

Group Chief Executive's Statement

Overview

Redrow's proven business model has played an important role during a time of significant political and economic uncertainty. We have award-winning homes and places, a strong forward order book, land acquired in the last few years at good margins, and current cash reserves of £107m. This is despite completing a £100m share buyback exercise on 13th January 2023, just after the financial half-year under review.

These strengths are all underpinned by our experienced team who have a track record of creating quality homes and successfully managing through similar cycles in the market. This includes closely monitoring work in progress, along with a very selective approach to land opportunities.

Over the second quarter of our financial year, the new homes market found itself in the eye of the storm. The Government's disastrous mini-budget drove significant increases in mortgage rates during an existing cost of living crisis. Inevitably, consumer confidence was badly affected.

Cancellations were elevated, driven higher by those customers who reserved prior to the mini-budget and who'd not secured a mortgage offer in advance of mortgage rate rises. All these factors combined to bring forward the traditional Christmas slowdown to October.

As the political and economic picture has stabilised, and mortgage rates continue to reduce from their elevated levels, consumer confidence has begun to show early signs of returning. Unique visitors to our website were up 17% during January 2023 compared with the previous year.

The first five weeks of the second half have seen a net reservation position of 0.51 per outlet per week.

I am very pleased that Geeta Nanda is joining the Board as an independent non-executive director on 1 May 2023. Geeta has held a number of senior executive and non-executive roles and will add valuable additional experience to the Redrow Board.

Financial Overview

Group revenue was similar to the same period last year at £1.03bn (2022: £1.05bn). Total home legal completions in the first half were 2,485 (2022: 2,749).

Profit before tax was also comparable to the same period last year at £198m (2022: £203m). This was achieved with an operating margin of 19.3% (2022: 19.5%) for the first six months.

Our earnings per share for the first half is 45.4p, compared to 48.1p for the comparative period last year. This is in part due to the higher Corporation Tax and Residential Property Developer Tax rates at 24.5% versus 19% in 2022.

Our Return on Capital Employed is 23.2% (2022: 21.5%). We ended the first half with net cash of £107m (June 2022: £288m) and our average net monthly cash was broadly in line with the first half last year at £248m (H1 2022: £257m), even after taking account of the share buyback.

As a result of this strong performance the Board has declared an interim dividend of 10p, in line with the prior year (2022: 10p). The dividend will be paid on 6 April 2023 to shareholders on the register at the close of business on 24 February 2023. For the full year the company intends to maintain its payout ratio of 33%.

We are still experiencing build cost increases across materials as energy inflation, in particular, continues to have an impact. We expect cost inflation of c7% for the full financial year. Over time we expect the current market to drive more competition and to mitigate build cost inflation amongst our suppliers and subcontractors.

This strong financial performance was delivered in the context of a broken planning system. At a time when the Government is trying to achieve growth, it remains a major barrier.

Planning permissions are taking a record amount of time - well in excess of the statutory timescale of 13 weeks for reserved matters. This means a huge missed opportunity for the country in lost school places, infrastructure, employment and social mobility. We continue to call on the Government to revisit its housing

and planning strategy to help the country deliver growth and the homes it so badly needs to address the chronic housing shortage.

At the time of writing we are reviewing the Government's Long Form Agreement. It aims to legally formalise the industry-wide Building Safety Pledge, which Redrow signed in April 2022. This new document also widens builders' responsibilities with regard to potential remediation work, which may need to be undertaken. Although this would mean an increase to our Building Safety provision, we don't foresee this increase as being substantial. Regardless of the Long Form Agreement formalities, we are proceeding with the remediation of buildings we've identified as part of the pledge commitment.

We currently have 28,020 (2022: 29,600) plots in our current land holdings, with 37,800 plots in our strategic land bank. Given current trading conditions we are focused on obtaining planning permissions for our current land.

A Better Way to Live

Redrow's sustainability strategy is integrated throughout the business via our long standing three strategic themes – Building Responsibly, Valuing People and Thriving Communities. In this way we bring to life our 'Better way to live' core purpose for the benefit of our customers and communities.

Redrow has become the first large housebuilder to begin selling homes which will incorporate air source heat pumps as standard. Underfloor heating will also be provided as standard on the ground floor in our detached homes. The approach has been shaped by customer trials, research and the work of our own in-house design & innovation team.

These steps are all being taken in advance of the Government's proposals to make all new build properties gas-free from 2025. Currently, Redrow homes benefit from a 10% reduction in heat loss compared to our previous builds and are 63% more efficient than second hand homes built in the 1970s.

Redrow designs, which typically have a larger square footage than other new builds, work seamlessly with heat pump technology and allow ground floor underfloor heating to complement our open-plan layouts. As well as being desirable for customers, the lack of ground floor radiators also gives home owners even more space. This forms an important part of our efforts to support the goal of limiting global warming to 1.5c.

These efforts were further validated recently with the approval from the Science Based Targets Initiative of our Scope 1, 2 & 3 near term targets. This marks a key step on our road to net-zero carbon.

Building Responsibly is a key pillar of our strategy and we were in the first select group of home builders to sign up for the New Homes Code of Practice, which is overseen by the independent New Homes Quality Board.

We welcome its introduction and the enhanced peace of mind it will provide our customers. We remain one of a handful of volume homebuilders to have implemented the new code.

Furthermore we are, once again, tracking at a Five Star level of customer satisfaction and we remain 'excellent' on Trustpilot with a TrustScore of 4.5.

Securing a pipeline of future talent is a central part of our Valuing People pillar and it was positive to see a record intake of graduates last year. Our new partnership with Nottingham Trent University looks to build on our existing initiatives, including our apprenticeship degree programme.

We'll be working long-term with the university's School of Architecture, Design and the Built Environment to engage with undergraduates throughout their degree courses.

We also continue to make progress on matters of equality, diversity and inclusivity and it was pleasing to see this recognised with our inclusion in the Financial Times' ranking of Europe's Diversity Leaders 2023.

Current Trading & Outlook

During the uncertain times of the second quarter it was clear that maintaining a reasonable sales rate would be difficult. Therefore, we reduced our marketing spend and focused on preparing our new year campaign, ensuring the appropriate messaging and incentives to increase both footfall and reservations. This campaign

has to date achieved our objective.

We have experienced a positive start to sales in the second half. Our net private reservation rate per outlet per week over the first five weeks of calendar year 2023 was 0.51 compared to 0.38 for the first half of the financial year. We also entered the second half with a total order book of £1.1bn, of which £0.8bn was private. We therefore expect to achieve revenue of around £2.05bn for the full financial year, with an operating margin in the region of 18% to 18.5%.

Despite economic turbulence over recent times, unemployment is still low, inflation is forecast to decrease and mortgage rates have improved for fixed rate products.

Our Heritage collection is uniquely positioned to capture the second hand market and our approach to energy efficiency will further cement our distinct market advantage.

Whilst 2023 will be a challenging year as the market resets, early indications are better than anticipated and the market appears to be finding a new, natural level.

We are well positioned to manage any changes in the market because of the Redrow team and our loyal subcontractor and supplier partners. They continue to deliver quality homes and places for thousands of families across England & Wales and I'd like to thank them again for all their efforts.