S&P Global
Market Intelligence

Persimmon Plc LSE:PSN

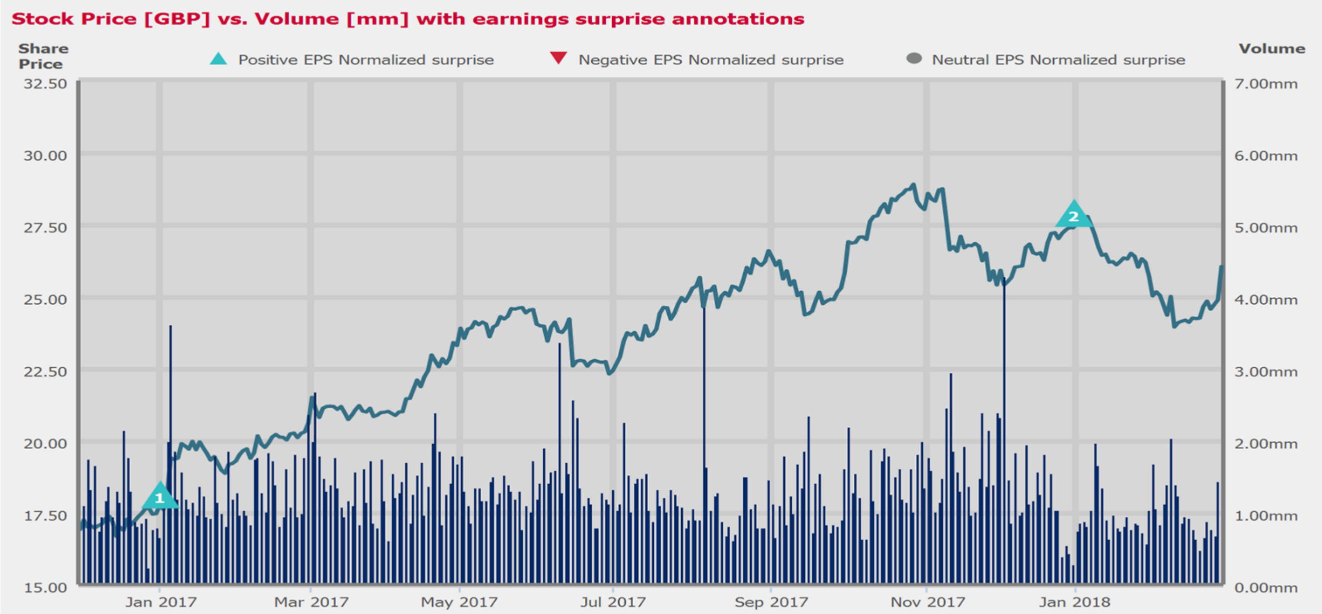
FY 2017 Earnings Call Transcripts

Tuesday, February 27, 2018 9:30 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.46	2.46	▲0.41	2.62
Revenue (mm)	3423.49	3422.30	▼(0.03 %)	3608.41

Currency: GBP
Consensus as of Feb-27-2018 8:45 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2016	1.95	2.00	▲2.56 %
FY 2017	2.46	2.46	▲0.41 %

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Call Participants

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Presentation

Jeffrey Fairburn
Former Group CEO & Executive Director

All right. Good morning, everyone. We'll make a start. And welcome to the Persimmon 2017 Results Presentation.

In the usual way, I intend to give you a brief overview followed by a detailed review of operations for the year. And our view of how things are looking going forward. Mike will then give you some details on the financials, and then we'll move through to Q&A after a summary.

I am delighted to be able to focus this morning on the excellent performance of the business. The numbers speak for themselves. I think we're really pleased with the top line growth at 9% revenue, operating profits ahead by 24% to GBP 966 million and the excellent margin improvement, which we'll give you a bit more color on later on.

And the strong cash generation that we produced during the year giving us a net closing position at the end of year of GBP 1.3 billion. And the combined effect of that, giving us a 51.5% return on capital employed figure for the year. And I think earnings per share also stands out in that respect to 26% in the year to 258p.

The whole of the management team of Persimmon is very focused in the business, as you can imagine, on producing these results. And we're really pleased in the year to have exceeded 16,000 new homes, so good growth in the year. And we are maximizing our opportunity in a supportive market. The fundamentals are sound with excellent operating efficiency. And I think, it's a good start to the year with forward sales revenue standing at an increase 7.5% to over GBP 2 billion.

Good free cash generation in 2017 over GBP 800 million, which was an 18% increase over the prior year. And this as -- the strong performance has enabled us to enhance the capital return further. And so today, we're very pleased to announce a commitment to additional payments of GBP 1.25 per annum in March or early April of each year for the next 3 years on top of running dividend of GBP 1.10, which will be paid in July. So that equates to more than GBP 725 million of the cash returned to shareholders for each of the next 3 years. On Friday, the executive team advised reductions to 2012 LTIP plan and our continued commitment to Persimmon for the future.

So moving through to the review. I intend to give you an update on the strategy, an overview of the business operations for the year, the land bank, which has performed very well, current trading, the surplus capital position and then the outlook.

So just to remind everybody of the strategy. The fundamental part of this were to grow the business to optimal scale in the marketplace, control the cost effectiveness and cost efficiency of the business, which I think we've done very well, strong investment and disciplined investment during the cycle at the right time, leading to a review of surplus capital and the return of that surplus cash to shareholders.

So as we say, we've got strong operational fundamentals. We've got a good outlook position. We've been attempting to grow that over recent years, but we're pleased that we've managed to maintain that. We've improved the infrastructure in the business, so 6 new operating companies in the last 3 years. Nottingham opened at the beginning of 2017, which is now performing very strongly and quickly got up-to-speed. And we opened a new business near Ipswich and Suffolk at the beginning of this year. So expanding the network, given us opportunity to grow and maintain efficiency as we go forward. And we believe that the operating companies can operate very well at around 650 units per annum. But we've got the flex on that from 350 units. Of course, we can operate very efficiently.

We've continue to target the more affordable end of the markets. Our average selling price is still at the lower end of the industry. And that is very much intentional. The lenders are very supportive of new home building and there are some excellent mortgage rates. In fact, rates have continued to trend down slightly over the next 6 months.

Demand remains very strong. And I'm also pleased to say that during the course of the year, customer care has shown good improvement, increasing the HBF score rating by nearly 5% during the course of the year.

So looking at the issues in the business. As I mentioned, we worked really hard to meet the demand that we're seeing -- that we've seen during the course of the year, nearly 900 extra units legally completed to over 16,000 units. That really tight cost control, which Mike will explain in a bit more detail later, but we've concentrated on all aspects of the business to control that cost base and make sure that we can be as efficient as we possibly can, which is driving a very strong margin. As I say, operating margin actually up 340 basis points in 2017 and still showing some further improvement as we've gone into the second half of last year. So strong fundamentals and good investment in work in progress. We're pleased to have invested not over another GBP 100 million in work in progress, which gives us that platform to continue to grow the business.

Looking at the regional performance. You can see the North has performed strongly with 7% completion growth in the year. Charles Church, similar pattern to previous years where we've reduced the volume of Charles Church properties given where we see the strength in the market and the position in all of our product in the market. But generally, a good picture right across the board. Partnerships, a strong improvement in volume during the course of the year, but that's largely down to the timing of sites as they come onstream during the course of the year. And I think you can see from that the plot count in terms of land bank, how well we're positioned across the group to continue to tread strongly with a sustainable business into the future.

So let's have a look at the land. I think the key features for me are still a very good supportive land market. We were seeing excellent opportunities in the markets and we're keen to capture those. Our lower land costs are supporting further improvements in the margin. Again, Mike will give us a bit more detail on that later.

And I think the strategic -- ex-strategic content in land bank is important and enables us to continue to drive further value in the business. So we're very happy with the shape of the land bank, nearly a 100,000 plots. We replaced over 17,000 plots in the year and we invested quite strongly, over GBP 600 million invested into land during the course of the year, which is quite a sizable increase over the prior year. So there's a lot of good value embedded in the land bank to give us confidence for trading into the future for Persimmon.

