Preliminary Results meeting for Year ended 31 December 2001 – Speaker transcripts

Dr Hawley

Good morning ladies and gentlemen and welcome to the Taylor Woodrow results presentation. With me on the podium is Iain Napier, our new Chief Executive and Adrian Auer our Finance Director.

Slide Agenda

In the audience today we also have members of the executive team – Denis MacDaid who runs the Bryant business, Tony Wilby in charge of Property, Andrew Wyllie our construction head and John Peshkin who is in charge of our North American operations.

In a moment I will hand over to Iain who will go through operational matters. Adrian will then give the financial presentation. Following that we will have the usual questions and answer session.

Slide A strong set of financial results

2001 was another successful year for Taylor Woodrow. Operating profits rose to £224m, up 35% on 2000. Profit before tax increased slightly to £202.3m. This is a bit misleading since last year's figure included £48m of profit relating to the disposal of Greenham businesses. Return on capital employed also continued growing with returns in 2001 reaching 18.6%.

The board announced a final dividend of 4.7p, which makes a full year dividend of 6.7p up 9.5% on last year.

Slide Changing shape of Taylor Woodrow

Taylor Woodrow has changed dramatically over the last couple of years. Housing is now the main profit driver of the business. Over 80% of operating profits now come from that activity. Construction is now a more focussed service provider.

Non core assets continue to be divested. In 2001 we raised £140m from such sales. The continued sale of investment properties raised £87m and the sale of our Australian housing business £30m. Iain will now lead us through the major operational highlights of 2001.

Iain Napier

Slide Iain Napier

Thank you Bob and good morning everyone.

Slide 2001 Key Highlights

2001 was a good year for the company. In UK housing, the purchase and integration of Bryant Homes has been successfully completed. In North America disappointing results in California were offset by strong performances in both Florida and Toronto. Construction continued its transformation into a profitable service orientated business.

We continued to dispose of our investment properties. In 2001 we sold 17 investment properties for £87m. And of course we successfully completed our sterling bond issue raising £250m – the first such bond issue in the UK Housebuilding sector.

Now looking at the business segments in some more detail,

Slide UK Housing

In Uk Housing, operating profit grew substantially for what is now our key business segment rising from £44m to £128m. This year's results include 10 months' contribution from Bryant.

Slide Bryant successfully integrated

The integration of Taywood Homes and Bryant was successfully completed 2 months ahead of schedule.

At the time of the acquisition we identified between £10-15m of sustainable annual synergies arising out of the deal. In fact we have secured £15m on a full year basis. People savings are around half of this number, procurement has delivered around £5m of savings with a whole raft of other areas making up the total.

We have a strong management team in place at Bryant who are now set to grow the business over the coming years.

Slide Bryant has performed well

Notwithstanding the change of ownership and the integration work, it is pleasing to report that the underlying Bryant business performed well in 2001.

Completions rose by 5%, on a proforma basis, coupled with a healthy 8% increase in the average selling price to £157,000. Average selling prices rose 16% when you compare the Taywood prices in 2000 to the combined prices in 2001.

The Bryant land bank is in a strong position containing approximately 3 and a half years production. We also have a strategic land bank in excess of 12,500 acres.

The task going forward is to use this platform to grow this business and earn a reputation as the best in class.

Slide North American Housing

Our North American housing business had a mixed year. Operating profits reduced 12% to £53m due to a poor performance in California.

Other markets though had a better, and in some cases, a record 2001.

Slide Overview of North America

Before getting in to the detailed North American results, a few words about our different North American markets.

In Toronto, our Monarch business is well respected as a leading community developer and homebuilder. High-rise housing is a growing part of our Canadian operations and accounts for approximately 20% of our profits in this market. Average selling prices across the business were just under £130,000.

Monarch had a good year and successfully launched the Waterview residential development overlooking Lake Ontario in Toronto. Construction of the first building is scheduled to commence this month with 63% already pre sold. Subject to sufficient market demand, seven additional buildings will be developed on this site.

In Florida and Texas, we specialise in buying large sites for development. We balance the sale of land to other builders with our own housing operations. During the year, we opened three new master-planned communities in our core markets of Palm Beach, Naples and Tampa.

Average selling prices were just under £393,000.

