S&P Global
Market Intelligence

Taylor Wimpey plc LSE:TW.

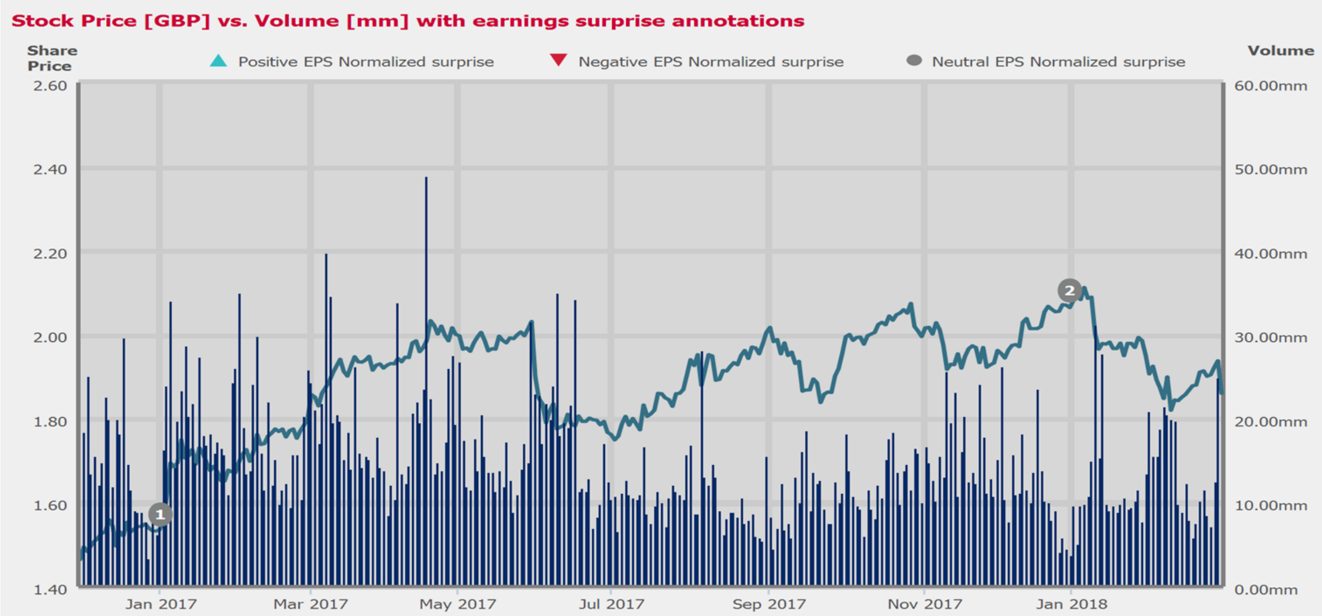
FY 2017 Earnings Call Transcripts

Wednesday, February 28, 2018 9:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.20	0.20	0.00	0.21
Revenue (mm)	3958.40	3965.20	0.17	4133.69

Currency: GBP
Consensus as of Feb-28-2018 8:05 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2016	0.18	0.18	0.00 %
FY 2017	0.20	0.20	0.00 %

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Call Participants

EXECUTIVES

Peter Redfern
Group Chief Executive & Executive Director

Ryan Mangold
Former Advisor

ANALYSTS

Christopher James Millington
Numis Securities Limited, Research Division

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Presentation

Peter Redfern
Group Chief Executive & Executive Director

Good morning. Thank you for joining us, and congratulations for actually making it here. This is probably the most surreal presentation I've done -- a results presentation. I'd toss at you that I think I've done close to 50 results presentations if you throw in capital issues and other things. This is probably the most surreal because I think I'm presenting to about 4 people in the audience here, maybe 5, and then sort of a group of our staff and advisers. So you're going to get really personal attention on your questions. Special congratulations to Chris, who, I'm told, cycled in this morning and he still managed to put a tie on. I think he's above and beyond.

We will try and take questions from sort of analysts particularly who dial in, which we don't normally, but given how hard people have sort of found it to get here and the fact we also have clashed with Travis Perkins as well for 1 or 2 analyst where we think is appropriate. We've also put a presentation up on the line there so people can have a look at it who can't make it here. So hopefully, one way or another with questions, and we'll go through it.

My other sort of apology is this is probably a bit of a dull presentation, which I will come back to. There's a couple of slides on land in my sections that are really worth waking up for, so I'll speak a bit louder and give you a note on that point. I'd allow you to listen to the pieces on customer service and employees, and I've got 2 really interesting slides at the back, so definitely wake up for those. Ryan's presentation, of course, is fascinating throughout so -- but I don't need to tell you that. But it is very much, apart from those particular bits on land and on a couple of slides at the back, very much in line with what we expected. Trading is in line with what we expected. But I do think the interesting stuff we're sort of very conscious of this is about starting to set the scene for the Capital Markets Day that we have in May, which we do see as being more than just an ordinary sort of update and operational review. But I will go through the slides.

So first of all, just on the group financial highlights. Sort of obvious, we've continued to show significant improvement in each of the key metrics that we set out. I think just picking out the dividends paid, what we've committed to for 2018 will take us to the GBP 1.3 billion target for over the 3-year period that we set. I would reinforce, and I will probably sort of come back to this at the end of the presentation as well, that sort of whatever we say about strategy, we start from the base case that our sort of 2019, 2020 dividend start from where we are in 2018, that we're expecting them to sort of go backward. So whilst we are not setting out forward guidance on dividends, you shouldn't read anything negative into that. We will be setting out much more clearly in May, probably ahead of when we would normally do in July.

Just picking out some key operating highlights, there's 2 or 3 of these numbers that I would like to sort of highlight. First of all, on the strategic landbank, that 17,000 additions is a -- it's just about a record. I think we did almost the same number about 4 years ago, but it certainly runs well ahead of our long-term norm. And what you should read into this, and I will touch on this later, is actually we have seen an easing in the forward competition for strategic land. We've seen less competitions particularly from land promoters who have been a growing part of the market over the course of this cycle but definitely seem to have retrenched a little over the last year or so. So we see -- and this is about sort of laying out the next 5, 10, 15 years of what we do in terms of operating performance. But actually, the forward look there is pretty positive.

The other 2 I will pick out are softer measures. We're very pleased that our customer service goals have gone back over the 90% to be a 5-star builder again. That's really been over the last 6 months. So for the customer care year that just finished, we didn't quite get there, but the forward look for the customer care at the year, we're in the middle of it at the moment, is very good and that's after a lot of investment and a lot of focus from our teams. But it's very much something we expect to continue to build on. We see sort of a score of -- in the low 90s as something that we should be aiming for. But actually once we get beyond that, improving customer care is about looking at other measures, other metrics, looking at how we actually recognize what customers really need rather than just dealing with maintenance and snagging issues better. So although we feel we've achieved that target, we definitely think there's more to come in that area.

And the other one is on health and safety. Clearly, a number that's above 0 is always uncomfortable, but an instant rate of 152 is an all-time record for us, and it's about half the industry average. It's something that in my entire 17 or 18 years in the business, the business that I have always taken sort of very, very seriously. But I think our underlying performance is good. And as I have said to you before, I think those customer care performances and that safety performance sort of is about a business that's running a very rounded way overall rather than just focused on short-term results.

