming forward at really good returns and with interesting financial metrics and interesting site qualities in London and the South East, and you know, I would want you to focus on the wider South East rather than London, in terms of the balance of quantum, than we have done in quite some time. And you know, sort of, I think that metric has changed, because at the time of the capital raise, we hadn't seen that yet; it felt like it would happen, but it hadn't started to happen.

So I think some good opportunities there. And I come back to, you know, sort of land investment is about timing, and you know, the opportunity to increase it materially in the first half of this year and the early part of next year, you know, sort of gives us the opportunity to grow the business further post the pandemic, than we would have done if it hadn't happened. And actually, as I touched on earlier, to rebalance the outlets a little towards more smaller ones. I would still maintain the capital was not essential, but it does give us a good opportunity to invest well for our shareholders.

The pipeline continues to build; we've done about 26 land deals now, that's the equivalent of about what I think was 13 at the time of the capital raise announcement, about 20 were in the first half and about six so far in July, and the forward opportunities continue to be good. And on, you know, my sort of final slide of the first section, you see, you know, what may be the last time that we show it to you, but those mapped out against the sort of quality of land acquisitions over the course of the last few years. It's always very difficult to sort of pick out an average number on any land acquisition, you know, that final sort of smaller silver block; smaller because, you know, sort of the purchases in the first quarter were largely cancelled, and then, you know, either not entered into or renegotiated.

So, you know, this largely represents second quarter purchases, but that actually reflects smaller sites, more of a southern weighting, and sort of in many sites, factoring in those part L and part F costs, which we're finding is doable with the high land values in the South, and into the better markets of the Midlands and the South West. It's pretty tough in the North, and so, you know, sort of actually sort of seeing land prices adjust in the North may have to wait a little bit more until we see those sort of regulations actually in place. And I will sort of pause there, and I will come back after Chris has spoken and talk a little bit more about outlook and where our tactics are as we look at the next kind of six to 12 months. Chris, over to you.

## Financial review and guidance

Chris Carney

*Group Finance Director, Taylor Wimpey Plc*

Thanks Pete, and good morning everyone. As normal, I'll start with a summary of the group results, and the impact of the pandemic is very visible on the first half, with revenue down 56%. Gross profit, including some COVID-related costs down 78%. An operating loss in the period of £16 million, which I'll come back to and talk about in more detail on the next few slides. Net finance costs at £14 million bring the pre-exceptional loss before tax to £30 million for the half. Following an involved process, we've now agreed a contract for a replacement of the ACM cladding at our Glasgow Harbour site, and we've increased our exceptional provision by £10 million in the period to reflect that. Despite the net loss for the period of £32 million, the tangible net asset value per share has increased since the year end, which is of course due to the equity placing in June.

Moving on to slide 14, this is the first of two slides that, together with the margin reconciliation slide, should give you a very good understanding of the impact of the pandemic on our results. You will have seen that we haven't taken an exceptional charge for COVID, but I will take you through the impacts to our costs and cash flows as I move through my slides. The chart on the left shows weekly build output. As you can see, there was a five-week period where all sites were closed and not generating any output. Either side of those closures there were periods of demobilisation and remobilisation where the output was significantly reduced. This disruption to build, as you would expect, has lengthened production programmes, and this has meant that completions in Q2 were significantly reduced, which you can see in the chart on the right. This delay to completions has a knock effect on, and will ultimately push the completions we originally intended to deliver in Q4 of this year into Q1 of next year, reducing 2020 volumes meaningfully. And by meaningfully, we are guiding to around 40% less than 2019 levels, assuming there aren't any significant changes to current circumstances.

Moving on to slide 15, you know, on this slide, you see how the reduction in Q2 completions translate into a reduction in revenue for the half, and that lost revenue, together with some incremental COVID-related costs, is what drives the reduction in profitability period-on-period. The £39 million of costs, relating to COVID-19, in the main, relate to site overhead costs that would normally be capitalised into WIP and recovered as plots legally complete, but because sites were closed and build wasn't being progressed, we are required by accounting standards to expense those costs in the period.

Moving on to slide 16, as ever, this slide provides, you know, a great deal of visibility of the various factors influencing the UK operating margin in the period. The net market impact of house price and build cost inflation is a relatively small negative, as you would expect. Most of the change in margin, period on period, is a direct consequence of lower revenues reducing our ability to absorb fixed costs that you saw in the last slide. Net operating expenses which are predominantly fixed overhead costs, and direct selling expenses, which also include a high degree of fixed salary and show home costs, together contribute a reduction in margin of 11 percentage points. The only other significant contributor to the drop in margin is the £39 million of COVID-related costs, which account for another 5.3 percentage points of the margin reduction in the period. Most of that relates to non-productive site overhead costs during the closure and remobilisation period, but it also includes some incremental costs, such as extra cleaning, extra PPE, Perspex screens for sales centres, and other items of a similar nature. So although the reduction in volume and revenue in half one has generated a negative margin, now that we have all our sites open, build output at around 80% of normal levels and strong demand, we have all the ingredients necessary to see a margin recovery in half two.

Moving onto slide 17, you know the 58% reduction in UK completion volumes is consistent with the reduction in group revenues you saw on the first couple of slides. Underlying house price inflation for private completions from half one 2019, to half one 2020, has been very flat; flatter in reality than the Nationwide figure we provided in the margin reconciliation slide. The increases in both private and affordable selling prices that you see on this slide, are mix related, with slightly larger homes, slightly more weighted towards the South. The JV result for the first half was also reduced by the pandemic, but we still expect the share of JV profits for the full year to be at a similar level to that reported in 2019.

Moving onto slide 18, our balance sheet was strong even before the placing in June, so we now have a very strong balance sheet, which gives us options. The increase in net operating assets, since the year end, is driven by the growth in work in progress, and an increase in land, net of land creditors. WIP is higher than this time last year, because of the delay to Q2 completions, and I'd expect the WIP balance at the end of this year to be higher than the end of 2019, by a similar sort of amount, reflecting the delay of Q4 completions, into 2021. Our short term owned land bank comprises over 54,000 plots, and I'd expect that to increase further, along with the net land position in the balance sheet, over the course of the next 12 months, as we invest the proceeds of the placing into new land. And you can see at the bottom of the slide that the closing tangible net asset value per share was 102.8 pence, and just to save you running the calculation yourself, the placing increased that figure by 4.3 pence per share.

