Crest Nicholson plc
Preliminary 2024 Results

Tuesday, 4th February 2025

Introduction

Martyn Clark

CEO, Crest Nicholson

Welcome

Good morning, everyone, and welcome to my maiden full year results presentation as CEO of Crest Nicholson. It is good to see you all here today. I am joined by Bill, our CFO, you all know well.

Agenda

In terms of structure of the meeting, I will give a brief introduction. Bill will go through the numbers. Then I will spend some time taking you through my first impression of the business and some of the initial actions that we have taken over the last eight months.

I will also provide my views on the opportunities that exist at Crest and the changes that need to be made to strengthen the business so we can capitalise on these, thereby delivering value for our shareholders and other stakeholders.

Experience

Before I start, I just wanted to provide you all with a brief overview of my experience in the industry. I spent almost 40 years in the housebuilding sector, first with Bloor Homes and then with Persimmon. As you might imagine, throughout that long career, I have had a wide range of operational and commercial leadership roles around the UK. That culminated in my most recent role where I was Group Chief Commercial Officer at Persimmon.

I really enjoyed getting to grips with things and I am confident of a positive outlook for the business, but to make most of that potential there are some things that we need to change. I will touch upon some of those today.

We are also planning to hold Capital Markets Day on 20th March when we will provide more detail on the forward-looking strategy for Crest, which is based around three strategic pillars:

- Building homes of exceptional quality;
- Delivering outstanding service to customers; and
- Optimising the value within our landbank to enhance returns and margins.

Executive Summary

Looking back at 2024 today, we have announced results which are in line with guidance issued at the start of my tenure. Whilst disappointing and not where I want them to be in the future, we have delivered these results within the context of the challenging macro environment, the change in CEO and CFO, and more impactfully to press, having been in an offer period for some months over the summer.

As I am sure you all understand, this offer period was a big distraction, but that is behind us now, and I am encouraged by the traction we have been getting with some of our changes I brought in. But of course, as these results demonstrate, there is a lot more to do.

Legacy fire-related provisions have hung over the entire industry for some time, and Crest has not been immune to this. It was a priority for me when I joined to provide more clarity on those issues, and you will see from the announcement we made on that. It is critical for everyone inside and outside the business to accelerate the completion of the surveys, which in turn inform the cost reviews.

With this information, we can ensure that we have the financial resources to meet our commitments, and it means everyone can start to now look forward.

Legacy non-fire-related issued also weighed heavily on Crest's performance over the last few years. Our most notable site, Farnham, finally achieved practical build completion in September. This has been a very challenging and costly development, where many important lessons have been learned by the business. However, the majority of residential units are now occupied with less than 13% of remaining apartment to sell over the next 12 to 18 months.

There remains a number of low-margin sites in the portfolio that are still to be traded through, but these have been replaced with new more profitable sites.

A couple of other points I would like to make by way of summary. It is fundamental that the homes we build and the customer experience we provide reflects our brand. We are on track to deliver a five-star rating for last year, which is great, but I see significant opportunities to enhance the overall customer experience going forward, while, of course, retaining a resolute focus on controlling costs and enhancing our margin.

The stand out for me in the period was the improved cash position of the business. There is still more to do at Crest with regards to our work-in-progress management. We will give some more sense of our plans on how we are going to improve on that today and at the Capital Markets Day.

Linked to that, one of the things which first struck me when I arrived was the reduction from planned margin to operational margin. That is the margin we expect to achieve at the point we acquired the site versus the margin we achieve when we build out the site. This is due to a combination of strategic decisions and weak oversight of key commercial and operational controls. We need to change that and I have introduced a range of initiatives to better manage this and hold our team to account. This will underpin our margin forecasting going forward.