Moving on to the market and I'll run through this very quickly because I think the interesting things for you will be what the market has been over the last few weeks rather than over the last year. Clearly, the first half of 2017 was a very strong performance, and in fact, particularly the first 10 weeks. The comparator that we have for last year on sales rates was an all-time high through those 10 weeks' period and then dropped off. And a large part of the reason it dropped off, we didn't have anything to sell. Yes, our order book peaked in that period at that point, which was uncomfortable. And what you saw, as I touched on it in our trading update and I'll come back to sort of a couple of slides further on, is during 2017, our production caught up and we started to be able to get our sales rates and our build performance back in line. And I'll show you what our December completions look like in terms of phasing compared to some of the history and you'll get a sense to how that's actually happening in reality. We're very comfortable with where the order book is at the moment. At the moment, we're selling roughly 6 months ahead on most sites. We don't want to be selling much further ahead than that. And so we do see the business growing this year, but growing and maintaining that sort of forward lead in terms of timing, which is how we look at the order book.

The private sales price, if you exclude Central London, I just think it's important if you'd get a sense of that, was up about 5% on the previous year. When you include Central London, that comes down to about 3.5%, given the falls in Central London but also about the mix of completions.

I think somebody asked the trading update to see this sort of data, which we've shown you before, which gives you a sense of the granularity of customer interest. And you could see -- I'm not going to go through each of the individual charts But they are there in the presentation. You can see that sort of overall the performance through sort of the back end of 2017 has remained strong. You see 1 or 2 sort of peak, but I wouldn't read too much into that. Tends to be sort of more about our own activity in the market. But overall, we continue to see very strong levels of interest through all the channels that we sort of sell in.

I will spend slightly longer in this slide than I normally do. We obviously saw base rates sort of move up and we see much clearer signaling about a potential for an increase in base rates over the next 12 months more quickly than we would have expected probably 6 months ago. At the moment, we are not seeing that feed through to the prices that our customers are paying. In fact, the ordinary mortgage, the sort of 85% loan to value on new build, has actually come down over that time rather than increased. And you haven't seen the yield curve move in the way that you might have expected, which is probably quite frustrating for the NPC, I would imagine. But you can also see that on the Help to Buy equity loan, the bottom end of the range has come down. The spread has increased. The others were 2 niche providers with slightly more expensive products, at the top end of the range, but still the level of sort of mortgage costs that people are getting when they take a 2- to 3-year fixed rate mortgage is at an all-time low and seems pretty resilient. Now clearly, as we look ahead through the next sort of 2 to 3 years, that's an area that we need to watch.

On our land pipeline, I touched on the growth in the strategic landbank sort of with the additions we made during the course of last year. Our short-term landbank remains very much in the range that we were expecting. I still think it’s likely to step up a little during 2018. I wouldn't read anything into the fact that it declined slightly in 2017.

I think I'll move fairly quickly on, and I said there were a couple of interesting slides to me. This is one, although it doesn't have many numbers on it, it's one of them. If we stand back and look at the land market that we operate in, it is different to what we have expected. It's -- and it feels like after a number of years of it being different, it's structurally different, and particularly, the planning system is structurally different, which I will come back to. It still remains very benign by any long-term standards. Importantly, and I haven't said this before, we talked about the pushup on margin that we made in the summer immediately post Brexit. That's actually stuck. And we didn't make that change particularly expecting it to stick. We made it in the short-term period of high risk to cover ourselves. But actually, as risks have tended to sort of stabilize, we've continued to be able to acquire land at higher operating margins than we were setting out 2 or 3 years ago. And I'll come on to the next slide, one that Ryan often covers, and sort of show you what our margin on acquisition was in 2017 in a second. And that environment has also enabled us to maintain the quality of locations that we've been focused on over the last few years, more consistent than we would have expected 6 or 7 years ago when we set out. I think we have more choices in the landbank -- in the land market than we're necessarily making. So when we come on to May, I think there are things that we can do that previously we would have not expected to be able to achieve.

In London specifically, we see the land environment less highly competitive than we have seen historically. It's more in line with the rest of the U.K. We have, as we touched on at the half year, seen better value deals over the last 18 months. We talked about a couple of larger deals that we've done in Central London at that point. We haven't done any more. But if the right deals come up, we'd still happily do them. We don't believe that it's right to sort of jump into the market and jump out. The timing and exactly the deals that you do at a different point should be dependent on the quality of what's available, but we expect to be in Central London to stay.

2018 and '19 will be relatively low years in terms of completions, but we have a decent pipeline of good sites from '20 -- sort of '20 onwards. And we are seeing a environment where competition is muted certainly by normal London standards and I'd say by normal U.K. standards as well. And as I touched on with strategic land, we have seen reduced competition. We -- if you go back to 2014, we set out a sort of target for conversions of 6,000 plots a year. That was significantly higher than anything we've done historically. We've averaged 9,000 plots. And if you look ahead, we're not setting a new target per se, but that 9,000 probably isn't a bad indication of where it might average over time. It does bring its challenges, but it brings some huge benefits. You do get larger sites. As you've heard others touch on, larger sites mean fewer outlets. Where we will come back to in May is how we think it’s right for us to manage those larger sites and drive value out of them. And it isn't just about doing what we've always done and just tweaking the metrics slightly. We think there are some slightly more fundamental changes about how you use them and how you drive the routes to market. The option for volume growth from our existing landbank and, therefore, mathematically shortening the landbank, we think, is reasonably significant.

Moving on to what that means in numbers terms. The yellow dot is the 2017 average, and that's where you can see both on margin and on return on capital is running ahead of the sort of guidance that we've given in terms of new acquisitions. And as I've said before, don't expect the 2017 dot to be a totally new normal but actually more strongly than before, I think it is close to that, sort of we're not getting big pushback and finding it really hard to find sites at that level. We've been through the last year. Beginning last year, we found it a little bit more difficult, but then it eased off, and actually, we've been able to deliver those sorts of returns, which we then beat when it comes through the P&L account and pretty consistently now through sort of 18 months post Brexit.

Just touching on -- looking at land from a sort of perhaps a slightly more political point of view. The pie chart on the right shows you in dark blue the sites with implementable planning permissions that we're actually building on and the very thin other sliver shows you the sites with implementable planning permissions that we're not delivering on at the moment. The red, next biggest sliver, is the ones we expect to start on site in the first quarter of this year, so you get a sense. And we have this conversation with government. And I think as ever we find, as we have early conversations on -- sort of with Oliver Letwin, the -- when you lay out the facts, people do start to quickly understand the issue wasn't quite what they thought it was from a distance. Doesn't mean that there isn't any political risk in that area, but does mean that, I think, we're already at a stage where the understanding has improved from perhaps where it was 6 months ago.

If you look at the chart on the left, it shows the long run balance between the planning permissions we have received and the completions we've delivered. And over 10 years, the 2 are almost identical. There's huge volatility in the planning permissions granted. Often, that's because it's lumpy on large strategic sites, sometimes it's because the political winds change in an election year or whatever. But actually, the long-run average is very much in line. We've grown our landbank basically in order to deliver the completions in the business.

