Full Year Results 2018

Wednesday, 27 February 2019

Overview and Current Trading

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Morning. Thanks Kevin. The chairman's the only who responded, he's right in my earline. Morning. Yeah, thank you. Right, see if I can get the clicker to work. Very conscious of time this morning because we've got three presenters and a reasonable amount to get through. So my first section on overview and current trading I want to get through fairly quickly so we don't waste too much time, but spend a little bit of time on current trading and, you know, obviously happy, in questions, to come back to that. But the overview, hopefully, really will be an overview.

This first, sort of, slide sets our key financial metrics. You know, you've seen them before; there's no, sort of, surprises in there. I think what I reflected on, looking at it, was going back to the start of the year and what would we have expected, and with one small change it would have looked exceptionally similar to that, and that's true also for volume and the overall trading performance of the business. The one exception, you go back to the beginning of the year and we'd have probably expected to have a lower cash conversion and a slightly lower return on net assets because we'd have expected to spend slightly more on land. And I think with the, sort of, uncertainty during the course of the year, definitely as we came into the final quarter, we pulled back very slightly; I'm talking about – you know, we're talking tune of £100 million, £150 million, something like that. So, the higher cash balance at the end of the year isn't just land, but if I go back to the beginning of the year that's the one thing that's slightly different; we've just been that edge more cautious as we've gone through the latter half of 2018.

This is a new set of KPIs, which you won't have seen before. I'm not, you'll be relieved to know, going to go through every one and define it for you and compare it for last year. Jennie will pick up the same slide at the beginning of her presentation. I did want to spend a minute of two on what the background to it is though. We've gone through and looked at what measures we are using internally, and particularly on things like build quality and, to a certain extent, on customer satisfaction, although it's been there longer term. There are a new set of measures that we're using, both these and, you know, sort of, things that tier out below them, and we wanted to give you as rounded a set of indicators that covered what we saw as the key strategic drivers of the business, in line with the new strategy.

So, it's deliberately new, but, for instance, there is more on employee as well as on build quality, and, you know, you can see, on the employee numbers, the big step up in particularly the number of new recruitments into early talent programmes. You'd see the same on apprenticeships; our apprenticeship numbers new starters are about 50% higher in 2018 than 2017, and our expectation is they'll be another 50% higher in 2019 and probably higher again in 2020 as we roll out the pilots that we've done across all our businesses. But hopefully, as we go through the next couple of years, this KPI sheet will give you some backdrop to, you know, and a building picture of those underlying strategic measures. Jennie, as I say, will pick up a couple of the specific ones, particularly around customer satisfaction and build quality, and I'm leaving the customer satisfaction numbers entirely to her, even though that's 90%, which we're quite pleased with.

Coming onto the market backdrop – and I say 2018 but, to be honest, you know, I'll move quicker than I normally do into where we see things are today. The top block on that slide you've seen before; you know, just a, sort of, quick snapshot of where interest rates will be. I don't want you to worry too much about the 3.84% on, sort of, Help to Buy equity loan; I think I'm right in saying that's Aldermore. I think the next highest is the Bank of Ireland, which is about 2.51%, and then you drop down into exactly the same range as we had at July. So, you still have, for our customers, a very low set of interest rates with quite a wide choice of lenders. And whilst not a lot is being said at the moment about mortgage lending from a, sort of, overall availability and cost point of view, I wouldn't want anybody to go away from this presentation and not realise how fundamentally important that is. If – I will come back at the end and talk about short and medium-term outlook. My own personal view is that, in the end, this cycle will change because of interest rates, not because of Brexit or anything else, and I think, you know, sort of, we see that probably being stable for a slightly longer period than people expect. That's what drives the underlying strength of our market one way or another, so those low interest rates are absolutely critical.

The second block is new; and what we're trying to do – and it is difficult, so I would ask you to take, you know, sort of, the signals of this in the round rather than looking at any one individual measure, but we're trying to give you a sense of the leading indicators we look at market-wise and have been doing, sort of, year-on-year. And I'd pick out one of them in particular to talk about today, the second one on house price inflation. If I look back over the various housing markets I've seen over the last 20 years, and go back to the US and look back with hindsight at the signs that were building up as – you know, before the market changed, it's actually that bubble effect of the significant price rises that happen late cycle that drive the triggers and the scale of a future downturn. And so, that sense that you look at the cumulative, over three years, of house price inflation is probably the best indicator of the level of market-related risk if the external environment remains the same I think is a useful one.

So, is 15% cumulative the right level at which to get worried? You can argue about it forever and a day about the what the right level, but looking at that sort of measure is important. If I go back to some of those US markets in Florida and Arizona, that measure would have told you 70% over the previous three years. You go back to the UK before the, sort of, 2008-2009 downturn, you'd end up at about 30%, you know, sort of, so 13.4% actually isn't particularly uncomfortable, particularly when you realise that nearly all of that was in the first of those three years and that, in that time, it has dropped from about 6% to about 2.5%, and today is reasonably flat. I'm not trying to convince you that there isn't risk in this market, we'll come back to that a lot, but I do think, getting past the short term, we should be looking at some of the long-term underlying drivers of the market rather than short-term trading perhaps quite as much as we do.

This slide you've seen before. I'm not going to go through every individual graph, but what you'll hopefully see is that trading, you know, and forward indicators we look at of our own trading, and we'll come back to sales rate in a second, you know, remain in a pretty healthy place and remain very consistent with what we would expect at this time of year. No real warning signals there in any of those four indicators.

Probably more interestingly, and probably the, sort of, number that you will have picked out from, you know, sort of, your early read of the statement, if I look at trading in the first eight weeks of 2019, that private sales rate of 0.99, I have to say, is ahead of where we would have expected it to be; it's about where we wanted it to be, but it's ahead of where we would have expected. I'll come back to an individual larger scale sale in that, but even without that the underlying sales rate will be 0.9, which is 10% ahead of where we were last year, in line with where we were the year before, which is an all-time record, so very, very healthy.

I would argue that tells you two things; one, the underlying market is okay and hasn't fundamentally changed in early 2019; and two, some of the things we're doing on strategy, on larger sites that we talked about last year, you can see in our late 2018 and early 2019 trading, and I will be very surprised if that sales rate and the year-on-year performance, and the order book, doesn't lead the sector. We'd have been doing something wrong, relative to our strategy, if that wasn't the case, but hopefully you take a degree of comfort that we know what we're doing when you see those sorts of numbers. And that leaves us with an order book which is significantly ahead year-on-year; you've got the numbers on the bottom bullet point. If I strip out the affordable element, which is where the larger percentage of the growth is, the private order book is still 7.5% ahead of this time last year, which, again, you know, is ahead of where we would have expected. That doesn't particularly change our view of volume for this year, but I'll come back to that at the end. Jennie. Sorry, Chris.

Financial review and efficiency

Chris Carney

Group Finance Director, Taylor Wimpey Plc

Thanks Pete. Good morning everyone. So, starting, as always, with the Group results, 2018 was a record year for Taylor Wimpey. We generated more revenue in the UK than we ever have, even compared to the early days' post-merger when we also had a UK construction business. The Group's gross profit and operating profit represent record performances; both measures benefitted from volume and margin growth and increased by just over 4%. The 30-basis point increase in the operating margin, to 21.6%, is particularly pleasing and, yes, that too is a record performance. PBT and adjusted EPS have increased by 5.5% and 5.4% respectively, which means we've been able to pay more to shareholders in dividends than ever before and, at the same time, been able to invest in the business, with the tangible net asset value per share increasing by 2.7%. And, as we go through 2019, our ongoing investment in the business will continue to be disciplined, as it has been in recent years in delivering that record cash performance in 2018 and a return on net operating assets at 33.4%.

UK completions increased 3% in 2018, with all of that increase coming from affordable homes. The mix of affordable, at just shy of 23%, was greater than the affordable mix in the previous two years, at 19%. Mix expectations going forward around about the 21% mark, assuming, of course, that there's no change in market conditions. The increase in affordable coincided with a slight dip in private completions, and this was mainly due to timing and reflected the delivery profile of the sites under development. Year on year pricing showed individual improvement for both private and affordable homes, but the mix shift towards affordable meant that the average across the two was flat, £264,000. The contribution from JVs reduced in 2018, and I would expect that to be pretty flat in 2019 with the potential for growth from 2020 onwards as the Winstanley JV at Clapham starts to deliver.

So, we started presenting this indicative analysis of margin movement back in 2014. This is the first period since then when the income statement impact of build cost inflation has exceeded that from selling prices, the net impact being 0.3%. There was still a small positive pricing trend over the second half of 2018, but the rate of price inflation had been flattening out over the course of the year, and that means we've got to work harder with costs in the future to manage that cost inflation and protect margin.

Land bank evolution continues to show a small negative impact on the income statement as the completion volumes from the older super-margin sites continue to reduce – pardon me – as a proportion of the total, and that impact from land bank evolution is offset by a slightly greater impact from land mix where better quality locations, design and delivery have enhance that financial outturn over and above the market performance.

