

CHAIRMAN'S STATEMENT

November 2014 marks the 40th anniversary since I founded Redrow and it is now five years since I returned to the business. It is quite fitting and pleasing, therefore, that I am able to report a significant increase in turnover and pre-tax profits, both of which are a record for the Group.

Financial Results

Group revenue rose 43% to a record £865m (2013: £605m) for the financial year. This resulted from a 27% rise in legal completions to 3,597 (2013: 2,827) and a 13% rise in average selling price to £239,500 (2013: £212,300).

Gross margin improved from 18.8% to 21.7% as 80% of our sales volume came from sites purchased post the downturn on which we have made normal margins.

Operating profit was £137.5m (2013: £73.2m pre exceptional expenses) an increase of 88%. This represents an operating margin of 15.9% compared to 12.1% in the prior year.

Operating expenses continue to increase in absolute terms due to our ongoing investment in growing the business. However, as a percentage of turnover they reduced from 6.7% in 2013 to 5.8% in 2014.

Profit before tax increased by 91% to £132.6m (2013: £69.4m) giving a pre-tax return on sales of 15.3% (2013: 11.5%). Underlying earnings per share were 28.6p, up 83% on last year.

Net assets increased 14% to £696m (2013: £609m) and Capital Employed rose 24% to £868m (2013: £700m). As a consequence, Return on Capital Employed rose from 12.2% last year to 18% in 2014 and Return on Equity similarly rose from 12.3% to 20.5%.

Due to ongoing investment in land and work in progress net debt rose to £173m at the end of the financial year, representing gearing of 24.8% (2013: 14.9%). We expect net debt to increase further in line with ongoing inventory investment.

As a result of this strong performance, whilst at the same time continuing to invest in growth, the Board is proposing a final dividend of 2p per share (2013: 1p). Subject to shareholder approval at the Annual General Meeting, this will be paid on 14 November 2014 to those shareholders on the register at the close of business on 26 September 2014.

Market

The housing market has been robust throughout the last financial year as the Government's Help to Buy schemes have enabled many people to purchase their own home for the first time. During the year 1,023 (35%) of our private legal completions were under the Help to Buy scheme (2013: 82). A large proportion of these were first time buyers and over half were in the north of England. As these statistics show, Help to Buy is providing assistance where it is needed most.

The continued growth of the business, accelerated by the Help to Buy scheme, has enabled us to further increase our workforce. In the last year we have added over 230 direct jobs across all disciplines, an increase of 21%. The number is substantially higher when indirect jobs from our subcontractors and suppliers are taken into account. The increase in new homes activity is undoubtedly creating economic growth from which the country is benefiting.

Mortgage availability has also improved and we welcome the introduction of the Mortgage Market Review (MMR) which should ensure prudent and sustainable lending for the long term.

The summer months of 2013 saw Help to Buy activity at its peak, with reservations running at particularly high levels. This year the period from 1st July to date has seen a more normal summer selling pattern.

The sales rate for the last financial year reached a level of 0.70 per week (2013: 0.62). Now that Help to Buy has settled down we do not expect any further increases in sales per outlet. Further growth in the business now needs to come primarily from growth in outlets rather than sales rate.

An increase in the number of outlets is absolutely necessary to enable Redrow, and indeed the house building industry, to increase the supply of new homes to meet the country's needs. At the end of June 2014 we were operating from a total of 103 outlets, which is a 12% increase over June 2013 (92 outlets).

In total, the value of private reservations secured during the year amounted to just over £1bn, an increase of 53% over the previous year. All regions performed well and our order book at the end of June was a record £482m (June 2013: £260m), an increase of 85%.

I am delighted to report that our London division made its first significant contribution to the Group, generating £124m of revenue in the year. In total there were 293 legal completions, including 70 affordable apartments, from our developments at One Commercial Street and Kingston Riverside.