Strategic land is working well. We've got a really good team there. They are driving planning consents through the system. And with good conversion rates as you can see, over 8,200 plots converted in the year from 28 locations. The average size of the sites is increasing. Again, another feature of the system. Over 300 plots -- unit plots per site of those sites that we've pulled-through, in comparison to on the market sites of around about 2 in the plot per site. So that's a feature of the planning system at the moment. And actually is an issue for the industry in terms of delivery of volume going forward. We're producing more volume on the same number of sites, which does drive efficiency, but also is a bit limited in terms of opportunity in the market for buyers and for resource. So I think good that we've managed to acquire more strategic land in the year replacing the land that we brought through. And closing the year at over 16,000 acres still held in strategic land bank, so at a good, strong position for the future.

I think you're looking at trading. We're encouraged by the start that we're seeing in 2018, albeit it was only 8 weeks of trading. We've seen sales rates up 7% over those first 8 weeks of the year, so that's encouraging, off a very similar number of outlets to the prior year. But that's just the start of the year. There's still a long way to go. But it does give us confidence to invest, to continue to invest in the work in progress. But we've mentioned before the challenges are in how we manage to respond through build, and we have a number of issues that are helping us to do that. But it is challenging.

Space4 is certainly seeing good increases during the course of the year, and producing good volumes for us both in house kits and also roof systems as well. And we expect to open around about of 100 new sites during the course of the first half of this year.

So looking at that forward sales position, we've maintained that going forward. And as you can see, there is good revenue improvement year-on-year, and that gives us confidence to continue to move the business forward.

I'd now like to turn to the return of surplus capital, which is obviously a big announcement today. And we're very pleased to be able to announce a significant increase to the capital return plan, once again. Last year, we made payments of GBP 1.35, and to-date, we've returned a total of nearly GBP 1.5 billion since we introduced the plan in 2012, which is significantly ahead of plan. So today, we're pleased to announce that we're now more than doubling the value that returning to shareholders over this planned period to GBP 13 per share, which as well as the running dividend of 110p per share paid in July each year, we're also paying for the next 3 years, GBP 1.25 in late March, early April of each year. So a total of GBP 2.35 per share per year or over GBP 700 million per year. We'll continue to review that on an annual basis, and we will report as usual going forward in that respect.

And so how we're seeing the current market? The economy remains good. We're seeing good disciplined lending, good mortgage offers as I mentioned. And whilst the key challenges remain to us in terms of volume growth and construction, we see a supportive market and one which gives us confidence to continue to invest as we go forward.

So the priorities for the business now is to continue to invest in our sales network, and as I say, we've got good sites coming forward. Increase the construction further, there is a challenge. We continue with our more traditional sort of site layout and the standardization of the house types is still delivering good results in terms of cost efficiency. And the investment in off-site manufacturing is important. We do anticipate further investment in Space4 as we go forward. We have our Brickworks factory now, which is working of 2 shifts and we expect to move to 3 shifts very shortly. So that will produce up to 2/3 of our volume of bricks going forward.

And today, we're also announcing that we've committed to building a roof tile manufacturing facility on the same site just south of Doncaster. And we expect that to be constructed during the course of this year and delivering tiles to our sites during the course of next year. And again, that will be sized to about 2/3 of our requirement. So that's an important feature really, as we try as Persimmon to control our ability to deliver volume going forward to de-risk some of the supply issues that we've been seeing over the last few years.

And also, the skills aspect is important. It is challenging. It's -- we continue to train, but it takes time to bring new skilled people through the system. So the incremental increases in production, we hope to continue to see as the industry continues to move forward.

So that's it from me at the moment. I'd now like to pass to Mike for further financial review.

Michael Hugh Killoran
Group Finance Director & Director

Thanks, Jeff. In the usual way, what we're going to look at is some key features of the trading. We'll look into the balance sheet in a bit more detail and the cash generation and returns. And I think it's important to perhaps just sort of track through the philosophy around the capital return and the levels of cash that the business, certainly the board consider as appropriate to hold, albeit that can change depending on where we perceive we are in the cycle. I wanted to comment on the LTIP unwind at the rear end of this section.

So looking at the trading review. I think, I mean, Jeff has already touched on the highlights. I think that obviously, an outstanding element to the numbers is the gross margin level. And we'll see -- we'll have a look at that in a bit more detail in a second. And I think the growth of the business is all about growth, quality and cash generation. I think they're the three key headlines that we would like to try and emphasize in terms of the focus of what we're trying to deliver with the business for shareholders. It's all about appropriate growth, to sustainable market share in regional markets of the highest quality. Jeff is manic about excellence in all areas. And I think that is something that we will continue to pursue. And the results of all that work will generate higher levels of free cash generation. And I think the margin level the businesses is delivering record all-time highs is part and parcel of that delivery together with the 25% increase in pretax profits.

Looking at the operating profit improvement year-on-year. Again, touching on those key features. Volume increase is obviously important, its cash a generator in its own right. So to continue to grow each of our 30 businesses now in those regional markets to sustainable scale is very important. Market conditions provide us with firm pricing conditions. We've seen some growth as you can see in the headline numbers in the private sale market, which is most encouraging in terms of where the tone of the market is. Obviously, we understand the secondhand market is -- it appears to be a little bit more challenged at this point with the lack of instructions coming through. But as always, pricing in terms of new build, I mean, we all realize that we're price takers, we're not price setters. That is one of the basic fundamental principles of being a house builder.

And indeed, mortgage lenders, valuers will look for precedent in the market to set pricing of security values for those -- for the principal lenders in the market. So the lenders are always looking at the secondhand market for a lead in terms of pricing. And I think the tighter regulation around lending should support, hopefully, a more sustainable market moving further out in terms of the Bank of England supervision that we have with the MMR and other movements, other changes that have happened over recent years.

You can see the contribution of the gross margin improvement coming through there to the year-on-year improvement. So why don't we now turn to looking that in a little bit more detail. 350 basis point increase in gross margin year-on-year to this record high of 31.3% for the business. That is delivered essentially through a combination of 3 things: it's what's happening to the top line. Obviously, if we can retain as much of our pricing gain as possible within the business, then obviously, that's to the benefit of shareholders in terms of adding value both to the margin and to the cash generation. We then have the land situation in terms of land recoveries that we're making against the legal completions that we take in any financial year. And then we've got the build, where the weight of money, if you will, is behind delivering the net gross profit per unit.

So you can see there that we've been able to capture around about of GBP 6,500 per unit in additional price. We have incurred around about GBP 450 worth of additional land cost recovery in delivering those legal completions in the financial year compared with last year. And then interest -- the really interesting bit, I guess, is in the build and other directs, where we've seen a reduction in the build and other direct cost per unit of about just over GBP 3,250. So I think let's just think about that build area because it really is quite interesting. And you've heard us sort of touch on this before, in that it -- you've got to work very, very hard on many, many things to deliver this sort of performance.

Now trying to sort of simplify in terms of communicating part of the story here is that as you guys realize our shop floor is our development sites. That's our factory floor. That's where all the activity, more or less happens in terms of development works and that's where the weight of money is directed in terms of our development processes and construction processes in developing sites, putting the infrastructure in and developing the units to hand over to our customers.

So let's just set the scene, I mean -- so there's on-site works and offsite works. Okay? That's a sort of fundamental split of what's in the build and other direct costs. And when I talk about off-site costs, I'm thinking about sales and marketing, I'm thinking about maintenance, I'm thinking about professional fees. The usual sort of costs that a house builder will incur, but you can't go on to site and see it. You can't valuate basically. It's not a physical, it's not like bricks and mortar, you can't go on and touch it.

So offsite works is a smaller proportion of the whole and for 2017, it was about GBP 8,500 per unit in terms of cost recoveries within that GBP 112,000. The remainder, about GBP 103,500 is our on-site costs, and I am sure that won't come as a surprise in terms of where the weight of money is in terms of opening up sites, doing all the ground works, putting the infrastructure in and getting the houses built.

Now so we got to split this year of sort of GBP 103,500 and GBP 8,500 in simple terms. Last year, so we can -- what I'm trying to just paint a picture of the movement year-on-year. Last year, our off-site costs pool was about GBP 109,500, so there's been about a GBP 1,000 reduction in off-site pool of costs. And the on-site last year was about GBP 105,800, so almost a GBP 106,000 last year, where we've seen a net reduction of just over GBP 2,000, so it's gone from GBP 103,500 to GBP 105,800. So just over GBP 2,000 was the reduction in our on-site costs.