We've previously reported enhanced customer journey as margin dilutive. And that’s as we increased our investment in customer service and build quality. And we’re now seeing the benefit of that investment in the reduction of both current and longer-term remediation costs. There was also a small benefit to margin in the period generated from land sales and some commercial property sales from our mixed-use developments in London.

We’re making good progress with the cost and efficiency programme. The first – there are numerous workstreams running and the ones on the slide are really just a selection to give you a feel for progress and what's being delivered. That first phase of delivery excellence is now fully deployed and this involved over 800 of our site staff getting new mobile devices which have apps that are integrated in our ERP system. And that’s going to increase the efficiency on site in lots of different ways. For me it’s about allowing those site teams to spend less time in their office and more time out and about on site, ensuring that Right First Time build quality.

Phase II of delivery excellence involves the deployment of even more of those apps to support programme delivery and better cost control and they're being tested in Q2 with delivery anticipated for Q3, and we’re expecting there’ll be even more time saved from phase II than from phase I.

Commercial excellence is probably the biggest and most complex element of the overall programme and it’s tantalisingly close to deployment. Testing’s going well; and to put some colour on that, we have already run live pilots on most of the workstreams, so we’re confident of being able to get underway with the roll out in Q2. As I mentioned I think back in July, we’re expecting the first phase of commercial excellence to drive a lot of efficiency; and most of the 10,000 days saved will be redirected into activities that are more value adding and the delivery team are very focused on that as part of the roll out. One of them is in the audience today, so it’s good for him to hear that.

So, some of that time saved in commercial excellence will be refocused on to groundworks. And to ensure we get the best value from that redeployment, I'm currently running a separate project to develop groundworks training for our commercial teams to really try and bring some consistency to how we approach what can be a complex area of our business.

Now, despite the increase in the proportion of affordable homes delivered in 2018, we were able to achieve our objective of building more homes from our standard house type range, increasing that number from 65% to 78%; and since May last year we've also been plotting standard house types from the consolidated range, which will bring further build and procurement benefits. And in procurement, we now have a dedicated central team bringing more consistency and best practice to the management of our relationships with our national suppliers.

So overall, it's still early days for the cost and efficiency programme, but our focus remains on driving productivity through technology, standardisation and best practice.

The combined private and affordable gross profit per unit decreased by £400 in 2018 due to the greater proportion of affordable homes; and in both the table and the chart you can see a switch between land and build cost per unit. Switch is partly driven by the greater proportion of affordable units which have a lower land cost – pardon me – but also by a greater proportion of completions from large sites, which have a greater infrastructure demand and therefore lower land values as a result. There are two items reported as exceptional in 2018; the ACM cladding provision you'll remember from the half-year reporting. Our estimate of these costs remains at £30 million, and although that spend against the provision in 2018 at £400,000 was relatively modest, there has been a significant amount of time and effort invested in designing the replacement solutions and preparing for those works to commence.

The second item is a charge relating to the guaranteed minimum pensions equalisation for our defined benefit pension scheme. And that impacts on all defined benefit pension schemes in the UK. We first reported this in the January trading statement where we provided a range of £15 to £20 million and that final charge of £16.1 is within that range.

The strength of our balance sheet puts us in a really great position for the future. Lands net of land creditors are just over £2 billion. It's 1% less year on year as we took advantage of, you know, attractive opportunities to negotiate deferred terms on larger sites. Our adjusted gearing including land creditors has actually reduced to 2.9% off the back of very strong cash generation – and I'll come back to land creditors in a minute.

The land cost a as percentage of average selling price; in the short term, owned land bank remains low at 15.2%, indicating the quality of that land bank and its ability to generate cash and profit in the future. WIP increased by 3% which was in line with the increased volumes as you might expect, and net assets also increased by 3% even after paying dividends of £500 million during the year.

I think I've probably covered most of the points on this slide, but it's worth noting that last month we extended our £550 million revolving credit facility by an additional year, so it now expires in February 2024. That together with our €100 million private placement loan which expires in 2023, that brings the current weighted average life of our committed facilities to five years and that gives us the certainty and the flexibility to take advantage of any opportunities that might present themselves. And Jennie will talk a bit more about our approach to land in a minute.

So, given the increase in land creditors, I thought it might be interesting to look at them from a different angle. This slide shows you the distribution of the value of land creditors based on where those individual sites sit in the land quality matrix. 2008 and 2009 were pretty painful in lots of ways but one of the things that sticks in the mind is paying land creditors on sites that you really wish you hadn't bought. And interestingly the sites that make up the 11% in the amber cells – so, the 5%, 5%, and 1% cells, on average in 2018, those sites in delivered a sales rate in excess of one a week and a contribution margin of 27%. And included some pretty good locations in London, Surrey and Buckinghamshire. And I think that's a great indicator of the quality of the overall population and how much thought we put into our use of land creditors these days, and it's certainly a far cry from some of those challenged locations that caused some of the pain, back in 2008.

Back in May at the Capital Markets Day, we reported that the pensions scheme was fully funded on a technical provisions basis. That position was largely maintained through the quarterly funding updates in June and September. The combined impact of weakness in the equity markets in Q4 and the GMP equalisation reduced the funding to 93.9% at the end December; and as that funding level dropped below 96%, this has meant the resumption in contributions to the scheme from January. And we anticipate a total payment in 2019 of £47.1 million which will increase – which is an increase of £13 million – one three – year on year.

We were very pleased with the cash generation in 2018. We achieved 93% cash conversion which is, you know, close to the top of our target range. This slide shows the actual cash generated by UK operations both before and after land spend over the last five years as volumes and profitability have increased. Over that period, the UK business generated over £6 billion in cash before land spend. I'd like you to note that £1.4 billion generated in 2014 – pardon me – as it approximates for the starting point for the analysis on the next slide with the £44 million difference between the two figures being the net impact of pension contributions, depreciation charges and working capital movements.

So, the two tables on this slide are a simple but hopefully effective illustration of why this business continues to generate significant amounts of cash in a downturn. The first table shows the cash flows of an average UK unit. The numbers in the column on the left tie into those presented in the UK margin drivers slide. The columns to the right apply various price reductions and demonstrate how each unit sold continues to generate substantial cash contribution even after say a 20% reduction in price.

The second table takes results of the first table, applies them to a variety of volume sensitivities and then deducts net operating expenses at a fixed 2018 value of £196 million, to illustrate the cash flow generated by UK operations before land spend for each of those scenarios. The unwind of land creditors would of course need to be considered too, and as you can see from a slide in the appendices, £353 million of the year end UK creditor falls due in 2019. Just under 200 million in 2020, and the balance of about £200 million over the following four years.

But perhaps slightly more helpfully, in the unlikely event that we were to stop entering into land commitments as of today, then I would expect the total 2019 UK land spend to be approximately £400 million compared to the £612 million – pardon me – in 2018.

Couple of other things to bear in mind with these numbers. You would expect in a downturn to generate build cost and overhead savings. None of that is factored in. You would also get a cash inflow from the net reduction in your WIP and creditor balances. Again, none of that is included. You'll see that the 10% – well, yes, the 10% volume and 10% price scenario has been highlighted in red, and Pete will touch on that later in the presentation.

So, although this is a simplistic model, it’s very easy to see even with some pretty cautious assumptions why we have confidence that the ordinary dividend will continue to be paid in the event of a normal downturn. Based on our experience of the last downturn and applying that experience to more sophisticated modelling, I'm very happy to reiterate that even in circumstances involving a 20% drop in price and a 30% drop in volume, we would expect to continue to pay the ordinary dividend. And Pete will cover the special dividend later in the presentation.

Lastly just to confirm for anyone who may have missed it, we have declared a final dividend for 2018 of £125 million or 3.8 pence per share which is in line with our ordinary dividend policy of paying approximately 7.5% of net assets and not less than £250 million per annum. This combined with the £350 million special dividend declared in May last year for payment in July this year means that we will return £600 million to shareholders in 2019 subject of course to shareholder approval at the AGM.

All of which leaves me with a bit of a conundrum of which particularly superlative to use to describe the declared dividend for 2019 which if you hadn’t already noticed has a yield of 11% based on today’s share price.

I don’t intend to read the words out on the slide as I think you're all very much aware of the five-year targets that we set to in May last year and Pete’s already touched on those. These results already achieve the margin and cash conversion targets and make very good progress towards that 35% target for return on net operating assets; the targeted reduction in the relative size of the land bank will be achieved through, you know, a number of different factors, not least an increase in volume. And as we've set out previously, there is potential for the volume to increase in 2020 and 2021 subject to how the market plays out over the course of this year.

So, to sum up, you know, a record performance in 2018 has left us with a very strong balance sheet. We’re making good progress with the cost and efficiency programme, and we’re confident that the business will continue to generate strong cash returns in the future. I’ll pass to Jennie.

Operations and land

Jennie Daly

Group Operations Director

Thank you, Chris. Good morning everybody. I'm going to jump right in in the interests of time. I think probably the important thing to say about our new KPIs is individually they're each very important but together they will deliver our strategy. There are two measures on the slide that I do want to draw specific attention to and give a bit more of an explanation.

The KPI that we're look very closely at at the moment around build quality is the Construction Quality Review measure. This is a key metric for us in measuring build quality and it's assessed independently by the NHBC, and helps us to monitor and target improvements in the build process. The CQR inspections take place across all build stages present on the site that's been inspected and the visit is followed by a site level report, which identifies areas of good practice and of course areas that may be in need of attention.

