Group Chief Executive's Statement

Overview

The Group delivered a strong first-half performance whilst continuing to operate under strict COVID-secure procedures. Completions were 20% ahead at 3,065 homes (2020: 2,554). During a period of intensive activity to rebuild output, it is pleasing to report we have maintained high levels of customer satisfaction and I am grateful to our teams for their ongoing hard work and commitment during these challenging times.

As a result of the high number of completions and resultant reduction in work in progress, the Group reversed an opening net debt position of £126m to end the first half with net cash of £238m. The Group has previously signalled its intention to resume dividends in 2021 and the Board has declared an interim dividend of 6p.

We have seen a strong sales market during the first half driven by a combination of pent-up demand from the first national lockdown, the introduction of the Stamp Duty holiday and the impending end of the Help to Buy scheme for existing home owners. Demand in the regions for our Heritage homes has been particularly high as more buyers reflect on their lockdown experiences and prioritise space in their homes and access to green areas. The private revenue per outlet per week on a like-for-like basis in the first half (excluding PRS) was 13% ahead at £274,000 (2020:£243,000). As a consequence, we entered the second half with a total order book of £1.3bn (2020: £1.2bn).

Last year we announced our intention to scale down our London business to focus solely on our flagship Colindale development. We have to date exited four of the six sites not in build and expect to exit the remaining two before the end of the financial year.

Our financial performance

Group revenue was £1,041m in the first half compared to £870m last year due to legal completions increasing from 2,554 to 3,065.

The growth in completions benefited from very high levels of work in progress carried into the new financial year and a record opening forward order book following the first national lockdown.

Private completions of 2,430 were ahead by 365 and affordable completions at 635 were 146 higher than the same period last year. Affordable homes comprised 21% (2020: 19%) of total completions. The private average selling price was unchanged at £387,000 (2020: £387,000).

The gross margin at 21.3% (2020: 23.9%) was below the level in the same period last year mainly due to higher build cost as a result of COVID measures. However, it was ahead of our guidance for the 2021 full year gross margin of 20.5% due primarily to tenure mix. The full year guidance remains unchanged, as the second half margin will be impacted by completion of two PRS apartment contracts from the lower margin London build out developments and a higher proportion of affordable housing.

Administrative expenses reduced from £49m to £44m as a result of a number of cost saving measures undertaken in the final quarter of the last financial year due to COVID-19. Administrative expenses in the second half are expected to increase reflecting the Group's investment to rebuild and grow the business. As a result, we are expecting the full year operating margin to be approximately 15.5%.

Operating profit increased from £159m to £178m, as a direct result of the increased turnover, and pre-tax profit was £174m (2020: £157m). Earnings per share were up 10% at 41.0p (2020: 37.2p).

At the end of December 2020, the Group had net cash of £238m compared to net debt of £126m at the end of June 2020 as we converted our high level of brought forward work in progress into completions. Whilst we have significant deferred land payments in the second half together with investing in new sites to grow the business, we still expect to end the year with net cash of over £100m.

Given the Group's cash position and order book, the Board has resumed dividend payments with an interim dividend of 6p (2020: 0p). The interim dividend will be paid on 9th April 2021 to holders of ordinary shares on the register at close of business on 26th February 2021.

Strategy underpinning demand and customer satisfaction

The changing trends in home ownership, accelerated by COVID-19, align with Redrow's Heritage product and 'Better Way to Live' philosophy. Our differentiated strategy taps into customers' changed priorities that balance work, home and the local community into a more sustainable lifestyle.

As a result, Redrow's larger, quality family homes - located in great places with plenty of open space - are proving more desirable than ever before.

The alignment of these trends with our unique product and places generated strong pent-up demand across our divisional network as we emerged from the first lockdown. Demand has remained resilient with strong forward sales secured beyond the cut-off dates of the existing Help to Buy scheme and the Government's Stamp Duty holiday.

Whilst reservations for the Group as a whole were unchanged year on year, those for the ongoing business, comprising the regions outside London plus Colindale (excluding PRS), was up 6% at £819m (2020: £772m) and the sales rate was up 11% at 0.69 (2020: 0.62). We will continue to target growth in the regions to offset the scaling down of the London business.

The successful Help to Buy scheme, in its current form since 2013, has helped thousands of people take a step onto the housing ladder and move-up into homes that better match their needs. It has now closed to applications and a new scheme has been launched restricting participation to first time buyers and capping prices on a regional basis.

The price caps favour buyers in the south of the country where they are considerably higher. Notwithstanding this, it is pleasing to note that as we progressed through the first half, reservations were not materially affected by these changes as our homes are targeted more at second time movers who often have larger deposits and an element of equity. Help to Buy was utilised on 44% of our private reservations in the first half (2020: 42%) (excluding PRS).

The market remained strong and we are seeing house price inflation across all of our operating areas except London.

We welcomed the Chancellor's introduction of the Stamp Duty holiday, which is expected to end on 31st March 2021. It is an important initiative, which has led to a positive economic ripple effect beyond the new homes market. The success of the holiday illustrates that high levels of Stamp Duty deter buyers and we continue to urge Government to undertake a reform of the tax to make homes more affordable in the longer term.