Just attending to the off-site costs, which is perhaps a little bit simpler. The bulk of that continues to be the efficiencies that we're gaining through driving more volume through the business because obviously, an element of our offsite costs are fixed costs, in terms of our sales teams et cetera, et cetera. So the more volume that we sell from each and every site, our cost recoveries become more efficient. We are using digital reach to market in terms of sales lead generation and conversion, which again, makes our sales processes more efficient. And you can see over the page in your booklet, although I want to stay on 18 at the moment, our sales and marketing costs of around about 1%, which I think is to me, going to be low watermark. I think we'd expect that to probably tick up from here as we move forward. But we're still exploring different techniques of digital support to our sales processes.

And there's also some, I mean, for example, our health and safety routines are very, very strong. We've invested in our health and safety processes over the last few years. And again, that's a fixed cost. So we've got better efficiencies in recovering that cost. But also what it means is, for example, we're able to take a slightly different view on our insurances, contract works, public liability insurances, where we can -- we have the surety of our principal controls in this area. So we can reassess our insurance covers, which allows us to become more efficient in terms of covering that risk forward. So that also provides -- if you translate that into pounds per plot legally completed, that could maybe GBP 50 a plot. It's just one example of one of the things that we're always looking to improve on. That adds value to the margin. And that's in the off-site pool.

So off-site has dropped from by about GBP 1,000 year-on-year, which accounts for an element of that GBP 3,250 drop overall. So we're left with this sort of just over GBP 2,000 in the on-site cost pool. Now it's important to remember that we are subject to build cost inflation. So that sort of GBP 2,000 position is a net position after incurring a certain amount of build cost.

And now we've had the detail for the year, we would estimate our supply chain build cost pressure is around about 2.5% for '17. So if you back out that from the sort of GBP 2,100 net position, that would indicate the cost inflation accounts for about GBP 2,500 to GBP 2,400. And so that points to savings of about GBP 4,500 within this area. That's after -- you've got to -- it's a grossing up exercise. We've incurred a bit of build cost inflation, but we've also -- we worked very hard to generate other savings in the build cost area. So that's the really interesting bit. Where are these GBP 4,500 per unit? Where is it coming from? And if we have perhaps a couple of days to go through all the issues, then we'd covered the ground.

I think a key thing for us that you can see in the overall numbers, for example, is how the geography flexes in terms of where our units being legally completed. And Jeff's already said the Northern patch of our business has done extremely well in 2017; around about 42% of our total legals have come from out of our Northern Persimmon patch compared with less than 40% last year. We've got a 25% increase in affordable delivery.

Now if you think about the build cost that go into that product in those regions, then firstly, the further north you travel then labor cost gets a little bit more competitive, if you will, or a little lower. And that feeds into the overall position. Affordable products. We're very proud of our Westbury units. But it's a simpler product. It carries a low specification. So a 25% increase in that type of product lends itself to improvements in build cost overall for the group.

Jeff, we've got standard house types and the coverage of that is increasing all the time, isn't it? In terms of the layouts that we're achieving on new sites. So that is also adding extra value as that comes through.

Jeffrey Fairburn
Former Group CEO & Executive Director

Efficiency savings.

Michael Hugh Killoran
Group Finance Director & Director

Yes. And efficiency saving on top. So there's a number of things. I mean, Space4, we've increased the throughput and the output from the Space4 factory to over 6,500 units combined of kits and the roof systems.

You know that translates into GBP 150, GBP 200 per unit on the Space4 volume becoming more efficient within the factory. We pass that on to the building operations. Space4 isn't a profit center. It's a supplier to the house building operations. And Jeff is very keen to drive the cost efficiency in that manufacturing facility, which is then passed on to the house building businesses. And that translates into lower build costs.

If you translate the GBP 150, GBP 200 per unit improvement on Space4 over say, 6,500 units to 16,000, well, that sort of maybe GBP 50, GBP 60 a plot. But all these little things add up, and you've got to keep on working very hard to deliver these operational gains. And this comes back to Jeff's mantra, operational excellence in every area. All adds up to deliver these sorts of performances. And that's why, Jeff mentioned Brickworks, mentioned tile works, these are further steps in that direction to support margin. We can't guarantee a further improvement in margin, but it's supportive of margin levels at these sorts of levels. Because obviously, no one knows what the future holds and as we can see, margin obviously, is the net result of a large number of drivers.

So I hope that gives a bit of color around the build costs, the fact that we're being very focused on every element of what we're delivering. The intensity of scrutiny within the business through our evaluation processes is very disciplined. And being a large group, we've got procurement opportunities, but equally, we've got the benchmarking opportunity that we can compare best-in-breed of just, for example, skip hire. We know each business, how much each business spends on skip hire. And there'll be a question. Well, look if this business say over here can achieve that cost, well, what's the problem over here if it's higher? And the management team is very diligent on scrutinizing down to that sort of level to make sure that when you throw all the bits of the jigsaw together, you get this sort of picture, which is one of fantastic delivery. And as I say, record highs for Persimmon. Have I bored everybody to death on that now? I hope so.

Operating margins. We managed to keep most of the gross margin improvement at the operating margin level as you can see. And its again, a function of discipline around the operating expenses. So I think the operating expense line continues to show the same sort of story.

And looking at the balance sheet -- well Jeff's already touched on it. I mean Jeff's very proud about the quality that's embedded in the land bank, as we all are. I think the cost of revenue percentage is a manifestation of that. I think you guys all know that this is just but one dimension of margin delivery. It's an important dimension, but it complements the other development costs as we've already seen in terms of the margin structure. So again, please don't take this away in thinking, well, there's another 200 bps of margin to drop through next year because as you guys know, it doesn't work like that. The mix in the sales is different from the mix in the land bank for starter. And indeed, there's a lot of development costs, as we just examined, that have to be delivered in terms of delivering the margin as well.

So there's all the offsite infrastructure works that are tied to Section 106 agreements and the like. All the planning gain items that have to be delivered in terms of constructing schools and amenity value in the local communities that again, we're very proud. But all that comes together to deliver our end margins. I think the one thing that we can say, when we look at the pipeline of our new sites, then it seems to us that at this point in time looking at spot pricing, if you will, then the margins in the future land and our expectations around delivering margins are similar to some improvements, some perhaps, possibility of improvement moving down the track from where we are today.

We talked about margins plateauing off eventually. There's only so much you can squeeze out of the stone. We'll keep on squeezing. But it is being realistic margins are going to plateau off at some points.

I mean, Jeff is very demanding. And he wants light to be shown into every dark corner to try and deliver a bit more value, if we can, and we'll continue to do that tirelessly. And so -- but I think the margin prognosis is positive at this point, we'd like to think that certainly we'll be delivering similar, if not touch a better moving forward for this year into next. But again, as I've said already, there's a lot of moving parts in this equation and we'll have to see what the future holds.

And just touching on the balance sheet very briefly. I think land is key. Obviously, we've spent just over GBP 600 million on land through '17. The land credit is relevant to -- that's about GBP 270 million. So around about GBP 330 million going out on the front end cash cost on new land deals in the period. The land value is edged up net of recoveries just over GBP 2 billion at the end of '17 compared with the GBP 1.95 billion more or less at the end of '16.

Work in progress, as you know, we've been working very hard to try and put more money in the ground. Build is the key constraint within the business as Jeff's already touched on both. As you can see there, we've managed to put about GBP 100 million extra in the ground on work in progress, which is great in terms of supporting future delivery. But we are very keen on maintaining this higher level of asset turn because that speaks to the cash intensity of the business.

And I think an absolute outstanding feature of these numbers is the return on average capital employed at 51.5%. I think that's got to be an industry high ever, unless you tell me something different. I'm guessing, but it's a pretty high number. And I think this is delivering more from less, type mantra. We've delivered 24% increase in operating profit, brought to GBP 966 million from average capital employed, which is 5% down on last year. It's about GBP 100 million down on last year, [GBP 1,876 million] on our numbers as being the average capital employed through '17. So I think that speaks volumes about the capital discipline in the business.