2017 saw first a CQR period and we were placed twelfth nationally out of 27, with a score of 3.74. The reports that we receive are data rich and are reviewed regularly by our site management teams. They're assessed for trends and continuous improvement opportunities and we've generated a cross-functional improvement process and undertaken modifications of technical details, targeted training, product and sometimes supplier changes as a result. These causation and solution practices I'm pleased to say have been very quickly embedded. And in 2018 we saw a meaningful improvement in our score to 3.93, and moving to fifth nationally out of 27.

Another KPI just to draw your attention to is the direct trades. Through 2018, we progressed a number of pilots with direct trades and we've now developed a direct trade plan across all of our businesses. This is a more refined and defined definition than we used previously and it specifically refers to five key trades – bricklayers, scaffolders, joiners, carpenters and painters. Following the lessons learned from the pilots we're now using more of a hybrid model which is a mix between mature skilled trades and apprenticeships. And I know Pete's going to refer to that in more detail later.

So, moving on to the more familiar; the positive benefits of our investments in customer services can be seen across a number of measures but also by the fact that over 90% of our customers would recommend Taylor Wimpey to a friend. So, a five-star performance in 2018. However, we are continuing to challenge ourselves and our teams by our focus on wider measures of satisfaction and in this we're looking towards the nine-month scores.

Arguably much more complex influence and dynamic because it's assessed over a longer period of time, it takes a number of approaches in combination and sustained over time to meaningfully move this score. So, you can see that there are a number of contributory factors for the nine score. For quality, the comments typically refer to the quality of the finish and how long it takes us to resolve issues. So, the service after and that time taken to resolve matters are an important focus for us to address. We're tackling this in a wide range of ways including the build right first time so that we have a process of reducing issues through the build stage, through our Consistent Quality Approach which we've spoken about before. The HQI process which is now very well embedded. Smoothing the overall build programmes and thereby delivering quality homes on time.

The other questions such as development are also achieving quite a bit of work. These are closely overlaid with the customers' comments on quality; and in that, we're continuing our work on design, evolving our new house type range and enhancing our placemaking skills and activities.

Looking at build quality, getting it right first time then continues to be a key priority in our customer-centric approach. It sounds really basic but with so many variables, it has proved quite difficult for our sector to achieve. Our approach I think is fundamentally different because we're taking a holistic approach across the whole range of the process. Right first time is good for our customers but it makes good business sense too. There are material savings to be had by getting it right. So, in addition to the quality improvements that we expect form those processes like CQR and HQI, right first time should also enable us to be more efficient, deliver more predictable build times, generate cost efficiencies in the long term, cut waste and become more sustainable.

Other initiatives that will help us deliver are as Chris identified increased use of the standard house type range, and further standardisation of the actual build process. The CQA process also continues to evolve setting very clear and identifiable standards around key finishes. This is now very well-embedded in our customer service and build teams and is also now being adopted by our procurement teams as a quality tool for key suppliers. The next step will be for us to move towards a customer-facing version of the CQA, which will increase transparency for our customers and ensure that they know the quality of the build that they can expect from Taylor Wimpey. I think as you can see there's a lot going on, but it's not just one thing; it's a combination of efforts. I think we're doing well and we feel strongly that getting this right will make us a more resilient and valuable business.

So, moving on to land, and I'll move through these quite quickly, we've had a broadly replacement approach to our short-term land bank which stands at almost 76,000 plots, at 5.1 years. We've maintained a measured and disciplined approach to opportunities with the focus remaining on quality, adding over 8,800 plots and a contribution margin of around 27%.

As an overview, the planning environment has remained broadly positive, albeit the greater proportion of opportunities, particularly those at scale, are now delivered by or in alignment with the development plan process. The visibility therefore on the timing of consents drawdowns does remain challenging. We had a good performance in terms of the conversion to short term from our strategic land bank of over 7,500 plots and added over 10,000 plots to the strategic land bank. 58% of our completions this year were from the strategic landbank.

So, a very familiar graph for you. I think it demonstrates that the businesses are continuing to select opportunities with strong margins and very pleasing return on capital. The uncertainty over Brexit, particularly towards the end of the year, did enable us to push harder in certain parts of the market. But I would say that any further improvements on these margins are likely to be opportunistic and unlikely to be sustainable for long periods. I do however think that there are improvements and still to come in return on capital.

So, just a whistle stop around the land market. I think the market continues to operate well and we do continue to see good opportunities presented. It's notable that larger house builders opening new regions and regional growers can be seen to be compressing margins for smaller sites in the short-term market, whereas larger sites continue to attract fewer bidders. Whilst requiring detailed assessment and more resource-intensive bedding in this part of the market is more disciplined, TW, given our credibility and our technical capabilities, perform very well at that in that part of the market.

Looking in at London, and as an additional overlay to the comments on the slide, it is particularly notable that – since the elections last year, that the political and planning landscape has changed with much greater weight placed on community consultation and local views by politicians. And this has added further uncertainty on top of the policy issues that I mentioned here.

Moving on to the strategic land, I think we anticipated that the strategic land pipeline of new sites will remain broadly stable for 2019. Our teams continue to focus on opportunities, identified through structured land searches and one-to-one opportunities remains a very significant part of our strategic land business. It's worth noting that there is noticeable pressure on minimum prices within options at present, a symptom, I think, of the unease of landowners and advisors on possible planning policy, tightening around viability at the local plan stage. Given the focus on Whitehall and Brexit, it's easy to forget that actually the majority of our planning decisions, both on short-term and strategically, are taken at the local level and there, therefore, has been a significant amount of business as usual out in our businesses.

Worth noting, though, the devolution deals which span multiple local authorities are gaining momentum and will become more of a factor in the way that we plan our land investment as we go forward. And we're starting to see greater autonomy expressed by those combined authorities, though unfortunately not always positive. And the Greater Manchester spatial framework, for example, is worth bearing in mind, where housing numbers have actually fallen and a significant number of greenbelt releases have been removed from the most recent consultation.

So, clearly Help to Buy and the announcement last year, is of interest, this table sets out the percentage of first-time buyers by government region, based on our 2018 private completions and then identifies the percentage of those transactions which would fall within the post-April 2021 regional caps. As we might expect, given the relatively low regional caps, the greatest impacts from unwinding and Help to Buy are likely to be in the North East and in the Midlands.

As an exercise, we also then rolled forward our forecast completions for the period 2021-2023 based on the current land bank and mix. During this period, without any other mitigation action at all, approximately 58% of our private completions would remain within the Help to Buy regional caps. So, as a result, we can feel reasonably comfortable of the prospects of the unwind. We will, of course, assess where pressure points might occur. We're reviewing acquisitions to ensure that there's flexibility and, where appropriate, we'll look at changing build rates, remixing and replants.

The security from our land and planning perspective for outlets for 2019 is very strong. We continue to use our project management process, PMIP, to track and manage outlet openings and this continues to increase the accuracy of our forecasting, and we're continuing to improve this. The depth of the land controlled is a reflection of our strategic strength across both operational and strategic land businesses. I'm really very comfortable with the overall profile of the sites and the sites to acquire in the forward years with an acceptable degree of challenge for our land and technical teams. And this is, of course, regularly reviewed.

A balance is needed. The controlled but not yet owned and yet to be acquired represents both risk and opportunity. This element will give a space to manoeuvre and navigate a changing market, should it be called for as we go through 2019. The level of investment we will calibrate depending on how we find those conditions and the greater the land spend, the greater the expectation of growth from 2020 onwards. The lower the land spend, though more cash generative, will obviously limit that expectation. A very careful balance is needed and it's something that the management team is focused on.

So, finally, just looking at our profile of strategic land conversions, we've been very successful in recent years with an average of 9,000 plots per annum. The second half of the graph shows what the next few years of potential strategic pipeline looks like. I feel the need to reinforce that this is Planning with a capital P, so there are always casualties. So, we overlay a factoring which will be our best guess of allowances for slippage, changes in planning policy and the like; some sites drift by a year, some might drift by a whole development plan review periods. The art of factoring becomes more challenging the later the years. So, future pull through I think will continue to be lumpy. I'm only allowed to say that once, based on changing provenance, but this will, given the number of very large sites maturing in our land bank, though underpinning our future growth, distort conversion levels and the short-term landbank from year to year.

We continue to invest in strategic land and this investment, together with the continuing progress and development plan adoption and the government's continuing pressure for 300,000 homes means that my expectation is that our strategic land conversion will continue to grow.

And then really to close based on our strategy approach to increased efficiency, we have increased our sales rate our larger sites and we have met this with build output on a greater number of factories. So, 307 factories on 273 outlets. The analysis shows that the sales and build rate per site has increased, the larger the site size where we can create a sense of place, offer an enhanced customer experience, maintain stable site resources where supply chain efficiencies can be maximised and where there's less a sales competition. In this year's analysis, we can see the beginnings of the differential; consistent large site setup, optimal market facing mixes predictable bill programmes, visibility of future work generating consistency of build and supply chain. That means that wider market conditions permitting, this can be pushed further as our strategy continues to develop and mature. This increased efficiency will drive sustainable growth from the existing landbank and as an important component of our strategy. We can demonstrate the operational capability to drive greater volumes on larger sites at a consistent quality, and our aim is to do this more consistently across the landbank. Thank you.