Moving onto the cash flow, you know, clearly the closure of sites and resulting reduction in legal completions, significantly restricted both our profitability and our cash generation. Cash land spend in the period amounted to just over £300 million with around three quarters of that spend relating to land creditors from prior periods. Supplier and subcontractor payments were about £325 million less than the same period last year, but still significantly more than recoveries in the income statement. So, the investment in WIP and Land that you saw on the balance sheet, are the main contributors to the operating cash out flow in the period, and those investments put us in a strong position for delivery, in the second half and next year.

The placing in June delivered net proceeds of £510 million which is shown in this slide, net of other investing and financing activities, including amounts invested in joint ventures.

Moving on to slide 20, you know, working through this crisis has really reminded me that when the environment is changing rapidly, it's really important to be clear about where your priorities lie. We're running the business to deliver long-term shareholder value, and for me, that means resuming our focus on cost and efficiency, getting back to generating cash, and always retaining a strong balance sheet. We came into this year with our focus on cost and margin, and that has not changed, and you know, whilst the pandemic has inevitably limited what we've been able to achieve in the first half, now that we've unfurloughed all our staff, we can resume our focus on the areas that I set out in February. For example, in May, we launched a new benchmarking dashboard tool, which allows our commercial teams to compare costs across business units, sites, house types, cost heads, and resources in a way that just wasn't possible before. And I'm confident that visibility, especially when combined with the introduction of our new tender management system in the second half, will deliver a lot of value for us in the future.

I think tight cash management almost comes as second nature to businesses that have had to run for cash in the past, as we did through the great financial crisis. One example of that, you can see on the balance sheet, is that our debtor balance has reduced, and that's no coincidence, you know, we have daily, weekly and monthly cash forecasts, which provide us with a high degree of visibility and control, and you know, we will maintain that degree of control through the balance of this year, and beyond, as we invest the proceeds of the placing.

But at the same time as managing our cash tightly, as Pete said, we've done the right thing for our suppliers and subcontractors by striving to pay them as quickly as possible for the work they had already performed, and even going a step further with the Pay It Forward scheme, we think the commitment we show them now will pay off in the future. We've operated the balance sheet pretty cautiously in recent years, and I said earlier, when we went into the placing, you know, it was with a strong balance sheet. Our operating assets are going to increase over the next 12 months, as we invest the proceeds of the placing; that investment will start to yield completions in 2022, and by the time we get to 2023, we should be seeing volume from the majority of the sites acquired, and I would expect the balance sheet to reach a mature position, a year or two after that, when those acquired sites will be approaching the middle of their life-cycles.

And then moving onto the guidance slide, as you know, we suspended all guidance at the end of March, when we closed our sale centres and construction sites, and now that all of our sites in England, Wales, Scotland and Spain are open again and we've had a period of time to assess the implications of social distancing on production output, we feel it's right to return to providing guidance, and most of what you see on this slide is self-explanatory, and I've already touched on the volume guidance.

The net cash guidance for the year end of £550 to £750 million is intentionally quite a broad range because it's dependent on how much we spend on land in the second half, and that will depend on the number and quality of opportunities we see. You know, we could fall outside that range, but if we do, it will be because the environment and the circumstances support that outcome. I would expect underlying build cost inflation in terms of new tenders to be pretty flat for the balance of this year, with stamp duty and Help to Buy deadlines stimulating a resumption in demand for labour and materials.

We're already well progressed with all of 2020s completions, so the underlying level of build cost inflation on those, compared to 2019 is as we guided to in February, around the 3% level excluding mix and COVID. Giving the dislocation in the land markets and opportunities that it presents, you know, we've decided not to reinstate an ordinary dividend this year. We do understand the importance of the dividend to shareholders, and expect to resume ordinary dividends in 2021, and we would also expect to review the special dividend position in 2021, for payment in 2022. Overall our intent in providing this guidance is to be helpful, you know, but we are conscious that the economic outlook does remain unclear, so it is very much provided on the basis of market circumstances, as we see them today, continuing, and obviously those are subject to change.

And I think that's probably about it from me. So, I'll pass back to Pete.

## Priorities, tactics and outlook

Pete Redfern

*Chief Executive, Taylor Wimpey Plc*

Thanks Chris. Chris, if my line goes at all or my voice fades, can you shout, because you're the only other one with a live line, and I understand that in the earlier piece, it did fade at one point, but I couldn't tell because obviously it's a one-way call, when you're presenting.

So, if I pick up from slide 23, I'm not going to spend more time on the first box, which we have talked about, but I will briefly comment on the other four. Particularly there I think the second one, because we haven't really talked about customers and customer service at all as yet. We've been pleased with the customer service performance through the first quarter in more normal times, when you know, we were back at a five-star rating, and some of the other measures we use, on customer service, that continue to improve, including the Trustpilot score. We've maintained that through the second quarter, so you know, sort of sit today, year to day in this customer care year at sort of nearly 91% customer service score. I think I worry a little about completions in November and December from customers who have been unfortunately delayed because of production slowdown, and that that will have an impact, but that we will have to watch and manage. And I don't think, you know, if we do see that, that it will sort of speak to an underlying shift in the actual service we've given customers, just the unfortunate impact of the pandemic.

We have been extremely focused on how we make sure, through the shutdown months and the immediate aftermath, including sort of at the moment, that we're actually sort of able to resource up and deal with any customer issues after completion, as actively as we are able to deal with construction on site.

So the message to customers when, you know, they can see lots of activity starting up on site but we're not there to sort their problems would be a deeply wrong one, so we've been very focused on that. And I think I am also pleased, as you can see in the statement, that the Construction Quality score has continued to improve. Now, that's mostly a first-quarter measure because the NHBC hasn't been doing reviews in the second quarter, but I think that speaks to the underlying trend that we've seen over the last 12 or 18 months.

I will pick up on the third, the purple block. You know, we have been very pleased with how the business and the people in it have responded to the challenges of the pandemic, both our systems but also the attitude of people. And I think, as I touched on some of the IT developments, I do think it's sort of given us the confidence that we can adapt and move more quickly than we have done in recent times.