In its current form, Stamp Duty is an arbitrary tax, which inhibits mobility and reduces the liquidity of the housing market. Ultimately, it penalises those looking to relocate for work or wanting to downsize as part of retirement plans. Stamp Duty needs to be reformed to help the housing market work more effectively and to stimulate more transactions, which will in itself drive tax generation throughout the home buying supply chain of estate agents, solicitors, removals, furnishings etc.

Despite a 20% increase in turnover in the first half, we have continued to maintain a very strong order book. At the end of the first half, we had a record December total order book of £1.3bn (2020: £1.2bn) of which 72% is contracted.

Outlets averaged 116 (2020: 129) and the value of private reservations per outlet per week (excluding PRS) was 13% ahead at £274k (2020: £243k). Combining our higher than industry average selling price together with our strong sales rate continues to deliver industry leading reservation values per outlet.

Brexit and COVID-19

Following the UK's exit from the European Union, we have not experienced any disruption to our supply chain and we anticipate cost inflation to remain at around 2% to 3%, which we expect to be offset by house price inflation. Our long-standing supplier and sub-contractor relationships and tight cost controls both help to mitigate cost pressures.

Operating within a further national lockdown continues to present challenges. Our sales centres are open on an appointment-only basis, with comprehensive COVID-19 measures in place. Most of our office-based colleagues are working from home and, if required, can self-isolate at home whilst continuing to work. There has been some impact on build as an increasing number of subcontractor colleagues are unable to work whilst self isolating. We expect to see this situation improve as the country's overall COVID-19 infection rate decreases.

Over the last decade, we have been implementing an IT strategy with fully integrated and bespoke online services, including online reservations, tablet-based quality management systems and online customer extras. This investment has proven to be invaluable during COVID-19 helping customers and colleagues alike to connect with Redrow online. This has helped to maintain high levels of customer service and endorsed the Group's COVID-secure procedures.

We are pleased to have launched our Homeowner Support portal where customers can review helpful videos, see warranty information and log and upload photos of any issues for review and action.

The new system provides clear and accurate information for our customer service teams. Once the system is fully utilised we will be able to analyse data highlighting common faults, frequency and location so we can work with our teams to eradicate recurring issues.

Once again, we will retain our Five Star customer service rating. Our customer recommendation score is trending well above the previous closed survey year (2020: 91.9%). We have now held this award for eight out of the last eleven years and for the last three years consecutively. We continue to perform well on Trustpilot with an 'Excellent' rating with 4.6 stars from over 2,000 reviews.

Launch of Redrow 2025

During the period under review, I launched 'Redrow 2025.' Every Redrow colleague is being tasked to reimagine how the business should, and will, look in five years' time with a focus on innovation and embracing new ways of working.

These ideas will be captured underneath our three strategic pillars: Valuing People, Building Responsibly and Thriving Communities. These themes are embedded within our business and all colleagues have a clear understanding of how they contribute to them - ensuring that sustainability is woven into our business strategy and culture.

Again looking to the future, and in these difficult times when young people have been particularly hard hit, I am very proud of the fact we have recruited an additional 32 graduates, and a new intake of 19 sponsored degree students and maintained our apprentice numbers at around 210. In total, we now have 330 trainees within the business.

We are currently trialling new technology as we prepare for 2025 and the introduction of the Future Home Standards, which will see the removal of fossil fuels used within a new home. At the same time, our 'Reduce the Rubble' project is investigating how we can reduce waste during the homebuilding process.

Land and Planning

Our positive outlook for the future gives us the confidence to invest in land to rebuild and grow the business, including the replacement of the outlets from our previous London holdings.

The Group added 2,284 plots with planning and the owned and contracted land holdings with planning closed at 26,130 plots (June 2020: 27,000 plots). The Group is processing a sizeable pipeline of sites with terms agreed and we therefore expect acquisitions to accelerate in the second half.

Due to the nature of our product, we continue to invest in primary locations across the country. In the period, we have increased our strategic land holding which now contains a number of large key sites, which will support the company's growth targets. These larger holdings are expected to transfer in whole or part to our current land holdings over the next 12 months.

Board Changes

In advance of John Tutte's retirement ahead of the forthcoming AGM, the process of recruiting a new Chairman is progressing well.

Current Trading and Outlook

In the six weeks to 5th February, private reservations in terms of value have averaged £265,000 per outlet per week (2020: £298,000). This is below a very strong comparable last year and is also being affected by reduced availability of product created by the strong forward sales position. The private sales rate of 0.67 per outlet per week (2020: 0.78) is however in line with our long term expectation of trading within a more normal market.

The acceleration of changing buyer trends, which are completely aligned to Redrow's strategy, point to a positive outlook for the business. Our private forward sold position of £750m beyond the end of both the original Help to Buy scheme and the Stamp Duty holiday, demonstrates the resilience of our target market and the desirability of our product and the places we create.

Our people, sub-contractors and partners have embraced our comprehensive COVID-19 measures, which have been embedded into every aspect of Redrow's operations. I would like to thank them, once again, for their hard work, understanding and continued passion to deliver our high quality products and places.

These fundamentals, alongside the encouraging progress being made to tackle the pandemic, mean we can look confidently to the future and fulfil our ambitions to rebuild and grow the business.

Matthew Pratt
Group Chief Executive