Moving on to a couple of areas that I would just like to pick out on some of the softer measures in the business. And I'm going to talk about people and about customer service today. I'm not going to go through everything on this slide, but it just sets out and we've grouped them into 3 boxes of culture, attracting people in development, and paying benefits, some of the areas that we've been working on over the last couple of years and some of the things that we've done. I think the key message is it has made a huge difference. Our sort of staff turnover has been structurally lower than we think our competitors and where we were at any equivalent point in previous cycles. And we're probably at a point where the competition for people is at an all-time high. But it isn't just about money. So we have made sure that our underlying pay is in the right place, but I wouldn't say it's massively ahead of the competitors. But what we have done is change fundamentally things around flexible working, how we deal with helping our employees to buy a Taylor Wimpey house, how we engage with people, how we deal with diversity issues and all of those. And then probably one I'll pick out, sort of actually the level of employee share ownership, which at just about 60%, is roughly double the average for the U.K. corporates. So our employees are very much bought into our business.

But I think we then see those having a very positive impact. I touched on a low staff turnover rate, sort of in the mid-teens over the last few years, a 93% employee engagement rate. The single statistic I was most pleased with last year, to be the 15th best company to work for in the U.K. Nobody else in our sector sort of was in the top 50, which is as far as they recognize. And this is something that's voted for by your own employees, sort of a bit like a net promoter type score. And it's done by people in their 20s and their 30s. And for an industry which is very traditional and actually has struggled to attract young people in to provide the future of the business, whether it be own site or in leadership terms, that's a huge win but it’s also a huge, huge advantage for us.

And just jumping to the bottom bullet point, it gives us hard-edge advantages as well. The consistency of our teams is probably the single biggest measure of success at a local business level. If you look at the history of the business in previous cycles, the worst-performing businesses dragged the overall business down a long way. We don't see that. The level of consistency and financial performance comes from the level of consistency in the people teams that we have. And we're not just keeping people by paying them more; we're crafting a much more rounded package of benefits and overall culture that people can work with.

Moving on to customer service. I'll go through this fairly quickly because I think it's the sort of build slide following it that's slightly more interesting. But you see in the red line, you can see the move I was talking about in the first couple of slides. We dipped more than we were comfortable with in 2015 and '16. It was a bit of a grind to get our way sort of back up there. But as I said, the key thing for us is now moving on from that, not just looking at customer service from a product delivery point of view but actually really working out what our customers want.

And you go back to those big sites and actually really understanding how to appeal to customers beyond the traditional sales model is one of the keys to the potential to drive out more volume and more value where we have large land holdings, and absorption can be the limiting factor.

And just on build delivery, and this is a complex slide to understand, so I'll just focus on the top, top half. What you're seeing is our completions as a percentage of the sort of final couple of years week by week, and you're seeing it for the last 4 years. So if I jump to the end set of blocks, the dark-blue and red columns are the '14 and '15 legal completions in the last 2 weeks of the year. The gray and blue columns are the last 2 years. And you can see the extent to which we brought those completions forward, so there's less pressure on our build teams. There's more chance to just do those final 2 weeks of making sure that it's right. There's less pressure on our customers to move in on a set date that suits us rather than having them the flex to move in when they choose to. And that's made a big difference to not just the delivery of customer service but making sure we're in control of costs. And particularly from a cost point of view, the potential for follow-on costs sort of when you're remediating issues is always much more expensive after somebody has actually moved in.

And if you look ahead, and this is looking at week 7, and this is the bottom part of the chart, if you look ahead at where our build is for the balance of this year, and this just maps out as a percentage of total 2018 targeted completions where we are. Again, you can see we're consistently further ahead on build status. And that makes a difference to our order book, but it also makes a difference, most important, strategically, to our confidence if we want to step up production, that we can respond to the market. Rather than what's felt over the last 3 years, the market will be where the market is and we can only do what we set out to do at the end of the year. Being further ahead and being more in control and knowing what levers to pulls gives us choices that we haven't had over the last couple of years.

So I'll hand over to Ryan.

Ryan Mangold
Former Advisor

Thanks, Pete, and good morning, ladies and gentlemen. I will try and keep this very interesting for you, as Pete noted earlier.

So in this section, I'll talk through the financial performance for the year, highlighting specifically the further improvement that we've made in the quality of the balance sheet, the further improvement we've made in increasing the scale and the quality of the land pipeline underpinning the sustainable financial performance and the good progress we've made against our targets we set ourselves in 2016, covering the period of 2016 to '18.

So if you look at the summary of the group results, group revenue growth year-on-year, just shy of 8 percentage points, has been driven by positive price movements as well as some volume growth. Gross profit delivered in the period on just over GBP 1 billion is up 9.8%. And the gross profit margin of 26.1% is up 0.5 percentage points on the prior year. Overhead recovery remains largely unchanged year-on-year, given the further investment in the business that Pete noted earlier, particularly on the people side and processes side. And as a result, an underlying operating margin of 21.2% is up 0.4 percentage points on 2016. The key drivers of the U.K. performance I'll cover later in the presentation in terms of margin as well as quality. And just worth noting again that the group results include our Spanish business. Spain delivers GBP 26.8 million with operating profit in the period. It's up 30 percentage points on 2016 off a fairly similar number of home completions. And with a strong order book of over 300 homes and by value up by 21% on 2016 and demand remaining good positions our business really well to continue to make progress into the future.

We have maintained our -- I'm sorry, let's go back a slide. We maintained our investment strategy in Spain of marginal growth. And the high-quality landbank that currently stands at 2,675 plots is up 25% from 2016. And there are a few more operational statistics and information on the Spanish business in the appendices that we normally would include. Interest costs for the group are slightly lower year-on-year and due mainly to lower debt finance costs following the repayment of the corporate loan that we had in the second half of 2016 as well as lower average borrowings for the period. We ran average net cash for 2017 versus average net debt for 2016. This has been partially offset by slightly higher land creditor discount unwind in the period as a result of average higher land creditors year-on-year. This results in underlying profit before tax and exceptional items of GBP 812 million, up just over 10.7 percentage points. That underlying effective tax rate for the business, for the group at 18.7%, broadly in line with the statutory rate and slightly lower than the 19.6% in 2016, and this benefits too from further recognition of the deferred tax assets due to historical losses in Spain in the year. We expect the future tax rate to largely reflect the statutory rate and for the P&L charge as well as what we are paying in cash annually.

The strong return on net operating assets made during 2016 has continued into 2017, benefiting from higher profitability, driven off a fairly consistent scale of balance sheet, and also benefits too from the improving quality of the landbank.

Tangible net asset value per share of 95.7p is up 8% year-on-year, reflecting the continued investment in the business as well as the lower pension deficit and is after paying 13.8p in dividends.

If you look at the U.K. performance summary, strong demand in the high-quality sites is continuing to drive the volume growth and the quality of the locations also benefiting average price increases. But as Pete noted early in the presentation, with average prices up 3.5%, some of that is offset by the London market, which, on a mix-driven basis, results in a slight negative for us overall.

Several new joint ventures are coming online in future years through the success of our Major Developments business, and so we'd expect profits from joint ventures to grow in the coming years but more from sort of 2020 and beyond as those joint ventures become to greater scale. We have a large joint venture site in Bordon in Hampshire, quite major developments, and 3 large joint ventures in London, which will all be contributing to volumes for many more years to come.

