

## CHAIRMAN'S STATEMENT

At a time when the UK needs a substantial increase in home building, it gives me great pleasure to report strong growth for Redrow. Turnover comfortably exceeded £1bn for the first time and the number of new homes completed rose to 4,022, a 12% increase over last year and 42% increase over 2013.

### Financial Results

Group turnover rose 33% to a record £1.15bn (2014: £864m) for the financial year. Whilst this included £65m of turnover from the sale of commercial property, freehold reversions and land, our core housing turnover was itself up 26% at £1,085m (2014: £861m). This was due to a 12% rise in legal completions to 4,022 (2014: 3,597) and a 13% rise in average selling price to £269,800 (2014: £239,500).

Gross margin improved from 21.7% to 23.8%, as 88% of our completions came from sites purchased post downturn with normal margins and as house price inflation exceeded build cost inflation, particularly in the south of England.

Operating profit was 54% higher at £213m (2014: £138m). This equates to an operating margin of 18.5% (2014: 15.9%), exceeding our 2017 target of 18% two years early.

Operating expenses again increased in absolute terms as we continue to invest in growing the business and opening new divisions. However, as a percentage of turnover, they have further reduced from 5.8% in 2014 to 5.3% in 2015. We expect to maintain overheads at between 5% and 5.5% of turnover going forward.

Pre-tax profits were up 53% to a record £204m (2014: £133m).

Net assets increased by 22% to £849m (2014: £696m) and Capital Employed rose 16% to £1,003m (2014: £868m). Return on Capital Employed improved from 18% to 22.8%, again beating our 2017 target of 20% two years early, and Return on Equity rose from 20.5% to 26.4%.

We continue to invest significantly in land and work in progress. We have increasingly negotiated deferred terms on many of our land purchases and have also purchased more land on a subject to planning basis. This, together with our strong operating cash generation, has enabled us to reduce our net debt to £154m at the end of the financial year, giving gearing of 18.1% (2014: 24.8%). We expect net debt to increase in the current year with ongoing investment in inventory.

Given the excellent financial performance of the business this year, whilst we continue to invest in growth, the Board is proposing an increase in the final dividend to 4p per share (2014: 2p), making 6p per share for the full year. Subject to shareholder approval at the Annual General Meeting, this will be paid on 13 November 2015 to shareholders on the register at the close of business on 25 September 2015.

## **Market**

Demand for new homes has been strong throughout the year, although there were the normal seasonal variations.

The Government's Help to Buy scheme remains a major driver for the industry to increase output and in this financial year 1,374 (40%) of our private legal completions utilised the Help to Buy scheme, up from 1,023 (35%) last year.

Mortgage availability and mortgage rates continue to improve, whilst the Mortgage Market Review rules appear to be delivering more prudent lending.

The sales rate for the last financial year was robust at 0.68 per week, albeit slightly lower than the peak of 0.70 in the 2014 financial year, when Help to Buy had its initial impact. As I have previously stated, we expect growth in the business in the future to come from increasing outlets, rather than sales rate. To that end, I am pleased to report that at the end of June 2015 we were operating from 117 outlets, 14% more than June 2014 when there were 103.

The total value of private reservations secured in the year amounted to £1.1bn, including our Joint Venture (JV) site at Croydon, an increase of 5% over the previous year. All regions performed well and our order book at the end of June was a record £565m (including our JV site), an increase of 13% over last year.

Last year I reported that due to the roll out of the Regent Collection and Abode, together with apartment schemes in and around London, we expected the proportion of turnover accounted for by our primary brand, the Heritage Collection, to reduce over time to 70%. In 2015 the Heritage Collection accounted for 76% (2014: 77%) of private turnover. The successful roll out of the Regent Collection continues and it now represents 4% of private turnover (2014: 1.6%). Around 20% of turnover is derived from bespoke schemes and we now have a number of Abode developments under construction.

## **Land and Planning**

During the year we secured 5,892 new plots, of which 1,975 were converted from our forward land bank. At June 2015 our current land bank totalled 18,216 plots, a 9% increase on the previous year. The average plot cost has increased to £70,000 (2014: £63,000), primarily as a result of a change in geographical mix of the land bank, with over 50% of plots being in the south of England compared to 44% in June 2014. This plot cost equates to 23.5% of our current average selling price, broadly in line with previous years. The percentage of provisioned land in the land bank has now reduced to 2%. By June 2017 it will be zero.

The Local Plan process has noticeably improved since the introduction of the NPPF; however, Local Plans are still taking far too long in many parts of the country. We welcome the Government's 'Fixing the Foundations' initiative aimed at pushing Local Authorities into taking their housing delivery responsibilities seriously.

Converting forward land holdings into new sites remains a key driver for the industry. Last year there was a noticeable increase in the number of outline planning approvals. However, gaining reserved matters and detailed planning consents is still taking far too long. Increasing housing supply in the UK is dependent on increasing the number of outlets; yet, despite the increase in headline planning consents, the number of outlets in the industry has barely grown. This situation will not improve until the burden of red tape associated with needless planning reports and conditions has been removed.

We welcome the principle of the Government's Starter Homes Initiative and eagerly await the details of how this will be delivered. Getting first time buyers and young people onto the housing ladder is fundamental to the health of the owner-occupier market.

## **People**

As the business continues to grow we have again expanded our workforce significantly. In the last year we have added over 300 direct jobs (2014: 232) across all disciplines, an increase of 23%. Indeed, in the six years since I returned to the business in 2009, the number of people directly employed has increased by 999 to 1,651. The number is, of course, very substantially higher when indirect jobs from our subcontractors and suppliers are added. The new homes industry continues to create significant economic growth for the benefit of all our stakeholders and the whole economy.

As has been widely reported, one of the biggest constraints to growth for the housebuilding industry is the shortage of skilled labour. Redrow continues to take a lead role in developing the next generation of workers at all levels. This year we have had a record intake of new recruits; 83 apprentices, 28 graduates and 32 specialist functional trainees. We are constantly creating new ideas to develop skills; for example we have introduced, in partnership with Glyndŵr University, a Higher Apprenticeship scheme for engineers and designers which starts with a BTEC Diploma and can lead to a full degree. In total, 250 direct employees are trainees in various disciplines – at 15% of our workforce, this is the highest ratio in the home building industry.

I am delighted to welcome Sir Michael Lyons as a Non-Executive Director, who joined the Board with effect from 6 January 2015. In 2014 Sir Michael chaired the Lyons Housing Commission to produce a road map for increasing house building in this country. Prior to this, following a long and distinguished career in local government, Sir Michael was Chairman of the BBC.

The continued growth and success of the Redrow business has been achieved through the hard work and commitment of our people. I would like to thank them for their efforts and continued support in delivering our strategic objectives.

## **Current Trading and Outlook**

Assisted by Help to Buy, demand for new homes continues to be strong and

indeed, this strength in the market is reflected across the country. Redrow is committed to continued growth and to contribute to increasing the number of new homes built.

We have a strong pipeline of attractive sites in excellent locations and a high quality industry leading product. We have entered the year with a record order book and reservations to date are running 5% ahead of last year at 0.68 sales per outlet per week. We have secured 820 (2014: 640) private reservations in the first 10 weeks, some 28% ahead of last year.

Redrow is in great shape and I am looking forward to another year of significant progress.

Steve Morgan  
Chairman