TRADING STATEMENT AND CAPITAL ALLOCATION POLICY UPDATE

TUESDAY 8th NOVEMBER

Persimmon plc today announces its Trading Statement which covers the period from 1 July 2022 to 7 November 2022 ('the period').

Dean Finch, Group Chief Executive, commented:
"Persimmon entered 2022 in a strong position with healthy forward sales and good weekly sales rates which continued throughout the first half of the year. This, together with our increasing levels of build efficiency, means we are well positioned to deliver new home completions for the year within our previously stated target range, while maintaining an industry-leading housing margin, despite the recent deterioration in market conditions leading to increased cancellation rates.

"Rising interest rates and broader economic uncertainty are clearly impacting mortgage lending and customer behaviour and this is reflected in our recent weekly sales rates and forward sales position. Persimmon enters this more challenging period as a five-star builder, with average selling prices below the market average, high quality land holdings, and a robust balance sheet. The recent strengthening of our land holdings with disciplined investment will maintain our industry-leading embedded margins.

"Our highly experienced senior operational management team are drawing on their decades of detailed knowledge across many housing cycles to continue to rigorously assess every aspect of our business to ensure we are building quality homes for customers in the most cost-efficient manner. This relentless focus on customers, cost-efficiency, cash management and disciplined investment will help us navigate this more challenging market while also strengthening our ability to capitalise on future opportunities. We recognise how important sustainable returns are for our shareholders and today we are setting out a new capital allocation policy that balances this with the need to invest in our future success.

"We were proud to lead the industry with our pledge to protect leaseholders from the costs of cladding removal in any multi-storey development built by Persimmon. We have made good progress and continue to proactively engage with management companies to agree work plans. This proactive programme, together with more certainty over the broadened scope of work required by the Government, means we are increasing our provision to meet our pledge to protect leaseholders."

Highlights

- Resilient sales performance for the period – average net private weekly sales rate per outlet for the period of 0.60 (2021: 0.78); £0.77bn of forward sales reserved beyond the current year (2021: £1.15bn).
- Good progress on build rates - c. 20% ahead of the prior year.
- On track to deliver full year 2022 volume target of between 14,500 to 15,000 homes, despite some increased risk from recent elevated cancellation rates.
- Five star quality and service - levels of customer satisfaction remain above 90%[1].
- Industry leading margins - balance of inflationary pressures being managed well supporting resilient industry leading margins.
- Projected cash position of c. £700m at 31 December 2022, after total capital return of £750m paid in the year to date.
- Building safety provision expected to be increased to £350m reflecting the broader scope demanded by Government, additional developments becoming eligible and clearer costings from pro-active engagement.
- Previous capital return programme to be replaced with new, forward looking capital allocation policy - which balances sustainable returns for shareholders with the need to invest in the Group's future success.

Trading
The Group entered the period with a healthy forward sales position for full year 2022. Build rates have remained strong running at c. 20% ahead year on year, at five-star quality, resulting in the delivery of additional work in progress of c. 1,000 equivalent units compared with the prior year. Persimmon is now fully reserved for the current year. Legal completions to 6 November 2022 totalled 9,974 (2021: 10,728, reflecting the delivery of pent-up post-Covid demand) and 3,328 additional properties had exchanged. While the Group remains well-positioned to deliver its full year volume expectations of between 14,500 and 15,000 units, the last six weeks have seen cancellation rates increase to 28% from 21% in the preceding 12 weeks from 1 July 2022, introducing some uncertainty.

The Group has continued to manage the balance of inflationary pressures well, as higher selling prices mitigate the impact of cost inflation of between 8% and 10%. Our vertical integration capabilities through our Brickworks and Tileworks manufacturing facilities continue to play an important role in providing security of supply and each facility has increased output year on year. We will continue to invest further to enhance our capabilities to build high quality, energy efficient, good value homes in a cost effective manner. This reflects the disciplined approach to investment and cost management that has seen us maintain an industry-leading margin in recent years and will remain a key focus in the years to come.

The Group's average net private weekly sales rate per outlet for the period of 0.60 reflects customers' response to the macro-economic headwinds of increased interest rates and reduced mortgage availability, together with increasing cost of living pressures. Reflecting the uniquely disruptive political conditions and deteriorating economic outlook since September, in the last six weeks the average net private weekly sales rate per outlet has fallen to 0.48. Average selling price for private reservations over the same period reduced by c. 2% compared with the 12 weeks commencing 1 July.

Help-to-Buy has now closed for new applications, and was utilised on c. 20% of completions in the year to date. We believe, however, that our unique value proposition will provide an enduring strength in an uncertain market, as our lower average selling price combined with the cost advantage of new homes' c. 30% energy efficiency premium above existing housing stock, prove attractive. In addition, our new, experienced Head of Sales has already completed a detailed review of our sales processes and is putting in place new systems to enhance the service offered, capitalise on new opportunities and reduce risks.

Persimmon has a strong, diverse, outlet network, operating from an average of 305 active sites in the period, of which an average of 268 were sales outlets. The Group's disciplined land investment, bringing c. 13,600 plots into the business in the year to date, provides a flexible pipeline which will underpin our future performance. During the period, we opened c. 30 sales outlets and anticipate operating from 290 to 300 active sites at the end of the year, of which 250 to 260 will be sales outlets, depending on sales rates and planning consents obtained in the rest of the year.

Overall land spend for the year to date is c. £590m (2021: £370m) with c. £175m of land spend being incurred in the period (including c. £37m on settlement of land creditors). A further c. £115m of land spend is committed for the remainder of the year. We will continue our highly selective approach when investing in land opportunities as we navigate the uncertain outlook for the UK housing market. Where we see quality opportunities, we will purchase land, however we anticipate land additions in 2023 to be significantly lower compared with 2022, reflecting our existing high quality land holdings. This, together with rigorous control of work in progress, will underpin our prudent approach to cash management in the year ahead. We expect to broadly maintain our current outlet numbers throughout 2023, subject to planning consents achieved and market conditions.