Capital return, well, cash generation first. If we didn't have the cash generation, we'd have no capital return. And obviously, very strong cash generation in '17 of over GBP 800 million. As Jeff said, that's a key feature of the business. Cash generation, as we've talked about before is a combination of trading performance and balance sheet management. And you can see in the graph, it's all about at this point in the cycle, the combination of that growth quality cash generation comes through clearly, I think in that slide, where you've got the cash from operating activities going hand-in-hand with the underlying operating profit, which is your redline. They are almost identical. The delta there is your working capital piece, which is your balance sheet absorption or release, which is that thin slither of absorption of about GBP 20 million in '17.

The record of the business you can see there is a powerful reminder of the cash generative nature of this business, which has been a permanent feature of Persimmon over the years, which allows us to look at capital return, the level of capital return in a positive fashion. I'd like to think that we are progressive in terms of our annual reviews, our continual reviews of the amounts of capital we do return. Jeff's already touched on the announcement today of increasing the capital return by committing to 3 specials; 125p per share over the next 3 years. But also the liquidity that we generate does give us other opportunities.

And I think the -- I think it's worthwhile just very quickly touching through the philosophy around, how we deal with our capital -- excess capital that we generate. Firstly, we've got to attend to the working capital cycle in the business, whilst minimizing financial risk through the cycle, together with the reinvestment needs and assessing the reinvestment needs, not for now, but also in short term over the next 2 to 3 years perhaps.

We want the liquidity to invest in the business at the right time, in the right land, in the right locations. Amplitude -- so what's the amplitude of working capital cycle at the moment for us? I can hear the question going through your minds. And I guess that you've got to be looking at around GBP 400 million to GBP 450 million in terms of peak to trough in terms of working capital cycle. You then put on a bit of a war chest in terms of being able to support land investment. We've got huge amounts of strategic land in the pipeline that we need to be able to support bringing that through to deliver the value for our shareholders. So in our estimate, we'd say maybe GBP 300 million, GBP 350 million on top to give you a feel for at this point in the cycle where we believe an appropriate June, December, the peak of liquidity point in the annual cycle, as I signaled to, where perhaps the cash should be positioned as a minimum.

The GBP 758,000 mark, I think, is reasonable position to take. So over and above that, we came into the year at GBP 900,000. So arguably, slightly longer that sort of position. But obviously, through this year, we've done exceedingly well in generating further cash, which has obviously been a real fill-it for the board to be able to assess the additional return. But over and above the working capital requirement and the reinvestment needs in terms of land or additional land opportunities, we then get into surplus capital, and that's what underwrites the GBP 1.10 longer-term commitment.

And I am emphasizing words here because it's a way of just sort of structuring a hierarchy of capital deployment and allocation. So first column, cash, working capital cycle, reinvestment need. Second tier, surplus capital, underwrites the long-term GBP 1.10 a share. Have we got any cash here over and above, that's surplus capital? Well, we name that excess capital.

So next tier, beyond that how much excess capital have we got? Well, that's then available for other corporate capital matters as we term it. First look on that is the specials. Obviously, there's the issue of net settling again to ensure that this is LTIP -- net settling the LTIP. This is ensuring that we remain fully aligned to the core of the strategy, which is capital discipline. Because the only other choice for settling the LTIP is to equity settle; the LTIP can issue more shares. Why would we do that? Why would we expand our equity base when we're trying to deliver more from less? As we said before, so it's entirely logical to look at, if we have excess capital, if we have the choice, if you will, if we've earned that choice, well, do we deploy a bit of cash there to prevent a further extension of the equity base?

As being a preferable choice to expanding the equity base, which would be contradictory to the philosophy behind the strategy I believe. And I think the board has concluded that, that is the right choice to make for the 40% of the LTIP that has vested at December.

And moving on to that, we've put a few numbers together on the next 2 slides just to clarify where we are at the end of all that in terms of share numbers. The number of shares that are issued -- that are likely to be issued drop to around about GBP 4 million for the 40% that vested at the end of December. And if the board decides to net settle -- and it still is an if, that decision has not yet been taken. Why hasn't it been taken? Well, there is still sort of a few months to get there probably on the back of the announcement on the capital returns for this year is likely the GBP 6.20 is likely to be paid by early July, that's the second-best. That triggers the second vesting event. If the board decides to net settle at that point, you can see that the share count drops or the number of shares that would issued will drop from 11.2 million to 5.4 million as a result of that with cash going to HMRC on a net settle basis.

At that point, I'll pass back to Jeff.

Jeffrey Fairburn
Former Group CEO & Executive Director

Thanks, Mike for that very comprehensive explanation. And so in summary, I think, just to recap on some things. We've enabled growth and scale. We've improved efficiency in the business which you can see through the build costs. We've grown that work in progress platform. We've enhanced the margin. We've shown good improvement in the year in customer care. We've invested in good quality land and we generated a strong free cash through the course of the year, whilst minimizing the risk to the business.

And we've also, the combination of that is a substantial increase in the return to our shareholders. And I think it's fair to say, we've have had a good start to the year, so far 8 weeks trading, but there's still an awful a lot to do. So it's an encouraging start, but there's a long way to go. A lot of sites to get up and running. And we've got those challenges that we've already discussed.

And I think all of this is really the combination of many years work that we've -- that I've put in through my obsessive behavior of ensuring that all of these things happen. But it really is only possible with a fully committed management team. So I think they've all done a fantastic job in that respect.

And Persimmon is in great shape for the future. I think I would also like to refer to the notice that went out today about Nicholas Wrigley and his resignation from the board as of yesterday's date. And I would like to take the opportunity to thank Nicholas for his many years of excellent service to Persimmon. And we wish him very well in that respect.

Finally, I'd like to say that we thank everybody who has assisted us in the process, all of our subcontracts, supply chain and all the other stakeholders in the business who support us so well.

And I would like now to open up to Q&A. I'm sure there's a few questions. So we'll get a microphone to individuals. You can tell us your name, your organization and we'll do our best to answer your questions.

Question and Answer

Gregor Kuglitsch
UBS Investment Bank, Research Division

Gregor Kuglitsch from UBS. Can I just go back to the margin point, just to clarity? Obviously, the second half I think we were kind of just shy of 29%, I believe 28.8% it was. Is that the reference point when you think about the future, you're think about the second half, 28.8%. And I guess, what you were saying was flat to maybe up depending a little bit on market conditions just to clarify that statement. The second question is on...

Michael Hugh Killoran
Group Finance Director & Director

Alright. Can we do this one at a time?

Gregor Kuglitsch
UBS Investment Bank, Research Division

Yes. Maybe it's easier this way.

Michael Hugh Killoran
Group Finance Director & Director

Because otherwise, we're going to lose track of it. Yes, I mean, as I said, there's a lot of moving parts. There's a lot of uncertainty in the market. There's a lot of headwinds out there. I think you're right as a reference point to cash forward, the second half margin is right to take that. Where we get to from there is, obviously, we're positive about future delivery. I think the balance sheet is in great. So the quality of the land bank is outstanding. And we have a very efficient operational team, our processes are continually being redefined to try and eek out more value. We can't guarantee an outturn. We're not really in the business of giving forecasts, publicly. But I think we can be positive and then would like to think the second half level is a benchmark there to be bettered. I think they're pretty good levels anyway. If it turns out just through '18 like '17, I'd take that, given the challenges that are out there. But that doesn't mean to say that we aren’t going to start trying to improve on it. So to be fair, to me, Gregor, I don't -- I can't really add anything further that.

Gregor Kuglitsch
UBS Investment Bank, Research Division

It's fair enough. I guess, the bar was -- it's raised, the better you do, unfortunately.

Michael Hugh Killoran
Group Finance Director & Director

Well, we'll always tried and do our best, yes.

Gregor Kuglitsch
UBS Investment Bank, Research Division

Okay. Then the second question is on cash consumptions. So last year, I think you had said GBP 20 million of working capital consumption, which is obviously extremely low, considering the growth. I want to get a better sense of sort of how do you think about next few years if the business continues to grow, do you actually start thinking about net expansion of your capital, more with less kind of a support?

Michael Hugh Killoran
Group Finance Director & Director

Yes, exactly. I mean the key -- the 2 big drivers of that is the land and work in progress. I think that we'd love to carry more money in the ground, yes, from work in progress, wouldn't we? But build is immensely challenging, and perhaps we've not emphasized that enough.

