Countryside HY 2022 Results

Thursday, 19th May 2022

Introduction

John Martin

Chair, Countryside Partnerships Plc

Welcome

Good morning, everybody. Thank you all very much for coming along to our Interim Results presentation today. I should say it is really lovely for me today as Chair to make three quick introductions. One, Tim Lawlor has joined us a relatively recently. You have not met him before in this guise anyway as the new CFO. Now into week number seven, I think, Tim. Great to have you on board.

Tim Lawlor: It is good to know you are counting.

John Martin: I can still count. That is the thing. We have got Peter Lee over here as well, who is our newest Non-Exec Director. And Amanda Clack, who is also our second newest Non-Exec Director. So it is really great this year to have done some strengthening of the Board. I am really pleased that these are people who have chosen to join Countryside. I want to talk a bit more about that this morning.

Interim Highlights

Just before I hand over to Tim to go through the financials, I would like to just pick out a few highlights by way of introduction. It is only a few short weeks since we shared the interim flash figures. So let me just start with three things.

Firstly, I think the financials are in line with what we talked about in early April. And the only real news here is that we have made a provision for our commitments under the Fire Safety Pledge, which Tim will talk to you about shortly.

Secondly, we are making some really good progress with the operations in the business. Partnerships South has continued to perform very well and in line with our expectations. In the Home Counties, the realisation of legacy assets is ahead of where we planned, and the conversion of the rest of the Home Counties into the new Home Counties Partnerships division is going really well. Very pleased with that. We are also making good progress with addressing some of the opportunities for improvements that we identified during the site-by-site review in the North and the Midlands.

And thirdly, we will cover this in more detail later. But I am really pleased and very excited with the progress in winning new opportunities and conversion of those opportunities, investing in, bringing those through planning to start on site. And you will see we have over 8,000 plots which have gone through those stages of our pipeline in the first half of the year.

Strong purpose and good values

Before we get into the nitty-gritty of the financials today, let me just start with what I think is a reminder of why so many talented associates get out of bed in the morning and are proud to wear the Countryside badge.

Countryside has a real clear purpose. We are building quality homes where our customers and tenants can bring up their families in comfort and security. We are great at placemaking. We are building mixed and cohesive communities in a world where this type of inclusive development is desperately needed. We are trying to bring as many homes as possible to the market in the most affordable way, whilst never compromising on quality.

We are trying to reuse land, wherever possible, and in the most environmentally friendly way, using MMC wherever we can.

On this chart here just over on the right, I have put these on this chart. I went through my intro. This is for the last month, right? This is some of the recognition that Countryside and our associates have received just in the last month. Quality, safety, social value are right at the heart of what Countryside is about. And our associates are rightly proud of keeping their focus on our purpose, bringing as many quality homes, great places to the market as possible in the most sustainable way.

Significant growth potential

> *Strong demand for Affordable, Private and PRS homes provides significant multi-year growth potential*

The conservative election manifesto in 2019 was very clear in targeting 300,000 new homes per year by the mid-2020s. Household formation, ageing housing stock and population growth have all contributed to a chronic undersupply of new homes. Demand for quality affordable homes is stronger than ever. The housing crisis is not going away any time soon.

One thing is for sure. As the leading developer of mixed tenure housing in the UK, Countryside is a key part of that solution.

Highly valued and trusted by partners and customers

Now meeting with our partners, with our registered providers, with housing associations, customers, local authorities over recent months, that I can assure you has been the very best part of the job. Countryside respect for our partners, the collaborative way that we engage with our partners, and the communities that we serve, the quality of the homes that we build and the places that we make, that really differentiates us from other operators.

Our approach to partnerships and joint ventures and the fair and even-handed way that we go about our business, those things are very highly valued. They do make us a partner of choice amongst local authorities and housing associations. That is where we are doing business. There is a huge amount of respect and goodwill for Countryside and for our teams.

Our associates are seen as trustworthy. They are seen as reliable, and likable and deservedly so. The only thing that our partners have asked of me, the only thing that they want us to do differently is to do more of what we are already doing.

Strategy – 100% focused on Partnerships

Now, since last July, our business has been focused 100% on our differentiated partnerships model. Our strategic focus is described in this slide. We develop mixed tenure communities, using brownfield and regeneration land, wherever possible, and MMC wherever possible. We build quality homes with a real focus on placemaking. And we always do this in collaboration with our partners.

Excellent shareholder value creation opportunity

We have an excellent opportunity here for significant value creation. We are well on the way to being focused 100% on partnerships, and the Partnerships business model is asset-efficient and can deliver excellent returns on capital.

We have realised £150 million so far from legacy assets. We are well on the way to the £450 million we targeted last year. We are creating a new and market-leading partnerships business across the Home Counties. But we have significant growth opportunities. The new regions in the Southwest and South London will contribute strongly as the sites that they have invested in are brought through into development. There is significant capacity in the Home Counties, way beyond the targets that we set out last year. And we have the potential and the capacity to expand it in other regions, including in the North and the Midlands, as we improve our operations there.

Tim is going to give you some colour on what we are doing to reduce our cost base, but there is plenty more opportunity as well to improve our profitability. As you will see later on, we have a really enviable landbank of opportunities, many with planning permission and significant development value to develop out.

Thank you. That is all I wanted to say by way of introduction. Now over to Tim for the financials. And I will come back to the operations review.

Financials

Tim Lawlor

Group CFO, Countryside Partnerships Plc

Finance H1 Highlights

Thanks, John. Good morning, everybody. I am delighted to be here this morning. It has been a few months since I signed up to join Countryside. And I joined on the basis of the significant potential that exists in this business.

I have been lucky in the first few weeks to get around a number of sites around the country. And there is nothing I have seen that puts in any doubt about that potential. We build fantastic homes that we should be proud of and the upside potential for this business is significant. And of course, with the share price movements since I signed up back in November last year, there is even more upside potential as a result.

So let us get straight into the numbers. What we are trying to do on the first chart is unpick the first half performance. There have been a lot of significant distortionary items in the first half of the year. And I think it has got a true picture of performance in the first half of the year, it is necessarily just a look at these individual items to get a true understanding of performance.

So if we start with adjusted operating profit. So adjusted operating profit, obviously, the headline measure that you will see on the front of the RNS, shows £47 million as the half year number against £79 million last year. Clearly, this was a lower profit than we targeted at the start of the year, for reasons that have been well documented and explained in prior updates.