And then the last two blocks I'll deal with together. I've talked about land investments and growing the outlet base but I put it together with cost, because I think, you know, I want to sort of set out, we–we are very clear that those have tended to be our two challenges over the last couple of years. And, you know, we need to use this crisis to really get those right and firing on all cylinders. You know, Chris has said one of his sort of main objectives remains cost and it remains mine as well. As we go into 2021 we need to make sure that our cost base is as keen as anybody else's, and, as I say, you know, I do think we are in a strong place to grow our outlet base from here, sort of and I've seen the early signs of that.

So that does take me on to slide 24 and coming out of the shutdown period. I'm not going to pick up every sort of line on this slide. You know, as I've said, the relationships that we have improved and enhanced through the last few months has set us in a good place. The strong balance sheet gives us choices and there are some real positives, you know, sort of about how we respond to change and react, and also how we serve customers who want slightly different things, so by adapting long term our attitude to the use of offices, to how we sell, there is a big sort of strength of views in the business that the appointment mode of selling, which means we get a smaller number of much higher quality visitors and are able to really focus time and attention on them, which our customers like and our sales people like, you know, may well end up being the future sort of normal mode of working, and certainly will be a core part of it even if we have sort of partial kind of, on a, you know, non-appointment opening as well. But also, the level of communication and relationship with our supplier and subcontractor base has improved and we do think that gives us some options sort of going forward. And I think, you know, we feel that that, on slide 25, has really shown the culture and values of the business and some of its underlying strengths around its land bank and its balance sheet.

And so, finishing, on slide 26 before we open up for questions on the outlook, and I'll pick up a couple of things sort of on guidance as well, sort of expanding on Chris's comments. We do have very good visibility of 2020. It's really about production more than it's about sales. I think, you know, it is about building an order book that is not just as big as possible but is actually right places, right level of resilience, you know, not so big that we will struggle to manage customer service within it and struggle to manage build timelines, but that really starts off 2021 in the strongest place possible.

You know, building on that 80% production capacity, as I said, I do believe there is upside but our goal is to enter next year as close to 100%, and not just 100% in the sense of, we are doing, you know, 100% of the work, but it is being done properly in a structured and organised way. Because you do tend to find that when you rush into these things, that's when future construction issues come out, and we are very committed to maintaining the quality approach of the last few years and not sort of repeating some of the challenges that came out of the sort of challenges of the last cycle. We have made good early progress on land after the equity raise. There was really good momentum on that, and, you know, we will sort of follow that through. It is not about focusing on a particular point in time and saying, we expect to have spent X by this date and Y by that date. You know, we do expect over the course of the next 12 months to have spent that capital raise on incremental land investment, but the exact timing will depend on the timing and the quality of the opportunities rather than some slightly arbitrary target. But our overall sense of the market remains positive, and short-term trading really does underlie that.

I think when I said I would sort of pick up some of the guidance points that – that Chris has made, it's particularly 2021 that I want to talk to you about. I think for us, it's a challenging time to give guidance for next year, and the key decision is actually going to be how we think the market will perform and therefore how we set our stall out from a build point of view site by site. If you think back to our high sales rates of 2019, they came because we'd set our stall out in late 2018, for a higher level of production across the board on sites. And it's hard to be sure at the moment that that's going to be the right thing to do for 2021, given the uncertainty around unemployment and the broader economy. And so, you know, I think it will be a decision we will take through September and October about where we expect our sales rates to be next year, and that's quite a big swing factor on volume, because our focus will be on maximising the margin and optimising the price, and so actually setting out with too aggressive a sales rate target and therefore too aggressive a build target, you know, might put us under pressure. So, it's slightly hard for us to give you really good guidance on that today, because I think setting that out six months in advance in this slightly uncertain world at the moment feels wrong. And I think the swing factor is between, you know, do we target sales rates at 0.8 or do we target sales rates of 1? The reality is likely to be somewhere between the two. But as you can imagine, that's quite a big sort of balance in terms of next year's guidance. So that's, you know sort of where we sit today, and really what driven our guidance at the moment, which perhaps errs on the cautious side, but I think it's appropriate, because that decision remains to be taken in the autumn.

And therefore if we can finish there and open up for questions?

## Q&A

**Operator:** Ladies and gentlemen, as a reminder, if you wish to ask a question, please press star and one on your telephone keypad.

And our first question comes from the line of Aynsley Lammin from Canaccord. Please go ahead, your line is now open.

**Aynsley Lammin (Canaccord):** Morning, Pete. Morning, Chris. Just two from me, actually. Firstly, on the dividend, obviously you're saying you're going to reinstate the final ordinary dividend for this year. Just thinking about what that might be. I mean, is 3.8p I think is what the 2019 ordinary was, the final one. Should we use that as a starting point? Is it still kind of going to be, you know, 7.5% I think it was the number of net assets to drive the ordinary dividend, will that kind of differ if you see more land opportunity et cetera? So, just thoughts around that.

And then secondly, the kind of getting back up to normal build rates into next year, have you got any kind of idea of the impact on margin? Any of the inefficiencies? Or have you actually taken the majority of those costs within the £39.2 million? I don't know if you've got a kind of extra cost per site operating under kind of social distancing measures and a COVID-Secure environment for example? Thanks.

**Pete Redfern:** Should I take the first one, Chris, and then you pick up the second one?

**Chris Carney:** Yeah, cool.

**Pete Redfern:** Yeah, I think on dividend, Aynsley, you know, we haven't taken a Board decision, so we haven't put it in black and white. But we, we will start from the 2019 ordinary dividend as a start point for our planning. And I don't think that is likely to be flexed because of land opportunities. I think the balance sheet has enough strength and we have enough choices that that's not a swing factor. I think the only meaningful swing factor is if, you know, sort of trading conditions, you know, sort of in the back end of this year and very early next year are materially worse than what it feels like they will be at the moment, you know, and then we might look at quantum. I think we are still quite committed to paying an ordinary dividend, and I'm not expecting us to have to make that adjustment. But, you know, it would be wrong to set out in black and white dividend now when it's not a decision that the Board has taken yet. But that will be our start point in setting a number.