Jeffrey Fairburn
Former Group CEO & Executive Director

It is. It's a bit a key feature, really, for us. We're working hard to bring the sites forward. But actually building the houses at scale. Okay, it seems a relatively small increase, 6% growth in terms of additional houses built in the year, but if you think of what 900 houses looks like, it's a lot extra. It's 1.5 operating income worth of extra houses, which is an awful lot in a year. So it continues to be challenging. We're pleased with the progress we've made. And we're happy that we have invested a bit more in the ground. So I think we're in reasonable shape there. But it continues to be incredibly challenging not, at least, because of those constraints in terms of availability in materials and labor.

Michael Hugh Killoran
Group Finance Director & Director

I mean, a key feature of what we're trying to do on site is -- it's the share per build, isn't it, Jeff? It's getting ahead of where we think it's sensible to get ahead. Where we've got the confidence in terms of the rhythm of sales on particular sites, and we'll try and push ahead, won't we?

Jeffrey Fairburn
Former Group CEO & Executive Director

Yes.

Michael Hugh Killoran
Group Finance Director & Director

So it's all about trying to get ahead in terms of what we're delivering to allow us to move the bill forward. Because it -- it can become inefficient as well, can't it?

Jeffrey Fairburn
Former Group CEO & Executive Director

Yes, I mean, if you look at the feature of the industry, it's that we have moved more towards the bigger sites. And those bigger sites, we're pushing the boundaries in terms of volume of houses being built per site. And it's a feature of the planning system, actually, which isn't helpful. We could do with more sites of smaller scale, I think, both from a sales perspective because it gives more choice for purchases in different localities, but it also gives your different pool of resource to pool from as well. And at operate sites at 150 to 200 houses being built per year on a site is a significant operation. And I know there's a review underway at the moment by the government on that. But I'm pretty confident that they will arrive at the position that we understand, which is that it's extremely challenging. We're pushing the boundaries of that all the time. So we've -- we always want to open more sites, but as I say, we can really only follow the market in terms of what the planning system is delivering this bigger site. And it drives efficiency. So more houses built per site is an efficient operation. But there's an upper ceiling level to what can actually be achieved on those developments. So I think it's going to continue to be the main feature in terms of volume delivery going forward.

Gregor Kuglitsch
UBS Investment Bank, Research Division

Then one final one, which is...

Michael Hugh Killoran
Group Finance Director & Director

You're hogging the microphone.

Gregor Kuglitsch

UBS Investment Bank, Research Division

Do you get tax deductibility on the LTIP settlement? So the GBP 88 million, for example, do you...

Michael Hugh Killoran
Group Finance Director & Director

There is no change to corporation tax treatment in terms of...

Gregor Kuglitsch
UBS Investment Bank, Research Division

So it's not expensed?

Michael Hugh Killoran
Group Finance Director & Director

Pardon?

Gregor Kuglitsch
UBS Investment Bank, Research Division

It's not expensed.

Michael Hugh Killoran
Group Finance Director & Director

No. I mean, the -- well, you're talking about 2 different things. You're about tax treatment and accounting treatment. But accounting treatment, I mean, in share-based payment, IFRS 2 dictates how we account the share-based payment, and there's no change in that regard. There's no change on the tax treatment here. So the decision to net settle and equity settle, there's no change. Except that there is an amendment coming through to IFRS 2, which has yet to be endorsed by the EU, which will -- I mean, we can talk about that afterwards.

Jonathan Matthew Bell
Barclays Bank PLC, Research Division

Jon Bell from Barclays. Three from me, I think. Firstly, just on the net settlements issue, just to clarify on the accounting. So I think you've told us that GBP 88 million goes out in cash to HMRC.

Michael Hugh Killoran
Group Finance Director & Director

Yes.

Jonathan Matthew Bell
Barclays Bank PLC, Research Division

How are we going to see that in the income statement, in terms of which period and where it will appear?

Michael Hugh Killoran
Group Finance Director & Director

Yes, I mean, the -- again, IFRS 2 accounting standard dictates that the charge that we've taken in terms of basically accruing for the cost of that obligation to the company has been charged through the last sort of 6 to 7 years. The cash payment would effectively be a reserve movement. And so one advantage of net settling is it is supportive of higher levels of return on equity, rather than equity settling. But also, there's the other advantage as I have touched on before, it's the discipline around the capital in the business, in that to expand the equity base when you got a choice not to, when a central pillar of your strategy is to keep your capital tight to deliver more from that, operationally. It would seem contradictory to expand your equity base at a time when you're trying to constrain your capital base through the additional capital return, which obviously, is a charge against your reserves by way of dividends.

Jonathan Matthew Bell
Barclays Bank PLC, Research Division

Sounds like a going to net settle but I'll let that one play out.

Michael Hugh Killoran
Group Finance Director & Director

No, that -- this is -- I mean, that's the important point. I mean, there's a -- logic would suggest that, that is the case, Jon. But as you know that circumstances can change and as you know, circumstances in our market can change very quickly. We only need to look back to 2007, 2008 to be reminded of that. So I think it's judicious on behalf of the board to retain flexibility and optionality around that conclusion.

Jonathan Matthew Bell
Barclays Bank PLC, Research Division

Okay, thanks. But my second question is just on Space4. You've hinted in the past that you could perhaps, roll that out -- I mean, are you any nearer launching a second site, maybe in the south of England, along those lines?

Jeffrey Fairburn
Former Group CEO & Executive Director

Yes, I think it's a real possibility. It's very supportive of what we're doing. And the current facility has got some additional capacity still to go. But I think that there is a logic to having some support to that, with it being a manufacturing facility that's so important to the business. And I think at this stage, we think that there is merit in further investment there. So we're starting to look at that. But it is only at a very early stage. And we haven't decided where would be the best location for that. It does depend on a number of factors. We do have sufficient land [at Harworth] to build a new operation there as well. So in the foremost of time, that may well happen, but it need not necessarily be the next opportunity. So we'll keep it under review. But certainly, it's working well for us.

Jonathan Matthew Bell
Barclays Bank PLC, Research Division

And a finally one from me. You've told us that some of your cost recovery gains are volume related. And you're also telling us that the land market is continuing to be very kind. How should we think about volume growth from here with those things in mind on maybe a 3 or 4-year view?

Jeffrey Fairburn
Former Group CEO & Executive Director

I think the volume growth, Jon, really depends on outlet position. And as I mentioned, we're pushing the boundaries in terms of the output per outlet. So really, we see the next level of growth being delivered through further expansion of the infrastructure and outlet network to a large degree. I think there may be some marginal, incremental improvement on the basis of where we are at the moment. But really, any further substantial volume growth would be deliverable through a bigger network base. And we continue to invest in land. But as fast as we're bringing sites in, we're closing them. So it's a fast turnover at the moment, and we hope to continue to see further improvements in the planning regime, which should release more sites and possibly smaller sites. That point has been made. So we hope to continue to see that improved.

William Jones
Redburn (Europe) Limited, Research Division

Will Jones from Redburn. Three as well, if I could, please. The first is just around the owned land bank length. I think it's 77,000 owned plots at the moment, which is, I think, about 4.8 years of supply against last year's completions, which I think is a recent high. And if you went back precrisis, we're in often in the 3- to 3.5-year tight range. And I appreciate there's bigger sites in there. But how much of that issue accounts for the change in land bank length? And ultimately, where do you think that should settle, medium term?