But the underlying position is better than this, particularly the last year comparative. First of all, in terms of completions last year's 2,591 reported completions included a number of deferred completions from the previous year. So delayed as a result of what was going on in COVID from H2 2020 into H1 2021.

And our estimate, we have talked about before, is that around 1,000 homes or 1,119 to be precise of last year's first half completions were deferrals from the prior period. So normalising for that, the normalised completions were up over 30% year-on-year. The profit impact of that unwind, we estimate to be around £30 million of profit. So last year's normalised number was about £30 million lower than the reported number.

Within this year's numbers, we had about £10 million of site review charges, charges coming out of the site review process where it was identified that we needed to reassess the value of the assets, reassess decisions made about proceeding with particular projects, and writing off some bid costs. So in total £10 million.

So that gives us a normalised adjusted operating profit of more like-for-like £57 million versus the £49 million last year. Within the £57 million is our manufacturing business. This is reported as part of our Partnerships business. In the first half of the year, as you can see on the chart, we lost £6.5 million in manufacturing. John will come back to this in a bit more detail later on. But clearly, that is a significant year-on-year movement.

If we adjust that out, and we say to get to a more of the core Partnerships business, year-on-year, we have gone from £50 million in the first half of last year to £63 million in the first half of this year, an increase of 27%.

The second thing we are showing on this chart on the right-hand side in that in the blocks is Q1 to Q2. And there has been significant positive momentum between Q2 and Q1. There is always seasonality. Q2 is always better than Q1. March is always the busiest month of the first six months. But that increase between Q1 and Q2 is way above normal levels. I have looked back over the last five years to see the normal Q1 to Q2 trend. And what it says is on average Q2 is about 40% higher than Q1. And this year was up 119%.

So that shows positive momentum, which is encouraging going into the second half of the year, where we expect a significant increase in profit in the second half of the year.

A couple of other things mentioned in terms of highlights in H1 from a finance perspective. First of all, this is an adjusted measure. There are £219 million of adjusting items in the first half of year with two principal components, both of which I will come back to later. The first is the First Safety Provision, where we have assessed our position with the best information available to us. And we have taken an additional £109 million of charge in the first half of the year.

We have also reassessed our Westleigh acquisition, where we had intangible assets on the balance sheet and concluded that it is necessary to write-off the goodwill. There is £77 million of intangible write-off within that £218 million. Again, there is a chart later, which we will come back to on that.

Couple of other things to mention. The legacy asset realisation process is progressing well with slightly ahead of where we expected to be at this point of the year and on track to deliver the £450 million of legacy assets. And the underlying cash generation of the business remains good. There has been a cash outflow in the first half of the year, which again, I will come to in a bit more detail later. It shows that we are investing significantly in future growth potential in this business with significant investment in work in progress, lands and developments in the first half of the year. It has enabled also a £42 million of share buyback up to the end of March.

Revenue Analysis

Getting into a bit more detail. One of the things I think is helpful to communicate and share with you is where our revenue comes from. Our business model is to offer a blended product which has multiple components to it. And we evaluate these models, evaluate the schemes on the basis of blend of these items, which is why the margins on the individual line items within this sheet are consistent.

Let me just talk you through those briefly. The first stage is the recognition of revenue and profit on the sale of lands to our partners, our PRS and affordable housing partners. Prior to that, we will have done work. In the main, we will have got planning consent in order to recognise the sale of land and the transfer of the land to our partners, and that constitutes about 10% of our revenue in the first half of the year.

The second part is the ongoing revenue recognition as we construct those developments with our PRS and land providers, so the evaluations along the way until the final completion, and we recognise in terms of a proportion of the completion numbers as we go.

The third chunk is traditional seller private homes, which is more back-end loaded, of course, and we recognise on the transfer of those completions. So those three are part of the Partnerships package. In addition to that, we have always had what is often referred to as bare land sales. So we have excess packages of land, which do not really meet our partnership criteria, and we will sell those excess areas of land, particularly on the larger sites to third parties or to commercial providers.

About 10% of our revenue came in the first half of the year, slightly higher than probably the full year share would be. There will be slightly less than the second half of the year. But we would expect those land sales to third parties to continue into the future. There is also a small amount of revenue derived from project management activities.

So that is the broad split. And I think that sort of split off of revenue will be similar as we go forward to future years.

Partnerships Profitability

We are going to concentrate more on partnerships than legacy and that is the ongoing business, and that is where the focus of the attention of the business is. This is similar table to the one I took you through on the Group sheet, so I would not belabour the point. But you can see here that a big chunk of those completions that were deferred into H1 last year were in the Partnerships business, and adjusting for that shows that actually the normalised completions were up 16% year-on-year. That had an impact of about £15 million on the partnerships numbers.

And off the site-by-site review charges of £10 million, about €6.5 million came in the Partnerships business. Then all of the manufacturing losses sit in Partnerships as well. So that is the basis of getting to the normalised adjusted operating profit that you can see there, excluding manufacturing, which again shows the 16% year-on-year growth.

Picking up on the individual divisions within this because we have shuffled a couple of the regions around. I thought it would just be helpful to clarify where the regions sit now.

So within Home Counties, we now have four regions. That business as a whole is performing well. It is integrated the former house building assets that meet the criteria to be Partnerships developments. And that integration has gone. The profits of that business have been on track in the first half of the year. And the regional shift there is that the Chilterns region has been integrated into the Northern Home Counties region.

In the south, where we have a lot of our flagship contracts and several of you have been out to contracts in and around London, Acton, for example, those contracts are performing well. Developments are proceeding well, and we have had a strong first half delivery in line with our expectations.

The Midlands region has consolidated South Midlands into West Midlands. We have now got three regions in Midlands. We had a difficult start to the year but things have improved and they had a strong march in Midlands and encouraging signs for the second half of the year. North also had a weaker start to the year, so overall H1 performance was down. But we can see significant uplift potential in all three regions within the North in the second half of the year.

Finally, in terms of the cost savings, we said before we are targeting £15 million of annualised cost savings. Progress is good on that, where approximately half of those have been identified through the activities around the regional consolidation. And we will see those starts to come in the second half of the year as we migrate to those businesses.

