

Chairman's Statement

Redrow delivered a robust performance in the first half of the year, delivering yet another set of record results. In the last six months legal completions increased by 13% to 2,459 adding to the country's much needed supply of new homes.

Financial Results

In the first half of the 2017 financial year Group Revenue increased by 23% to £739m. Legal completions, including our Croydon Joint Venture, increased by 281 homes from 2,178 to 2,459 and for wholly-owned sites the increase was 238. The average selling price of our private homes increased by 12% from £306,000 to £344,000 mainly due to geographical mix, with 47% of turnover being generated in the South of England, compared to 38% in the first half of last year.

As a consequence of the mix change, a reduction in impaired sites and net house price inflation, gross margin increased from 24.2% to 25%.

Overheads rose from £36m to £41m, given the further growth in the business. However, due to efficiency of scale, they reduced as a percentage of turnover from 6% to 5.5%.

Operating profit increased by 31% to £144m (2016: £110m) and pre-tax profits were 35% higher at £140m (2016: £104m). Earnings per share at 31p were 35% up on the previous year (2016: 22.9p).

The half year Return on Capital Employed improved to 24% (2016: 21%) and Return on Equity improved to 25.4% (2016: 23.7%).

Net debt at the end of December 2016 was £56m (June 2016: £139m), giving gearing of 5%. We expect a modest rise in our net debt position in the second half, as a result of the recent Radleigh Homes acquisition and our ongoing investment in the business.

As a result of the strong earnings and cash performance of the business, the Board has decided to pay an interim dividend of 6p per share (2016: 4p). The interim dividend will be paid on 5 May 2017 to holders of ordinary shares on the register at the close of business on 24 March 2017.

Market

Demand for new homes remains strong throughout the country, on the back of improved mortgage availability and competitive mortgage rates in the last six months. The strong demand, together with the Government's commitment to increasing housing supply, gives us every confidence in the pursuit of our growth strategy. In the first half of the financial year 865 of our private reservations utilised Help to Buy, up from 746 in the same period last year.

The value of private reservations in the first half increased by 13% on a like-for-like basis (27 weeks) to £777m (2016: £688m) resulting in a record closing order book of £897m, up 35% on a like-for-like basis from December 2015.

Our sales rate per outlet per week over the 27 week period was 0.66, up 5% on the 0.63 for the same period last year. The consequence of the faster sales rate was that a number of sites sold out earlier than expected. As a result, and despite opening more outlets than forecast, we were operating on 122 outlets at the end of December 2016 (2015: 121) rather than the 127 planned. The number of outlets should increase notably in the second half. As always, however, this is subject to progressing a considerable number of sites through the planning process, which unfortunately remains as ponderous as ever.

Land and Planning

As a result of the substantial increase in our owned and contracted land in the last financial year, together with the timing of land purchases this year, we secured 1,760 plots for our current land holdings in the last six months. Of these, 1,352 were converted from our forward land pipeline. Over the same period our forward land pipeline has remained unchanged with the potential for 25,600 plots, with the land transferred to current land holdings being replaced by new additions.

In February 2017 we acquired Radleigh Homes, a regional housebuilder based in Derby. Radleigh Homes completed 188 homes in the year to December 2016 and has a pipeline of over 1,300 plots with planning, and a further 1,200 plots controlled under options in its strategic land pipeline. Radleigh Homes is an excellent fit given its geographical location and its high quality market position, similar to Redrow. This acquisition will form the basis of a new regional division for the Group: Redrow East Midlands.

People

The ongoing growth in the business has resulted in our directly employed workforce exceeding 2,200 people, including over 300 apprentices and trainees. Despite our commitment to develop our own talent, there continues to be a shortage of skilled labour in the industry. Redrow is at the forefront of actively encouraging young people to enter the industry and develop successful careers across all disciplines. It is essential that our example is followed industry-wide if we are to resolve this issue.

Our committed team continue to support the business as it grows, for which I thank them and I would also like to take the opportunity to welcome the Radleigh employees to Redrow.

Current Trading and Outlook

We are pleased to update our medium term guidance as a result of the strength of our order book and sales rate, the recent acquisition of Radleigh Homes and lower net debt expectations. In 2019 we expect to deliver turnover of £1.9bn, an operating margin of 19.5% and earnings per share of 77p.

We entered the second half of the current year with a record order book, with many of our sites sold five to six months in advance. The strong advance sales have the effect of limiting availability; nevertheless customer traffic and sales remain robust and the sales rate since the beginning of 2017 at 0.73 is in line with last year. Our growth strategy is firmly on track, giving me every confidence this will be another year of significant progress for Redrow.

Steve Morgan
Chairman