We enter 2025 cautiously optimistic. We have all had the challenges facing the industry over recent years, and we work with the new government rhetoric around housing delivery targets. What I would say from our meeting with the government is that, some of the early signs are encouraging, but the enormity of the challenge should not be underplayed. Planning consents are never easy to obtain, but Crest have had some long overdue successes recently. Sites that have been slow to progress have obtained positive resolutions at global committees.

Shortly after the change in government, a number of sites within our strategic landbank received a draft allocation. Build cost inflation has moderated to near zero, which means we have better visibility of our cost base. But the most critical factor is customer confidence. It is obviously very early days, but the anecdotal signs for 2025 are encouraging.

Some of this is our own making. It means we enter 2025 with forward momentum, albeit with a lot of work still to do. We have set 2025 as a year of transition, aimed to reset the business on solid foundations, with a strategy that focuses on the customer whilst embedding strict commercial and financial controls in order to leverage the strengths within the landbank. Successful execution of that strategy will deliver sustainable shareholder value.

I will hand over to Bill and then come back after he has go through the numbers with you.

Financial Review

Bill Floydd

CFO, Crest Nicholson

Financial Summary

Bill Floydd: Thanks, Martyn. Good morning, everyone. This morning, I will take you through financial summary of the year, give you some more detailed insight into the combustible materials charge and provision and then take you through the guidance for FY 2025.

Here you can see the key financial headlines. At the back of the presentation is the full income statement, as well as the balance sheet, the cash flow and some other analysis you might find helpful.

Overall, this was a disappointing year, but given the distractions and challenges, we are pleased to have reported adjusted profit before tax within the guidance range and better-than-expected outcome on net debt. Revenue for the year was £618.2 million, down by 6% on FY 2023. I will have more sales metrics for you on the next slide.

Gross margin fell from 16.1% to 14%, substantially as a result of £7.3 million of completed sites charges, but also reflecting broadly flat sales prices across the year and some further NRV provisions, although on a much reduced level to previous years. As a result, the adjusted profit before tax fell to £22.4 million.

Exceptional items were £166.1 million, and I will take you through these on a separate slide. Adjusted basic earnings per share was 5.6p. On the dividend, the Board has proposed a final dividend of 1.2p per share, bringing the total to the year to 2.2p per share. Deviated from a policy in FY 2023 to maintain the same level of distribution as FY 2022, the Board has, as expected, reverted to a stated dividend cover of 2.5 times adjusted earnings.

We were pleased to beat our guidance on net debt with the year-end coming in at £8.5 million. This reflects a combination of closer management of WIP and some deferral of land payments as planning slipped.

On sales metrics, average outlets were 44, down from 47 in the previous year, with the pace of new outlets continuing to be impacted by the challenges of obtaining planning. The open market sales rate was 0.48 compared to our planning assumption of 0.45.

On completions, we delivered 1,873, of which 238 were at the joint venture sites. After the seasonal lull in reservations around Christmas and the New Year, we have been encouraged by the volume of inquiries, appointments and reservations in recent weeks.

Sales Metrics

Sales for FY 2025 as of the end of last week stood at 1,051 across all unit categories. The details of the exceptional items are as follows. The combustible materials charge, including imputed interest was £137.8 million. Separately, we recovered £4.4 million from the subcontractor and have multiple other claims in progress. We do not recognise any recoveries until the cash is received.

Exceptional Items

There has been little substantive progress on the legal claim against the Group in respect of an apartment block that was damaged by fire in 2021. As such, the only change to the provision is legal fees. I do expect the case to progress in FY 2025, either through remediation or the case coming to court. This assessment does not include any recovery the Group may make from insurance subcontractors, but does include an assessment of areas where we believe the claim is overstated.

On completed sites, we have concluded the work that we commenced in H1. In aggregate, the charge in the year was £32.3 million compared with our estimate at the half of £31.4 million, with £25 million included as an exceptional charge. These costs are included in the balance sheet in either accruals or provisions depending on the nature of the cost, and I would expect the cash to be spent over four to five years.