Outlook and strategy

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Thanks Jennie. Jennie has given you a run through. Yeah, we've quite a lot of depth in some areas of the processes that we've been working on, and picked out a couple of areas, particularly around build quality and around land that perhaps give you more detailed information at this stage than we normally would. I'm going to stand back and try and go back to an overview and tie together first of all about how we see the outlook, and my first two slides look at the outlook sort of, first of all, short, medium-term and then longer-term; then restate and update our strategy but then come back to how we see the investment case and then finish on how we see guidance for 2019, 20 and 21.

So, I'll try and keep it relatively brief and high level. But as I say, first two slides on the outlook. And I've split it into two because as I sort of touched on right at the beginning, I do think you have to split a series of short term risks on how we see the market longer term.

Of course, the two to some degree merge and could impact on each other, but actually we could have very different environment in 18 months' time. And we've got to look at both. And actually, particularly when we come to land spend, what's very difficult at the moment is getting that balance right, because if we didn't have the short-term risk, we'd have a slightly different take on the right thing to do. And trying to make sure we keep our options open particularly for growth in 2020 and 2021 whilst at the same time not betting the farm, because – I mean recognising the short-term uncertainty is a tough balance. And so, splitting them in two hopefully gives you a sense of, of that balance, because otherwise it all kind of merges together.

So, as short-term take is, sort of, clearly the near-term uncertainty remains. I think we remain of the view that the risk to this business from Brexit is largely around the general economy and around general confidence, and we take a lot of comfort from the fact we've seen, you know, sort of two years of trading where that's been in the background and increasingly noisy over the last six months and as you've seen, trading has remained strong. I think probably the single biggest factor which we wouldn't necessarily have expected two years ago, which I touched on earlier, is the strength of the lending supply, the resilience of banks in lending, and they're very clear on quite strong signals about sort of where sort of lending is likely to remain in most scenarios. We should take quite a lot of confidence from that because without that we'd have a very different view of those short-term risks. I think as Jennie has touched on that also creates some opportunities, particularly on larger sites, in the land market, both to pick up margins – which we see as risk-insurance more than anything else, but if the market remains stable, gives us us upsides sort of two-three years out.

I'm not going to go through all the sort of points that I've listed at the bottom in terms of limiting our risk factors and opportunities on the sort of bottom of the slide. I would just pick on the limiting factor in a way at the moment is more related towards developer confidence, as in, you know, are we really sure that we want to push ahead with our plans as aggressively as we might do in other scenarios, rather than actually what's happening out in the marketplace.

And then if I move on to the longer-term outlook, I'm probably slightly more sort of bullish than most at the moment. I think, you know – and it's stating the blindingly obvious, but it's actually very, very important to our market, underlying housing demand is likely to remain above supply in almost any scenario you can construct over course of the next ten years. You know, even if build steps up, you know, sort of meaningfully, that fact will still remain in the background. I still see the risk against that, as I touched on before, is very much around interest rates. And I think that sort of gets pushed into the background too much in the conversation at the moment. You know, that the reality is the Brexit process has prolonged the length of time we have seen and expect to see low interest rates and has actually kept the market subdued but stable for a longer period. Net-net at this point it's been a positive to a very cyclical industry rather than a negative, because prices are incredibly stable. I mean I didn't touch on prices in the short term but I would say flat is the right word in every respect; and flat doesn't mean down, it just means totally flat across the board pretty much.

But I do think, and this is key to our strategy, that what we've seen over the last five of six years from a political point of view is likely to continue. Although land is not an easy area for us, the overall supply of land with planning and with the potential for planning is likely to remain good compared to historic norms and is likely to remain ahead of ours and the industry's ability to process it, and I'm using process to describe everything from taking it through the planning system at the beginning through to actually finishing a home on site at the end of the day. The industry's capacity is limited, it is still probably our biggest limiting factor and that is not going to go away, we need to do more to make that work for us, sort of, so that is a – not a bad market backdrop for the next sort of ten years. I'm not saying there won't be a downturn in the next ten years but those underlying drivers that have kept that market stable and given us upside potential probably remain a little bit more than people expect.

Against that environment, what are we trying to achieve? These are new words but there is nothing new in the strategy, that's what we've been talking about for the last nine or ten months and it's very similar to what we've been talking about in a more general sense for three or four years. But the words are slightly different. What we're really trying to do is deliver a great performance now, but what we're really interested in focusing on is how we build a better business for that longer-term opportunity. And even if there is a more meaningful downturn in two years or three years, still we believe those underlying conditions are there for the longer term and it's worth us investing in them to remove some of the bottlenecks and to make the business stronger, stronger and better.

We believe what we're saying on customers. It's nothing to do with the reporting over the weekend, it's nothing to do with hitting a five-star, you know, customer service measure, it's about an underlying belief that our industry needs to be more focused on its commitment – customers than it ever will be. We have a changing environment both politically and with our customers and that environment has been changing slowly in the background for ten years; and in the first five of those ten we were slightly asleep to it, I think for the last four or five years we've been focussed on it. We're still not getting it totally right. You know, Jennie touched on some of the detail of what we're doing to try and make it better across the board, but that really is going back and retooling every aspect of the business; and I think that's – that has to be true across the sector. Some are doing it to some extent, some are not doing it at all, but it is a major shift. We do believe it's the right thing to do, it will lower risk in the long term. I think you've seen more of that over the last two or three years after we started talking about it than necessarily you believed you would at the point when we did. I think it is important to understand where we are limited by resources it is a huge motivator for our changing employee base; and by that, I mean our employee base is getting significantly and progressively younger and their mindset is different and their attitude is different and they get motivated by different things. And we see a huge step up in the internal morale and commitment to the business and retention from that shift in focus.

And we do believe – and this is new words – and it was there in our thought process back in April when we announced our strategy but perhaps we were a little shy about it – we do believe that over that medium to long-term, we can create a growth potential that's greater than anybody else in the sector. That's the payoff at the end of the day for investors, not in 2019 and probably not even big, big numbers in 2020 and 2021, but we do believe we can create something different.

So, just standing back slightly on the customer piece of that, what does that mean in the short term. And I don't want to spend a long time on this but I just want to give you a quick sense of what we're focussed on right now. This is not the whole set of things we're doing, it's what we see, you know, happening in 2019. Jennie touched on making sure we get the basics right. We've seen a huge improvement in the final finished quality of the houses that we hand over, but when we talk about right first time, we mean all the way through the build process, so we don't have to do so much internal checking before we hand the house over. It's not so much about what the customer sees, it's about the process behind that.

Our customers are telling us, before you – until you get that right, consistently every time, then we're not actually that interested in some of the fancier things you might do, that's what really matters to us. What they're also saying is, you can help us and we really care about the community that we move into, we care about who our neighbours are, we care about actually having forums that are set up that actually you help us get a community feel to the environment that we move into from day one. It surprised us how strong that is and how much actually they believe we can make a difference. We think there's a huge sales benefit there if we can get it right. So, we've got a lot of work going on around how we make that work.

I think from a value-added point of view, we're retooling every element of our placemaking, really challenging our businesses particularly on these large sites, to think from the beginning not just about what the development should look like but when it should look like that, how we put in you know sort of public open space and play areas and those things, how we get the development up and running quickly from a place perspective. Looking at a new house site range with more added value. Our house site range is good and solid and high quality but if I'm honest a tiny bit dull, so it's moving it on and being a bit more creative. It's about enhancing the digital interaction with customers, from options online, through a whole series of other detailed processes.

And last of all, it's looking at broadening the routes to market. I'm not going to spend a lot of time on it today but I will touch on that sort of deal that we did in the first eight weeks. That was not a deal where we had stock or a concern about sales on a site that we had developed sort of and had remaining sales to make, that was actually about a new land acquisition where we effectively had taken risk out of the system to enable us to buy a larger piece of land and have a significantly positive impact on return on capital. If you looked at the metrics, you would be very comfortable against our sort of hurdle rates, but what is interesting – and I don't expect us to do a large number of deals that look exactly like that – but if you look at what we did at the end of last year and what we've done in the first few weeks of this year, we have a much greater open-mindedness to explore lots of different opportunities to find different routes to market for our product. And a lot of that in our minds is preparing the ground for a post-Help to Buy world, where I think we're going to have to work harder to make sure that we can get our products into our customers' hands and help them in lots of different ways with the financing.

So, going back to what we are trying to achieve beyond the customer, two big areas – looking to improve in areas we think there is real sustainable advantage. I think, and it's not lip service, being the employer of choice in our industry is probably – we feel that's where we already are but, again, we feel there is a huge benefit to that in a resource-constrained world. There's a lot going on to improve our offer to our employees and improve the culture of the business. And, secondly, removing some of those historic bottlenecks. Jennie touched on investing in apprenticeships in direct labour and investing in new management training. We've increased all of those, as I touched on earlier, by about 50% year on year and will increase them further next year. And, actually, also looking at the processes, the induction, how we actually make that work for individuals. We see that as a game changer in the long term.