Phase two is to look at some of the border Group costs. So Group overheads, looking at our property footprints, looking at some of our discretionary spend. And that will be a key focus area in the weeks and months ahead.

Partnerships Sales

I know it is important to have these stats for modelling the business. So let me just run through these very quickly. You can see the split between Private, Affordable and PRS. That split is consistent split with last year. I would expect that a similar split will be seen in the second half of the year. Private may push up a bit, but we are broadly in those sorts of parameters in the second half and going forward.

Average sale price has increased across the board, which includes some element of house price inflation, but the reality for us, because these are blended numbers, is that the geographic mix of where the sales happen has more impacts than actually the inflationary impact. So, for example, in Private, that has gone up, as you can see £6,000 year-on-year, but within that is an increased blend of Northern and Midlands housing. Low in the southeast, with of course average sales prices are lower in the north of England. So that brings down the ASP.

Conversely, in Affordable and PRS, there is a higher proportion of those have been in the London and Southeast area. So that geographic mix has driven up the average sale price in Affordable and PRS.

Legacy Operations

Moving to Legacy. In terms of our Legacy operations, clearly, we have had a reduction in the adjusted operating profit for the Legacy business in the first half of the year. But again, the Legacy business has a normalisation impact. So some of those site review charges applied to Legacy and some of the COVID deferrals applied to Legacy, which means that on a normalised basis, actually we were up £5 million in profits year-on-year in terms of AOP.

The realisation schedule remains on track for the £450 million. We have actually done £108 million in the first half of the year. Since there, we previously had a slightly higher number in the H2 number, but it shifted forward into H1. But our full year number for realisation remains the same for this year. We mentioned in the last announcement that there are a couple of sites that we are working through the details on, that we are working through with our partners to ensure that we can exit those sites as promptly as possible. But it may be that they might go beyond 23rd September date. So there is £49 million roughly in that category that where we are looking to accelerate, but it may slip beyond 23rd September date.

Fire safety remediation provision

Let us move on to the fire safety provision. And the first thing to say is we are absolutely committed to ensure that all of the homes that we construct are safe, and that we are proud of and we will do everything we need to do to ensure that we remediate any buildings that we find do not meet the standards that we would expect.

We took a provision coming into this year of £41 million. And what we need to do is top it up for three things really. The first thing is we have made a commitment to refund the Building Safety Fund, which is worth £29.5 million. That is based on the latest number that we have received from BSF. And we expect that somewhere around half of that will need to go out this year.

The second chunk is the extension of the scope of the pledge. So now we need to go back 30 years for buildings over 11 metres. And that has bought more buildings into play obviously. To do this calculation of the provision, we need to make some estimates. We have got good information but not perfect information. So we have had to come up with the best estimate based on the information that we come up with.

I think one thing that we know is that the £60 million number would not be precisely right. But it is the best indication that we can give at this stage. What we have done is to use consistent assumptions to calculate that £60 million with the assumptions that we used for the £41 million before, and it is around using an expected cost per square metre based on building sizes.

The final element that you have added in is that we have established a dedicated management team to deal with this project. What we do not want to do is have this project distract from our business-as-usual activities and nor do we want our business-as-usual activities to distract us from getting this done. So we have got a dedicated management team. We have appointed the key personnel into that team. We are also going to need to set up a number of project management teams to support that.

So we have put £19 million into the provision for that. Currently, we are saying that we expect the work to be completed over ten years. The precise profile of that is unclear. We have made some assumptions for discounting this provision in the accounts. One of the first things that the team is going to be looking at is to try and get a sense on the priority areas so we can come up with a more meaningful profile and really understand what the cash implications would be over the next six to 18 months as a starter.

Adjusting items

So that is the first of the big adjusting items, and one that has cash associated with it. We mentioned in the April announcement that we have taken a provision of £5 million for closing out the costs of former Westleigh sites, where it has become clear that there are further remedial costs that need to be put in place. So that will have a cash component to it over the course of the next six to 12 months.

In terms of the other pieces that were non-cash. So first of all, it was clear and became increasingly clear during the site by site review that the Westleigh acquisition underperformed expectations. We have gone back. We have done all of the formal accounting steps to reassess our forecast for that business. And the conclusion is that we need to fully impair our goodwill, which was around £72 million and take a partial impairment on the customer relationships intangibles that sit related to Westleigh.

The second chunky item of non-cash is £22 million for a particular site that we have referenced in prior presentations, where the Board has concluded that the sites to continue through to full developments of that just are not going to bear enough return or create enough return. So we are going to cut our losses, and we are going to exit that site, which means writing off £22 million on the balance sheets. So £219 million in total of adjusting items.

H1 Cashflow

Let us look at cash flow next. So we tried to break our cash flow and simplify it into three chunks. So first of all, the cash going into our Legacy business, then our Partnerships and then our corporate activity.

We have touched on the £108 million that have come in from Legacy asset realisation in the first six months of the year. We have also made £32 million of adjusted operating profit in Partnerships generating underlying cash. What we have chosen to do with that in the first six months of the year is invest significant amounts in land, paying off land creditors, and also investing in further developments. About £84 million of the £132 million is pay for land purchases and settling land creditors, with the balance about £48 million being about construction and development expense. So this will lead to future profit as we bring those sites to completion.

So net outflow and Partnerships in Group that we paid £5 million of tax. Perhaps this is the time just to mention on tax that as a result of the adjusting items, we got a significant tax credit. As a result of that significant tax credit, we would not be paying any cash in the second half of the year. Going forward on tax, we have got the introduction of the RPDT, which is an additional 4% tax for developers, which comes in from April 2022, and hence will impact our effective tax rate for this year.

And of course, we have got the corporation tax rate going up in April 2023, which will add 6% to the ongoing tax rates. But we will get half of that in next year's numbers.

So then finally, we have chosen to distribute £42 million of share buybacks in the first six months of the year, leaving us with a £10 million closing half year cash balance. It is also worth being clear that the end of year balance is not representative of our average debt. So during the course of the six months, our weekly average net debt was £104 million. And that is because a lot of cash comes in, in the last few days of the period.

During the course of the six months, we carry around £100 million for net debt, which comes from all of that steady build up, the steady land and WIP investments. So as we make our cash flow decisions, we look at our financing needs. It is important for us to focus within the business on that average weekly debt position and our peak debt position.