Michael Hugh Killoran
Group Finance Director & Director

Just to answer you, I think the key thing is the split of those owned plots. If you look at the element that we own and have detailed implementable planning consent, we've got about 52,600 plots, which is very similar to last year, which was 52,800. This is all disclosed, by the way, in the RNS. Where we've seen is -- where we've seen a bit of growth come through is in plots that we own, which are progressing towards detailed consent, where we got outstanding planning conditions, which to Jeff's earlier point, hopefully the changes that we're going to see coming through, the revised NPPF in March. If it does come through in March, hopefully we'll perhaps simplify things a little bit in that regard. So I think overall, yes, we've got great visibility in terms of the land in the pipeline. But as Jeff says, it's still pretty frustrating in getting onto site and allowing ourselves that opportunity. Because going back to the plots that we've got a detailed planning consent. It's pretty similar to where we were last year. So we -- to look at it at a slightly different way, we've only managed to replace the plots we've consumed in terms of the front end of our consented land bank. And obviously, we're working very hard to improve on that. But that sort of managed -- that sort of demonstrates the tension within that -- all those processes that allows that -- those plots to be released for development, actively, which -- I guess, everybody gets sick of house builders complaining, but it is a frustration. So when you talk about 4.5 years, it's not really. It's maybe 3 or nearer 3, at least. And each of our businesses do need good visibility to plan their businesses properly. We're employing people. We're committing to sourcing everything that we need for a good number of months and years. So we do need that sort of visibility. Because all our supply chain depend on it as well. If we can only commit for 3 months' worth of provision of door kits or whatever it is, well that's all a bit stop-start and here we go again, we're into 2008, where's the work coming from. If we can give good solid commitments for 12 months, 2 years, then that will encourage the supply chain to invest more, which is part of the solution, as Jeff's already said, in delivering an industry that can perform in delivering more output.

Jeffrey Fairburn
Former Group CEO & Executive Director

I think, just another linked point to that, the size of the sites that I've been referring to, those tend to lead to more significant infrastructure having to be installed before you can actually access the housing and deliver regular completions off them. So there's a delay in that regard, and quite a significant form of investment as well. So the bigger the site tends to be the more complicated and time-consuming it is before you can actually start to get legal completions of those. Again, that's another important feature.

Michael Hugh Killoran
Group Finance Director & Director

It's a very important point because you know we said, well, GBP 100 million extra in WIP. The bulk of that is in external infrastructure. Its' not sat on plots, you know, superstructures. It's off-site works, enabling works, as Jeff says. That -- we put a lot of money into opening up these larger sites to get on.

William Jones
Redburn (Europe) Limited, Research Division

And so the second on land was just around the cost being added through this year. You've got couple of months under your belts and lots of strategic land visibility. Is there any reason to think the plot cost of land you buy this year will be materially different from 2017, do you think?

Michael Hugh Killoran
Group Finance Director & Director

In terms of the fresh? The new inputs.

William Jones

Redburn (Europe) Limited, Research Division

Yes, the new stuff this year. Yes.

Jeffrey Fairburn
Former Group CEO & Executive Director

I'm not aware of anything, Will, let's put it that way. I think it should be pretty similar, I would imagine.

Michael Hugh Killoran
Group Finance Director & Director

I mean -- I suppose the only caveat to that would -- even if there's some lumpy strategic successes that we get through planning may influence things a little bit. But that's pretty unpredictable.

Jeffrey Fairburn
Former Group CEO & Executive Director

Keep it low, [indiscernible] to make a difference.

William Jones
Redburn (Europe) Limited, Research Division

And for the last one, just -- I may have missed it in the statement, but an update on outlet numbers. Last year, it moved around quite a bit half on, half in. Just where we are and where we're expected to go.

Michael Hugh Killoran
Group Finance Director & Director

I mean, last year, we are -- and it certainly took the year as a whole. It was 370% on average, which was very similar to the previous year, albeit was a completely reversed picture as you say, Will. Which it was quite -- it's almost a mirror image, if you will, in that regard. It's difficult again to predict in terms of how that's going to come through because we've already commented that we have got a lot of plots there that are waiting for detailed consent, which obviously, are going to deliver a good number of those sites. So I would hesitate predicting what the shape of that. All I would hope is that, your 370% mark, as an average for last year, is something that we will be able to match. I think that's where -- that's all really we can say, isn't it, really, in terms of -- I mean, we've got good visibility, as Jeff says, but -- and we're working very hard to get those up and running. But we're in the hands of planners to a degree.

Jeffrey Fairburn
Former Group CEO & Executive Director

We'll take one from Chris here, then we will move to the other side now.

Christopher James Millington
Numis Securities Limited, Research Division

Chris Millington, Numis. I just want to ask about the average size of a unit and whether that's played into the reduction in build cost?

Michael Hugh Killoran
Group Finance Director & Director

It's a good point.

Jeffrey Fairburn
Former Group CEO & Executive Director

Yes. I mean, actually, we have been pretty consistent over recent year in terms of the size and type of product that we're producing. So we're stuck to the game plan in that respect, and I think that's reflective really in our reselling price. But there's a marginal improvement, about 1.5%, I think, in reduction in size of unit from '16 to '17. So there's a bit of a factor there.

Michael Hugh Killoran
Group Finance Director & Director

That's on legal completion. Because obviously the 25% increase in affordable content influences that as well. So we're not saying our standard house types have changed, we're just saying that average size in the legal completion mix, there's a bit of benefit there in terms of build cost, if you will. But it's the same point, if you will, in terms of the mix I touched on earlier in northern geography, more affordable housing. It's within that -- those considerations, really, from a build cost perspective.

Christopher James Millington
Numis Securities Limited, Research Division

Next one is just, really, just about down valuations.

Michael Hugh Killoran
Group Finance Director & Director

The what, sorry?

Christopher James Millington
Numis Securities Limited, Research Division

Down valuations. You kind of said you're always tested by the second-hand market. Any more of those creeping out at the moment now we've seen slightly softer house participation?

Michael Hugh Killoran
Group Finance Director & Director

No, we do get -- we do get occasional down valuations. It's -- we are price takers. We're very realistic about that. But our teams are also keen to achieve the best price possible in the market for the product. That's part of being in the business. You try and get the best price for the product that you can. And that means that, at times, the lenders, valuers can take a different view based on precedent. And we do still see down -- not massive down valuations but that tension is there in the market.

Jeffrey Fairburn
Former Group CEO & Executive Director

And I wouldn't say there is any change there over recent times. We've not seen a change in that respect, so it's been fairly consistent.

Christopher James Millington
Numis Securities Limited, Research Division

And the final one, just thoughts about any possible Help to Buy extension. I think one of your peers mentioned we might hear something soon. Just your thoughts on that.

Michael Hugh Killoran
Group Finance Director & Director

Well, I mean the Help to Buy -- I mean, obviously, the government has put an indication of additional funding supports in there. The 2021 end date is still the end date, we believe. We've not heard -- and we've not heard any details that would inform us any -- with any -- to form a different view. I think just extending that, I think it's important that we do understand the government's policy in that regard, that sometime over the next few months. Because, obviously, it impinges on our appetite to invest. We are very mindful of that situation, currently, in all of the land replacement activity we do. And that's why it's important. I mean, Jeff pushes all the teams to do the best land deals that they can because that's our the first line of defense, if you think about it. It's a very a defensive position to take. Yes, it delivers and embeds more value in the business for the future if you've got a constant market. But if for whatever reason there is a change to the market conditions and a change to housing policy in that regard could cause changes. So as long as you've got high -- the highest quality land you can acquire on great terms to start off with, well, you're still going to be in a pretty good position if that's gets diluted for whatever reason. So I think the closer you get to 2021 become more of an issue.

Jeffrey Fairburn
Former Group CEO & Executive Director

Yes, I mean, we make no bones about it. We're big supporters of the scheme because it allows customers to enter the housing market. And it's an investment for U.K. plc in that respect. And I think it's done exactly what it was intended to do. So we would like to see it extended, but we haven't heard any more news in that regard. But we do target particularly the first time -- our first-time mover markets, so that's why we're a strong user of it. But as to whether it will be continued beyond that time, I don't know. But I mean, it was preceded by other schemes from -- through both labor and the coalition government prior to Help to Buy. And I think it functions very well. And the lenders are very keen to support it as well. So yes, Mike's right. We make investment decisions on the basis of what we see in front of us. I think it affects the rate of sales. So I mean, if we Help to Buy was removed, you may see a slackening in of the rate sale, we would anticipate. So I think that's important. House builders have been a big driver of the economy. Jobs -- and from that point of view, it's worked very well, I think. And we can see that it has generated additional volume.