Florida had an excellent year, with operating profits rising significantly to over £40m. As in other North American developments, significant value was generated from land sales with over £42m of land sold to third party developers. Land sales of this scale really do change the economics of a project – lowering risk but also accelerating cash flows.

Our Californian business has traditionally sold more expensive houses, with Taylor Woodrow having a reputation for award winning, luxury homes. The average selling price in the year was £742,000

Slide North American Housing Performance

However we were very severely affected by the downturn in the technology sector. This exposed a weakness in our strategy. In addition our management failed to properly anticipate market trends. As you will see, this was at a very high cost.

A new management team has been recruited from a listed mid market house builder. They are now in place and are busy refocusing the business towards more affordable properties.

California remains an attractive market for us and we anticipate moving back into profit during 2002.

Slide California Housing

This slide shows our results split between North and South.

The North was the worst hit market where we only managed to sell 46 homes last year. On top of this we also took a significant hit on land write-downs at year-end. However our land is now conservatively valued.

Whilst the Californian result is hugely disappointing, it should be understood that we have now got the business back on track and that the other parts of the North American business had a good year and we are well positioned in terms of contracted sales for 2002.

Slide Other Housing

Other housing comprises our Spanish and Gibraltar businesses. The historical profit numbers include the results from our Australian operations, which, as I said earlier, we have now sold.

Whilst these are relatively small-scale operations, they are high margin and good return businesses which rely on good local expertise and knowledge.

Slide Construction

Our construction business reported increased operating profits of just under £11m in 2001 with operating margins nudging 3%.

Slide Construction Highlights

This business has been successfully transformed and is now profitable and delivering good margins. Financial performance has been improved by focusing on partnerships with selected blue chip clients, exploiting opportunities such as those offered under PFI, and through growth in the facilities management operation.

Our blue chip client base includes Tesco, Thames Water, BAA and Shell and we benefit from an excellent level of repeat business with these customers.

We have developed a solid reputation for our our work on PFI projects where we are amongst the market leaders in the healthcare sector.

A key focus for this division is in working with our housing and development operations to manage risk and successfully deliver the increasing number of brown field development projects, putting us in a strong position compared to our competition. With the large mixed use sites coming on stream in the next couple of years, the percentage of internal work is likely to increase from 13% to about 20%.

Slide Property

Due to the ongoing disposal of £86.6m of investment properties, our rental income fell by 36% to £18.3m and this is the reason for the fall in operating profits. The softening UK property market and continued property sales, means that next year is likely to see a continuation of this profit trend.

Slide Property Highlights

In November we announced that we decided to suspend the sale of the St Katharine's Dock Estate. We are still committed to selling these assets when market conditions and opportunities for value permit us to do so.

Development property continues to generate excellent returns. We now have a significant land-bank with 4.75 million square feet of accommodation under our control through ownership or options. This will sustain commercial activity and profit streams for a number of years to come.

As we look to the future, we are working with our development partners to examine different funding structures in order to increase our return on capital employed and provide a much better return for our shareholders. We continue to concentrate on property development in prime locations and the identification of potential growth opportunities throughout the UK.

Slide Adrian Auer

In summary then another record year, continued simplification of the business and the successful integration of Bryant Homes.

I’ll now pass over to Adrian to go over the detailed financials. After that I’ll come back with some concluding comments before we open up to questions and answers.

Adrian Auer

Thank you Iain and good morning everyone.

In this presentation I am going to review Taylor Woodrow’s financial and operating performance.

The presentation will start at the group level before going through UK Housing, North American Housing, Construction and finally Property.

Taylor Woodrow has delivered another good set of financial results with contributions from all our businesses. The simplification of operations and greater cohesion of activities has produced improved and more consistent financial performance.

Slide Financial Highlights

With the acquisition of Bryant, housing now represents over 80% of group operating profit.

Excluding goodwill amortisation, Bryant contributed 50% of group operating profits in 2001.

Adjusting for disposals, underlying profit before tax has grown 32%.

Dividends are up 9.5% to 6.7 pence per share.

During the Bryant deal we committed to buying back £100m of shares by the end of 2003. The first £50m tranche of these shares was purchased in November last year. The next tranche is not technically due until after March 2003.