**Chris Carney:** Yeah. And on your – on your second question, Aynsley, you know, looking at H2, there are sort of two buckets, if you like, of COVID costs that we are likely to incur in H2. The first are, you know, the incremental costs, so the extra cleaning costs, extra PPE, extra cabin and welfare rental, you know, car parking, all those sort of things that are related to continued compliance with social distancing requirements and Government guidelines. And then the second is the cost of the extension to prelims as a result of production inefficiencies. And of course that will naturally reduce as site productivity increases over the period and we get back to normal output. So you know, you've got a sort of like a reducing balance if you like. And by the time, you know, we get to, you know, next year, which I think was your question, actually, you would expect that those costs would, you know, reduce pretty substantially. As the productivity increases.

**Aynsley Lammin:** Yeah. Right. All very clear. Thanks very much.

**Operator:** Our following question comes from the line of Will Jones from Redburn. Please go ahead.

**Will Jones (Redburn):** Morning. Thank you. Three from me if I could, please. The first obviously is a lot of moving parts behind the gross margin and the operating margin of course in the first half. But if we just step back and try and move away from volume, inefficiencies and lockdown effects and COVID and all the rest of it, when you think about the land bank gross margin today, and let's call it the contribution margin to make it easier, would you still point us to that bubble chart, obviously the land buying over the last number of years, and you know, a logical average of the last number of years? Is that still a decent pointer as to where the – I guess the contribution margin in the land bank sits today? Or is there some – some knock versus that for price versus cost, whatever the moving parts might be? That would be just helpful as a high-level view of the land bank, please.

The second I think Pete faded a bit when you were talking about price in July. I think you said you'd look at prices 1% in the month. Did that – I think in appendices we can see a 0.84 sales rate for July, so is it fair to say that the prices went up where you did it and they've been accepted, received, et cetera, and does that put you up, just for the record, 2% year-to-date because of the one that you did back in Q1, in terms of where you would say broadly speaking spot prices sit today?

And then beneath that, you've been clear about your 3% build cost guidance for the year on the P&L. Can you just give us a feel for how the spot picture is looking in negotiation, which obviously would be the effect that carries forward into 2021?

And then, sorry, this was the third question, just in terms of the volume capability, I guess you very clear here you don't want to guide the next year, and I understand that, but if you think about 100 of volumes last year becoming 60 this year in terms of unit terms, 40% down, is it fair to say that you don't need – you know, halfway back up between 60 and 100, to 20% below 2019 levels, with that–is that something that–that next year looks pretty achievable even with slightly cautious view around sales rates and build speed versus where you might be? Thank you.

**Pete Redfern:** Okay, so, I made the mistake of not writing those down at the beginning, Will, and then regretting it when we were halfway through. So I am sure that I will either need Chris or you to come back and remind–remind me of a couple. Let's start with the volume one. I think halfway between 60 and 100 probably is at the cautious end of where we are, but it's in the range. You know, sort of–so, I think we would hope it's better than that, and that will come back to the decision in the autumn around build, but – but that's the sort of low end of where we'd start and then I think sort of try and build up.

If you look at underlying gross margins and, you know, the margin in the land bank as well, if I take those as sort of one question, I think the underlying gross margins in the first quarter would always have been under a bit of pressure. We were clear about that because the sales price gain that we made from the first of January would not have affected those completions. And also because they were slightly more weighted towards the South, where the market has been generally softer and so margins were a bit lower. But, if we look at the margins in the land bank today, whether you take the, you know, implied guidance in that land acquisition chart, or whether you take our medium-term margin sort of goal at 21 to 22%, you know, sort of those are broadly consistent and we still believe those are the right level of what sits in the land bank.

The one area, and it's not price and it's not underlying sort of cost inflation, the one area which we flagged in the first quarter, which I wouldn't go away from because it isn't priced into most historic sites, is those Government regulatory costs, particularly around sustainability. So, that's the one area where there probably is pressure that isn't just an offset of various different moving parts. You know, and that's why we flagged it as a more meaningful thing. But that is not trying to guide you away from those margins if we had to do that is that. You know, when we finally see that regulation and we see where the mix of land and house price inflation is, then we'll give you sort of – we'll round that in. But that's the only area that I will flag as a – is a risk to that. You know, I think our view of the underlying margins in the land bank remains resilient.

On price, you know, we came into the year and sort of targeted a 2% increase. And as I think I said to in the trading update right at the beginning of the year, we didn't ever expect to hold onto all of that, but we've held onto 1, maybe 1.5% of that. I would say a little bit of that eroded in the early weeks of the shutdown. Not directly related to the shutdown, but just sort of mathematically. The 1% that we sort of put in, I wouldn't expect to hold onto the whole of 1%, but does that take us to about two? You know, in terms of what I would say our average prices today, you know, compared to our average price on the 31st of December? That's broadly right. You know, it does vary a lot from site to site, but that sounds broadly right. I mean, do you think that's fair, Chris? I think – I think it feels comfortable to me. Because I've looked at it as two fractured different quarters, if you see what I mean, I haven't put the two together, but that about right, isn't it?

**Chris Carney:** Yeah.

**Pete Redfern:** And I feel like there's one question in the middle there that I missed, Will.

**Chris Carney:** I think it was build.

**Will Jones:** I think it was the build, yeah, sorry.

**Pete Redfern:** Are you able to answer that one, Chris? Because I've forgotten the detail of what Will asked.

**Chris Carney:** Yeah, no, I think, Will, what you were asking was you recognised the 3% guidance for 2020, and you were more looking at what the, what the spot sort of, I suppose, rate is on current tenders? Which really is pretty flat, I would say.

**Will Jones:** Great. Thank you. And then sorry, just to complete the earlier answer, those part L, part F costs, I think it depends where the Government I think falls on one option versus the other, but it was potentially a few thousand pounds a plot, was that–from memory.

**Pete Redfern:** It was. It was. And as I said, we are starting to factor them into land, and where we've got historic land it has got a bit of selling price inflation. So, it's quite hard to sort of recognise it, and it's tricky to put an absolute number against it, but that is the one meaningful movement that affects – you know, could affect, you know, a number of sites.

**Will Jones:** Yeah. Thanks a lot.

**Pete Redfern:** No worries.

**Operator:** Our following question comes from the line of Jon Bell from Deutsche Bank. Please go ahead.

**Jon Bell (Deutsche):** Yeah, hi Pete, hi Chris. I think I've got three, actually. Pete, your line seemed to drop out at the stage when you were talking about the 1% price rise.