The Group has also written off this remaining freehold inventory as we await the outcome of the government's review on ground rent practices. This charge is £5.7 million. The tax credit on exceptional items was £48.2 million. And as such, I do not expect the Group to pay any cash out on tax until FY 2027.

Fire Remediation

Provision made for expected costs on all known buildings in scope

We have made good progress in our assessment of the overall obligations that the Group has on combustible materials and are now in a position to estimate the expected costs across all known buildings. Overall, there are 291 buildings in scope. We have an initial assessment on the vast majority of these buildings. But more importantly, we have completed 211 detailed FRAEW surveys, which relates to the external walls and are carried out by independent qualified fire engineers.

Where we are not satisfied with the initial survey, we undertake a second survey. Using the experience gathered on these surveys, we have been able to estimate the expected cost for unsurveyed buildings. We expect to complete the remaining external surveys by June 2025, ahead of our commitment to government in the remediation acceleration plan.

Included in the provision are:

- All the costs for all known buildings;
- Internal and external work;
- Build cost inflation;
- Project management costs; and
- Our best estimate of known risks.

Balance Sheet

Moving on to the balance sheet. We now aim to give you greater colour on the makeup of the inventory balance, which reflects that close to 60% of the balance is land. This is a higher proportion than the business of Crest scale requires with too much of the land on large and capital-intensive sites.

Work in progress has reduced from £361.3 million to £334.1 million. This reflects the completion of some of our low-margin apartment schemes, but also the early benefits of tighter control on site commencements and materials on-site disciplines.

Our stock of completed units has increased from £89.6 million to £102.9 million. This is largely a result of completing build programmes on apartment schemes, which we will now progressively sell over the next two to three financial years.

We have made some good progress in cleansing the part exchange portfolio and are now starting to see this balance reduce. Part exchange is an important lever for our sales teams, and with better controls now in place, I would expect to see further improvements.

As a reminder, the Group's committed debt facilities are an RCF of £250 million, the maturity of which we have extended by 12 months to October 2027 and an £85 million private placement with the next repayment being £20 million in August 2025.

Cash flow

Overall, we are getting sharper focus into the business on the importance of cash and return on capital employed, and I would expect us to continue to improve the efficiency of the balance sheet to support the Group's committed cash outflows.

Overall, we have made some good improvements in the year on our cash management. We have improved our forecasting process and accuracy, as well as starting to improve our WIP controls. The key benefits have come through in working capital with a reduction in land and WIP balances. And given the Group's profitability position, we have recovered all overpaid tax.

FY24 Financial Summary

In summary, FY 2024 has been an extremely challenging year for the group. I would like to thank everyone at Crest for the hard work and resilience in getting through the year. Having now made substantial progress in closing out the build of most of the legacy sites and providing for all known costs on the completed sites and on fire remediation, the business can now move forward with a stable baseline.

FY25 Guidance

Finally, turning to our guidance for FY 2025. Here, I have given you our high-level planning assumptions. We are targeting an uptick in open market sales volumes with the benefits of our sales training programme, specification upgrades and a modest improvement to the market, all supporting this growth.

Conversely, we are less focused on PRS and affordable volume. As a result, overall volume will be slightly lower to flat. The forward order book for FY 2025 stood at 1,051 units at the end of January and planning is in place for almost all units. We are starting to see some sales price improvement, but it is hard to say at this point how much is from our own initiatives and how much is market-driven.

On gross margin, I anticipate a slight margin mix improvement with a reduction in revenue from low and zero margin sites from around £100 million to around £50 million. Given our seasonality and the profile of unit delivery, I expect around 30% of EBIT to be delivered in H1.

Interest charge will increase to between £10 million and £12 million with the Group being in net debt throughout the year.

We are guiding adjusted PBT to between £28 million and £38 million. On cash, I expect a year-end net debt position in the range of £40 million to £90 million with the peak being at the half year. The key assumptions on cash for the year are land payments of around £120 million, offset by some land disposals as we start to reshape the portfolio to focus on smaller sites and an improvement in WIP.