Persimmon's financial position and liquidity remain strong. We expect to end the year with c. £700m of cash at 31 December 2022 (June 2022: £782m) after the £750m capital return paid in the year.

Building safety
We continue to make good progress on our commitment to protect leaseholders from the cost of cladding removal and life-critical fire-safety work on any multi-storey developments built by Persimmon. Our dedicated team has been holding monthly meetings with relevant management companies or their agents to agree work plans which, as they have progressed, have also provided a more detailed assessment of the likely costs. This work has already enabled 31 developments to either secure EWS1

certificates or conclude any necessary works. Remediation work is either underway or tenders agreed on a further 18.

Since signing the Developer Pledge in April 2022, we have worked constructively with the Government to agree the 'Long Form Contract' that turns the pledge into a legal agreement. While the negotiations have added to recent cost uncertainty, we believe they are now sufficiently advanced to be concluded shortly. Further, as we have worked through this process and accommodated the expanded scope, the number of eligible multi-storey developments we are responsible for has increased and currently stands at 71. We are – as stated – already engaged or seeking engagement with each of these developments to expedite works and carry out fire risk assessments which, where appropriate, includes paying for interim protection measures for residents. This work has led to a more detailed understanding of costs, which now include non-cladding fire related build defects. Combined with the broader scope required by Government, which has resulted both in an increase in the amount of work required and in the number of eligible buildings, and against a background of significant build cost inflation, we expect to increase our provision for this multi-year programme at the 2022 year end to approximately £350m. The expected unaudited provision is based on management's current best estimates and assumptions which could evolve, as the long form contract and regulation are finalised.

Capital allocation

The Board recognises the importance of sustainable dividends for shareholders and will continue to prioritise value creation from a strong return on capital. Following a review and reflecting the increased uncertainty in the political and macro-economic environment, alongside increased corporation tax and the residential property developer tax, the Board has decided to conclude the previous capital return programme, which was introduced in 2012.

The Board will implement a new Capital Allocation Policy with the following key principles:

- Invest in the long-term performance of Persimmon by ensuring the business retains sufficient capital to continue our disciplined and appropriately timed approach to land acquisition.
- Operate prudently, with low balance sheet risk, and a continued focus on achieving a superior return on capital.
- Ordinary dividends will be set at a level that is well covered by post-tax profits, thereby balancing capital retained for investment in the business with those dividends.
- Any excess capital will be distributed to shareholders from time to time, through a share buyback or special dividend.

The 2022 dividend per share will be announced in March 2023, alongside the Group's full year 2022 results, and paid in Q2 2023. Guided by the new policy, when proposing the 2022 dividend the Board will carefully consider the business' performance, financial position and outlook at that time. There will be no special distribution for 2022.

For the 2023 financial year and onwards, dividends will be paid out semi-annually, with an interim dividend for 2023 expected to be paid in the second half of 2023.

Outlook

The Group has traded well through 2022, maintained its disciplined approach to land replacement and continued to open new outlets, despite the challenging planning system. We are well-positioned to deliver full year completion numbers within our expected range of between 14,500 and 15,000 homes.

During the third quarter of 2022, we entered a period of heightened market uncertainty, with rising interest rates and inflation balanced with continued high levels of employment. While we have already seen mortgage providers and customers start to adapt to higher interest rates, the full impact of this uncertainty on consumer behaviour is yet to be determined. We have good visibility on our outlet pipeline and we anticipate our outlet numbers will remain broadly in line with the current position throughout 2023, subject to planning consents achieved and market conditions. However, it is too early for us to provide specific guidance for 2023 given the recent and rapid change in market conditions; our current expectation is for fewer legal completions than in 2022 and this together with a deterioration in average selling prices will have an impact on 2023 margins.

Persimmon will continue to prioritise building high quality, energy efficient, good value homes for customers ahead of volume, underpinning strong financial returns. Our uniquely strong combination of quality and price provides an attractive opportunity for customers looking for value in an uncertain market. We have a highly experienced senior operational management team who have worked within the industry and Persimmon through many housing cycles. As a result of this experience, together with our existing high quality land holdings, we can maintain our discipline on taking a highly selective approach to future land investment, and robustly control work in progress and costs, leaving the Group well-placed to manage short term uncertainties and further strengthen our ability to capitalise on future opportunities.

In the medium to longer term, the demand for new homes will remain strong. Our continued investment in, and strengthening of, our vertical integration capabilities will provide a unique ability to meet this demand in an increasingly productive and cost effective manner. By maintaining our focus and progress on build quality and customer service, we will continue to enhance and strengthen our product offering in the years ahead. Persimmon is well positioned to serve the continuing need of customers across the UK who seek high quality and energy efficient new homes at a price they can afford.

We will give a further update on progress and trading, following the Group's year end, on 12 January 2023.

This announcement contains inside information. The person responsible for the release of this announcement on behalf of the Company is Tracy Davison, Company Secretary.

Persimmon will host a conference call with analysts at 08.30am today.

All participants must pre-register to join this conference using the Participant Registration link. Once registered, an email will be sent with important details for this conference, as well as a unique Registrant ID.

Participant registration page:
https://registrations.events/direct/NTE60144

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Footnotes

1. The Group participates in a National New Homes Survey, run by the Home Builders Federation. The Survey year covers the period from 1 October to 30 September. The rating system is based on the number of customers who would recommend their builder to a friend.