Chairman's Statement

This is my first Chairman's Statement since taking up the role at the beginning of April and I am delighted to be able to report that Redrow for the sixth consecutive year has delivered record results.

The Group completed 6,443 new homes passing the 6,000 milestone for the first time. The Group also celebrated handing-over its 100,000th home last November.

Financial Results

Group revenue grew by 10% to £2.1bn (2018: £1.9bn) as a result of a 13% rise in legal completions driven by a 55% increase in social housing output which accounted for the average selling price falling by 2% to £324,500 (2018: £332,300). The private average selling price increased by 2% to £389,500 (2018: £380,200) due to geographic mix and a small element of house price inflation.

Gross profit at £504m was £35m above last year: the gross margin reduced slightly to 23.9% mainly due to the increase in the proportion of social housing. With overall house price inflation barely covering underlying cost increases we have instigated a number of cost saving measures to maintain margins.

Operating expenses increased to £93m (2018: £87m) reflecting the investment in the new Thames Valley division which became fully operational at the beginning of July 2019. As a percentage of turnover operating expenses were fractionally lower at 4.4% (2018: 4.5%).

Operating profit was £411m, an 8% increase (2018: £382m) with an operating margin of 19.5% (2018: 19.9%).

Pre-tax profits were a record £406m, up 7% (2018: £380m) and earnings per share increased by 8% to 92.3p.

The Group's excellent trading performance led to strong cash generation and resulted in a cash positive position of £124m (2018: £63m) at the year-end after making a special pay-out of 30p per share under a 'B share' scheme in April. Return on Capital Employed was maintained at 28.5% due to tight control of working capital and negotiating favourable payment terms for land.

Due to the Group's ongoing strong cash position, the Board is proposing a final dividend of 20.5p per share (2018: 19p) making 30.5p for the year (excluding the 'B share' payment): a 9% increase on the prior year. Subject to shareholder approval at the Annual General Meeting, this will be paid on 13th November 2019 to all shareholders on the register as at close of business on 20th September 2019.

Market backdrop

The wider housing market continues to be affected by the uncertainty surrounding Brexit and the high cost of moving, particularly the burden of Stamp Duty Land Tax. During the year residential property transactions across the UK reduced and are currently running well below historical levels. House price inflation remains subdued with most indices only reporting small rises.

Against this more challenging backdrop, the new homes market has been less affected and remained comparatively resilient. The Group entered the new financial year with a strong order book of £1.02bn: a decrease of £129m largely as a result of previously reported weaker trading towards the end of the first half and lower volumes and average selling prices in London.

Market fundamentals remain encouraging. There is an undersupply of new housing, the mortgage market remains competitive and Help to Buy continues to support buyers of new homes. In the last financial year Help to Buy accounted for 1,881 private reservations (2018: 1,794). The scheme is now being more widely used in London where it has generally replaced investor sales.

The Government made an announcement during the year about the future of Help to Buy. With effect from April 2021 the scheme will only be available to first time buyers and regional price caps are to be introduced. The scheme will end in March 2023. The regional price caps if unaltered, will adversely affect the ability of first time buyers to acquire homes through the scheme in the more affluent areas of the north and midlands – this goes against the initial intention of the scheme when it was launched in 2013, to make homes more affordable across the country. London will be least affected by the changes in 2021 but, unless the scheme is extended or transitional arrangements are put in place, will be impacted most in 2023 as a consequence of the growing take-up and the higher equity loan available in the capital.

The Group's strategy to mitigate the impact of the changes to the Help to Buy scheme in 2021 and its demise in 2023, is to build on the continued success of the Heritage Collection to attract more buyers from the secondary market who would not ordinarily consider new. The Heritage Collection offers the character and space considered by many to be absent from new homes and, when combined with great placemaking, has a broad appeal to a wide range of customers.

Land and planning

During the year the Group added 7,371 plots to the owned and contracted land holdings. Of these 2,909 were converted from Forward Land holdings. After taking into account completions, the Group's owned and contracted land holdings with planning increased by 936 plots to 28,566 (2018: 27,630). The Group's Forward Land holdings increased by a net 800 plots to 31,500 (2018: 30,700). The Group is maintaining a cautious approach to land buying and will continue to do so until there is more certainty around Brexit and the outlook for the economy.

This more cautious approach combined with ongoing delays in the planning system, is inevitably having an impact on the rate at which new outlets are coming on-stream. However, our shift to acquiring and developing larger sites offering a wider range of product is helping to mitigate this by delivering better rates of sale.

During the year we launched our placemaking guide *Designing a Better Way to Live.* The guide sets out eight design principles that steer our teams to creating truly great places to live – the guide is very much a pragmatic and customer facing response to the Government's growing interest in design quality.

Quality and customer service

The significant investment we have committed to both improving the build quality of our homes and the service our customers receive in recent years is paying-off. Last year we regained our five star status in the annual HBF Customer Satisfaction Survey with a recommendation score of over 90% and a Net Promotor Score of 50.3 – one of the highest in the industry. It is also very pleasing to report that a record 28 of our site managers won NHBC Pride in the Job Awards.

People

As our growth moderates in line with our strategy, so does the need to expand the workforce. We created an additional 40 jobs in 2019 and we now directly employ 2,325 people. Of these 15% are trainees. During the year we recruited over 160 trainees including 107 apprentices.

It is encouraging to see a broader range of diversity across our workforce including more female apprentices. It is also a testament to our learning and development programmes that during the year 226 colleagues were promoted to positions of greater responsibility.

Our excellent results are very much down to the hard work and dedication of the Redrow team together with our subcontractors and suppliers, and I am immensely grateful to them all for their ongoing commitment to the business.

Board changes

During the year Steve Morgan stepped down from the Board almost ten years to the day since he returned in March 2009. Steve founded the business in 1974. His insightfulness, determination and leadership have been fundamental to the Group's growth and success. We are all indebted to him for his huge contribution to Redrow and the wider housing industry and we wish him all the best for the future.

Debbie Hewitt also stepped down from the Board after nine years' distinguished service. The Board would like to thank Debbie for her significant contribution throughout her tenure and wish her every success for the future.

As part of the reorganisation of the Board following Steve's announcement to step down and my appointment as Executive Chairman, Matthew Pratt was promoted to Chief Operating Officer and appointed to the Board in April 2019. Matthew has worked for the Group for 16 years at all senior management levels and has a wealth of operational knowledge and experience.

For the first time, the Board recently undertook an external evaluation of its performance. Whilst the evaluation concluded the Board and its committees operate well, a number of recommendations to improve performance were suggested and are all being implemented.

Outlook and summary

Since the start of the new financial year, trading has been encouraging and the demand for our homes is strong with reservations running ahead of last year. Additionally, we have exchanged contracts for a further PRS scheme at Colindale Gardens adding 347 plots to an already substantial order book.

Over the course of the past year, the Group has worked alongside its supply chain to identify any disruption the business could experience in the event the UK leaves the EU without a deal. Our suppliers have both increased stocks of imported goods and put in place plans to source materials from alternative suppliers.

We are understandably cautious about the post-Brexit future and also the eventual impact of the impending changes to the Help to Buy scheme. We do however have a clear strategy to continue to grow, albeit more modestly, centred on our award winning Heritage Collection that is so popular across a broad range of buyers.

We entered the new financial year with a strong order book, an excellent balance sheet and a pipeline of new outlets. Notwithstanding the political and economic uncertainty we face, based upon trading over recent weeks, we have every reason to be confident that 2020 will be another successful year for the Group.

John Tutte
Executive Chairman