The gross margins up 0.3 percentage points, with 2017 impacted by the full annualized cost of the investment in our customer-centric focus, both in people and processes, which launched effectively in 2016, with the teams now largely in place and now it's just a matter of about enhancing the value that they're going to be creating. Total underlying profit in the U.K. business at GBP 814 million is up 9.5 percentage points on 2016.

If you look at the movement in margin year-on-year for the U.K. business, this is just an indicative movement where we try and analyze how the market's performed and how we perform relative to the market and understanding the dynamic of the key drivers. We think that the net impact of the market-led sales prices and their locations that we sell from and offset by the build cost inflation that we're seeing in the wider market added 0.7 percentage points to margins with ASPs continuing to rise at a pace that is marginally ahead of build cost inflation. And as you heard earlier, we guided sort of 3% to 4% build cost inflation for 2018. The landbank evolution of sites acquired around 2012 to '13 period and slightly before that, that benefited from very strong market fundamentals and so therefore having much stronger margins year-on-year, are starting to trade out and being replaced by sites that have been acquired at higher margins on average from the original investment but not benefiting from the same market uplift, has taken off about 0.6 percentage points year-on-year. As a result, the net market impact is positive 0.1 percentage points.

The net change in land mix year-on-year has reduced margins by 0.3% due to mix and trading pattern. And with the higher investment in customer services than some of the other processes that we've implemented in '17, including the build quality, has reduced margins by approximately 0.3 percentage points year-on-year. But we're not expecting that to be an incremental change, but it's now a matter of our bidding, bidding that in. Affordable pricing has increased margins by 0.5 percentage points and marginally better overhead recovery at 0.1 percentage points. The way that we account for joint ventures and the share of net profits have added 0.2% to the margins in the year.

In 2016, we set ourselves a target of 22% operating margin for the group for the periods 2016 through to '18. And at the time, we indicated that this was one of the toughest of the targets that we set. However, the key drivers supporting this target is continued improvement in the quality of the landbank and driving continually efficiency improvements across the group. With 2015 as the base, as the reference year, land recovery has improved by 1.2 percentage points relative to selling price. With the quality of the landbank at circa 15% of average selling price currently, we'd expect to make some continued progress in this regard. All this, this is offset a little bit by the short-term acquisitions, where the plot cost to ASP ratio is slightly higher.

Build cost recovery continues to trend towards upwards given the greater burden of infrastructure on the larger strategic sites and effect of build cost inflation and higher spend on improvement in product quality offsetting the lower land recovery. So this was fairly symmetrical during the period. The higher level of infrastructure costs should largely remain consistent going forward given that the strategic land mix is expected to stay broadly the same. But there can be certain minimal elements of volatility in that, but broadly about the same. We've made improvements on our selling expense efficiency by 0.3 percentage points, resulting in gross profit per unit improving by 0.3 percentage points. And contribution per completion has increased to just over GBP 69,000, which is up 5.8% on the year and up by 17% since 2015.

Several of the initiatives that we embarked on in 2016 and '17, including customer service and delivery excellence programs, have added more to the cost base in the short term. However, we are expecting to drive some gains from these initiatives in the future periods as we improve in the quality of the home delivery.

As announced earlier in 2017, we completed a leasehold review and we've booked the previously announced GBP 130 million as an exceptional charge in the year. We believe that this is a full and prudent provision that we've made on the cost estimate, which we are not legally bound to incur. The provision is supported by agreements with freeholders covering over 90% of the customers effective, and we make further good progress on the remaining 10% during the course of 2018.

We expect the majority of these cash outflows to be over the next 2 years, with a fairly long tail. This is very much dependent at the pace which customers make application to change their leases to be one that is RPI based rather than 10-year doubling. And as a consequence, an exceptional tax credit of GBP 25 million was booked against the provision.

Turning to the balance sheet. The dynamic of ever so marginal cash release from net land investment, including changes in land creditors, continues despite the overall scale of the landbank staying broadly the same. There's been a slight increase in overall investments in work in progress year-on-year, reflecting the slight increase in infrastructure cost combined with build cost inflation and a greater level of work in progress that's on the balance sheet for the additional time required improving the quality of home delivery that Pete spoke about earlier. The increase in provisions mainly reflects the additional GBP 130 million that we recognized on the leasehold, with only a small amount of that actually utilized during the course of 2017.

Net asset growth after returning GBP 450 million to shareholders in the year is up 8.2%, reflecting the strong profitability, as well as pension deficit movements offset by the leasehold provision. Net asset growth before dividends paid in 2017 of 23.7% is a reasonable proxy for the return on equity generated by the business.

For the U.K. landbank, total potential revenue in the landbank has increased by GBP 5 billion year-on-year to GBP 47 billion. This is driven by an increase in average selling price as well as the overall scale of our strategic land pipeline, where we continue to actively pursue permissions -- planning permissions. Land cost of plots relative to the expected revenues in the short term, owned landbank is down by 0.6 percentage points to 14.8%, reflecting the continued quality of investment margins as well as growth in the wider housing market. The margins delivered in the year on sites that we acquired since 2009, when we reentered the land market following the financial crisis, were 1.7 percentage points on average higher than the investment assumptions that we've been -- that we've made at that point. And this higher return from investments versus the assumptions further validating the quality that we believe that we've got in our landbank, which will end up in future profitability as well as returns from the business.

The pensions deficit is materially lower on 2016, driven principally by the asset performance following the investment strategy and also helped by the hedging program that we've got against the liabilities and improvements in actuarial assumptions, particularly on mortality. And the IAS 19 scheme is actually in the surplus for the very first time of GBP 24 million. However, given the ongoing commitments we've got for funding the scheme results in an IFRIC 14 adjustment of GBP 88 million, resulting in a deficit for accounting purposes of GBP 64 million. As part of the triennial valuation as at December 2016, we undertook a medically underwritten mortality study that indicated that the actuarial assumptions that we had historically for the membership were more prudent than what the underlying membership reflected. This, combined with updates in mortality tables year-on-year, has resulted in a significant reduction in the liabilities.

The triennial valuation for 2016 has been concluded with the trustee, and that resulted in a deficit of -- a technical provisions deficit of GBP 222 million. If you had to roll that forward from 2016 to 2017 on a consistent basis, the deficit is reduced to only GBP 30 million using exactly the same actuarial basis for the calculation. As a consequence, we have agreed to a 4-year recovery period with the trustee and contributing GBP 40 million per annum versus the GBP 16 million we currently contribute. The recovery payments will, however, be suspended to the extent that the scheme becomes fully funded on a technical provisions basis and will only recommence payment if the scheme drops below a 96% funding level. This process will be tested quarterly. The first test will be the 31st of March 2018 and subject to market movements. The expectation over the next 3 years will be that we will probably contribute marginally less cash into the scheme given how well capitalized it is. And we also continue to work very, very closely with the trustee overall in managing the pensions exposure, including hedging program and de-risking.

The level of investment into the business continues to grow, funded by profitability generated. Outlet numbers are broadly consistent year-on-year. However, there's been greater levels of infrastructure investment on particularly those larger strategic sites, as we noted before. The profit and loss work in progress recovery has continued to get closer and closer to the cash investment levels as both the shift to large strategic sites has been completed, with a related high infrastructure burden. And the more significant investment into work in progress as part of the customer journey that Pete highlighted earlier and the knock-on effect on build programs that's added approximately 2 weeks to delivery is broadly at a steady state.