Due to the growth of the London business, the percentage of private turnover represented by our primary brand, The Heritage Collection, reduced as expected to 77%. In 2014 we launched a new contemporary housing brand, Abode, which has been very well received by customers. Additional information on this can be found in the Operating Review. We expect to gradually roll out both Abode and the Regent Collection, which was announced last year. The new brands, together with the continuing growth of London, will result in the Heritage Collection reducing to about 70% of completions during the year. The average selling price of a Heritage home is now £257,300, 11% higher than last year due to mix change, more completions in the south and some modest price inflation.

Land and Planning

During the year we secured a total of 6,092 new plots, of which 2,139 were converted from our forward land bank. At June 2014 our current land bank totalled 16,724 plots, an 18% increase on the previous year. The average plot cost has risen to £63,000 (2013: £57,000) primarily as a result of a higher percentage of land being in the south. This figure, however, represents 23% of our current average selling price, broadly in line with previous years. The percentage of provisioned land has continued to decrease from 13% in 2013 to 6% at the end of June 2014. By June 2015 it will be immaterial.

As part of the planning process and construction of new homes, Redrow delivered some £113m of value to the communities local to our sites through a range of material contributions. This includes the delivery of £96m of much needed social or affordable housing, as well as significant contributions and investment in schools, healthcare, sports and leisure and other community facilities.

We exchanged contracts in December last year to acquire the Peel Centre, which is the former Police Training Headquarters in Hendon, which is Redrow's largest and most significant acquisition to date. A planning application has now been submitted to the London Borough of Barnet for c.2,600 new homes; however, until the site receives planning permission this is only included in our forward land.

Converting the increased land holdings into new sites remains a key challenge for the Group. The current system of converting allocated sites or outline planning consents into implementable planning consents remains a slow and tedious process and represents the biggest single obstacle to increasing the number of outlets.

We strongly welcome the opportunity to engage with the Government through the current “Technical Consultation on Planning” which focuses on numerous issues relating to the plan-led system. The consultation paper seeks to reduce the current red tape, which prevents a quick start on sites where planning has been obtained. This removal of unnecessary red tape is fundamental to increasing the number of homes built each year.

We had a successful year in the management of our forward land holdings, pulling through 2,139 plots across 18 sites into current land. We also added 5,300 additional plots to the land bank and following a strategic review of the existing holdings we now have a total forward land bank of 28,250 plots, around 18,000 of which are allocated in emerging plans.

People

The shortage of skilled people in our industry is another obstacle to preventing increased output in line with demand. I am proud that Redrow continues to be at the forefront in training the next generation of skilled workers at all levels. During the year we have recruited 48 apprentices, 26 graduates and 8 technical trainees. In total 15% (2013: 14%) of our workforce are on a structured training programme, setting the standard for the house building industry.

I am delighted to welcome Liz Peace CBE as a Non-Executive Director, who joined with effect from the 1st September 2014. Liz is shortly to retire after 12 years as the CEO of the British Property Federation; prior to this she had a long and distinguished career in the Civil Service. Liz will Chair the Group’s Sustainability Committee.

As previously reported, Alan Jackson, Deputy Chairman and Senior Non-Executive Director, retired from the Board on the 1st September on Liz’s appointment. Alan’s advice and support over the last five years has been invaluable during a time when the Group has seen a phenomenal turnaround in its performance. I and my colleagues would like to thank Alan for his significant contribution and wish him every success in the future.

Now that Alan has retired, Debbie Hewitt has taken over as Senior Non-Executive Director.

By any standards Redrow’s performance this last year and indeed over the last few years has been exceptional and has been achieved due to the hard work and commitment of our team. I would like to thank them all for their support.

Current Trading and Outlook

The introduction of the new MMR rules has undoubtedly moderated the market, which has returned to a more seasonal pattern of activity. Many of our sites entered the summer period almost fully sold up for the 2014 calendar year and this lack of availability has also undoubtedly affected this summer’s sales rate. Ironically, this compares with a very strong period last year when Help to Buy was at its peak. Since the end of June the sales rate has been 0.64, compared to the average of 0.70 for the last financial year. In total, private legal completions to date, together with the current order book, are running some 40% ahead of last year.

We have substantially increased our land bank, which should see a good growth in the number of outlets during the year. This, combined with our strong order book, leaves me confident that the Group will see another year of significant progress.

Steve Morgan
Chairman