In terms of financing, we have got several of the banking syndicate in the room with us here today. We have commenced discussions for an extension of our £300 million RCF. It currently expires in May 2023. And we are confident we will be agreeing an extension during the course of the summer.

Summary balance sheet

I would not take you through the balance sheet line by line. You will probably be relieved to hear. What I will just do is point out that the principal movements on net assets are things that I have touched on before. One is the write-off of intangibles. And the second is the fire safety provision.

We have seen Legacy assets come down but they have been broadly offset by the Partnership Assets building up with the cash flow that you saw in the previous charts. Our ROCE for the half year is 15.6%. That is up significantly from last year. Two things there. One is in last year's numbers, we lose that COVID deferred completions piece that I talked about earlier, because it smooths out what we have lost in H1, they gained in H2. So like-for-like, the ROCE has really gone up through an increase in returns. So our last 12 months number is £60 million ahead of the last 12 months at this time last year. So that is the principal driver of ROCE increase. Also somewhat bizarrely are ROCE benefits from the fire safety provision, because provision forms part of our net asset value. So the more you provide, the more your ROCE goes up. But the principle driver, of course, is that return.

In contrast to that, ROCE is someway short of the targets that have been talked about externally. One of my priorities in the second half of the year is to get under the skin of that, as I get into the business to understand what the true ROCE potential of the business is, and also to ensure that we’re setting and managing ROCE in the appropriate way, so that we’re not using accounting methods to maximise ROCE.

A couple of concluding slides. H2, as I mentioned earlier, has got significant growth on H1, and this slide brings out in partnerships just the extent of that growth, and the positive amends of the partnerships business. So, we’re looking at 34% year-on-year growth from last year’s second half to this year’s second half, to deliver on a normalised basis, £80 million of profits in the second half of the year. This forecast is based on a site-by-site detail review which John led earlier in the year, so we have clear visibility on exactly where this is going to come from. That's not to say that there won’t be timing risks, but as we stand today, management is confident of the delivery of that, and that there's sufficient contingency within the numbers to deal with some timing delays.

Outlook

And finally, from me, the outlooks. I'm putting it all together for the outlook for the group as a whole for the year. You can see in the bottom right-hand corner of this chart that we are maintaining our guidance of 150 million for adjusted operating profit, with 103 to be delivered in the second half. The 80 that you see on the first two lines there for the second half forecast has got 20 coming from the Homecounties division. And the Homecounties division is one that you may recall we talked about delivering 60 million pounds of operating profit at previous presentations, and we remain on track for delivering that.

In terms of legacy, we'll see it wind down over time. But what we're left with as a normalised number for the year is 170 for the year, and that 170 doesn't include the annualised cost saving of £15 million that we're expecting to get from the current initiatives. So I think I'll leave you with that thought and pass back to John. Thank you.

Operations

John Martin

Chair, Countryside Partnerships Plc

Operations

Thanks Tim. I've really got to go over the financial slides there again [inaudible]. Let me talk to you now about operations a little bit, and particularly what we're doing to improve the business, what we're going to focus on going forward, and where we are winning. The first thing to say, look, just in terms of progress and operations, and the challenges that we identified in the site-by-site reviews – they are very clear, right? The actions that we need to take to resolve those things are unambiguous. All of them are actionable by the current team in the business, and many of them are well under way. The regional consolidation Tim touched on, that's complete, and that will improve the focus, and concentrate our resources, both our teams resources, and also our financial capacity. We are not withdrawing from servicing any part of the country. I want to make that very clear. Any part of the country that we currently service, we're going to carry on servicing. We do not expect that consolidation to lead to lower growth. The clarification in the group roles, Tim touched on that. That's quite normal. It is absolutely appropriate in a group to think very carefully what should we do in the regions, what should be done on a more centralised basis. We're going through, now, that analysis.

Controls

And with regards to controls, I've just touched on two things. One is the performance process now. That is becoming the promise review process I should say. Tom, me, Tim, in future it will be Phil and Mike with Tom and Tim. That now is becoming embedded, and we are bringing an even more diligent approach through the investment appraisal process. As we resolve the legacy issues now, the whole mindset is making sure that we don't distract our teams from focusing our energy, our resources, our capital on the development of our core partnerships business.

Manufacturing

I'll just touch briefly on manufacturing. We said on 7th of April, manufacturing operations, they lost money in the first half of the year, and with the opening of the new Bardon facility, we have got very substantial excess capacity here now, way beyond what we're going to need for the foreseeable future. We are looking now how to use that capacity best and how we can get the operations back to profitability as quickly as possible. We're going to complete that review now within the coming weeks. I am very encouraged. We've now got a very clear view, today, of the challenge, and of the range of operations that are available.

Priorities

Priorities. What are our priorities going to be now for the foreseeable future? Firstly, we're going to drive the operational performance to make sure that we meet our financial objectives including the outcome for this year. Phil Chapman's team in the Homecounties, that is delivering, absolutely according to plan. Similarly, Mike's team in the south. We are building our capabilities in the north and the midlands, and some of that step up that you saw in Tim's charts, and the single biggest element to that step up is actually going to be in the north. We are investing in quality opportunities where we've got the capability to deliver. You know we've got the new regions in South London and the south west. We need to make sure now that we're getting the returns from those new operations. We are pressing on and reducing the cost base, making sure that we don't leak a value lower down the PNL. Another priority is to strengthen our controls. We are realising low return assets and investing in higher return assets. Do that effectively, we need to continue to bring more focus on the investment process. That is the moment of truth for developers. The third set of priorities is to leverage our assets, most notably, leveraging our great associates, making sure that we align them to maximise the use of our fantastic land opportunities.

Leadership

So that just brings me on to leadership. Let me just touch on this. After completing the site by site reviews, I'm going to step back now into my [inaudible]. Mike Woolliscroft and Phil Chapman are going to lead as co-CEOs in the interim period between now and when the new CEO starts. Phil is going to take a more operational role, and particularly support the regions in the north and the midlands. Mike will chair exco and be responsible for the group functions, and will be more of an external phase as well for the company. Some of you already know him because he does a lot of site visits and those types of things. Phil and Mike are both very capable. They're highly trusted executives, and they work well together. That's very important for the board. I'm absolutely delighted that they are both stepping up to the plate. They will do a fantastic job for this company. All right, they already, today, managed two-thirds the PNL of this company. Of course, they're going to be well supported by Tim, now seven weeks in. And I'm sure you'll get the view today. You know, Tim is absolutely getting traction in this business, very quickly. On the CEO search, we've got some really good candidates. We'll let you know as soon as we can, and as soon as we get down to the chosen one.