We expect to spend around £70 million on delivering the combustible remediation programme and a high level of interest payments, but no tax payments of note and return to the Group's stated dividend cover of 2.5 times adjusted earnings.

With that, I will hand you back to Martyn.

Operational Update

Martyn Clark

CEO, Crest Nicholson

First Impressions

Thank you, Bill. What I would like to start with is an objective sense of my impressions about Crest Nicholson and to outline what we have to work with and what we can make better. I will then touch upon some of the actions we have already taken and my priorities in 2025. Within that, I will also talk through the changes I have made, how we are managing the fire remediation work and how we have accelerated things.

Good land portfolio

Positive starting point is that we have a strong land portfolio. I have spent some time working to understand what a good site looks like for Crest and the characteristics of sites that have delivered an appropriate margin and return on capital employed.

The majority of the land portfolio is well aligned, and there is no doubt that it can underpin the growth of Crest over the medium term. However, some of those sites are very large, impacting our work-in-progress, our return on capital and our ability to grow outlets.

We need to objectively review the options available to us on each of these sites, maximising the potential within our land holdings.

Strong Brand

We also have strong brand. One of the first things that I did was to undertake a programme of customer research, both with our own customers, but also in the market more widely on how customers perceive Crest.

I was really encouraged by the brand awareness being high and consumers having positive perceptions of the brand, including its more premium proposition. We can certainly leverage that and lean into it more and we have some exciting plans around that. We are currently in the process of taking this research one step further with a view to understanding what customers want to ensure this is incorporated into our house type and layout designs.

People

Crest positioning in the market and the product we deliver is a key operational priority in mind. I have been encouraged by the dedication shown by the teams within Crest over what has been a difficult year for them. Uncertainty for anyone is clearly an unwelcome distraction. But through my regular engagement meetings, I am confident that we will have a team of people that are embracing the changes needed as we reshape our strategic goals.

Operational efficiency gaps

There is a big opportunity to improve the efficiency and level of controls across the business. We have started to bring in new processes and a high degree of rigour in how we do things, but there is much more to be done. Frankly, some of this needs to go hand-in-hand with cultural change. These changes cover the entire process from how we identify and buy land, how we design our sites efficiently, the controls and standards to which we build our homes, how we work with suppliers and rigorously monitor and control costs through the journey our customers experience.

These changes will close the gap currently we have between the product and brand value. I describe it as an opportunity because I know what we need to do and how to do it, but we still need to execute and this will take some time.

Ultimately, what it comes down to is the requirement for a clear and distinct strategy, which reflects Crest's valuable land and brand, the opportunities in the market and current operating environment. We all know that the recent years have been very challenging for the industry from COVID through to the macro, but I am here to look forward. I know the strengths of the business, and I know what we need to work on. We have made some encouraging progress already, but there is more to do and we are going to Capital Markets Day in March to talk you through that in more detail.

Delivering an outstanding customer journey

In the meantime, let me talk you through the direction of travel. It can sound a little obvious, but I mean this, delivering a seamless customer journey is fundamental to building a successful housebuilding company. If there is one thing which I have reiterated over and over again, where I have really focused my time and energy, is on making sure everyone associated with the business understands how much importance are based on this and then by default maintaining a five-star rating and underpinning strong demand for Crest product.

We have made some internal organisational management changes and introduced clear metrics and measurement processes in order to develop a proper understanding of our customers, their needs and preferences and ensuring that our proposition matches these. This ranges from robust inspection at every stage of the build process through to having dedicated site teams to promptly address customer issues.

With a dedicated system to track and enhance response times, ultimately, we want to support and showcase our proposition for our customers from the first contact and beyond. And we are improving how we operate to do just that.

Building homes of exceptional quality, efficiently

I talked a bit earlier about our brand positioning and the gap between that and the specification to which we are building homes. In recent times, frankly, I do not think we are always selling a product that match those expectations, which impacted sales and values achieved.