So, summarising the investment propositions. The first few of these, hopefully, is what you've expected from us over the last few years. You know, a strong near-term performance, a significant dividend, I'm not going to repeat Chris's sort of statement of what the yield is. You know, a strong balance sheet, decent efficiency, real ongoing cash generation potential, open, honest and full communication, we always tell you how we see it and what's behind that. But then you start to get into areas where we already think we're decent but we can get better. Better relationships with customers, better relationships with communities, better relationships with policy makers. Better efficiency, both cost and site efficiency in production. Better consistency, so that across the board, across the year, everything is happening the way it should rather than it being all there at the end.

The next one is quite a big one, a bigger ability to respond quickly to market opportunities. If I look back at the last sort of three or four years, the thing I would be self-critical of is we were not able, because of production limitations, to respond to the market opportunity that was there. We had the land, we had the sites, we had the capital, we just couldn't step up quickly enough, you know. And actually, we should have been in a stronger place, next time round, whether that be in 12 months' time or five years' time, I want us to be able to step up more quickly. Ours is a cyclical business, we have to be able to adjust but I want us to have that capacity. That compared – you know, combined with the ability to manage large sites better gives us that bottom line growth potential in the long term.

And we do think if you put all that together, the potential to build a very different house-building brand from, you know, what the sector has historically seen. And, you know, and I'll come back as Chris touched on to the special dividend, the scope for increased future cash generation, not just more of the same.

So, touching on that special dividend, I think, you know, conscious of time, I just want to give you a sense of how we see that special dividend. Our internal discussions, plans, forecasting, has in almost all scenarios the special dividend sort of in 2020 and 2021 and beyond at the 29 levels – 2019 levels, sorry – plus inflation, and I'm not going to spend too much time arguing about exactly what inflation is. That £978 million kind of cash generation – and we're not placing a great deal of store in a 10% volume, 10% price scenario, it's an example – but that was on Chris's slide, that £978 million of cash generation in that environment covers our short-term land requirement and that special dividend and means we don't – we then retain the balance sheet strength to be able to invest in land. So, even in downside scenarios, we still think a material special dividend is likely to be paid. I'm not going to sort of get into any more analysis on exactly how much and exactly what scenario it wouldn't, but just that sense that we see it as a core part of what we expect to do over the next three or four years.

And the last point, and I don't want you to read too much into this, but we would never rule out share buybacks. Clearly when the share price was £1.32 just before Christmas, as well as buying some shares myself, as did the Chairman, you know, we were seriously asking that question. I think with a movement in the share price, it never – it doesn't feel as pressing, but I would say that we would not expect to take a dividend that has already been announced or strongly indicated and not then pay it as a cash dividend. It would have to be either incremental or looking further ahead than that as part of a longer-term strategy, just to give you a sense of our thoughts on it.

So, overall, I'm particularly weighted towards guidance. You know, we can't pretend the short-term macro outlook isn't uncertain, but trading is very good. We do think all sensible risk mitigation is in place. We're still relatively cautious, we still see it as a cyclical industry. We will not bet the farm for short-term gain, we did pull back on land purchases at the end of the year. I repeat the comments I made in the trading updated, that our 2020 and 2021 growth will to some degree be dependent on our confidence in 2019 and whether we see through land and work-in-progress investments in the latter half of the year, but the potential for growth in 2020 and 2021 remains meaningful and remains intact today, it hasn't changed over the course of the last two to three months.

Future margins show a balance of pressure and upsides if you look. And what I mean by that, if you look at 2019, flat pricing, a little bit of material inflation, you know some downside pressure. Look into 2020, at the moment even in the same environment, bit of upside from the improvements in land acquisition margins, slightly different sort of mix of business, more of a positive contribution from central London, which is, you know, sort of pretty neutral in 2019, so that affects the year on year piece. So, you know, there's probably a bit of upside into 2020 and 2021. But broadly sort of in line with 20-sort of-18. Again, I go back to our aim is to deliver a strong performance now and create significant future value potential.

Questions please. And feel free to address questions directly to Jennie and Chris, I don't need to take them all. Shall we start at the front and then work backwards?

Q&A

Gavin Jago (Peel Hunt): Morning, it's Gavin Jago, Peel Hunt. A few topics if I could, please. The first one's just around the sales rate, what you've seen in the first couple of months. I think you've outperformed the peer group that we've heard from. What's differentiating you from them? Do you think it's mainly the large sites that you're operating from? We haven't got the granularity from all your peers, but just trying to dig into why you think that sales rate is particularly strong.

Second one's around Help to Buy. I mean, you've touched on it a little bit, Pete, but just your – how are you planning for life without it? You've obviously got first-time buyers about a third of your completions and really your thoughts on whether industry volumes can continue to grow in life without Help to Buy.

And then finally just on the land, probably one for you, Chris, you give an indication of that but with all the larger sites coming through, is it going to be an increased WIP spend this year? And just a bit of guidance on year-end cash would be useful please.

Pete Redfern: Okay, so if I take the first three and then you take the last one, Chris. On sales rate, why, I'm afraid the answer is so boring because it's everything we've said before. I still think the most important factor is the land quality matrix that Chris put up before. Our mix of sites is very good, we have very few sites that aren't in places where people want to own a home and particularly in less certain times, less confident times, that becomes critically important. We've argued for a long time that, you know, when times are good, actually, the more secondary markets still sell very well. When times get a little bit uncertain, then those customers lose their confidence more quickly or you know have less ability to buy. I think that's the biggest factor but, you know, everything else comes down to right product, right place, right people, slightly less competition because we haven't got the level of, you know, site-level competition that we've had in the past and that perhaps some of our competitors have. We're less likely to parcel up those larger sites into a series smaller ones. We don't have two brands sort of internally competing with each other. You know, to be honest, if you put all that together and we weren't generating better sales rates than the average, we'd be pretty disappointed, you know. But there is a substance behind the strategy, it's sort of, you know, I think you can see it at the ground level very much.

On Help to Buy and life without it and industry volumes, I think probably all other things remaining equal, the you know, sort of phasing of Help to Buy in sort of through to 2023 is unlikely to have a material impact on industry volumes. It might do at a regional level, I mean Jennie pointed out you know particularly in the North East and to a certain extent in the West Midlands, you know, I suspect if others put up the same chart for you in terms of price caps you would see bigger gaps there in those markets, because it's about where you're relative regional positioning and strength is and where you've tended to drive, you know, sort of, profits and volumes from over the last few years. But still overall there'll be winners and losers in that and you know sort of there's enough flex and enough time for people remix and balance that. I don't think it has a major impact on industry volumes. I think it is – if nothing else changes, removing Help to Buy completely probably does have an impact on industry volumes. I think if confidence is good at the time and remains good, I don't think it's huge, you know, but I think it's very difficult for the industry to continue to grow in the short term through that transition. You know, we can do all the mitigation that we've sort touched on around how we get product to our customers and how we support those marginal customers through that process and how we think creatively about those routes, but I don't think it's completely compensatory. You know, I think there is an impact there, there has to be.

Chris, do you want to pick up the last one?

Chris Carney: Yes, I think there were three; WIP, land and cash. So, on WIP, you know I would expect, as Pete talked about, you know, looking forward into 2020 obviously depends on what happens this year, but in order to drive that growth you would be investing a little bit more in WIP, but you know, no more than a couple of percent is my expectation.

Land, you know, at this stage, we don't know what the land spend is going to be for this year. It's massively influenced by, you know, what happens over the coming months, and that obviously then is the biggest influencer on the cash balance at the end of the year. If we spent exactly the same amount on land this year that we spent last year, then clearly the cash balance would increase.

Pete Redfern: Do you want to just hand it to Will next to you and then we'll move back to Glynis after that.

Will Jones (Redburn): Is it on? Yeah. Thanks, Will Jones at Redburn. Three as well if I could, please. The first was just exploring land buying metrics you gave in the year versus the P&L. I think land costs through the P&L were roughly 16% of sales, your contribution margin I think was about 26%, round numbers, and you bought land in the year at 19% of sales for an estimated contribution of 28%. So, that's pretty inverse relationship to what we might usually expect. Firstly, I guess, within that are you absolutely sure of the 28% that the, I guess the teams feed up to you, and secondly why that – that differential, I suppose, please?

The second one, Jennie, I was intrigued by your comment around the possibility to improve return on capital of land-buying, even if not the margin, so, obviously, asset-turn being the difference and if that's the case, what's helping that? Is it, I guess, the savings drive the Group's putting forward in terms of I guess the timing point that was made around number of days saved?

And the last one's really just double checking. In terms of the sales rate, are you absolutely happy that there's – you are in no way forgoing anything around the price side of things in order to deliver the sales rate we're seeing? And either way, is there any argument from here I suppose, just when you look at the order book and where you've got yourself to, that you might just pivot slightly towards margin for the rest of the year considering you're in a strong volume position? Thanks.

Pete Redfern: If I pick up the sales rate and margin question, you're going to take the land ones Jennie?