Michael Hugh Killoran
Group Finance Director & Director

I think it's important to view that Help to Buy is investment. It's on the government's balance sheet as investment, GBP 8 billion or so. And it's generating a pretty decent return, or should be, for the taxpayer. So I think that all ways which round, that policy -- yes, it's part of demand, as Jeff says, and we all recognize that. But it is less than 3% of U.K. housing transactions since 2013. So yes, it's played its part. It was a necessary move by successive governments to try and support the housing market in a time when -- obviously, because of the financial crisis, mortgage lenders risk appetite changed dramatically. I mean that's on the record. So the government, firstly, looking to generate more growth in the domestic economy and, secondly, support customers. It's a customer support mechanism in allowing first-time buyers greater access at a time when the mortgage lenders were keen to lend at higher LTVs. I mean, everybody in the room knows that. So I think, as Jeff said, it's done what it was designed to do. The future -- what the future holds in that regard, well, we've always thought that as the mortgage market matures and the lenders' risk appetite develops to a level where higher LTV lending has an appropriate support from their balance sheet, then the Help to Buy requirement lessens, doesn't it? I mean, it's a dynamic situation. And really, the solution to Help to Buy is found in the mortgage market. That's where the solution should be found, in terms of supporting younger families to gain access to the housing market, should they want to make that choice.

Jeffrey Fairburn
Former Group CEO & Executive Director

Next question over there.

Christopher Richard Fremantle
Morgan Stanley, Research Division

Chris Fremantle from Morgan Stanley. I know you've talked at length about the margin sustainability, or not. I'm just a little bit surprised by your comment that there wasn't another 200 basis points on the margin, given that you've got a plot cost to revenue ratio in the land bank, which is 3 percentage points below what you've put through the income statement today, or...

Michael Hugh Killoran
Group Finance Director & Director

I don't think you should be surprised. I think the first reason for that is that the land bank is a large pool of plots, whereas the legal completions' only financial year is a smaller pool of plot. So mix is very, very important. As you know, our strategic land assets that we've been successful in bringing through into the consented land bank do offer higher returns. But these -- as Jeff said, these tend to be larger size. So the proportion, for example, of strategic land-supported legal completions in the sales mix will always be lower than is in the consented land bank.

Jeffrey Fairburn
Former Group CEO & Executive Director

The good thing about that is, obviously, you've got more value into the future to support margin as you go forward.

Christopher Richard Fremantle
Morgan Stanley, Research Division

Can I just ask a follow-up? And so the -- what you've bought this year, is the plot cost to sales of what you've bought this year about around what you have put through the income statement? Or is it higher, is it lower? Can you just give us a little bit of color?

Michael Hugh Killoran
Group Finance Director & Director

I think the -- I mean, what I'd just caution you to getting too focused on plot cost of revenue percentage as being the sole reason for why margin can change. As I said earlier, plot costs, if you look at the numbers, plot cost is about 1/3 of the building of the direct costs. So yes, it's an important part of the equation, but it's not all of the equation. And as we've already referenced, we're putting a lot of money in the ground in terms of infrastructure works, et cetera, which complement the land -- just to paint a simpler example: we find a 10-acre site in the middle of Wales, which requires a lot of heavy in engineering and ground works to cut levels into the hillside. Now the plot costs to revenue ratio there might be 10%. So you look at that, if you got one-dimensional view, at what margin would be delivered from that, You say, "That is going to be a super margin." Because it's a 10% cost of revenue percentage. What you have to consider is the fact that all that engineering work and groundwork, cutting those levels into the hillside will, yes, be more expensive. So what you have to do is put every component to the cost base into place to deliver the gross margins. So I think the best way we can answer your question is that, when we look at the land that we have acquired and is coming through our pipeline to be acquired, the margin is pretty similar.

Christopher Richard Fremantle
Morgan Stanley, Research Division

The overall margin?

Michael Hugh Killoran
Group Finance Director & Director

The overall margin, yes.

Christopher Richard Fremantle
Morgan Stanley, Research Division

So that's what we're driving now?

Jeffrey Fairburn
Former Group CEO & Executive Director

It's an indicator really, which is good indicator.

Christopher Richard Fremantle
Morgan Stanley, Research Division

Fine. Okay. And then the second question was on the -- this land banking review. Are you expecting anything there that's slightly to impact the economics of your business? Anything you can say about what we should expect there and what it means to for you, might be?

Jeffrey Fairburn

Former Group CEO & Executive Director

We don't expect that, Chris, thanks. I think the key point that's being looked at specifically at the moment, by Oliver Letwin, is the issue of is the industry building at suitably faster rate, given the demand in the market. So what he's we're looking at specifically is just really that point. Could you not build more housing more quickly? And this is quite a narrower sort of point actually. But I think it will come back to around all the other aspects that will then fall into that debate. So we're quite -- we haven't got anything to fear about a review about the use of land. It's been looked at extensively in the past. And there been some pretty comprehensive reviews. And on that particular narrow point from, as I've explained, you've got to look at when you would expect to start getting legal completions of the site. So on a big site, it can be quite a lot further into the process. And thereafter, how many completions per annum could be supported from a local workforce and/or the local demand requirement from a sales perspective. So we are quite confident about the outcome of that, from our perspective, but I think it will drive into a further debate going forward. So we'll see where that goes.

Christopher Richard Fremantle
Morgan Stanley, Research Division

Right. But you're not expecting some sort of blanket policy response that this is going to...

Jeffrey Fairburn
Former Group CEO & Executive Director

I don't personally believe so, no.

Clyde Lewis
Peel Hunt LLP, Research Division

Clyde Lewis at Peel Hunt. I've got 3, but I'll do the quick easy ones first. In terms of the land creditors, is this source of the high watermark relative to total land value? Should we all -- should we all be modeling...

Michael Hugh Killoran
Group Finance Director & Director

I think it's very hard to predict, Clyde, in terms of the balance of upfront payments vis-à-vis deferred. I think one thing we would say is that the planning backdrop in land supply, land release backdrop. Yes, 5-year plans in a lot of local authorities have yet to be completed. And hopefully, the revised NPPF that we'll see in March will provide further impetus to get us there. And I think that perhaps with a little bit more competition coming in for the land that is released. Because we have seen a bit more competition in one or two spots. Then the ability to defer may be crimped a bit, moving forward. But how all of that sort balances out, I think we -- I mean, from a financial point of view -- I mean, it's obviously a continuing debate in the business. None of us want to see a big refinancing wall coming towards us in the future. So GBP 500 million to GBP 600 million for us is fine with a nice amortizing tail on it. Because, basically, it's future refinancing requirement. Last year, as I say, we paid GBP 270 million of land creditor servicing, if you will, in that 12-month period, which is fine...

Jeffrey Fairburn
Former Group CEO & Executive Director

So it's turning over reasonably well. I think another important point is, there, that we do buy land usually on a subjective planning basis. So we only contract or complete on it -- complete, should I say, at the point we've got a suitable planning consent. And that's important from a land creditor perspective because a land credit is not created until that point. And really, it's -- the land creditors that we have that are generally in relation to the bigger size that last a lot longer to make them work from a return on capital perspective, rather than anything linked to planning permission per se. And I think that's an important point.

Clyde Lewis
Peel Hunt LLP, Research Division

Second one I had was on standard house types. Where are you in terms of your percentage of total output? How do you see that moving in the next couple of years?

Jeffrey Fairburn
Former Group CEO & Executive Director

Yes, I think we're getting into the sort of top end of what is achievable. I would say we're about 75% to 80%. But we're meeting further challenges now across the U.K. where we're getting pushed back on various standards, again, being introduced by the individual local authorities, which is very unhelpful for the industry to continue to drive volumes forward. And we're having to adapt and change for local circumstances, which as I say is not, I don't think, in anybody's interest. So that's a bit of a challenge. If we've got standards that were introduced across the U.K., we develop house types to suit those standards as a whole. But if we've got individual situations developing, it becomes more difficult. But yes, we've probably reached the level of coverage in terms of standardization.

Clyde Lewis
Peel Hunt LLP, Research Division

The last one I had was on, I suppose, the margin. The -- I think the average selling price, up 3.2%. You talked about the 1.5% smaller unit size. And I think, Mike, you talked about the geographic shift up north. And yet, in that margin bridge, you only showed, I think it was 0.8% of a benefit from HPI. I'm struggling to wrap all that together. That seems a low number for HPI as a benefit. Obviously, you have been working on the cost, and I am just wondering...

Michael Hugh Killoran
Group Finance Director & Director

It's the pound. We were looking at it from a per unit basis, so it's the GBP per unit type approach that really drives the cash that delivers, also, the profit per unit, which is a very important dimension.