Business development

Let me just touch on business development. Business development isn't always in the headlines, or the headlights of the business, but it should be. On this chart here, this is some of the business development that we've been doing this half year. And it's in the pipeline. It's two things: one, where we've chosen its preferred bidder, and the other is where we've moved through planning and start on site. Those are two big sort of milestones in our pipeline. Quite a number of these are being done in joint venture with our partners. I mentioned before, we are very proud of both of our desire and our ability to work collaboratively and to achieve win-win outcomes with our partners. There aren't a lot of business that can do that, and there aren't a lot of businesses that embrace doing that. I can tell you like Countryside do.

These are not all of the projects that we have brought to fruition over the last six months, but if you add up all the plots on this chat, and then you adjust for the JV's, which we've noted there sort of four or five in the JV's, this comes to over 8,000 Countryside plots. Just to give you a sense, you know, we used about 2,000 plots in the first half of the year. That was just an indicator of the investment and the growth, and the health of our pipeline. This is a pipeline to be proud of. This is a very enviable list of opportunities. Let me just touch on a couple of them in a little bit more detail. Rivers Edge, this is a large site. The former SpektreWorks for those of you who know, it's right in the centre of Warrington, close to Bank Quay station, so great transport leads. It's completely wood panel like all of our houses in the north or the midlands, and those wood panels have not got far to travel from our Warrington facility. So we're developing 513 homes here, in partnership with Torus, who are the largest landlord in the northwest of England, and Sigma, who are taking the PRS units. Good side, good development value, good margins, good target return to our capital as well.

McGoal. This is Eastbrook Village McGoal. We're actually very pleased to invest in this site. And McGoal is Sefton in Merseyside. We've had this site under option for a long time, so it is great now to be breaking ground here on this site. We're developing 408 homes here, and we're also investing a further 3.2 million in the local community where we're doing some very valuable habitat and environmental work again. Good rocky site, really pleased to be breaking ground now in McGoal.

Great Haddon. This is a new community in Peterborough that we're developing. There is a real need in Peterborough for good quality affordable housing. We're very proud to be working with Cross Keys homes. Cross Keys is a community benefit society, and a leading provider of affordable homes in that region. And it's also our first scheme with legal and general suburban built to rents, so we're very pleased to be working with those partners on our project in Great Haddon. Again, very good returns here expected from that project.

I'll move down a little bit further south. This one here. So Colindale, this is the site for those of you who know it, you shouldn't know it, of the former metropolitan police centre in Barnet. Here we are a preferred bidder to develop the 870 homes in partnership with Optivo Housing. Over 60% of the homes here are going to be affordable. Local amenities, there will be retail on site, community space, cycling, nursery facilities, all the stuff that the community wants and needs, and has talked to us about. We're also going to be working here with local advocacy groups, including black professionals in construction and women in construction. That's really to support and help drive the support for London's diverse communities, and to help to develop a thriving community here at this site. Look, I hope those case studies provide a quick reminder here of what we're trying to do. We're trying to build sustainable mixed tenure communities with great place making in partnership with local communities, with local public and private sector bodies. Quality homes at affordable prices.

The contract wins and investments that we've been making, they will convert into very good growth. This is absolutely apparent if you look at this chart here over on the left-hand side of the chart, this is the forward order book. You can see that's up by two thirds compared to a year ago. Now part of this growth reflects the conversion of the former house building business. That's going to contribute, as Tim said, £35 million of profit this year on the way to at least £60 million of profit last year, which is exactly what we told you and other shareholders last July. On the right-hand side of the chart here, you can see the very significant investment that's gone into the operating assets of the partnerships business over recent years. That includes the step up in 2020 regarding the relevant home counties assets, but also includes the investment that Tim has talked about over this year.

Just a reminder, quite a few of these assets have not yet been brought into production. They are not yet generating the sales and profit that they will generate over their lives. These are assets that will generate significant profitability and significant profitable growth in partnerships in Future.

Pipeline

This is the pipeline. We've got a great pipeline of new opportunities. And we went through this in very considerable detail by the site-by-site reviews, so this has been well and truly scrubbed. The plots that own and control here have got a gross development value of £14.7 billion at a gross margin just over 18%. That will generate £2.6 billion worth of gross profit.

Capital allocation

Let me just touch on capital allocation. Just a reminder of what we s-aid last year on capital allocation. So these were our priorities that we set out last year. We aim to operate with a net cash net debt range of plus and minus one times operating profit at any point in time. Okay, so zero plus or minus one is fine. Then as we generate cash going forward, the first priority is to use that cash to settle legacy liabilities. We're going to continue to invest, but we're going to be very focused on returns, and we're only going to invest where the risk return profile is attractive. I hope today you'll take away we have a really good pipeline, and really good opportunities, including those 8,000 plots in the first half. We have no end of fantastic opportunities. So we should be really selective about where we're putting the money. As we generate surplus cash, we'll return it promptly to shareholders, in the most appropriate way for the foreseeable future. As you know, that's going to be via share buybacks. Tim is taking you through the cash position.

Outlook

So let me just move on to the outlook. Look, our guidance for this year, as Tim said, that's unchanged. Our private home sales are substantially forward sold. There are a small number of PRS in affordable transactions still to complete, just what you would expect given our outcome. Next year, we do expect to make further progress. Next year, some of the investments that we have been talking about are going to be brought into production. Partnerships, home counties of course is going to step up from 35 to 60 million, and partly offset by slightly lower legacy profitability. We do expect to benefit from the cost reduction initiatives that are underway, and of course, we don't expect to be generating one-off charges like the 10 million Tim talked about before. So hopefully, we will avoid – well, we will avoid that drag on the numbers next year. We will also address the manufacturing issues we talked about earlier. So, just to reiterate the interim highlights. No news since April the 7th on financials other than the quantification of the fire safety pledge. Operational progress has been good. I am very pleased with the team for getting on with improving our operations as we identified in the site-by-site reviews. Our proposition to our partners has absolutely been maintained, and our ability to convert the pipeline into profitable projects is really impressive. Finally, we absolutely expect that sharp, sharp clear focus on partnerships to drive significant value for our shareholders going forward. So that is all from Tim and I in the formalities of today, but we're very happy to take all of your questions. You're ready [inaudible 0:49:26]. Quick off the mark. If you could get the microphone, that would be great.