Jennie Daly: Yeah. I think around return on capital, I mean there are a number of approaches, the actual structure of the deals, and we're seeing that particularly with larger sites and some softening or a lack of other active participants in that part of the market that we can drive much better structures and in the overall deals. But probably the bit that I had also focused on is all those improvements that we're driving through – efficiency, taking out as much of the friction in the build processes as possible, driving up our sales rates. All of those are additive to improve return on capital. So, a little bit in the land deal structure but quite a bit I would expect that we can drive just by the way that we're delivering our sites.

Pete Redfern: Yes. We're confident in the 28, Will. And on sales rate, are we giving up price? There's always a trade, isn't there? I mean, you know, sort of, there's always a trade between price and volume in any market. But no, you know, in a, in a sort of on a relative basis or either relative to peers or relative to history or relative to what we expected in a, as we set our plans for this year, no we're not, you know, sort of we always have an allowance for a certain level of incentives in how we plan out the sales tactics. So, at an individual site level, that hasn't increased or changed fundamentally. You know, you always have some sites at the local level where you were in a bit and you lose a bit and that's all been the over – and that's in the overall sort of flat measure but it actually is very, very stable across the board and you know, we're not chasing those numbers in a way that is taking, you know, sort of an adjustment on price. I'd be very surprised if our price performance is different in any meaningful way.

And I think, you know, that isn't a huge upside of opportunity on price even if we weren't to take those volumes, you know, sort of because you know, people are cautious about where, you know, sort of what, what is the right price, you know, sorts of. And so, you know, it isn't like if we kind of – even if we cut sales rates by half, prices might move by half to 1%, they wouldn't move by four or five, if you see what I mean. That the level of elasticity is relatively low. And you know, sort of will we pivot more towards price, you know, sorts of, over the course of the next few months? I think the answer is yes and no. From a, from a medium-term point of view, taking the year as a whole, no, I don't think we do, but it is normal for us to want to spend the first quarter getting the order book in a strong place, giving ourselves choices for the year, not to be the last one trying to sell the last house for completion in October or November. So, – but that's always true. So yes, later in the year, the balance will probably be a little bit more weighted for price if all those conditions are, you know, sort of the same but only in a normal sense.

And if we go through, you know, sort of the current political shenanigans, I'm quite proud of getting the word shenanigans into this, but if it was the most benign word I could think of to be honest, but if we, if we go through those and the next few months and we have a deal and we have an exit process, is it possible there's more price upside at the back end of the year, you know? Yes. And I know and I mean kind of back to our kind of normal underlying inflation kind of 2% kind of piece. Yes. I do think that starts sort of perfectly possible, but probably too late to really impact on this year in terms of completions will be, you know, sort of my feel. So, our base case is flat pricing through this year in terms of a view of margins for this year. Do you want to pass back to Glynis and then we'll come back to the front again?

Glynis Johnson (Jefferies): Yes. Morning Glynis Johnson. Jefferies again, three if I may, three is the magic number. The first one is in terms of the Construction Quality Review figures that you gave us. I mean, can you give us a little bit of colour around what is the highest number that actually is achieved? Is government focusing on it? Is there a risk that they turn around and say we need you to get six and if so, what does that mean in terms of costs?

Second one in terms of the strategic land, slide. So, I think it was slide 35 it seems to suggest a very big pickup in the later years. I'm just wondering are the one or two very large sites that skew that because clearly the lumpiness, and I got the world lumpiness in, that could have a big influence.

And then lastly in terms of, well, it’s a question that you always don't like, but outlets, and I've got to reference it to factories. On your super large sites that slide 36, the number of outlets versus the number of factories, I was quite surprised, it seems to indicate that number of your very large sites only have one factory. How should we see that progress? Should we be assuming that actually your very large sites should on a two, three-year basis have two factories, three factories? If you'd give us a bit on that.

Pete Redfern: Yeah, I'd just like to make a comment first on the CQR and then, you know, sort of let you come back and cover that as well as well, Jennie, and probably on the strategic land as well. I'd sort of make it – make a comment and then sort of let Jennie pick it up. On the CQR from a government point of view, no. You know, sort of, I'm not sure that anybody in government would actually probably, except for the ones we've mentioned it to, I'm not sure anybody else in government would recognise and know what it's about. And similarly, that shift from the eight-week survey to the nine-month survey and I don't think Jennie did touch on, but we're also looking at net promoter scores. But to me, it's what I mean when I say open and honest communication.

We are telling you the things we think are important and that in time other people will start to look at, if you see what you mean. It's not a reaction to government. It's actually for the first time on that. So, CQR score we have a usable benchmark for our sites on build quality. And there's never really been that. So, we see that as a useful tool to improve, not because somebody else is looking at it and we've worried about the score. I mean, I'll let Jennie pick up on what we think is a reasonable score overall. It's because we think it's a good and useful way of understanding how the business is performing, and it's important to us. I know we think it tells a story about what the business is doing. And that's generally true across the board on some of those metrics. You know, they're not, they're not reactive reasons. We're putting them up. They are – we think this is going to be where the debate is over the course of the next five years and we'd rather be ahead of it.

Just on strategic land and I'll give Jennie a chance to answer, yeah sort of, on both of these, but just on strategic land. There is, you know, and you'd have spotted it, Glynis, there is a sort of a natural tension between shortening our land bank and more strategic size. I see the shortening the land bank is about balance sheet efficiency from a capital point of view. I am reasonably indifferent if we happen to have a number of very large strategic sites that we haven't paid for are not fully committed to from a price point of view. And they sit in the land bank and throw that metric out, but don't impact on capital, and we're running them efficiently.

That's not an issue sort of from my perspective at all. The, the signal about shortening the land bank is we can make the cap of the sites we've got committed with capital out much more efficient. If that means tweaking the metrics to get that balance right because the proportion of strategic – that's a good quality problem to have, if you see what I mean. So, I recognise it creates a tension in the metrics, but underlying, if we can do both and short – shorten our time on sites where we've got capital locked up and get better growth out of them and have lots of large sites coming through the strategic land bank, then I'll live with that problem. Sorry, Jennie.

Jennie Daly: Yeah. So CQR is not a measure that that I think government have any visibility. The reason that it's attractive to us is because it, it takes a whole site view. It's not the plot inspection. When the NHBC come to look at a plot inspection of a home, they're looking specifically at that plot. So, it's a much truer, honest view of the health of build on a site. And I mentioned just high data rich the feedback that we get as part of the CQR is, and we've been using that to its absolute maximum to identify where we think we have issues where we can drive improvements. It also then gives us a benchmark where we are nationally. I said that we were fifth. It's quite secret squirrel. You know, there's – we're not really fully aware of who he's ahead of us, but I think that we are the largest volume builder. So, we're sitting really well there.

So, we'll be able to continue to drive that data into improvements. And it's exceptionally beneficial to our site teams and our site management processes to achieve that.

On strategic land, I mean it's always really difficult for me to put a slide like this up, but it's very – you've had on the thing that makes me most anxious, which is things move to the right. Yes, there are some large sites in there. So, you know, if a 3,000 units site that we have identified for a local plan allocation in 2021 slips because the local plan has been stalled, then those 3,000 units are going to go on to move to the right.

So, these are our best, you know, our best estimates. It's probably best to split them into sort of three sections. There are sites which we all of course draw down, there are sites that I either because the five-year housing land supply that we think might be available would slip or that sort of development plan overall or the site doesn't get allocated. So, there, you know, there are a number of things that happened there.

Large site landing is something that we're really focused on. You know, a really large site doesn't come out of nowhere. So, we have preparation time. There's a lot of detailed technical work that our teams put in in the transition and transfer of sites sent to the business. So, it's something that we can manage either in the way that we manage land spend, the way that we break up the phases and how we manage it and give sort of custody into the short-term land bank. So, I'm pretty comfortable about that. And, remember, these are good opportunities that we've been working on through our place making, setting them up so that they're absolutely optimal by the time they land in our short-term land position.

And then think just outlets, the – I mean, we're in transition. And you know, the point that I would make here is we're starting to see the differential, Glynis, but we're not there. it's a journey and we've got a long way to go. This is also a record of the sites at their opening capacity. So, some of those will be – actually we'll be getting potentially to close, so it would be reasonable for there only to be one factory. So, it's an entirely dynamic, but I would expect to see that pulling away a little bit more as we go forward in the strategy.

Pete Redfern: Okay. Can we pull back to the front and then work our way back down the side, and then just conscious of your overall time. So, we'll try and – okay. That's fine. But, you know, we'll try and keep our answers a bit tighter so we can get through everybody's questions.

Jon Bell (Barclays): Morning. Jon Bell from Barclays. I think I've got two. Pete, in your analysis of housing booms and busts, one market that springs to mind there might be Spain. Just wondering whether that – what your current thinking is on that business.

And then secondly one consequence of your highest sales rates in recent times has been strain on your open site numbers. You've just reported another period of very strong sales rates. What practically can you do to replenish those sites?