In January this year, we successfully completed the first bond issue by a UK Housebuilder, which was 3 times oversubscribed.

In summary, a record year based on simplified operations and greater business focus.

Slide Accounting Issues

Before we get into the detail of the presentation, a few words on two new accounting standards.

We will be adopting FRS 17 for the 2003 year end. If we had adopted it in 2001 then there would have been a decrease of £21.6m in our profit and loss reserve on the balance sheet – equivalent to about 5% of our pension fund.

The £8m profit and loss charge for pensions in 2001 would not have been materially different under FRS 17.

FRS 19 – Accounting for Deferred Tax – will be adopted for the 2002 year end. The impact will not be as significant for us as for others. We have always been conservative with our tax accounting. However it will increase the upward pressure on our tax rate.

I am not going to go through the P&L on a line by line basis. But I would like to clarify a couple of areas.

**Slide		Profit and Loss Account**

Of the £7.9m profit on disposals, £6.4m represents profit taken on the A19 PFI contract.

Equity investment in PFI is part of our ongoing business but we have to account for disposal profits on this line.

In2000, we benefited from the £48m profit taken on the disposal of the Greenham businesses.

Net interest payable increased due to the £222m of additional debt required to finance the Bryant acquisition. As a result, interest cover has reduced to 7 from 11 times.

Our long-term minimum interest cover target is 5 times - so we have significant financial capacity to fund future growth, and, as we stated before, we would be prepared to go below 5 times given a suitably attractive opportunity.

The tax rate increased from 27% last year to 33% this year. In 2000, our tax rate was artificially low due to the non-taxable profit arising from asset disposals.

Just under half of this increase in the tax rate was due to disallowable goodwill and fair value adjustments. I would expect the tax rate to rise next year to be just under 34% reflecting the continued effect of the disallowable goodwill and fair value adjustments, the impact of FRS 19 and also the higher levels of tax on overseas profit.

Adjusted earnings per share increased 8% to 26.2 pence per share. This calculation takes the earnings and then adds back the net exceptional costs of £6.9m. Details of the calculation are contained in the handouts.

We promised the Bryant acquisition would be earnings enhancing. Clearly the full value of Bryant to the Taylor Woodrow group has not yet been fully realised. It will take time to build the business. We didn't just buy a good land bank.

The next slide strips out the various acquisition and integration costs charged to operating profit.

Slide Getting behind the numbers

Within the reported operating profit of £224m there are a number of individual items worthy of comment.

Goodwill Amortisation of £10.7m was charged this year. Next year we expect this to be a charge of £12.9m.

The £32m fair value uplift in the Bryant land bank brought an additional charge of £6.4m. Next year we expect this to be a charge of around £8 to £10m depending on the utilisation of the revalued land.

Iain has already mentioned the land writedowns in California.

The next slide provides a high level variance analysis for UK Housing, which isolates some of the key profit movements in 2001.

Slide Profit variances – UK Housing

On a gross basis the acquired Bryant business delivered nearly £100m extra of profit. Adjusting for goodwill amortisation, fair value and integration costs, on a net basis Bryant contributed roughly £73m of extra profit.

Taking the net UK Housing variance forward to the next slide,

Slide Profit variances (2)

The remaining variances are detailed on this slide – the most important of these is the much lower profits from asset disposals.

So on a net basis – a small increase in PBT. But a number of important variances hidden within that.

Moving onto the cashflow statement,

Slide Cash Flow

Most of the movements on the cashflow statement reflect the increased size of the business following the Bryant acquisition.

In March we combined the working capital of Taylor Woodrow and Bryant. The £27m outflow represents the outflow from the combined businesses. The working capital flows were also impacted by the sale of the Australian housing business.

The increase in depreciation and amortisation reflects the Bryant goodwill write down of £10.7m.

To summarise, Bryant cost us £632m. £404m was financed by equity, and £222m by cash with the remainder in loan notes. This cash element is in the acquisitions and disposals line, which also includes the £58m overdraft acquired.

There were also greater outflows in respect of taxation, interest and dividends reflecting the increased size of the business.

Slide Balance Sheet

Gearing came in at 22% - we were expecting this to be a little higher but year-end cash flow was stronger due to the timing of a number of transactions.