Q&A

Johnson (Jefferies): Perfect. Thank you. [Inaudible] Johnson, Jefferies. Four if I may. I'm sorry, a baptism of fire for you Tim. First of all, page 20, you very kindly give us the second half forecast, and clearly, there's lumpiness in your business. You've got growth come through your Homecounties, you've got legacy, which will be variable. Maybe you can give us a guide and so we don't just annualise that second half number that you've given us as to what we should be doing. Second of all, you've raised 150 million from your legacy asset sales so far. You've told us what you've deployed, and you've shown us in that last statement that it's been subject to fire safety obligations. How should we think about this going forward? Will you not do any more share buybacks until the remainder of that provision is covered, and what can we anticipate in terms of employment going forward. Thirdly, bug picture stuff actually, changing government policy, particularly for you guys I'm thinking the housing association potential right to buy, how that might affect your customer base in terms of their ability to raise money and to therefore be a partner. But also I'm thinking about section 106 changes if that comes through. And then lastly, you're very kind that that you gave us some examples of your sites, and if we look at the return on capital employees that you've given on those sites, they're mid 40's. This one also you haven't given us, and this one above 100. But what should we anticipate in terms of return on capital employed? Are we still talking 40-50% or is there some sort of reset there. And the last one for Peter. Very interesting to see you sitting up there. Peter, I was going to say I don't – Peter, over there. I'm very interested to see you here. I would like to hear what you think you bring to the board, and – yeah. I'm going to leave it at that and see what you can or will tell us.

John Martin: Very cheeky there at the end. I think Peter should go first. No. Let me – let's take those in. Let's take those in on that. Go on.

Peter Lee: [Inaudible] the first one.

John Martin: You definitely have the first one. Yes.

Peter Lee: Without going to a specific number, let's start with the – let's start with the 150 from this year. Clearly, as John just said, we're not going to have those site by site review costs for next year, so is [inaudible]. The 10 million of manufacturing losses that we've had this year, we're going to take steps to reduce that, whether we can completely eliminate it or not is to be determined by precisely what those actions are, but we'd expect some improvements on manufacturing losses. The third thing is the annualised cost savings at £15 million which we've said explicitly is not in the 150 this year, and we're going to be driving to deliver all of that this year, to complete that. Then we've got – then the two other components are what comes out of legacy and what goes into partnerships? So on the legacy side, we're targeting £30 million roughly for next year. That's the sort of step-down that we'd expect. And what we're expecting from partnerships is to just slightly more than offset that, particularly with the growth in Homecounties next year. So the net growth in partnerships should exceed – the net of the partnerships growth, and the legacy to climb should be slightly positive. Does that give you enough building blocks? Good. The second one, do you want to take the provision on – or should I?

John Martin: Well, I think your second question was about what to expect in terms of share buybacks.

Peter Lee: Yeah.

John Martin: Look, we said last year we've got the £450 million. I think the one sort of new piece of new news on that is the – since then, we've provided 25 in the second half last year. I think [inaudible] 109, so it's 130 million of fire safety provisions we've made since then. We just need to see how those play into the cash flow overall, but we are going to carry on with that programme. Okay?

Johnson: [Inaudible].

John Martin: That's not our view. That's not our view. No. We will continue with the programme. Now, look, does that extend the programme? Yeah, fine, possibly. We'll see, but that's our expectation at the moment. Look, trying to give them a policy we're working through, because one of the things that I have noticed, when you get to my age, governments announce things, and what gets enacted is not necessarily quite the same. That's what goes before. And now, I think net, when we worked through it last week, there were some positives, there were some negatives. But net, you know, net, we remain optimistic. Today, if you take away from government policy and just strip it all the way back to the sheer need for affordable payment, the sheer need for regeneration, the sheer need for high quality reutilisation of brown field sites in the region, regenerations in London and the city centres is just overwhelming. I would be very positive that that – those processes are going to continue. Also, if you look at our major sites in London and the regions, some of these sites are already going to, you know, they take years and years and years. I mean Clapham Park is state, which is, you know, Clapham Park is state, the regeneration is – I'm only just starting this. It's 80 acres. That's the size of Green Park and Saint James' Park, broadly speaking, combined. It's within a couple of miles of central London, it's a couple of miles from where we sit. It's going to take a decade, and we're doing that in partnership with the Metropolitan Thames Valley. It's going to go on for a long time. So there's a – there is a fantastic underpinning of this business by those sites. We talked this morning about that Beam Park, Beule[?], Greenwich Millennium Village, all of these sites that you know well. These absolutely underpin a really good sort of outlook for the business here. But, you know, and there are some positives in government policy as well. I think the need and the desire of housing associations, local authorities to continue to make sure that, you know, new houses are built, and particularly at the affordable level, which is absolutely where we are focused. That's not going away. ROCE – Tim, do you want to cover ROCE?

Tim Lawlor: Sure. So first of all in terms of the 40% or 50%, it's too soon for me to plant my flag in terms of where work is going to be. Sorry about that. What I would say first of all is, the 15.6% we're currently reporting is clearly not enough, and clearly we need to a dress where we get to, but exactly where we can get to is up for debate, and I want to fix the measurement piece. It will be the easier thing to do for ROCE. It would be – what we'd do is to stop investing further cash, and somehow ROCE would go hugely. But we need to be mindful that in going for the ROCE target that we continue to invest in growth as well. So it's finding the right balance of growth margin and ROCE to deliver the best returns going forward. But that's about all I can say at the moment until we've really got an understanding of what commercial levers we can pull, and what the potential is to ensure that we're not setting a target that is driving the wrong sort of commercial behaviour in the business.

John Martin: Tim, you've got a great career in politics ahead of you.

Tim Lawlor: [Inaudible] John Martin version.