Pete Redfern: Nothing new to say on Spain. I don't think it's about a bust, but don't think it's in a boom either. It's got to a solid but, okay. But certainly, nothing strategic to talk about in terms of open site numbers, you know, you know, sort of it's there in Glynis' question as well. We're not uncomfortable talking about it, you know, sort of actually it's a totally reasonable question to answer. It is a pressure point within the industry and within the business. I think what I would say, and it goes back to Jennie's charts to a large degree, our site numbers are very resilient. They're larger sites. They're open for a long time, so we're less sensitive. We're quite happy with where our outlet opening sit over the course the last few months we kind of fit – Yeah, I think I'm right in saying that every single outlet we plan to open this year has opened when we planned to open it.

I'm not sure I could ever have talked about any period in the past where that quite happened, you know, sorts of it. It is always under pressure. But we feel that it's actually operating very well. But I would still say, it'd be quite nice to have another 20, but I want – yeah, but I want 20 proper sites, not to stick 20 new outlets on sites we've already got or buy small sites that then create an issue within the business. So, you know, we'd like a little bit more, we expect it to grow a little. But we're committed to do it in a way that will really add to the business rather than just window dress the number in the short term.

Jon Bell: Okay. Thank you.

Pete Redfern: Can we move across that row and then we'll come back to the front? That's all right. Let's go. Let's go to the front since you're down here –

Gregor Kuglitsch (UBS): Thanks Gregor Kuglitsch, from UBS. A couple of questions. So, the first one just to elaborate a bit, maybe on the 2020-21 kind of risk profile to volumes. I guess if you could just sort of give us some sense what you need to do this year. So, for instance, if you do buy one time replacement, do you think you can step up the volumes as you were indicating last May or would you need to buy more land just so we can get a feel what we need to track to get some confidence around that?

And then the second question is you kind of elaborated on the cycle and Help to Buy ending. And, obviously, you mentioned that volumes will probably come down. I guess my question is what about margin? Do you think that there will also be generally a step down in margin as a result? Perhaps incentive costs have to step up. I think you're preparing clearly for some of them – trialling some of those, so you have some experience perhaps to share on what the margins are on sort of, if you want, free markets sales which, which do not benefit from a subsidy? Thank you. Okay.

Pete Redfern: Okay. 2020, 20, 21 volumes and land. So, first of all, Jennie's sort of chart about where our land supply sits sort of for the next few years has meaningful, I'm not going to give you a number but meaningful higher single digit growth in it. So actually, we have the potential if we see through all of those acquisitions which would result in a growth in the short-term land market to grow more materially. I think, you know, that means that the confidence in a stable volume for 2020 as a base we can work from is quite high. But it's really hard for us to relate next year's volume to this year's land acquisition. Not that many sites we buy this year impact directly. It's the overall investment that it takes in as bringing forward phases and things. So, it's really hard to give you a specific answer to that question that's not quite misleading. You know, it is about – because it's not just about land, it's about how we open up phases, how we invest in sort of the infrastructure during the course of this year rather than just sort of site numbers.

On the margin impact. I think you just asked me for margin guidance for 2023. So, I think it's a given don't you that that volumes and prices would see some degree of pressure in the industry. If everything else was equal at the point when suddenly there was no Help to Buy, I think it would be naive for me to give you any of the signals and there will be some pressure. I think we can do things to mitigate that and I don't think it's by any means necessary that it is a catastrophic change. But it would put pressure on in that year from an adjustment point of view.

I think we have to get nearer to the time and see the conditions before I can go much further than that. But I think it will be naive to guide you that it's going to be – that will be anything other than a negative to the overall industry. I think the big question – and the thing that we want to make sure in the communication the process how we prepare is, is that enough of a shift that it creates real uncertainty in the market, because having to accept that you can sell less houses that year as you adjust and you use other measures is one thing. It's, – in fact creates a sense that the housing market as a whole has changed. That's the risk that the government and we should really want to avoid. You know, we can adapt and we hope to have a better job of it than others in adapting to that change. But it's – is that change big enough to affect the market overall and the second-hand market and confidence, you know? That's, that's the most important question I think. I do think it's a given that at that point of change there is some impact on volume and prices, but I couldn't give you a quantification, you know, sort of for four years plus out, you know, happy to happy to deal the question every time till then, you know. So, we just pass it back. Just,

Chris Fremantle (Morgan Stanley): Hi, I'm Chris Fremantle from Morgan Stanley. Talk about sector leading growth. I just wanted to pick up on the special dividend policy again. I know you're both pains to emphasize the dividend yield. It doesn't seem to have done much for your share price over the – since you announced it, which perhaps is a reflection of, I don't know, the ability to grow earnings when you're paying out that level of today's earnings. So, can you just give some thoughts about, you know, just remind us why you think that's the right thing for the business, particularly if you aspire to create sector leading growth.

The main answer or the most sort of significant answer to the question is we are not constrained by capital at the moment, we have a series of other constraints. And I think we've tended over the last year to see land as a constraint. And as I touched on, I think that's changed a bit and, yeah, I think what a lot of our strategy last year was about recognising that land was a different balance to what we have been used to and that we should adapt our strategy to that. But our biggest constraint as I've touched on and I think comes across the whole sector, is actually our ability to take sites through the planning system from a detailed processing point of view to get those outlets open, to get construction on site, to be able to match sales, and, actually, in a cyclical world at times, you know, sort of the ability to sell.

It's not capital. So, we genuinely think the special dividend is excess capital that we could only invest if we were prepared to significantly reduce the margins and returns that we sort of we're actually able to secure sites at. There's always another site that you can buy that – more or less the same returns. If we took, you know, sort of an additional £600 million in capital and came close to doubling our land spend, we're big enough, would affect the market. And so, you know, sort of actually I think they're very consistent. And you go back to we think we can drive more growth from a combination of the larger sites and, you know, as long as we can get the sales rate and the product delivery right on those sites, and from our strategic land bank which is relatively low in terms of its capital absorption as we bring it through the balance sheet without using a massive amount of capitals. That’s what we think there's efficiency, capital efficiency on the way through that. So, I certainly don't think it's inconsistent. It's just a different part of the value proposition. We can deliver significant growth and still create a fair amount cash.

Just to follow up thought to that, very different when, you know, sort of our land acquisitions are, you know, sort of high teens proportion of selling prices to, if I roll the clock back, 10 or 12 years, when at the point in the cycle right now they were more like 25 to 30; you know, it makes a big difference to the cash dynamics and the balance between growth and investment. Sorry,

Emily Biddulph (JP Morgan): Emily Biddulph from JP Morgan. I've got two questions please. The first one's just coming back on the sales rates. I'm conscious that you sort of started to post decent year-on-year growth in the second half of last year and you're still sort of running at kind of rate. Everything you're talking about at the moment to kind of drive sales rate improvement, when we get to the second half of this year, if the market looks the same, are you going to be sort of telling us to remember the comp stuff or would you be alarmed if we kind of had similar kind of growth in our models to the second half?

And then the second question, just in Q4 there was at one sort of big one off deal. There's something that's sort of slightly different but another sort of sizeable deal in Q1 this year. Is this just a completely random sort of London buses kind of thing or is it something in the market that means we should – we expect more of these to come? Thanks.

Pete Redfern: So, if you take the full year sales rate, and assuming a base case of the market remaining through the rest of this year more or less as it is, I think, you know, my view, we'll be able to expect the sales rate for the year to be higher than last year's but not to be 10% higher. You know, sort of the first quarter was, you know, a decent first quarter, but the comp wasn't massively difficult and, you're right, they picked up at the back end of the year, I wouldn't expect to have another step up beyond that pickup in the last quarter. So, it will sort of normalise a bit closer to last year as we go through 2019. But as I say, you know, gut feel today and don't take it too strongly, is probably a bit ahead overall. Nothing we do is random and like London buses, Emily.

I'm offended by the very idea. It's both, it’s one-off and it's opportunistic. But I think it fits the overall sense that we're talking about about routes to market. We are open minded about looking at different ways of selling our product. And sometimes that's about, you know, sort of as the deal at the end of last year was across a number of sites where’s the opportunity to build the order book and get ahead. And sometimes it's like the deal we've done in the last few weeks which is about, yeah, much more frontend, about securing the risk on our site and letting us, you know, buy a bigger part of that site without feeling like, you know, so there's a material sales risk on a significant proportion of that.

You know, if it works, we work well with the partner. And the numbers work, you know, or that that latter deal, there's a very small trade off on margin but it still fits in our overall strategic kind of projections of margin and a very big gain on return on capital and a very big gain on risk, we'll do them. But it fits the overall strategy, you know, but they're also opportunistic. So, I can't tell you whether we'll see two or three during the course of the year to come or none. But you're more likely to see them in 2019 than you would have been in 2017, you know, sort of, for reasons of both the market and the strategy.

Pete Redfern: Great. Just move back please.

Andy Murphy (Bank of America Merrill Lynch): Andy Murphy, Bank of America Merrill Lynch. Just two questions. You talked about your investments in the statements gone up from 3 to 5%. Is that a – is that the sort of the bulk sales that you're talking about or is that some signal that may be buy to let investors are coming back into the market?

And second, you just – can you talk a little bit about what you're doing and what the future is you think for the Springboard rental option? Sounds quite interesting.

Speaker: Okay. Do you want to take the first one Chris, and I'll pick up the second?