Shareholders funds per share continued to grow to over 240p per share.

Slide Bond Issue

Iain mentioned the success of the bond issue. We were obviously pleased to secure funding at these rates.

The timing of the bond issue was clearly “spot on”. – but the work we carried out in late 2001 was crucial putting us at the front of the queue in January.

The fixed income market has rewarded the transformation that has taken place at Taylor Woodrow over the last couple of years.

Slide Housing

I would now like to look at the UK Housing business in more detail. Many of you met the Bryant team at Chelsea Harbour in January – so I will not attempt to repeat that presentation.

Slide Housing operating performance by market (1)

On this slide the Bryant figures represent the new combined business.

Operating margins improved to just under 15%, in effect an increase in profitability of £6m for the old Taywood business on a proforma basis.

With the possibility of lower house price inflation, cost control will become vitally important. Additional offerings – such as Bryant Design – will also be essential. But the main area we shall concentrate on is the overall build process. Getting it "right first time" and completing on schedule lowers costs and increases margins.

Although the Capital Developments performance looks disappointing at first glance, it should be remembered that they are currently investing for the future. Pre planning and design work around Lots Road, Macintosh Village and the Edinburgh Royal Infirmary have all increased costs in 2001, with no corresponding revenues. On active projects this year Capital Developments have earned returns on capital employed ranging from 15% to 40%.

The combined value of our integrated projects is £1.2 billion and we believe these schemes will deliver good financial performances over many years. We have the flexibility to phase the capital requirements on these projects so that we can respond to changing market conditions.

Slide Bryant Homes Overview

This slide comes with a bit of a "health warning" due to Bryant having a different year to Taylor Woodrow. The numbers however do show the relative size of the merged business on a full year basis.

The numbers in the column on the left of the screen represent full year proforma numbers for the merged Taywood and Bryant businesses. 12 months of Bryant plus 12 months of Taywood.

The middle column contains 12 months Bryant numbers to the end of 2000, and the right column represents previously reported Taywood 2000 numbers.

Bryant/Taywood completions were up 5% on a proforma basis and combined operating margins rose to 14.8%.

The return on average capital employed has fallen to 20.8% but

Taywood Homes had a much shorter land position than Bryant. The increase in the combined land bank is the main reason for the nominal decline in the ROCE.

With a stronger land bank, the amount spent on land fell from a combined £280m to £212m.

Moving now to our overseas operations,

Slide North American Housing Overview

Average selling prices in North America increased 5%. In this case the average is slightly misleading – in

Northern California for example at the top of the market there were price cuts of around 20%. However there were healthy rises in other markets.

The disappointing Californian performance clearly hurt the margins and ROCE numbers. At year-end we took a £9m charge in land writedowns.

The North American land bank is approximately 4 years. However, in California we have always held a much shorter land position. The current California land bank is approximately 1.2 years, but the balance between high value and mid market sites is now better.

Slide Housing operating performance

We sold our remaining Australian housing business for £30m. We also sold our share of the Harrington Park joint venture. These businesses were sold because our joint venture arrangements were complex and the returns were low.

The Spanish & Gibraltar operations continue to perform well.

Slide Housing completions

I know there is a lot of detail on this slide but I just want to highlight a couple of key figures.

In 2001 we completed over 7,000 homes and sold 4,500 lots. This represents an 86% increase in the number of homes, and a 117% increase in lots. By any measure, Taylor Woodrow is now a major global housebuilder.

The UK numbers obviously reflect the Bryant acquisition.

In the US, the balance between lots and homes was distorted by 1,340 unserviced bulk sales consisting primarily of apartment sites at Mirasol in Florida and Steiner Ranch in Austin, Texas.

Moving now to Construction,

Slide Construction

Before reviewing the Construction numbers in detail, it is important to recognise that the improvement in financial performance is due to the radical restructuring of the business over the last 18 months.

As a reference point, in 1998 Construction turnover was £614m, or 44% of the group turnover. In 2001 it was 20% of group turnover.

In 1998 40% of turnover was with repeat customers – in 2001 75% was with repeat customers.

Slide Construction Performance

In 2001 turnover increased 12.5%, with much of this increase was attributable to the integration of Bryant Construction. Underlying margins improved to 2.9%.