Land cost per plot recovered to the P&L has shown marginal growth over the past 5 years. And with the current cost per plot in the balance sheet, I expect this level of net land investment to only marginally grow as the land is replaced.

As noted before, the group is cash tax paying, and we paid GBP 128 million in cash tax over the year, with future cash tax payments to largely reflect the P&L charge. Net cash ended up GBP 147 million year-on-year despite the higher tax payments and returning GBP 450 million to shareholders over the year, reflecting the strong operational cash generation and balance sheet discipline. With the balance sheet broadly at what we believe is optimal scale and a higher proportion of quality earnings generated are being converted into cash and that's available for distribution to shareholders, the strong cash generation trend we expect to continue for the foreseeable future underpinned by the high quality landbank and lower level of adjusted gearing.

We have declared a final dividend for 2017 of GBP 80 million or 2.44p per share, which is in line with our ordinary dividend policy of 5% of net assets. This combined with the GBP 340 million special dividend declared in July of last year for payment this year means that we will return GBP 500 million to shareholders in 2018, subject to shareholder approval at the AGM in April. The declared dividend for 2018 represents a yield of approximately about 8% against the current share price.

In February, we have completed an amendment and extension to our GBP 550 million revolving credit facility with the banks on slightly improved terms and reflecting the good progress the group has made since we last renewed this. This takes the revolving credit facility term to 2023 with an option to extend for further 2 years. And this combined with the other credit lines means that we've got committed facilities for over a five-year period. Overall, the balance sheet remains strong, with adjusted gearing, including land creditors, of only 4% gearing relative to the 8% in the previous year. And we anticipate that the facility will stay largely undrawn during the course of 2018 and have a fairly similar profile to 2017, which was average net cash of around about GBP 190 million.

So in summary, good progress was made in the year against all the medium targets we set out in May 2016. The declaration of the special dividend means that we have met the GBP 1.3 billion cash target that we set ourselves over the 3 years. The net asset growth year-on-year before dividends returned to shareholders of 23.7% reflects strong total equity returns. And as noted before, the return on net operating assets continues to run above the target we set ourselves. And I think that the quality of the business, the quality of the people and the quality of the balance sheet, combined with good capital discipline, I think, positions the group very well to continue to make strong progress in years to come.

And I'll hand back to Pete for current trading in the medium-term outlook.

Peter Redfern
Group Chief Executive & Executive Director

Thanks, Ryan. So 3 slides on how trading has been over the course of the last few weeks and then 2 on our thoughts in advance of our Capital Markets Day in May.

So, U.K. market promise to date, I mean, we touched on the strength of the comparative, the equivalent period on private sales rates. The private sales rate of 0.81 in the first 10 weeks of this year, we're very happy with, but it is against an all-time high in the equivalent period last year. My instinct is, unless the market changed significantly from here, that will balance out during the course of the year. During the course of both 2016, when obviously the first half was strong but not as strong as last year, and 2017, the second half sales rates were compressed because of our availability of product and things to sell. You go back to if we're selling 6 months ahead, get much ahead of that, and we get pretty uncomfortable. So actually, I don't think that the second half or even the second quarter needs to be sort of any better than it is today for that to even out over the period. So it's not something that we're particularly concerned about. And as you can see, cancellation rates still in line with sort of what we've expected.

I would say, just the last bullet point, sort of the one area where we definitely see a slower market is in generally higher price points. I think the -- it's where the secondhand market has more of an impact because you have to put chains together. It is not a particular concern for us, but it's definitely sort of a bit slower and a bit softer at the top, not, as we've said a couple of times, not so much on price but definitely on rate.

Just -- this is probably the only time I'll put up the stages on the slide, but I know, with the trading update, it did cause a little bit of concern because our affordable order book was down. It's not something that we see is a big driver either way. It's something -- we don't tend to look at it in order book sense, but I get the way that we quoted externally, yes, sort of get people slight cause for concern. But you can see sort of to-date, that our affordable order book is now pretty much in line with the end of '16. And we wouldn't normally see that sort of seasonal shift, so it's pretty much in line with this time last year as well. We just had a bit of timing difference at the end of the year, but I just thought I'd put that up by way of reinsurance.

And picking out Central London, don't want to spend a huge amount of time on it, but it remains a slower market than we've seen. Just at that second bullet point, sort of in order to deliver our 2018 plans, we have 126 sales to make across 7 sites. If you work that back, you get to a sales rate of about 0.34, which we're pretty relaxed about. Our exposure in terms of guidance on profitability is short. And we still have very much the perspective that Central London is a good place to be long term. And actually, if we get too much into a short-term reactivity to a market, then we make the wrong long-term decision. So you wouldn't necessarily expect to see us push large amounts of capital in Central London over the course of the next 6 to 12 months, but if there are great opportunities, then we won't be averse to taking them. So it's very much opportunity led at the moment, but we're certainly not expecting to pull out. And we see that profit contribution from sites who already have started to build up again, as I say, back in the 2019 but particularly 2020, 2021. But we don't see this causing us too much of a problem in the short term and a healthy long-term place to be.

And so going to the final 2 slides. The first one, I just wanted to just to give you a flavor of some of the things we feel have changed. If it's on this slide, it means we feel it has changed in a meaningful way over the last 7 or 8 years since we set out our current strategy, not just that it is subtly different.

And the final slide, I'm just going to run through the areas we expect to cover on that Capital Markets Day. There's quite a lot of areas on that, so we won't necessarily go through all of those in detailed presentations, but in the information we'll give you, we'll give you a sense of where we think the business should go over the medium time -- medium term.

The first point on here is one that everybody knows, and almost through the last cycle, we became uncomfortable talking about, but actually, as we've gone through this cycle, you can see it clearly impacting on the stability in our market. The supply-demand imbalance remains, and that means that our confidence in our long-term prospects remains very strong. We've probably been the most cautious in always saying that we remain in a cyclical business. We still feel that, but I do think there is -- yes, we have a sense that, whereas historically we have seen and I have seen that a downturn is almost this black hole that you go into, and what emerges out the other side is not recognizable from what went in. Our view on that has changed. There's a lot we can do not just to prepare the business in terms of its balance sheet strength and its trading position for sort of our future downturn but also longer-term things that we can do now that do then pay off post the change in the cycle, not just in the short term. So that underlying sense that we have the unusual luxury of operating in a market where supply just cannot physically keep up with demand, doesn't pin our sense of where the business should target longer term. The flip side to that is in the short to medium term, we should be cautious and concerned about customers' ability to finance a house to purchase without dependence on Help to Buy. We're not worried about what's going to happen in late '20, sort of '19 -- or sorry, 2018 and 2020. But as you look at the next 5 years, we wouldn't -- there are clearly risks there, and our understanding of that customer dynamic and how best we can help our customers through potential changes in Help to Buy is important. We shouldn't just be saying we need Help to Buy to forever, and when Help to Buy goes, there's nothing we can do. There's lots we can do. So you should expect us to talk about our views on some of the things that we can do in a world that has maybe different Help to Buy sort of into the future.