**Pete Redfern:** It's done that twice, Jon. It sounds like it's dropped out twice when I was talking about price, but clearly I've got a mental control over the phone line. So is it worth me just going through that again? Yeah?

**Jon Bell:** Yes please. Yeah.

**Pete Redfern:** So, we came into July and the instruction to each of our businesses was to increase list prices by 1% unless they had sites that have struggled over previous weeks to generate traction and visitors. Because occasionally you have a site where the prices are not quite right to begin with, and just adding, you know, the price to that never feels right. It was not done with quite such an absolute across-the-board, you know, sort of basis that we did it in January, but it was there – and you can see in our realised prices over the last two or three weeks that there has been a tick up in price sort of off the back of that. It's not the full 1%, and we wouldn't expect it to be. You know, when you move price, there are people who have already looked at historic prices and we tend to give ourselves a bit more leeway to trade in the short term and, you know, I would say we have to be careful with this because it's off quite small numbers, but I would say we probably held on to between half and three quarters of that 1%.

**Jon Bell:** Yeah. Okay. Thank you. My next question, just sticking with the topic of house prices, actually, I wonder what your internal bench case is the 2021. And in the stress testing that I have no doubt that you will have done, what's the head room on NAV, thinking a long way forward?

And then the final question is just on that productivity percentage number. I wonder whether you could tell us what you think that is on your London sites, please? Thank you.

**Pete Redfern:** Yeah. I mean, if I sort of answer the – the sort of, you know, our kind of base case on house prices and the London sites, and Chris you pick up, you know, sort of the–the stress test on NAV on house prices. I think our base case is flat. I think actually if you ask me to sort of–to bet some money on a number, it would be slightly up from flat rather than slightly down. But we are talking about 1%, 1.5%. Because I think, you know, the dynamics that we see today, which are price cautious and mortgage lender cautious but actually also supply constrained, you know, lead to, you know a sort of slight upward dynamic from inflation. But with downside risks to that, if we really see unemployment become such a major feature that it impacts on people's confidence about the underlying economy. And our stress-testing on pricing tends to be down to a 20% fall on a worst case market downside; but that's more of a long-run view of how we stress test rather than any kind of range of prediction for what we see as the downside case at the moment.

**Jon Bell:** And would NAVs stay intact with that kind of price movement?

**Pete Redfern:** Chris?

**Chris Carney:** Yes, so, obviously, we do lots of sensitivities around that and you keep increasing the price adjustment and there comes a point where certain sites will gradually come into that area. But to give you a feel for it, if we assumed a 10% drop in prices, the NRV resulting from that would be less than £40 million. Because, obviously, when you look at the contribution margins that you see in that land intake chart, there is quite a large headroom between the prices that land is bought at, and that allows obviously for price reductions.

**Jon Bell:** Okay, thank you. And just the productivity then on the London schemes?

**Pete Redfern:** Yes, sorry, I didn't pick that one up. It varies quite a lot, and a mainstream, fairly ordinary London scheme in Greater London rather than the centre, you know, probably is around the 80% mark; it is not massively different. It is where you get into, you know sort of Central London, particularly parking and travel constraints, tight access on sites, and actually, in the early stages coming out of shutdown, less certainty on the recovery of the market. Because, whilst London has sort of picked up during July, it was slower; so, a combination of those. You know, it's more like 65%, sort of probably 70% at best.

**Jon Bell:** Yeah, okay. Very clear. Thanks, gents, thank you.

**Operator:** Our following question comes from the line of Arnaud Lehmann from Bank of America. Please go ahead.

**Arnaud Lehmann (Bank of America):** Thank you very much, good morning Pete, good morning Chris. Probably three questions on my side, please. Firstly, just following up on one of the previous questions and coming back on slide, I think it is 16, where you give the details of your margin trends and that is very helpful. Just trying to understand what, if we take it line-by-line, what is likely to still be a bit of a headwind into H2? I mean, I appreciate the COVID-19 cost you would expect to improve significantly relative to H1, but what should we think about selling price versus the build cost, the loan mix or the share of JV profits, for example, do you still expect that to be a small headwind into H2? That is my first question.

My second question is on the land purchase; you raised £510 million through the capital raised for land purchase. Have you already identified £500 million of potential acquisitions, or is it more to give the optionality for the next, let's say 6 to 12 months if and when this opportunity arises?

And lastly, just a technical question on the extension of Help to Buy. We heard yesterday that the Government was considering extending Help to Buy in the current form I guess into next year. I assume this is just a technicality to allow all of your existing customers to benefit from Help to Buy, including, let's say, buyers of a second home or if the property price above the cap? So, they are not kind of falling out of it with the change from the new Help to Buy scheme? If you don't mind clarifying that. Thank you very much.

**Pete Redfern:** No problem; should I pick up the land purchase piece and Help to Buy Chris, and then you do the margin piece into 2020/2021? So, on land purchase it is some and some. So, we had identified at the point of the capital raise, you know, a significant number of sites. If we had looked at the pipeline, it actually was in excess of £500 million, but we would never have expected, and we were very clear on that, for all of those sites to happen. That pipeline, some sites have fallen out, some new ones have been added and some of those deals have been done.

But to give you a sense of scale, the deals that we have already committed to total in the mid-£300 million. Now that shouldn't all, and this is a fairly arbitrary exercise anyway, shouldn't all be allocated against the £500 million, because we would have expected to do somewhere around £200 to £250 million of incremental land purchases in the second half anyway. So, if you think of that, you know, sort of proportionately, that equates for a sizeable proportion of it, but it enables us enough, I would expect us to continue to be effectively using that £500 million, in both cash and commitment terms, because not all of it will be spent at the end of 2020, through certainly the next six months and potentially the next nine. So we will have boosted our land purchases of that kind of timeline. So it is a bit of both. We've identified a longer than usual pipeline, but you can't really allocate any specific site against things we might have done anyway and things that relate to that £500 million. But we have identified a significant number of sites.

And on the extension of Help to Buy, yes, I think a technical extension isn't a bad way of describing it. What I think we have all been seeking is an extension to the current scheme. And it isn't just about price caps and it being available to non-first-time buyers. Even a first-time buyer within the price cap can't just roll it forward onto the new scheme; they would have to re-apply, get a new mortgage, and that would obviously cause a lot of risk and a lot of disruption.