What are we doing about that? Going forward, we have upgraded our core specification offer based on feedback along with more flexible options that will meet those customer demands and reflect our brand positioning. These revised specifications to our open market homes are aimed at driving value and hence profitability and improved sales rates.

We have already carried out a lot of internal training with our sales teams and changed their incentivisation packages to reflect the customer experience we want buyers to have. And in the process, this will also enhance the profitability of the business.

Critically though, it is not just that touch point with the customer. We have done a lot of work on the whole customer journey. From the moment they go onto the website and make initial inquiry to the sales journey and then the post purchase care. We all know word of mouth can be very powerful, and we want our customers to feel Crest is supporting them through what is one of the largest financial commitments they will ever make.

Therefore, build quality is a fundamental pillar in our growth strategy. I talked about the disconnect between the brand and what we are producing and how we are going to address that gap. We have already put in place monitoring processes and methodologies, which means our overall build programme will be more controlled and measured going forward. We are investing in our IT infrastructure and business information tools. We now have available systems that provide better visibility on performance and issues covering everything from customer service to production to quality reporting and our financial functions.

Alongside that, we have also strengthened and continue to do so our reporting tools and refocused our senior team to actively manage this. We have also increased the focus on physical build quality and the education site teams and our supply chain.

And finally, we have externally benchmarked our work against independent NHBC Construction Quality reviews, providing both challenge and confidence to our colleagues. I see that as an important part of the cultural evolution we are driving across Crest. I am encouraged and appreciative of how many have responded so far. To date, solid progress, but again, there is more to do.

Optimise land portfolio

I touched upon the landbank a little earlier in my presentation. We have a strong landbank, and I can see how it will underpin sustainable growth for Crest over the medium term. However, it is also important to understand where Crest is today. Some of the land purchases in the past might have been very good deals considered in isolation, but I am not sure they all fit into the cohesive strategy that Crest needs to have a sustainable, profitable future.

One or two of the sites are in the wrong location. For example, they might be too far away from any of our divisional offices, which means oversight is difficult or the size of the site might mean the cash requirements are too large for a business of that current scale.

We are going to review all of that and almost certainly restart some of that land which does not fit with our forward-looking strategy. Equally going forward, we are going to have a cohesive land acquisition strategy, which aligns with our overall strategy, reflective of our brand, our customer needs, building a product we know we can build and located in areas where we can deliver commercial and operational excellence rather than think about land on a more ad hoc basis and then trying to or assuming we can make these individual elements work.

Centralised fire remediation team

Expedite progress and enables build focus

Fire remediation. One of the areas that caused some uncertainty around Crest relates to the legacy fire provision. One of my first actions was creating a dedicated central team, which is currently oversight on everything that we are doing on the remediations.

Previously, it was done with a mix of Group-led initiatives, which were delivered and controlled by the divisional businesses. This central governance regime has allowed us to be more efficient and we have accelerated the rate of assessments, which has allowed a review of the fire provision, which covers all 291 building scope.

The result is that our internal programme aligns closely with the government requirements as set out in the joint plan. Centralisation of this important area will also enable divisional businesses to focus on new home delivery and do that well.

The other point to make that whilst Crest has taken its obligation seriously, we expect others to do the same. We will diligently pursue all claims against any third party that has contributed to any of the deficiencies found within these buildings.

Sustainability & social value

I talked a lot about building homes for customers and putting Crest on a long-term profitable and sustainable footing. Obviously, there are different connotations to sustainability from fiscal to social. Ultimately, I am committed to creating great places for our customers, communities and the environment.

In 2024, we achieved good progress in key areas of our sustainability strategy, positioning us well for future challenges. First, we continue to take action to reduce our greenhouse gas emissions. We have reduced Scope 1 and Scope 2 emissions by 18% compared to 2023, making up to 63% reduction since 2019. We made significant progress in reducing emissions from site operations, including a reduction in our reliance on generators by the use of alternative fuels.