The third thing, and this is flowed on from us working very hard over the last 3 years to get our short-term customer service right, actually understanding what customers really want and where we have less constraint on land, particularly on large sites, our ability to tap into a broader base of customers and sell to them effectively and really understand their need has much more value than it did in a world 15 years ago, where actually a massive constraint was land, and our ability to sell and identify customer need was much less important.

The fourth area and probably the one that you will say is most significant, certainly, it makes a massive difference to the business. I think the land and planning environment we operate in is very different. We've talked a lot about the land market we operate in being different. But I think we have a tendency as a sector to say, yes, planning is a bit better at the moment, but it's still terrible, and nothing has really changed. I think as we stand back now 6, 7 years on from some of the changes made by the coalition and then following through, the planning environment we see today is structurally different to what we have seen in previous cycles. And I think the combination of the competition for land and that planning environment has a significant impact on the business. And that should then impact on our views of strategy more than it perhaps has over the last couple of years. So you can clearly see it in margins in the business. But I think people underestimate the extent to which it's impacted on the financial structure of the business, the amount of capital we have to lock up to keep the size of landbank we have is less, but it also means our ability to potentially shorten that landbank is greater. With that has come an underlying trend, which has been there for 20 years, that sites have got generally larger. The average site we acquired in the year I joined the business was 70 units. Today, it's probably about 250. That makes a big difference to how we operate. It gives us some good choices, good options, but it brings some challenges. But one of the things we're very focused on is how to make those large sites work for us, and that means doing things differently than what we've done in the past. Some of that we've done on some of our sites. But we haven't really reflected that throughout our views of strategy.

I also think in a world where land is easier, and it is easier than we're used to, what I'm calling engine room mobility, the ability of the business to buy sites, take them through a complex system, but also build product in a high-quality way to resource the staff, that part of the business that in previous cycles, when the industry has been valued purely really on its asset base rather than its ability to run a business, has more value than it ever has done before. And you see across the sector, those that have struggled with, the obvious example being Bovis at the extreme end. Actually, there's value disruption if you get it wrong. I think there's also value creation if you get it right. So the engine room has a value. And it's in short supply. There is a political and economic need for more housing, but we genuinely can't deliver it. So actually being able to enhance that, build it and prove it and do it better than others has value.

And lastly, the sector is and will remain in political focus. And you've heard me over the years talk a lot, I think before others have, about customer service, about health and safety, about other things. I think the risk of not being a business that operates in a responsible way and not having an understanding of those drivers is significant. And the potentially if you do, I think it's also significant. We've always believed it the right thing to do. We also think, over the course of the next 10 years, it will be the only thing to do.

So just thinking about areas we expect to cover just to give you a bit of a flavor, we will go through all of the key operational metrics. The ones -- not everything on this chart will change from where we are now, but we are seriously looking at all of them, and some of them will change. Our views of landbank length, including that impact of large sites. Views of what we think the sales rates we should normally expect and how that ties into outlet numbers and how we link them. I think we present our outlet numbers and our sales rates in the way that reflects the strategies of 20 years ago, when sites are much smaller and it was a much more mechanistic production. I don't think it works quite that way. And I think we can probably give you better information than just the simple sales, right, and outlet numbers. You should understand the relationship between the 2 better.

Our long-term growth aspirations, I don't -- I put long-term, so you don't think I'm talking about 2018, probably not much in 2019. But 2020 and beyond, I think we have a slightly different view developing from where we've been. As part of that, though, and essentially in that, broadening our routes to market, sort of looking out, and I touched on it before, how we look at customer affordability and how customers finance, how we do that in a post Help to Buy world, how we look at the rental market and PRS. I do not expect us to be sinking large sums of capital into that market but actually having a far more strategic sort of view of that and working it our particularly with large sites, how we can make that work for us rather than in an opportunistic sense, where our markets positioning of our products is and actually how we can improve our products over time.

I touched on managing through the housing cycle. We still see -- we're a cyclical business, and having a strong balance sheet is key. And we still see that having a significant dividend is a key element of the value proposition to shareholders. But actually, trying to map out for you probably better than we have done over the last 5 years, where we see that going in the long term. Do not expect a 9-year dividend plan with an LTIP attached, but do expect clearer guidance on where we expect that long-term dividend policy to go. I haven't changed our view. You cannot predict what's going to happen in 9 years' time, but I still think we can do a better job for you of mapping out where that dividend trend may go and how it will be impacted by our cycle as well.

An update on major development and particularly how that ties into large-sites piece, our customer proposition and where we see ourselves in the market. Some of the things we've touched on already around resourcing direct labor, actually how we get our build strategy right over a longer period of time and pieces on social purpose in that community and political risks. And lastly of all and I'm sure I said already but also just making sure we're clear on our dividend policy. And I repeat what I said at the beginning: Please do not read anything into that the 2019 dividends are going to go down from 2018. We still have the view that, that's a key part of the value proposition, but as I say, the main thing for us then mapping out where we think that will go into different economic conditions and how we view that as tying into the business's strategy.

So we think that is an important part in our near sort of future development. But having operated to the strategy we've operated to over the course of the last 7 or 8 years, there's a lot that we'll carry forward from that, but we do think it's the right time to really review it thoroughly. And we wouldn't be saying this if we haven't got some pretty clear ideas about where those completions went.
Open up for questions. Should we start on the front row, well, and then we'll just work our way backwards between the 2 or 3 rows? And you could -- on this occasion, you're allowed 6 or 7 questions, if you want. Though, although, I don't know if we got question on the line, not yet, so.

Question and Answer

William Jones
Redburn (Europe) Limited, Research Division

Will Jones from Redburn. The first one, just on build actually. Your 2 larger peers, we've seen make quite a lot -- a big push, if you like, on build cost efficiencies. One's kind of executed. The other one, for whom that lies ahead, and it didn't -- it wasn't really a part of the priorities you highlighted there for the [CMD]. Can we infer from that, that you're pretty happy the way you're at on your ratios, as I think about a 54% at the moment on the build side? Secondly, just on land buying. I think in the statement, you talked about a 28% intake gross margin for, I think, short-term land, and yet the average is about 27% a bit in the slides. Is that right? And therefore, did the strat land come in a bit below the open market, if I've read that right? And the last one is just around outlet quality. I think in January, Pete, you talk about how this year, particularly in the certain regions, the outlet quality is improving. Does that play out this year or does it continue, you think, in '19 and '20 in terms of that improvement?

Peter Redfern
Group Chief Executive & Executive Director

Thanks. I'm not sure I understood the second question. So if you did, Ryan, if you can take that one. If not, I might have to ask because I was sort of still writing down the first one. Did you -- going to get the second question? Which data it was looking at?

Ryan Mangold
Former Advisor

Yes, I think the point that Will's making, on one chart, we've got our gross margins or contribution margins on the yellow dot being somewhere between 27% and 28%. But on your presentation in the slide, the actual intake margin in the short-term land was circa 28%, and so I think it's just a matter of rounding, Will, rather than anything else.

Peter Redfern
Group Chief Executive & Executive Director

And we still see overall a higher margin on strategic land. The gap has narrowed simply because land costs are lower so strategic land percentage sort of saving is lower. But no, we have -- definitely haven't seen the position where strategic land is -- it was a lower margin.

William Jones
Redburn (Europe) Limited, Research Division

Can you just expand on that? Do you think the 27% or so you did last year, is that something you can repeat in '18 for the intake?