The sale of the 33.3% interest in the A19 yielded a profit on disposal of £6.4m. PFI represents an important part of the business portfolio – but we will continue to trade our equity investments for the right returns.

Our Facilities Management business increased turnover by 45% to £58m and will also be an important part of the business going forward.

As a UK housebuilder, the skills embedded in our construction division are critical to the profitable development of complex mixed use schemes.

The other part of the business that also has a key role to play in these mixed use schemes is Commercial Property development.

Slide Commercial Property

During the year we sold the bulk of our Canadian investment and development property assets for £58m.

Virtually all of the remaining property assets now reside solely in the UK.

Slide UK Property performance

As this slide shows our commercial property business is split between commercial property development, and investment activities.

As Iain mentioned, we remain committed to exit the investment property market. In 2001 we sold 17 properties, and St Katharine's is now by far the largest remaining asset in the portfolio.

Despite slower markets, our development property business is in good shape and continues to generate excellent returns. During 2001 we sold 15 development properties.

In the City of London, we completed our retail development at Eastcheap and secured financial consultants Chase de Vere and government departments as its occupiers. The development was sold in September for £32m.

Our focus on brownfield and regeneration developments is also paying dividends. The Cerium office building at Cadogan Square, is the latest element of the regeneration of Glasgow’s Anderston area. This building was let to the Ministry of Defence and Morgan Stanley.

Some time ago we identified Livingston in Scotland as a major development area and, in 1997, we acquired the land for Almondvale Business Park. This development is now 50% complete and the showpiece Silverburn House, which offers 30,000 sq ft of high quality office accommodation over three floors, was recently let to the Inland Revenue.

Slide Iain Napier

In summary then a record year based on simplified operations and greater business focus.

We are making good progress transforming Taylor Woodrow.

And on that note I would now like to hand you back to Iain who will offer some concluding comments.

Iain Napier

Slide Winning characteristics

Thank you Adrian

Before concluding this morning I wanted to share with you some of the characteristics which we believe will drive future success in the current market environment.

Given the decreasing opportunity in greenfield developers are unavoidably being pushed towards brownfield sites. In the short term the easier of these sites will be developed leaving the more challenging ones. The successful UK developer will by necessity have to take this on board.

To maximise returns from these sights not only requires investment in expertise but also the financial muscle to buy, obtain planning, resolve contamination issues and develop. An ability to manage the whole process cost effectively will grow in importance. A small-scale traditional housebuilder, either private or public, will find this ever more difficult.

With a lower house price inflation forecast at around 5% the industry may find it more difficult to grow margins through rising prices. Tight cost control will become more important and the experience of operating in a low margin industry such as construction may prove to be an invaluable discipline.

Slide Future Earnings Growth

So what are our key drivers for the future?

We are re-addressing our cost base with the emphasis very firmly on simplification. We are well positioned financially with gearing at only 22%. We are turning our attention to managing the traditional profit levers of volume, mix and capital turn with an ambition to provide more consistency of margin.

Investment property is already much reduced but we will continue to exit where value exists.

We are uniquely positioned to benefit from the growth in brownfield and mixed use development and we are completing the repositioning of our California business as it returns to profit.

Slide Outlook

Turning now to the outlook for the current year.

In our year-end trading statement we said that Taylor Woodrow is well positioned for growth in 2002. This is still the case.

In UK housing we will benefit from a full year's Bryant contribution in 2002 and the fundamentals for demand remain strong.

However because of the phasing of our sites it is likely that the majority of the improvement in our earnings profile will be more skewed towards the second half of the year.

We have already talked about California coming back to profit in 2002. Other North American markets remain buoyant.

Our commercial property business will see a slightly lower level of activity in 2002 due to the softening of the UK development market and appropriate disposals will continue.

Our construction business will continue to build on its successful transformation, concentrating on internal work and select blue chip clients.

In summary we believe that Taylor Woodrow is delivering on its promises. But there remains a lot to do. However, as you have seen we have some unique opportunities which position us well for the future.

Increasing shareholder value will now be the absolute driver behind our investment and operating decisions throughout our business.

I look forward to reporting back on our progress.

Dr Hawley will now chair the questions and answer session.