John Martin: No, no, no. That was much better than the John Martin version. Look, and then you asked Peter a question. Let me just dip in before Peter gives his response to that question. Let me tell you what I think Peter has brought to the board, and what he's brought to the board is actually exactly what we wanted, and exactly what we expected, which is a candour. Now Peter is very polite. He's very focused, and he brings a candour, and an independence of spirit to the board that is hugely welcome in our board. We had a board meeting earlier this week. One of the question – Peter, I think one of the questions you addressed to me was, you know, 'Is this an elephant in the room?' And I said, 'There are no elephants in the room.' This is the independence of spirit, that is why Peter is on the board. Amanda also brings some very similar attributes, and we're delighted to have them both on board as new Ned's. Go on Peter, give me your –

Peter Lee: Sure. The only thing that's allowed there – I'll just say, you know, I'm here as a shareholder as well, and I – and hopefully it's clear today from the presentation, very optimistic about the significant growth potential in the business, significant operating profit growth potential, and hopefully you can see some of the specific levers to get there now. And also very encouraged by the positive momentum that the business is seeing currently. To answer your question specifically, I'll echo what John said. I think there's really three things that I bring to the board. One is financial expertise. The second is bringing a shareholder perspective and owners perspective to this board, doing the right thing for the owners of this business, and then the third is assisting John in the board in recruiting a great new permanent CEO for the company. So I think these are consistent with what – with what John mentioned when he invited me onboard.

John Martin: Peter, thank you very much. We need some more questions please. Yeah.

Chris Millington (Numis): Morning everyone. Chris Millington and Numis. There's been a lot of talk about future growth, and you can see it within the [inaudible], but obviously we just rationalise the size of the business. So what do you think the capacity of the business is post the changes, and, you know, is that something which is likely to evolve over the next year or two? Next one is really just an update on build. You know, build, generally how you're progressing, but also do you expect to be off all the Westley sites this year as you previously talked about? And then the final one – actually I might have two more, one is just really, you talked about trading in March, kind of improving and getting back to earth, you know, a good run rate relative to last year. Can you give any comment on how April and May have continued? Is that a continuation for those months?

And perhaps just a quick comment on Pete, that you've very helpfully given us the average.

Peter Lee: Thanks Chris. I mean on the capacity, I'm not sure I've got a lot more to say on capacity than was talked about historically. If you look at the regional, I think previously there was this indication of sort of regionally, each of our regions should be able to generate capacity to generate to build 600 or 700 homes. I'm not quite sure whether that was to build 600, 700 homes net of the joint ventures, because if you did it all in joint ventures, well, that will be 1200 homes [inaudible] 600 homes when you look. So, clearly there is a capacity of sort of how many teams you can manage.

But I would say more importantly is the quality of the operations. And one of the things that I know sitting side by side with you, for those regions where there is a problem, problems – know from my career, my executive career, problems consume most of managers' time. So, the real issue here from the investment side, if you can really understand the risk that you're taking, the investment side, and deal with those properly going through, you'll generate a fewer problems and you will have more capacity. So, part of this is to really focus on quality, quality opportunities, developing out quality assets. I don't have a lot more to add to the sort of number of regions and sort of 600-700 houses per region. And that needs to be sort of our net homes, if you want. But we clearly do that. Now, what does that mean? 600-700 homes would be a dozen sites operating 50 homes a year or eight operating [inaudible] homes a year. Well, that feels like it's more than one show. So that feels – for our current structure, that feels about sensible capacity.

Speaker: [Inaudible]

Peter Lee: Net of the JVs. So, we should [inaudible]. And remember, we do get – the one thing that we do do with all of our joint venture arrangements, we get paid for project management fees. So, there are really sort of two fundamental building blocks of the join venture arrangements. That is the affordable housing operator. Either [inaudible] association [inaudible] provider. They're getting either first bid at the affordable or they go to the affordable at some sort of commercial level. And we're going to build the site out, absolutely as you would expect. And for that, we get a project management fee. So those are the two preferential things that we both bring to joint venture partnerships. And pretty much all of our joint ventures are structured like that. So we need to be building more homes to afford our fee as it were. And that also probably gives more of the capacity to build more homes because most housing builders will say, 'Look, it 50 homes on a site a year, with one showroom if you want' whereas we might be able to do more than that because we have got the PRS and the affordable. They do not need selling on site. That was a long answer, but I hope that gave you a little bit of colour.

Look on the Wesley Site; yes, they will all be complete this year. We will be pleased to have completed all of those sites.

Trading in March, April and May to date, no real difference. We are still encouraged that we will get to this year's number.

Chris: It was a fourth one, Peter. I think you know, from the profile of cash I have seen, you can probably model thirty to forty at the highest peak above-average debt, yes. And what we have tended to do is not that significant a volatility in the intervening period. One thing I would say, though, is that since year-end, so since half year-end, so since the end of March we have seen debt returning towards the average debt level. So that same profile seems to continue.

Emily Biddle (Credit Suisse): Morning, guys. Emily Biddle from Credit Suisse. I have got two questions, please.

Sorry to come on this because I – I realise we have got quite far through this presentation without talking about cost inflation for once, but I feel like someone should address it. Could you just give us a sense of, so, if cost inflation continues where it is, where are the mechanisms in the various parts of your order book for passing that on? How does it impact various parts of your business if you are not seeing price inflations with cost inflation increases from here?

And then secondly, I realise that you are too early to talk about long-term return on capital estimates. But if we look at the way that the investment in the partnership's balance sheet has grown in the last couple of years, if we are modelling it for next year, should we think about a similar level of incremental work in progress and land investment? Thanks very much.

Peter Lee: So, I will take the first one, you take the second one, Tim, yeah.

Look I am passing on inflation. We are seeing build-price inflation at the moment of 6-7%. I think BCIS numbers are slightly north of that and clearly, it is more runaway with certain commodities; timber and steel in particular.

How do we pass it on? I think if you split our business into two; private and then affordable and PRS. The affordable and PRS we are making sure now that every time we go to the market with affordable and PRS packages, we are asking for a package which is a fixed-price package and a package which has inflation protection measures in them.

Now, the good news is, of course, the whole idea of building out this PRS affordable package is they should not be multi-year packages. They should be billed reasonably promptly. But that is what we are doing. So if we are sending it to – if we are sending a package out to half a dozen operators, we are asking for two bids, if you want, off each operator. One with an inflation clause, which will be the BCIS clause, by the way, and the other is an identical contract but without that clause. Because then at least we can see should we take it, how does a PRS or affordable operator price it in?