Peter Redfern
Group Chief Executive & Executive Director

Yes, okay, I'll come back to that. So let me take that one first and then work our way through. I'm actually almost going reverse order. So do we think it can repeat in 2018? Broadly, yes. I mean, it will massively depend on the exact mix of sites. And if we sort of have a mix of smaller sites particularly, sort of that would tend to push it down slightly. But order of magnitude, we are not seeing a sea change, and I think there's enough sites in that 2017 mix that it's reasonably statistical. It's not distorted by any one measure. So we don't see it going down south, particularly, but certainly in the same sort of range. On outlet quality, yes, I think the changes, yes, that we sort of flagged in the underlying quality -- and quality is partly about scale and not having to be in and out of outlets too quickly. And it is partly about the quality of the locations and how the sites are set up. We certainly don't see that going backwards. It varies a little bit regionally, so there's some regions that's tough to get to the same place, but I think we see the net direction is continuing to be positive rather than a one-off benefit in 2018. On build cost efficiencies, I think we -- there's still more we have to do, definitely. What we are not setting ourselves up to be is the lowest-cost producer. It's not where we want to be, and it's not where we see the long-term sort of value. And we do think, if you look at those customer service measures, it's such an important purchase for people. Being the lowest-cost producer is always going to result in quite a high-risk strategy, particularly when the market changes. That doesn't mean, though, that we don't, a, need to be very much in the range about where our build cost efficiency is and be able to deliver the most efficient product at the level of quality and specification that we think is right. So we're not particularly sensitive about pound per square foot comparisons, but we think there's still more things we need to do. Sort of I think, if we're looking again at the moment at a house site range and quite significantly reducing it, these things tend to grow up over time. It is about 5 years since we last sort of had a significant cutback, and so there is efficiency that comes from that. There is more we can do on the supply chain. I think over time what we want to do on direct labor helps costs, although I don't think it makes a particularly big difference either way over the first couple of years. But we are interested in how we control more of our input costs over the medium term rather than be very much at the mercy of spot markets as well. So there's definitely things to talk about, but strategically, we are where we want to be, is being able to produce a high quality product at the most effective cost rather than being the cheapest possible producer out there. And then -- now I think we covered them all, haven't we? Yes. If we move back and along.

Jonathan Matthew Bell
Barclays Bank PLC, Research Division

Jon Bell from Barclays. I think I've got about 3. Just wondering you currently sit on land creditors, I think at a previous Capital Markets Day, you'd indicated you might be trying to rein them in a little bit. Looks like they have gone the other way. Is there anything that's changed? Secondly, I wonder whether you could just elaborate on your medium-term aspirations for the Spanish business. Seems to be getting a few more column inches recently. What should we read into that? And then finally, on your comments on the land and planning environment having structurally changed, are you guiding us to a change in how you see the overall capacity of the business? And I'm sorry if that front ruins what you're going to tell us in May.

Peter Redfern
Group Chief Executive & Executive Director

The short answer to the last one is yes. On land creditors, if you look year-on-year, if you take out the Mount Pleasant site, which is a long-term land creditor, it was mostly flagged at the time, sort as a significant part of funding of the deal, then land creditor is completely flat. So -- are we uncomfortable where they are? No. But actually we'll be uncomfortable if you saw, yes, sort of grow and quite relaxed if they fall a little, but not to exercise about where they are right now. And it is, as we've said before, about a combination of land creditors and where we are on cash, to be sitting that with GBP 500 million cash in the balance sheet. And land creditors, which were now over the large part for the year -- number of years, were pretty relaxed overall, so I think our flag about land creditors reducing was on the assumption cash will be more in the GBP 250 million to GBP 300 million range. So overall in terms of balance sheet, sort of those trends pretty racks up. Is that fair, Ryan?

Ryan Mangold
Former Advisor

Yes, Jon, we use land creditors on a deal-by-deal basis. The Mount Pleasant site that Pete highlighted is a good example, and that's a fairly capital-intensive site from a land point of view on a phased-drawdown basis, subject to and when the Royal Mail completes the enabling works. That becomes quite a chunky number on its own right on the balance sheet. It's not something that we concerned about. There's no structural change to how we're going about to fund land.

Jonathan Matthew Bell
Barclays Bank PLC, Research Division

Is Phase 2 of Mount Pleasant in the land creditors' number now? Or do you still just capture the first phase?

Peter Redfern
Group Chief Executive & Executive Director

Just the first phase. But still the number that's actually in there is the gap between the 2 years. The Spanish business, yes. So I don't think there is anything hugely new to say apart from the performance of the Spanish business, and the Spanish market has clearly sort of moved on significant in 2017. So our options are more short term and more real than they were. If I'm honest, our strategic focus has been on the scale of the U.K. and where we go and getting that right. I think we'll sort of work through that while we have a serious think about Spain. But it remains a view that it's a good business in a market that's improving. Its values is better, and you have started to see, as you will have seen, sort of a number of deals happened sort of private to public sort of deals. So there's an environment there that we could do something if we chose to, which hasn't been the case really until the last 12 months.

Gavin Jago
Peel Hunt LLP, Research Division

It's Gavin Jago, Peel Hunt. Just 3 if I could as well, please. The first one's just on your working cap swing through the year, net cash position on average, just to get a sense to where the cash is moving over the next few years. What are kind of peaks and troughs do you -- would you be kind of looking through in a normal year? A reminder there, please. And the second one is on average site size. Obviously, you've seen how that kind of land percentages of the ASP has shrunk over the years. But I think that your site size has gone up. And then, I guess, linked to that, you are going to have more infrastructure costs. So can you give us a sense for the mix of the site sizes that have come through? And I guess, kind of linked to that as well, just looking towards this May Capital Markets Day. I know there's a bullet point on the rental market potentially coming in. I've pushed you on this before, Pete, but do you think the build to rent is now a real prospect for becoming kind of a part of the business now in these larger sites to drive return on capital and, I guess, that the overall magnitude of your profits rather than necessarily just focusing on the margin?

Peter Redfern
Group Chief Executive & Executive Director

Are you happy to take the first one, Ryan? Do you want to take that one first, and then I'll pick up on the next one.

Ryan Mangold
Former Advisor

On the working capital demands, as you've seen from statement, Gavin, we ran with average net cash of last year of GBP 186 million, having started the year at about GBP 365 million and ended at GBP 511 million. The only time we dipped into net debt during the course of the year was immediately after paying the special dividend of GBP 300 million in July. Our average working capital swings, in terms of demands, are roughly about GBP 150 million to GBP 200 million. That hasn't really changed. And as you saw from Pete's chart earlier in terms of number of completions in the last 2 months of the year, we are still back-end weighted, and so there's a bit of working capital that goes in, but it doesn't change us into a net debt position.