So, you know, anybody whose home will not be complete sort of by the end of the first quarter because of the pandemic, you know, sort of would be then affected by that. And obviously, even those whose homes were now scheduled to complete in February and March, would experience quite a lot of additional uncertainty and stress if there wasn't some kind of extension.

So, you know, the sense we get, and you see it in the press as well, is that there will be an extension; that is what has always seemed logical. I don't think it will be huge, but the truth is I don't think it will need to be. And we probably have somewhere between 150 and 200 customers in the order book who would fall into a category where they were expecting to use that scheme, they need to use that scheme and, without an extension they would struggle because of the revised completion date on the plot. So, that's why we've kind of advocated on their behalf really for that extension. Chris.

**Chris Carney:** Yeah, and on the margin recs slide, you know, when we report the full-year results that will reconcile from the full-year for '19 to the full-year to '20. And I suppose what you are asking me to do is to predict what that will look like. You know, in terms of, if you look at this half one slide, because obviously that will be a component of the full-year slide, the four biggest numbers on there being the impact of fixed element to build cost, direct selling expenses, which, as I said, have a substantial amount of fixed-cost in them, net operating expenses, which, again, are predominantly fixed-cost, and the incremental COVID costs.

You know, you would expect, as volume increases in the second half, that all of those percentages, all of those percentage-point changes, would reduce quite naturally. And then, you know, in terms of market inflation on selling prices and market inflation on build costs, well, you know, we've set out in the guidance slide that that 3% I am still expecting to be the same number for the full year. And I don't, you know, I certainly don't anticipate the inflation on selling prices being much different either, because as Pete already said, we are pretty much fully sold for this year, so you know, what we've–our completions are already in the order book for this year.

So, I suppose as you look to the second half, obviously, the margin is going to increase and that will be reflected in that margin reconciliation when we get to the year-end.

**Arnaud Lehmann:** That's very clear, thank you very much.

**Operator:** Our following question comes from the line of Glynis Johnson from Jefferies. Please go ahead.

**Glynis Johnson (Jefferies):** Morning. I have four if I may. The first one is just, given that you say the build rate is now sort of the constraint in terms of what you can do next year, I am assuming you have a reasonable idea of phasing of delivery? I am just thinking the 40% of completions that were Q4 this year, that have moved into Q1 next year. Does that mean that next year is much more evenly split H1/H2 given what you are anticipating and what you are budgeting in terms of build schedules?

Second of all, in terms of selling rates, you talk about the very low availability on your sites now for the rest of the year; when do you start selling for next year? I am really trying to just get an understanding of what we might expect the selling rate for the remainder of this year, and whether or not we will see them come off just because you don't have stock to sell.

Thirdly, you talked about the net proceeds that came through that they were net of joint venture investments. I am just wondering, can you tell us actually how much went into joint ventures, and then also give us an idea of what other cash outs we need to be thinking about for the second half of the year? Is it minimal for joint ventures? And when will we see the cladding go out?

And then lastly, Pete, you are going to wish you had written this down, if I add together all the things that I think you are telling us in margins that are related to the lockdown; so, the impact of fixed elements and build costs, net selling, net operating, incremental COVID, when we look at that in an absolute amount, that seems to come to well over £120 million. Your employment cost last year, if I just take an average monthly, was £28 million, which seems to suggest that it is much more than just the employment costs that have been the impact through the first half. Can you just give us a bit more colour on that? How much of the first half impact was just the labour cost for your direct employees that you had to keep paying, how much were the other costs?

**Pete Redfern:** Okay. I did actually write it down. I clearly, I've either learnt from Will's questions or I just know what you're like, Glynis. So, I'm not sure I've written down enough detail, but I think there were a couple in there on JV and cash for you to pick up, Chris, and I will pick up the question on phasing for next year, sales rates and selling into next year. And then, yes we will collectively come back to the margin question at the end, which I am not sure I am going to find that easy to answer without a bit of paper, sat down between us Glynis, but Chris may be able to.

So, on phasing, I think in a broad sense, we do have a sense of phasing for next year, which is to very much target, and this will be one factor in our plans for how we sort of think about total volume for next year, will be to target a much more even balanced first half to second half. And it's sort of those plots delayed from quarter 4 give us the opportunity to do that and get the balance right. So there is not an inevitability for the continual rolling pressure into Q2 and Q4. So, it's sort of a chance to address that and we will take it.

I think the slight note of caution, and it is not about that overall principle, is, we will be going through, and are at the moment, and will probably go through three iterations with our businesses of exactly what sort of build plans on which sites and on which levels, given the market uncertainty and the changes through you know sort of the lockdown period, through the course of our budgeting process in late summer and the autumn.

So, whilst, at a broad level, absolutely one of our targets is to have the right volume next year that includes a sensible first half/second half phasing, you know, and enables and gives the business a strong platform to then sort of grow from that in the right way. And in the same way as outlets, it just means that you have actually got a sound base to build on. But we haven't–that's a very detailed exercise; literally site-by-site, plot-by-plot through the business. And we have started it but it isn't complete; and it is one of the reasons why until we've gone through that and looked at what the market conditions are through the autumn, we won't decide exactly what the right balance is for next year.

I think on sales rates for next year, we have already started selling for next year, but, broadly, on an ordinary site, we don't like selling more than six months out. So, we are selling plots for completion in January. So I do think that is keeping, you know, sales rates are probably more like 0.8, 0.9 today if we had a full range of availability through the next six months, because there are absolutely, as you would expect, some customers for whom January is just not quick enough.

And, I think particularly at the moment, where people want to get on with life as much as they can, that is a meaningful factor. I do think that will continue to hold sales rates down through you know sort of the autumn, but certainly not the one a week that we were doing in 2019. Whether it is 0.7; I am not necessarily sure I expect to see them dip, because I think there will be enough rolling plots each month coming from February and March that it would probably keep it at the same sort of level. You know, but we are already starting to sell for next year, which would be normal. But inevitably, with less sales to take for this year we are probably slightly further ahead than usual. Chris, do you want to pick up the JV point and the cash point?

**Chris Carney:** Yes. So in the first half, the investment in JVs was £24 million, Glynis, and we would expect to get distributions and get probably round about half of that back in the second half. The second half assumptions, I think you were probably alluding to what have we got in there for tax and the exceptional provisions. So, tax £60 million and exceptional provisions cash payments of £20 million.