Chris Carney: I think with investments on the balance sheet I think that’s where – right. Okay. Is that right, Andy, you mean the balance sheet and –

Andy Murphy: The sales to investors.

Chris Carney: Oh, sorry, the sales to investors. I thought you said investments rather than investors. yeah. I mean, to be honest, both the small numbers and we don't see it as particularly changed. It tends to be very London-centric and we don't see it as a structurally growing part of the business over the next few years. You know, sort of – but it's movements in a small number if you see what I mean.

In terms of springboard, we have rented – I was going to say sold them, which will be completely misleading – rented the 15 properties in our pilot scheme. That's gone well, but it's a learning exercise. Probably later in the year we'll give you a kind of a granular view on how we think that's working, whether we think those customers are likely to then convert into sales. But the – you know, we see it as a, as a pilot to learn from and we'll probably do two or three other things that, you know, sort of are similar but with different characteristics. But again, a bit like the sort of scale – scale sale that I was talking about with Emily a moment ago. You know, we'll look at more things like that that are alternative to routes to market over the next couple years, but nothing new on that particular pilot at the moment. Thank you.

Aynsley Lammin (Canaccord Genuity): Thanks, Aynsley Lammin from Canaccord. Just two for me, please. Firstly, I wonder if you could comment on sales rates and pricing in London, just interested in your views there and then, secondly, just on the kind of the outlook you put forward for the medium term, it's very positive, obviously. I just wondered, have you changed your view at all, what you think the optimum scale of a house for like Taylor Wimpey should be on a medium-term view. So get through all the kind of near-term political shenanigans, as you call them with the help of PRS and other deals, any change in view there, which I guess ties a bit into the special dividend comments you made earlier? Thanks.

Pete Redfern: So sales rates and pricing in London – Jennie, are you happy to just, sort of just pick on those, just as a general sort of guide.

Jennie Daly: I think Chris has that.

Chris Carney: I'll pick it up. So for the eight week period last year, the sales rate in the wider London and South East division was 0.77, versus 0.78. So actually very marginally up. And I would say that probably, you know, pricing, as Pete said, is very, very flat. I think, you know, probably more pricing pressure in London and the South East than in the other regions, but it's sort of a marginal, so yeah, that's our position on that.

Pete Redfern: And have you changed your view on the optimum scale of a house builder? Yes, if you compare it to what I would have thought three years ago, not massively in the last nine months. And it's not so much about that medium-term outlook, because, mind you, I don't think that's changed massively in the last nine months, either. It goes back to land and it goes back to the whole debate around strategy back in April, you know. If there is more land supply and we have to compete less hard on, you know, sort of for every site and there is that underlying demand, but the underlying demand hasn't really changed in that period. But the land, in our view of it, has changed over that period. Then, the natural optimum scale is bigger. You know, sort of those are the two big moving parts we were always going to deal with, you know, sort of demand and land supply; and land supply has changed over the last few years and that's changed our view about where the balance sits at.

Again, I go back to: that doesn't get away from us being a cyclical market, or a cyclical industry. So you've got to be prepared to flex within that. But where the upper end of that bit that – you know, with more land at good returns, you know, the upper end should be greater. Government will be pretty worried if I answered any other way, but I actually do believe it, as well, which is nice. Yeah, Charlie?

Chris Millington (Numis): Morning, Chris Millington at Numis. I just wanted to pick up on the sensitivity analysis you did on slide 22, it was. And you made the point, there's no build cost reduction factored in there. Just from your experience of the past, what do you feel the relationship is with volumes and prices and kind of cost reduction? So that's just the first one.

Next one may be for Chris, but land creditors is up in the period. You know, most companies we've seen so far actually seeing a slightly reducing land creditor profile, you know, whether it's just from the land activities they're doing, but how do you see that progressing going forward in light of the largest sites and, if it does grow, will that be kind of compensated for by a bigger cash balance from the adjusted gearing point of view?

Pete Redfern: Okay. So the relationship – and you're absolutely right, you know, and I think it was touched on in the notes on that slide and Chris touched on it, you know, sort of if prices fall, then we expect cost to fall. It's always hard to quantify how much – and probably more importantly in terms of cash, because that's our one-year number – how quickly, because the cost impact tends to take 12 months before it really comes through the P&L and cash generation, you know, sort of. So it's not quite as responsive as some of the other sort of elements of cash generation.

It's also quite hard to call in a very different sort of land environment, where land is proportionately less, how land prices change, you know, sort of you can't really use old metrics, they're not really very relevant. You know, land will clearly still have a material value, but will actually sustain a, you know, sort of a residual value in the way that we used to if the market were to change significantly? On build costs, what's reasonable to assume, 10%? Yeah, order of magnitude. It's not, it tends to be taking out the last two years or so of inflation, rather than, you know, sort of being able to reduce build costs by 25 or 30%.

Chris Millington: Is that 10 under the 20 decline in prices. Sorry.

Pete Redfern: That's 10% of build costs. So…

Chris Millington: Under quite a severe recession.

Pete Redfern: Yeah, I think it's less because the limiting factor is the people and the materials and the supply chain and what the other choices those individuals and those suppliers have. So it's not – and that's why it's quite hard to answer, because I don't, I'm not sure that that build cost number is much different between a 20% price fall or a 30% price fall. And it's more related to volume, so I think is – in a meaningful downturn, is a 10% reduction in bill costs reasonable? Yes. But I'm not sure in a much more meaningful downturn, it suddenly gets massively bigger, if you see what I mean. I think volumes contract because it's harder to get, you know, sort of the overall economics to work.

So I think we've got two more sort at the back. Sorry, I skipped past Chris.

Chris Carney: Very, very quickly. I tend to look at land creditors, not just with one measure, but to the absolute size of them. The adjusted gearing that you mentioned, land creditor as a percentage of gross land, as well, which I think we're round about 27%. But you're quite right, if you look at our land creditor balance, round about a third of it is, I'll use the lumpy word, you know, spread over five sites. So, yes, as you know, our strategy moves towards those larger sites, we get more opportunities. And you know, I think where it goes in the future and our level of comfort will be a factor of looking at all of those three sort of views, if that helps.

Chris Millington: That's fine, cheers.

Pete Redfern: And then if we move back sort of that way and then I think we've got two more people with questions and then we will close.

Robert Eason (Goodbody): It's Robert Eason from Goodbody. Just on the whole thing about getting it right first time, when you look at your sites that get it more right first time, you know, what is the prize that's up there to get? Like in terms of build costs on a square footage basis. I know it's difficult, every site is difficult, but just give us a sense of what is that prize and when you look across your sites; and also just on the same topic, if you do get it right first time, is there an ASP angle to this, as well? And it's not just a cost-driven…

Pete Redfern: So I think there is absolutely a selling price, but probably a more, in substance, a sales rate impact of getting it right, and the reason that it's slightly more rate than price, it goes back to the answer to, I think it was Will's question earlier. There's not a massive amount of elasticity on price for many of our customers anyway. So people are buying the home that they can afford and they will buy a bigger home given the choice. But there is absolutely a rate, a sales rate impact. And probably a slight price impact, because the two are always related.

It's very hard to quantify the cost and the answer I'm going to give, which I'm sure Jennie and Chris will feel uncomfortable with, sort of is actually more about overall consistency and, when we see a business and a site, getting it right consistently across the board, compared to our business or a site that don't. So it's not just about getting the build right first time; the impact is comfortably 10% of overall costs. You know, sort of between average and best, let alone between best and worst. You know, sort of consistency across the business and across the industry is not good and never has been. It's a hell of a lot better for us than it was four years ago, and we're very comfortable. It's better for us than it is for most of our peers. But I think is really important, you know, sort of to understand our business as grown-up, as a – you know, our industry has grown up as being a fairly cottage business with every single site having slightly different practices. We gradually standardized and improved, you see there's benefits and the gap between best and worst is huge, which means the potential is significant.

The reasons it's uncomfortable is it's hard to get that and it takes time. So, you know, sort of it's uncomfortable because we know the price is significant, but we really struggled to work out when can we get it and how do we get it everywhere?

And then for a final one.

Ami Galla (Citi): Ami Galla from Citi, just one from me. You've touched a lot on the bill process in getting more consistency in your business and wondering when you think about your medium-term outlook, is there a forward plan of investments in say offsite construction going forward?

Pete Redfern: Sorry, is that a forward plan…?

Ami Galla: I mean when you look at your medium-term growth in the business, do you have a plan for investing in a factory built construction?

Pete Redfern: We don't have a plan, but we are open-minded. So you know, we've touched on this, you know, sort of, before; are there elements of the build process that we could simplify, standardize to take off site? There are elements, we still struggle and we are still open-minded to find something that hits the metrics we need in terms of cost efficiency, adaptability to a whole series of different planning and local requirements. But we keep looking. And so, I would never rule it out and we have, you know, sort of invested in new people on the R&D side to really look at it, where we tend to find the gains is improving the detailed processes and the individual components rather than one big sort of ticket, factory-based construction. But we'd never rule it out, sooner or later it will come. It still feels like it's a way off.

Okay. Thank you. Thank you for, you know, sort of both, lots of, but also some very good questions and thanks very much. Look forward to seeing you at the half year.

[END OF TRANSCRIPT]