Peter Redfern
Group Chief Executive & Executive Director

And I'm not quite sure how to give you a mathematical answer to question on the average site size. It has grown, and it's continued to grow. And you're right, that makes a difference in the balance between land costs and infrastructure costs. We are not -- you've seen that come through over the last 2 or 3 years. Is that kind of trend going to continue? I certainly don't think it's going to reverse. It's probably going to come through a little bit more on the P&L, but I don't think it's going to come up through massively more on the balance sheet. I think net-net, its impact on margins and performances is a positive one. But as you say, it changes the mix so it definitely pushes up build cost and pushes down relatively land costs. Sort of -- but it's hard for me to give you an answer that says it's 3, if you see what I mean. Directionally, you're right, but -- in terms of a build trend, I do think and it goes back to what I was saying about land is more available than it was. We're assuming the land environment and planning environment is easy, but we're so used to that being the constraint on the business that almost all of our mindset becomes defensive about that and then doesn't think maybe as openly as it should about other things. I think if you turn around and say, actually, the land environment is different, it is likely to stay different, it might get a bit harder, it might get a bit easier, but it is likely to stay different to what we're used to, that then forces you to think, well, okay. If I'm less constrained than I thought I was there, how do I make sure that some of the other constraints, local level absorption, that I make those -- that I work through those, and I adopt the strategy that makes those more effective? And one of those is broadening our reach to market. One of those key pieces is actually being able to sell in some form or other into a rental market. So, yes, I do think, over the course of the next 5 to 10 years, that has to become one of the levers that we use. That doesn't mean that we end up the long-term owner. I think the way we've looked at it, we would be happy to own for a period of time, but I think we're unlikely to decide it makes sense for us to be the long-term owner of a large portfolio. But actually having much clearer routes into that market, that aren't just a reactive, "We're not selling as fast as we want. We've got some spare stuff for next year, let's sell it off," which has tended to be the way that the industry has done it in the past. Just isn't strategic enough and doesn't give us the sort of levers into the market that we might want. So, yes, I think it will, but I don't necessarily think that's an overnight thing, so it will build up steadily over time. You feel like you got to ask a question, I mean, there's only a few people ahead.

Christopher James Millington
Numis Securities Limited, Research Division

Chris Millington, Numis. I might as well go with 3 given that everyone else has, so. The first one is on the political landscape. You mentioned out some thoughts on that. Can I just get your thoughts on the potential Help to Buy extension? But also, obviously, we've got the landbank review from Letwin going on at the moment and any possibilities of windfall taxes there. Second one is really just on the margin outlook. You obviously had a little bit of a headwind from some of customer care cost you put in. What I was wondering is do they completely leave the business next year as a headwind? And also, can you just kind of tie what London's doing with regard to the headwind into that answer? And then the final one that I'd like to ask really is there's a reference in the statement to look in share buybacks if appropriate rather than giving cash back to shareholders through dividend. Can you just talk us through kind of what would trigger a response to share buybacks versus dividends and just kind of how you think about that?

Peter Redfern
Group Chief Executive & Executive Director

I'm sure that was 4, yes. We'll definitely allow it, but I'm sure it's -- so the political landscape is -- sort of has risks in it. We know that. I think you've got the Letwin review, you've got sort of reviews of build quality and you've got political sensitivity around the level of production. I mean, our take has been and remains that the most important thing we can do is sort of get things right ourselves, whether we're talking about customer care and service or whether we're talking about being clear about what our policy on land is. And as we've said to you many times on landbanking, it does frustrate us all as a sector a little, because it is so far away from the reality of what happens. And what I said to you this morning in the early conversations with Oliver Letwin, that comes across. And actually, sort of he's a bright guy. It's not that hard to understand. And I think where that conversation is going, and I don't think I'm giving away any chief secrets here, is about, well, okay, here are some of the things we are talking about, how large sites actually operate and how quickly they sort of -- they come through and what the other constraints are. That's a pretty sensible conversation. It's not unreasonable politically, and it is not particularly threatening from our point of view. I think that the sort of the big scary things that you worry about, sort of don't feel like they're sort of really in serious consideration, you mentioned windfall tax, the things you can do nothing about because they're kind of slightly arbitrary. I think the conversations we are having at the moment are pretty rational, sensible ones about what the constraints really are. But you know we're in a sort of politically uncertain -- well, not just in our sector but across the piece. And the risks are a bit greater in that environment, so you can't totally rule them out, ultra low but not zero. So I don't think that's going to change in the next 6 months either way. On sort of the -- did you ask question -- did you ask about Help to Buy and where we thought that will go? I wrote down landbank review, but I think I actually wrote down -- yes, on Help to Buy, we don't know anything in particular. There's been no sort of specific feedback. My -- they're definitely looking at it, I would say, slightly more critically than was the case previously. Obviously, the change of leadership, while old now, but sort of it takes time to filter through changes because it was George Osborne's policy, so it was not something that he looked at desperately critically. I think the most likely thing is that they look at 2021 and look at some kind of phasing out. And the phasing out, as we touched on before, could take many different forms. I still think that's the right answer, so I wouldn't be sort of arguing against that. I don't think it's very likely that suddenly they'll click their fingers remove it because the risk sort of too biased, the housing market to the overall economy is too great, so it would be a pretty irrational, self-destructive thing to do. And I think the risk of it being wound out over to the time that we should adapt to and management should see as sort of a positive. So I think that's likely to end up as a rational answer, but I've obviously been in a slightly different position from some of my peers, who would tell you, "We would can't buy land unless we know, right?" We shouldn't have that view. We shouldn't want to be dependent on that level of government plan subsidy. Our margin outlook, I haven't -- and it wasn't particularly deliberate. I have not touched on the 22% target. It hasn't really changed, so I think it is sort of very unlikely that we get to over the 3-year average ending in 2018. I still think it is very likely that we get to 22% as an operating margin and still view potentially beyond it. The headwind we've had on central London is probably the only thing that's made it just that bit too difficult to get through in the timeframe we initially set out. But even without sort of any recovery in Central London, I don't think there's any reason we can't get there over time. It is a bit grinding out. You can see from Mark Brown's margin reconciliation site, it is a bit grinding out sort of exactly what you do, a historic kind of legacy site can pull it back. But actually, you just need -- we don't need everything to fire on all cylinders to get there. So I certainly think it's a perfectly reasonable target. But we'll probably try and set out in May a little bit more detail where we see sort of margin going overall. But I certainly still think there's a bit of potential upside to come. And then lastly, on share buybacks, it's not in changed wording this time. It went into statement, I think, 12 months ago -- or 12 or 6 months ago. What we're flagging is in a situation, and if you think in the months immediately post Brexit, when the share price dipped to sort of GBP 1.40, if there is something happening in the market which we feel is significantly depressing the share price below what we think is any medium- to long-term recognition of value, we'd seriously think about it in that environment. I don't think we'll likely to think about it just with the kind of the short-term kind of share price volatility we've seen over the course of the last few weeks and today. That's life, and you sort of move on. But if we saw that kind of piece, where actually we thought, no, business is well capitalized, it is very strong, actually there's a lot of opportunities in that kind of environment, but the market was very cautious about housebuilders, then I think we'd seriously consider it. And as I've said before, I think where we'd seriously consider it will be incremental to a dividend we'd announce generally rather than just switching it into a dividend payment, but they'd have to be structurally different in terms of price. Any online questions, Debbie? No? And any others from the room? Okay, thank you very much. Thank you for making the effort to get here. You do get a prize. I'm not sure what it is yet, but sooner or later, we'll work it out. It's not a house. No, sorry. As my 15-year-old son would say, do I get a prize? The answer is it's the sense of achievement. Thanks very much.

Ryan Mangold
Former Advisor
Thank you.