Additionally, Scope 3 emissions intensity dropped by 9% this year and 6% against our 2019 baseline. This will continue to decrease as more homes aligned with the Future Homes Standard.

Secondly, on waste, we exceeded our target by cutting waste intensity by 35% versus 2023. This was driven by better waste management processes and policy compliance.

Finally, future ready for future regulations. Air source heat pumps have been introduced across several developments, preparing us well for the forthcoming Future Homes Standard.

Biodiversity net gain, which came into force in 2024, is embedded early in our land acquisition and planning processes. Therefore, as we look ahead, we remain focused on reducing carbon emissions, enhancing biodiversity and delivering high-quality energy-efficient homes for our customers desire.

Summary 2024

A couple of slides for me to finish summarising 2024 and then reminding you of our future focus through 2025 and beyond.

I am encouraged by the traction and results that some of our initial changes have generated, and it confirms to me that we can make Crest the better, more sustainably profitable business. As importantly, significant progress has been made on the legacy issues. They are obviously difficult subjects, but we provided within the fire provision for all known buildings in scope and have clarity on other site provisions.

I know that we walked some of you around our Farnham development in November, and you can see how that has finally come together. All of this means that we can start to look to the future and what does that hold for Crest.

Outlook and future focus

Having spent eight months in the business now, I think the path for Crest to have a successful, sustainably profitable future is pretty clear. We know that we can deliver that, and in doing so, deliver value for our shareholders and other stakeholders.

It requires:

- Leadership;
- Strategic clarity;
- Better controls and processes;
- Consistency in execution; and
- Customer-first culture based on accountability and transparency.

And as I say, I think we have made a fair start, but it will take time before I am satisfied that all levers are being pulled effectively.

Success is going to be based on excellence in each of our strategic pillars. That means having a first-class customer experience from the initial inquiry through to when they become the owner of one of our homes. It means having a product that is built to an exceptional quality that appeals to our customer and reflects our brand and our product that we can be proud to sell.

It is important to continue to improve our operations and processes and intend to make the business far more sophisticated in terms of how it leverages data and systems to drive positive commercial and operational outcomes.

Finally, we need to optimise the potential within our quality land bank to ensure that it shape reflects the need of the business and support sustainable growth. The combination of all those things that ultimately will make a better margin on the houses we sell, combined with better sales rates and less operational inefficiencies, all aimed at driving profitable and sustainable growth and maximising shareholder returns.

We look forward to continuing the momentum that we have started to build through the second half of 2024 and invite you to our Capital Markets Day on 20th of March. So you can see in practice what I have been talking about.

With that, I would like to hand over to questions.

Q&A

Aynsley Lammin (Investec): I have got three actually. Just firstly, can you elaborate a bit more on recent trading interesting comments maybe sales rate over the last couple of weeks, how price and incentives have evolved during the start of the year?

Then secondly, Martyn, just going back, I think you were saying that there has been a problem with the planned margins and then the delivery of the operating margin. Just want to clarify that. Is that more just control over build costs and general controllers delivering products at the margin that was targeted, but the actual landbank, the land was bought on a sensible margin and you can deliver that, if you reinstate proper control still in the build cost?

Then thirdly, just on the ASP with the guidance for FY 2025, should we expect a step up in the blended ASP, given it be less bold sentence?

Bill Floydd: So recent trading, multiple weeks, sales rate is 0.63. We are achieving better than budgeted sales prices on average. We have done a lot of work over the last six, nine months to train up the sales team, make some specification changes to the homes.

I feel like there is a lot of self-help in this. It is really hard to tell when the market does feel more positive. We are getting more inquiries through. So how much is us and how much is the market? It is too early to tell at this point, Aynsley.