**Pete Redfern:** And then, you know, I mean, Chris, you may be able to help me on the last point. Because I understand the underlying sort of question you are asking, Glynis, but it is hard, without a spreadsheet sat in front of us, to sort of reconcile it. But the people cash costs–and that £28 million is a reasonable expense–are by far the biggest part. I mean, I tend to look at it as actually, we haven't got–it is fairly each for us to ring-fence the incremental costs, you know. It is actually lost revenue is the biggest movement.

So, you know, our underlying costs, both overhead, fixed sales costs and fixed site costs have been there through the shutdown and we haven't recovered revenue against it and that is the biggest impact. But I am not sure I can directly answer your question; I don't know if you are able to, Chris?

**Chris Carney:** Yeah. And apologies if I am not answering the right question, but I think, Glynis, you asked about the elements of the £29.9 million COVID costs that relate to the lockdown period and what element of that relates to salary costs for our Site Managers and other directly employed site operatives. So that is round about £11 million of that amount; so that hopefully helps you reconcile your question.

**Glynis Johnson:** I'll come back on that question offline, but can I just, just in terms of cash out, just so I understand, is there anything for pensions in the second half?

**Pete Redfern:** Sorry, was there any-?

**Glynis Johnson:** Anything for pensions, any of the cash out for pensions, I just wondered if that was one of the others?

**Pete Redfern:** Yes, there's a slide that you can see later in the pack that sets that out. But yeah, we'd have £20 million of deficit contributions in the second half on the pension scheme.

**Glynis Johnson:** Okay, thanks.

**Operator:** Our following question comes from the line of Gavin Jago from Barclays. Please go ahead.

**Gavin Jago (Barclays):** Good morning Pete, good morning Chris. Just a few if I could as well, please? The first one is just about the order book and whether you could provide a bit more detail on the mix in the order book, I suppose, by volume and/or value between private and affordable, and, I guess, linked to that, your expectations on the mix between the two for the full year. You have obviously said you are already 97% sold for the full year, but just to put some numbers on that would be great.

The second topic is just around back to Help to Buy, and just looking at slide 38, there is obviously a spectrum in there on the percentage of units within the price cap, so, I just wondered maybe your views, Pete, just on where you think the risks and/or opportunities, of course, would lie as we move towards the new Help to Buy scheme, assuming that it stays where it is in March/April.

And then the final one was just on any more detail on regional demand, I guess particularly since the stamp duty changes have come into play. Thank you.

**Pete Redfern:** Yeah, no problem. If I sort of almost work backwards through those and then, you know, I haven't got the order book mix to hand, Chris, but you can then give that out. I think on regional demand, I don't think there is any big regional differences that are obviously if I look broadly over the course of the last eight or ten weeks. I think, you know, Scotland and to a lesser extent Wales, lagged in terms of physical opening, so sales rates did lag there. But I don't really put that down to any difference in attitude or demand that was just a different approach from Government to you know, returning to site after COVID.

I think one area that I would pull out is London, where, you know, as you all know, we've seen London, you know, sort of particularly prime London, but to a certain extent, other parts of London and the more expensive parts of the South East lag behind the rest of the UK, certainly in transaction numbers, probably in price growth as well, you know, over the course of the last couple of years, and before that Central London prices actually falling.

I would say in the very early stages of returning to site London was also slow to come back. Whether that be because you know, sort of, there was more sensitivity around London and public transport around Coronavirus itself, because it was seen as a hot spot, whether it be because there was still a residual Brexit uncertainty or whether it be because part of London, you know, in terms of it links into the international market. I would say over the last three or four weeks, generally, that trend has gone, or that difference has gone and London has caught up, potentially, arguably even moved ahead slightly, although I wouldn't place a great deal of store in that, but that sense of London being weaker than elsewhere isn't there today for the first time in quite a long time.

I think on the price caps, you know, obviously the sort of, the move to the next phase of Help to Buy has had some risk. I still personally think it's a risk–you know, if you look at it from an overall resilience stability of the housing market which I see as in our interest–I think it's a risk worth taking, in the sense of, you know, if you take the view that we're going to have to, you know, move away from or reduce our dependence on Help to Buy at some point, I'd rather it was in stages and, you know, that's therefore a perfectly sensible stage. I do think there's quite a strong argument that some of the price caps, particularly the North East, you know, run at slight odds with the Government's own agenda about levelling up, you know. If I'm honest, I think there's a slightly London-centric perspective on what they should be trying to do in the housing market in certain regions. So, this is specific about some of the regions around, you know, actually, you know, if you look at the North East, what North East needs to level off is actually, more better quality housing, not more first time buyer housing, and so, you know, sort of it, kind of works against that slightly. But that's more of a political kind of, detailed argument.

I think from our point of view, we just see it as something to manage, you know? It sort of means the scheme won't be as prevalent in the medium-term. I think that's a good thing because I don't like the level of dependence on it in the short-term; it will be something that we have to adjust. But I've been, I think, very consistent and very clear, you know, I think the short-term extension is fair and logical and necessary; a longer-term decision, you know, should depend on what the conditions are at the time and needs to be thought about very carefully, because it has longer-term negatives as well as the obvious. If all you're focused on is your own house builder P&L for the next year, of course you'll want to continue forever. If you've got a broader, longer-term view of the business and the value in it, you've got to deal with that dependence on, you know, sort of, Government support for your customer at some point, and it's not a bad way to do it. Chris, are you able to give the order book split?

**Chris Carney:** Yes, of course. So you know, the volume of the order book at the end of the half was 11,686 and the private element was 6,567.

**Gavin Jago:** That's great. Thanks very much.

**Pete Redfern:** And hard for us to meaningfully steer you as to what that split might be at the full year; I've no reason to think that it's going to dramatically change from that proportion or the norm but, you know, there may be a dynamic there. There's a slight difference but nothing obvious that think about today.

**Gavin Jago:** Excellent, thanks very much.

**Pete Redfern:** No worries.

**Operator:** Our following question comes the line of Gregor Kuglitsch. Please go ahead.

**Pete Redfern:** Gregor, just before you ask your question, I think we probably for time's sake should make, you know, yours the last of the questions. I've got one other question that's been asked from somebody who couldn't join in, which I'll answer after we've dealt with yours. But sorry Gregor, back to you.