Jeffrey Fairburn
Former Group CEO & Executive Director

That's a good question. And I think you do, also, do get geographical differences within those locations. So even in the north, believe it or not, there's places that are expensive to buy houses. And so it does depend on where your sites are in that geographical location as well, driving that individual sort of plot number.

Aynsley Lammin
Canaccord Genuity Corp., Research Division

Aynsley Lammin from Canaccord. Just 2 please. Obviously, you had a good start to the year. I just wondered if you changed any incentives as we enter into this year. And secondly, just wondered what your expectations took a bit more kind of trends and material cost and labor inflation for 2018?

Michael Hugh Killoran
Group Finance Director & Director

I think, taking the first one from a sales incentive point, no real noticeable, Aynsley, at this point. As I say, the industry shifted quite a bit over recent years, where the harnessing digital technology -- it sounds quite a strange, a house builder talking about digital technology. But I think the industry is very keen to pursue the advantages that, that brings to our -- how our processes work. So long as it's probably thought through and well-designed, it can make us more efficient. And as again, as I say, Jeff is very keen to explore as many of those advantages and that potential as possible. And I think that is making -- is helping make our sales processes more efficient. And I think we're in transition, Jeff, on that, really, in terms of the cost of supporting our sales processes. It's a really interesting dynamic at the moment, where all the home finder engines that are on the Internet now. It's a -- I mean, they've been there for a while, but it seems to be the first -- becoming the first choice of customers in terms of looking for a new home, and indeed, then contacting the likes of Persimmon in terms of callback requests, brochure requests, meeting requests. We're now monitoring all those different contacting and inquiry types, and we are seeing a very healthy position in the digital channel, to use a retailer's phrase perhaps, which is encouraging.

Jeffrey Fairburn
Former Group CEO & Executive Director

But you've got to continue to upgrade your platform. So we're constantly investing, reinvesting in websites and the optimization of search processes and so forth. So there's quite a lot of work done in that area. And I think there are other advantages to us going forward in terms of how we sell additional, what we call, finishing touches to customers, trying to upsell our product in that way. I think we're not always as quick as we could be to move with the market. So we do use Part Exchange and Home Change, and we keep revisiting these things. But there's not been any marketable -- mark-able change over at recent times at all anyway. And cost inflation, I would anticipate something similar to it last year. It's a bit difficult to call, but we are seeing pressures in that regard. And there are fewer and fewer suppliers of materials out there to the industry. But there are significant challenges as well in terms of volume, keeping up with the volume increase of the industry because the industry showed a significant increase in volume last year. So I think that will continue to be challenging but similar sort of level to last year maybe 3%, 3.5%-ish, I would say.

Glynis Mary Johnson
Deutsche Bank AG, Research Division

Glynis Johnson, Deutsche Bank. I have 2, if I may. The first one is rather long. The strategic land conversion in 2017. Can you maybe give us a split freehold option? And then can you just give us a bit of color around the strategic intake that you've taken in? Is there a change in terms of north-south, freehold option, density that you're assuming on the sites?

Michael Hugh Killoran
Group Finance Director & Director

Yes, I think the -- I mean, the intake is more about -- it's driven by our teams that, in our term, is land prospecting, in a way. It's sort of very plugged into the assessment of where housing need is and should be, catered for in all the regional markets. But then you've got the overlay of our existing positions, that we don't want to keep on tying up new options where we're -- we've got pretty good coverage already. And so it's very difficult to summarize that. But suffice to say that we're always trying to achieve a balanced portfolio in support of each of our 30 businesses. But it wouldn't be a surprise to you, Glynis, to find that some businesses are more are well catered for than others, in terms of strategic land backing that they've got at any point in time. And that's because it's input-outputs, isn't it? We're continually signing up new options at the same as getting successes out of the front end of it in terms of introducing ex-strategic sites into the consented land bank. So it's in the speed of -- it's not a smooth conveyer belt, in terms of tying up new option agreements and delivering the successes out the front end. So it's quite a dynamic position.

Glynis Mary Johnson
Deutsche Bank AG, Research Division

Are you seeing competition step up though for that strategic land that you are intaking? Or are you finding it harder to get the freehold and seeing more options coming through? Are you seeing discount to market on options decreasing? You see, that's kind of color I was looking for.

Jeffrey Fairburn
Former Group CEO & Executive Director

Is very regional, actually, Glynis, and depending on who's operating in a particular area. It is quite competitive for strategic land, and there are various house builders and organizations, who can invest at the level required to -- for strategic land rather than buying land in the open market. So I think, they think it's better value. But the deal's got to be right. And we sometimes don't manage to compete on their terms because the deals, in our opinion, aren't engineered to, as I said, what we would want in the long term. And we've got such a good quality strategic land bank, that we don't want to deteriorate that.

So we're quite choosy. And over the last few years, we've managed to find excellent opportunities in the short-term land with consented land at -- on the right deals. So it's just getting the balance right, really. We're constantly reviewing that on a region-by-region individual site basis. But I was pleased to have replaced the volume of strategic land within the year. I thought it was really a good conversion rate but also a good replacement rate. So I was pleasantly surprised actually in that regard. And then looking at the freehold option sort of basis. I think what we have delivered during the course of last year looks very positive actually on first glance, but I think you've then got to look at even the freehold land in terms of what -- if uplifts are payable to the land owners as well. So it's difficult to give you a good, an accurate picture. But certainly, we've brought through a significant -- probably nearly half of the strategic land was -- that we pull through was freehold in that year. So good.

Glynis Mary Johnson
Deutsche Bank AG, Research Division

And the second question is slightly the Voldemort of the questions. Your LTIP, obviously, we saw changes to your LTIP the beginning of this week. There were 150 senior executives in the original one. Can you just remind us, clawbacks, holding periods, what's been put in place in order to have the extra succession for those obviously very important people in your organization?

Jeffrey Fairburn
Former Group CEO & Executive Director

Yes, obviously, a key consideration for us and everybody, to make sure everybody's motivated. There is 1-year hold period on the 2012 LTIP, which Mike and myself extended on the second. That's for 3 years for ourselves. And then going forward, we've already got the approval last year of a new 2017 PSP, as it is called these days, scheme, which has already been implemented for new joiners or people have been promoted in the business since then. And the individuals who will conclude on the current LTIP will -- they will take up options under that new scheme once the existing ones concluded.

Glynis Mary Johnson
Deutsche Bank AG, Research Division

And the scale of that 2017 PSP, just so we can put in comparison to what they'll take from the 2012 LTIP?

Jeffrey Fairburn
Former Group CEO & Executive Director

I don't know how you would describe the scheme.

Michael Hugh Killoran
Group Finance Director & Director

No, it's a different type of scheme. It's a 3 -- it's like a more conventional 3-year performance period and a 2-year hold. So it's -- I think it's more conventional approach. So the 10-year 2012 LTIP is not replicated.

Jeffrey Fairburn
Former Group CEO & Executive Director

We found that too difficult. We've -- after that, we've got time for one more question, please. Over here?

Unknown Analyst

Just want to come back on Slide 18 on build cost and the margin influence. I realize you've sort of gone through in detail, but I remember you 6 months ago, you're saying that you can sort of derive the most efficient way to build. And you sort of decided on what the best way, sort of best practices are. But actually, it takes a while to sort of roll them out through your business. Are you seeing that sort of commentary still hold? And while you sort of make all of these positive comments here, we should still think about these not being employed everywhere. And actually, you have sort of ongoing margin tailwind because of that. So while you sort of talk conservatively on the margin outlook, theoretically, all else equal, these things do provide you with ongoing support here.

Jeffrey Fairburn
Former Group CEO & Executive Director

I think that's right. It's difficult to really express the extent of that. But it's a constant process, this, and a moving picture right across the country in all other businesses and the challenges that they've got at any one time. So we've got initiatives that we're rolling out all the time in the business to look at areas where we can make more efficiency serving. Because a lot of this is, is efficiency now, driving best practice right across the board. And that job will never be finished. We'll keep on at that. We'll keep challenging. And I think you're right. That will certainly help to mitigate some of the other cost increases that we are seeing going forward. It's a constant battle and journey.
Thanks very much for joining us, everyone. Much appreciated. And we'll be back reporting to you again soon. Thanks, very much.