And then with regard to passing it on to the private market, now today, what are we seeing in the private market? Actually, inflation in the regions – the north and the Midlands is running quite – house price inflation – selling price inflation for us is running at quite high levels. I was looking through some of the sites in the north the other day, and there's double-digit HPI in some of those areas.

In London, it is much more muted, and in fact, there's a couple of regions where we have got slightly negative – we have got deflation on some apartments in London, and so there's quite a high range. I think if you look at the inflation that we see at the moment, the BCIS forecasts are for that to moderate quite significantly into the end of this into next year.

I think Tom, the BCIS number for March is four, which will be back to more normal levels. I do not know whether that is optimistic or not. We shall manage what we have got here. So does that give you a sense? Affordable on PRS. We will be well covered on all sites because we can take the decision do we take the inflation cover or not. And on the private clearly, we have got the market there to help.

What I would say at the moment we have very few units for stock today. I think last week, Tom, again, we had 19 at the end of last week; 20 units for stock over the whole business. So, there is no market problem for the sale of Countryside Homes. This is my point about there being massive demand. If we had 500 units in stock, I think oh gosh, how are we going to sell them. But we have not. We have got 20. So we do not have to take price reductions. There's no significant discounting happening in the market or the business at the moment. Does that answer that question, Emily?

Tim, go on. Back to ROCE.

Tim Lawlor: Well, your specific question around a whip investment. So, you know, obviously, it is tied up with the working piece, and we need to ensure we have got the right capital investment process going into the next year's budgeting that matches with our working needs. But being slightly less vague, I think for the moment, the right assumption is to assume that whip will be largely at the same level next year. So, in other words, while we may still be investing the same amount, we should be getting more back in terms of completion. So, there should be as much coming out as going in. But will refine that as we go through, okay?

John Bell (Deutsche Bank): Yeah, morning. John Bell, Deutsche Bank. I have just got two, actually, mainly points of clarification. Just on the manufacturing excess capacity. What is the range of options here? I mean, can you – you can close the site, you can try to sell the site. Could you actually operate the site for third parties? Is there anything else we are missing there in terms of the range of options?

And the second one was just on the fire safety provision. One of the component parts, I think, was 19 million, which looks like its relating to the resourcing the problem. It struck me as a reasonably high number. Is that simply because you think that discharging your responsibilities might take a decade, and that is ten years' worth of annual costs, just to clarify that point? Thank you.

Tim Lawlor: Well, done on answering the question – the second – the question. Now, that is exactly right. I mean, we would expect over the ten years that the amount of actual cash burn will drop slightly towards the end, but at the moment, the working assumption is we are going to need that team for ten years, and the reason for blowing it out separately is because they are discrete costs separate from the rest of the business.

John Martin: Yeah, I mean, I think just to add to Tim. That is an important principle for us. It is important practically as well. What we do not want is lots and lots and lots of people in the business and every performance review saying, 'Oh, you know, I was distracted by this because…' If you want to bring focus into a business, you know, it is fine. Let us give it its own team, and this is a good team. I mean we have staffed this with some of our best – some really good quality resource because it is important. It is a big number, and it is important that it is done well and done properly, but it is going to be a separate team from the rest of the business. So we know exactly what the cost is and exactly how it is.

And also, some of the aspects are a little bit different. You know, the first thing when somebody – when somebody talks to us about this, there are some properties where the person approaching this is going to have to prove that Countryside built the building because, we have not got perfect records going back 25-30 years ago. So, you know, there are some activities that will be slightly unusual and new for us. So separate team is definitely the right way to go.

On the options to manufacturing, yes, I mean you have reeled them all off. I mean, all of those. Certainly, you know, we would really have to go to one of those. We either should be operating this as an open facility and selling panels to other operators. Or we close it, or we joint venture it, which would be selling half of the capacity or something like that. That whole range possibilities is there.

John Bell: Okay, thank you.

Glynis: Sorry, Glynis again. Just two more just particularly clarifications. Going back to Chris' question in terms of capacity, can you remind us how many regions we should be thinking about? Because you have merged a couple together. Should we be thinking about those as bigger regions that might have a more – greater capacity? So just give us what number we should multiply that potential 600 – whatever that number is by to get capacity.

And then, you have talked about house price inflation being in the north, in some cases double-digit. We are hearing a lot about the planning being slow and actually that is tightening the land market quite substantially. So, of those legacy assets, is the scope for that 450 to be higher? Has that higher number than you have taken in the first half actually been more about price rather than necessarily plots? And is the scope for upside?

Peter Lee: The capacity is definitely 14 regions. And they will be different sizes, and they should be, Glynis, for one very specific reason. If – if you sit where Tim sits, Tim is going to be allocating resources to the best opportunities around the country. We should not just be saying, 'Oh, in this region here, use this pot of money; use this pot of gold'. That would be a very bad idea. There are some regions which ought to be actually if we just have not got the right project this year, that is fine because across the country it will – it will average out. So yes, some of the regions will be as they are today. I mean, the Southwest is – is pre-production; 100% pre-production today, and we have invested a lot of money there. So, that will obviously, come through.

And then on house price inflation, your question was, is the 450 going to be higher because of house price inflation?

Glynis: [Inaudible].

Peter Lee: Look, I mean, I do not think it will be a material impact is the net overall. Is it going to impact the 450? No, I mean, there'll be ups and downs in the 450.

What I would say about the tightening landmark is I was quite nervous probably six or eight months ago on getting stuff through planning. As you saw from that today, now we have got a lot of stuff now that has planning, and we have started on site. So, we have internally less of a planning log jam than we had before.

We have a lot of really great opportunities with planning. If you look in the pipeline, we have got 15,000 plots with planning today. So, we have plenty of stuff to build out. We need to get on and build it. And so, I think the tightening of that market today is not a reason for – it is not something that is constraining Countryside today.

Other questions? Any other questions? I am sure you have got a few more, Glynis, for us. No? No other questions?

Look, thank you, all very much indeed, for coming today and thank you for your time and your questions. The one thing that I would say to finish off. Please, always come back to that purpose of Countryside. What are we here for? We are here to build quality, affordable houses in places people love and to bring them to the market at affordable prices, reusing land wherever we can, and we want to do more of it. Okay. Thank you very much indeed.

[END OF TRANSCRIPT]