**Gregor Kuglitsch (UBS):** Okay, well, looks like it just about made the cut then. So three questions please. So the first one, obviously, there was no call at the time of the equity raise but could you just kind of flesh out or kind of outline a little bit in terms of land and basically, to what level of size and potentially how much capital you're prepared to tie up? Maybe, I don't know, if you thought about it in plots of or balance sheet value, could you just give us a bit of a sense, you know, as compared to the, you know, 75,000 plots that you're currently at roughly or like, I think 77,000 actually as of H1, how much, you know, do you think they can run up to essentially, before it kind of starts unwinding, I guess, but from 22 onwards?

So, that's first question. Second question is on the margin point, just coming back. I guess what we're learning here is maybe the obvious, that, you know, obviously, there is more fractionalisation of fixed cost and so on than just the pure opex but, I guess my question is, in order to achieve that mid-term target of, whatever, 21, what kind of volumes does the business actually need to deliver? Because obviously, that–those are, I think, more interlinked than we all, perhaps, thought.

And then, finally, on the dividend, I seem to remember there was a 7.5% of NAV and 250 million minimum maintenance dividend commitment pre-COVID; just to clarify the question, I think it was Aynsley's question earlier, is that what you're talking about when you're kind of, talking about a return? I guess it is but just for clarification's sake. Thanks.

**Pete Redfern:** Yeah. Yeah, no. If I take them again in reverse order. On the dividend, yes, that is what we're talking about. I think, you know, we're being reasonably explicit on the ordinary dividend, that's where we start. I think the question was asked earlier in pence per share, and I think we are conscious that having raised capital, simple maths, we've got more shares, so I think, that's the right way to think about it rather than absolute pound notes, because I think, you know, our sense is where we're expected to get back to is the same pence per share. You know, I'm just, sort of slightly, very slightly cautious, and it really is slight at this point on, you know, giving an absolute number for next year now, but that's roughly what we expect.

I think on the special, that's where we would expect to get back to. You know, we haven't started to think about quantum and look at it, you know. I've no reason to just–I'm not trying to stare you down, it just is a different question for a different day and I'm just not sort of ready to talk about quantum on that at this point.

I think on margin it's a very broad brush answer, you know, but I'm going to say sort of 14.5, 15, you know, sort of, which I've seen as sort of roughly the underlying stable number of, you know, sort of business can comfortably operate at. That is not maximum, you know, but it's also not, sort of, the low point to, sort of, that's almost inherent in that margin guidance.

I think I would argue that, you know, it should be pretty obvious that there's quite a lot of fixed cost at a site level, you know, sort of, but that's not particularly a concern or relevant over the long-term, you know, but it's very relevant over the short-term, certainly over three months and probably over 12 to 18 months. And what I mean by that is our sites are set up to be able to deliver, you know, sort of higher than normal volume. You know, we put a lot of work into that and, actually, a lot of training and, you know, sort of recruitment and retention into the people. And actually, you know, losing those people at this point in the very short-term, particularly through the crisis when, you know, sort of you don't quite know where it's going to end up, would have been very, very, very short-sighted. If actually we decided that the long-term level of site operation was lower we'd have less people per site, you know, sort of, but that's not where we are and not what we expect, but we do have to be a little bit patient to let it get back to the normal level. And we are finding that, you know, sort of, level of, you know, sort of, site management cost onsite very useful in managing, you know, quality and, you know, sort of the health side of the crisis when we go through it, but it does give us a slightly bigger fixed cost per site.

I think that's an asset as we return to normal, and I'm not going to cut it out just, you know, for 2020 performance, but if we get half-way through 2021 and, actually, the market's nothing like normal and those are unrealistic sales rates to achieve, then we have to look at that and address it, you know. So it's a timing thing, but I think it's an asset, but in the short-term it's a cost that we have to cover, if that makes sense. But, you know, there's always, obviously, been fixed costs on site but they're set up for a slightly bigger level of site.

And going back to land, you know, and these are very broad brush, you know, sort of £500 million, £10 million per site, 50 sites, average size 200 units, 10,000 plots, which answers the direct question about where the land bank could get to. The mix will depend on how, you know, in terms of how much strategic land comes through. Those 26 sites are not, for the most part, strategic sites. There's a bigger mix towards, you know, more immediate acquisitions in there than usual, but that's the sort of metrics that we, you know, sort of, are comfortable with. So it's not a massive step change but it is a change, and it gives us the ability to, you know, sort of grow the land at an opportune time and, you know, have higher outlet numbers and, you know, in most market conditions, higher outlet numbers give you choices.

**Gregor Kuglitsch:** Thanks a lot.

**Pete Redfern:** No problem. The other question that I had sort of offline from somebody who couldn't join, but I think we'll listen to the call later so I'll answer so that they can pick it up, is there has obviously, been mathematically, you know, an investment in work in progress and particularly, with the lower trade creditors in, you know, sort of working capital –

**Chris Carney:** Pete, you've dropped out again.

**Pete Redfern:** – is that a permanent or a long-term thing, or reverses; it's absolutely not permanent.

**Chris Carney:** Pete? I can't hear you.

**Pete Redfern:** I don't think it's long-term. It will take a bit of time to reverse. I would certainly expect for the time–

**Chris Carney:** Pete, we–

**Pete Redfern:** I lost you – you lost me there, didn't you? I could tell. I would certainly expect by the time we get to the middle of next year, but that would largely, if not totally have reversed, but you know, will depend a little bit on production and [BREAK IN AUDIO]. Shall we wrap up there? Chris, is there anything that we touched on– as we've gone through those that we should finish with?

**Chris Carney:** Sorry, we just lost you again right at the end there, Pete.

**Pete Redfern:** I don't know why you're suddenly losing me. It's–I was just saying is there anything, you know, sort of, that we should wrap up with that we haven't covered–

**Chris Carney:** No.

**Pete Redfern:** – or should we just close the call?

**Chris Carney:** I think, we've covered quite a lot.

**Pete Redfern:** Great. Right, thank you everybody. Thank you for the time and look forward to, hopefully, a point when we can do one of these in a bit more face-to-face and in person, and take care.

[END OF TRANSCRIPT]