On the ASP, yes, I mean, I expect the overall blended ASP to shift up a bit because we will do more open market private homes and less affordable than PRS. There is still quite a lot of apartments to go through in there. So it is going to be tempered a bit by that.

Martyn Clark: Okay. The latter part of your question, no, I do not see any problem with the embedded margin within the landbank. What I have seen is that, we tend to start sites perhaps a little bit too early, appointing contractors maybe that have not been fully tendered, how will the issues closed out, and we then expose ourselves perhaps to claims that could have been solved early.

We tend to do things more than once too often that cost money. We need to build better in the first place. So it is a combination of making sure that we can tender right, build right first time better margin than we expected.

Glynis Johnson (Jefferies): Four, if I may. The first one, just in terms of those lower margin completions you are guiding to in 2025. How much of that is actually apartments? Is it 400 apartments working?

Bill Floydd: Yes, it is not as many as that because there is obviously houses in there as well. But yes, look, the low-margin site revenue is going to go from about 100 down to 50. The bulk of that is apartments.

Glynis Johnson: How many apartments is in the mix going forward, excluding those that are built already?

Bill Floydd: Excluding those that are built already, there are very few that are going to be built here that are not affordable.

Glynis Johnson: Second one is in terms of the shift you tend to do [inaudible] selling to private. Are you talking about selling the units that were originally bought and planned to be bulk as private? And is that possible? Is the spec right, or does it require extra cost at these lower margin?

Bill Floydd: This is more in the past have done bulk units in a hurry to either generate cash or generate profit. But we are going to be a bit more thoughtful about that going forward.

Glynis Johnson: Just in terms of peak net debt, you said in the first half this peak net debt in that guide or is peak net debt above that?

Bill Floydd: Little bit high[?].

Glynis Johnson: And then just the last one, the land value. You take your land value [inaudible] comes out at 48,000 give or take seems quite low actually given your relatively southern exposure. Is that land value including all of those 13,000 plots they all owned on the balance sheet? And is there a big skew between big sites and what you might see as your sites going forward in terms of size?

Bill Floydd: There was a lot questions in that. You had four questions, you had about 10 questions. Can you just repeat them again?

Glynis Johnson: The land value including all 13,000 plots in the consented land bank or some are not yet open.

Bill Floydd: Yes, [inaudible].

Glynis Johnson: And is there a big skew in terms of the price, the plot cost between the big sites that you have and what might be going forward the type of size of site you might be looking for?

Bill Floydd: But there is half a dozen sites which carry a big width number.

Glynis Johnson: Land with.

Bill Floydd: Land, but yes.

Glynis Johnson: Plots?

Bill Floydd: Yes.

Will Jones (Redburn Atlantic): I will try three, please. One was, I guess, just extending the last one around the landbank and I suppose 14,000 plots ish, 670 million[?]. Do you also have seven, eight years of supply, I mean, which of those do you think will change going forward? Maybe hold the plot count and grow it but [inaudible].

Martyn Clark: I think we need to look at the whole portfolio of something that we are doing at the moment. It is mathematically looks like you've got seven-year book of land, 14,000 divided by 2,000. But in reality, some of those sites have very long tail. So we need to reshape it to make sure that if we are going to have [inaudible] deliver over say six or seven years, some of it over the next 20 years, some of it may be over five years. So the whole thing at [inaudible].

Will Jones: Second, just around the strategic initiatives and you talked about investing in sales force and build quality. Just wondering whether there are any costs associated with that and how that might shape up versus what may be overhead savings you can make the other one.

Martyn Clark: Yes. I do not think it is costing us anything to train either build teams in reality. I think where we have been not very successful is, we have been selling properties based on achieving a target number of homes rather than the rest of them. I think we definitely need to have refocused the sales team to achieve closest to the market for us maximum discount level that they can go to.

Similarly, the build costs, what I have looked at is the amount of money we are actually spending on doing things all at once and it is quite significant. If I can drive that cost down and drive the customer care cost down, then that will improve.

Will Jones: The last one just around net debt. Potentially year to October 2026. Do you think really superior than the 75 or so fire outflows, the net debt rises again that year? And just more generally, is there anything around the fire safety obligations that you think will be an impediment to the strategy [inaudible].

Bill Floydd: Not giving guidance on medium term, but I would expect us to keep net debt in a range medium term of plus 50 to minus 50. I think we have got adequate resources to live within that range and obviously go up during the course of the year with the working capital flows. But keeping in that range of close to zero. My sense is, we have got more than enough opportunities to keep it in that range, keep buying the land, but have they all land that we can sell them relatively quickly rather than hold balance sheet for 10 years.

Speaker: I have got three questions as well. Should I go one on one or should I?

Martyn Clark: Fine with one on one.

Speaker: In terms of landbank margins, you say good at the end, you said great. Can you give us a number? In terms of strategy execution, you said it would take some time. Is it two to three years, three to five years? When should we start seeing some level of results? And then in terms of the last one just capacity per division, where do you see this?

Martyn Clark: Okay. If I do three and three first and then think about the landbank margin. The strategy execution time is down. It depends on which area we are looking at. So some of it might take three years, some of it might take six months. There are many things that we have got to look at.

If I refer back to my comment on sales training and making sure we are trying to achieve the maximum we can for our homes, then one of the factors of that is making sure that we are building right and specification is right and that we have already implemented and are seeing progress on that already.

The landbank, we have identified some sites that we consider do not fit our current strategy. We have got to work plan whether we to sell those or sell part of those. That will take a bit longer.

And then other things like house type design or whatever we look at, obviously, they have got to work their way through the planning system. That will take a number of years. So depending on which metric you look at and which area we need to focus on [inaudible].

In terms of capacity for each operating division, I mean, look, I have worked in areas, businesses that have done 700-plus division that is ongoing. I have worked in some that are doing 300. It depends on the product. But as an average, 500, again, depending on the location of the site, which is what we need to address, depends on the product that goes with it.

Bill Floydd: Oaky. The landbank margin is 23%.

Charlie Campbell (Stifel): Just a couple of questions from me. 14,000 plots in the short term landbank. Just help us understand the shape of it ahead of March? How many sites is that? Do you have that number?

Martyn Clark: Not off the top of my head. It is probably going to six weeks, will give you some plans that show where they are and what size they are, that might make a bit of sense rather [inaudible].

Charlie Campbell: Just thinking along those lines. Then secondly on quality and product, how do you square that with standard house types? Can you keep standard house types and quality of homes?

Martyn Clark: Absolutely can. To a degree, if the more you standardise the more you consistent quality. But I think what we need to do is ensure that there is two things really that our product is what our customers buy. That is house type design. And once you then got a set range of house types to make sure you execute that consistently.

We are not super, we need to improve. That is why we are four-star, HBF survey. This year we are training a five-star. Hopefully, when the results come out this time probably, we are five star in 2024.

Charlie Campbell: Do you think we have to have another look at the standard house types that you have got, just the range?

Martyn Clark: Yes. I mean, I spent quite a bit of time getting some external market research done on seeing what customers want. I now need to look at the house types we are building to make sure that they match standards that we receive where there are gaps, we are going to use new house types, where there are obvious house types that are within our range at the moment, they do not need to be in our range. So arguably going from 20 to 25 house types does not mean I am going to go up to 50 or 60 or 70. It just means that core range will change its shape.

Samuel Cullen (Peel Hunt): Just one follow-up. You said six larger [inaudible]. Can you tell me how profitable they are relative to the rest of the Group more or less profitable in margin terms?

Bill Floydd: On average, slightly better. But probably we can [inaudible] more risk.

Martyn Clark: Okay. Thank you very much for taking the time to come see us this morning. 20th March is only six weeks away. Look forward to seeing you then. Thank you.

[END OF TRANSCRIPT]