Focused on operational delivery and financial performance

In 2021, we have continued to prioritise returning the business to c.21-22% operating margin through focusing on cost, process simplification and standardisation.

Chris Carney
Group Finance Director

"During 2021, we have positioned the business for outlet-led volume growth from 2023, generating additional value and compelling investor returns."

Group financial review of operations

Income statement

The numbers referenced below are statutory numbers unless otherwise stated.

Group revenue increased to £4,284.9 million in 2021 (2020: £2,790.2 million), reflecting the increase in completions in the UK (excluding joint ventures) to 13,929 (2020: 9,412) with the comparative period impacted by site closures due to COVID-19. UK average selling prices rose 4.0% to £299.8k (2020: £288.3k) and average selling prices on private completions increased by 2.8% to £332.2k (2020: £323.2k) in the UK, primarily due to house price inflation partly offset by changes to product mix.

Group gross profit increased to £1,027.0 million (2020: £496.7 million), representing a gross margin of 24.0% (2020: 17.8%). The increase in margin over the prior year was mainly driven by the lack of COVID-19 costs (£60.3 million) seen in 2020 as well as fixed costs being absorbed across more completions in the current year.

Net operating expenses of £328.8 million (2020: £214.3 million) include £125.0 million of exceptional costs relating to the cladding fire safety provision, which is detailed below. Excluding these exceptional costs the net operating expenses were £203.8 million, which was predominantly made up of administrative costs of £211.0 million (2020: £206.8 million). These increased from the prior year as the savings in the current year from the restructuring that occurred in 2020 were more than offset by increases in performance based remuneration and share based payment charges that reflected the improved trading in the year.

This resulted in a profit on ordinary activities before net finance costs of £698.2 million (2020: £282.4 million), £823.2 million (2020: £292.4 million) excluding exceptional items.

During the year, completions from joint ventures were 158 (2020: 197). The total order book value of joint ventures as at 31 December 2021 was £74 million (31 December 2020: £51 million), representing 151 homes (31 December 2020: 118).

Our share of joint ventures profits in the year was £5.4 million (2020: £7.9 million). When including this in the profit on ordinary activities before net finance costs the resulting operating profit was £828.6 million (2020: £300.3 million), delivering an operating profit margin of 19.3% (2020: 10.8%).

In March 2021, we announced that we would cover the costs to bring all Taylor Wimpey apartment buildings going back 20 years from 1 January 2021, irrespective of height or whether we retain a legal interest, in line with current EWS1 guidance, covering cladding and the whole of the external wall systems including balconies. As a result of this the Group announced an additional £125.0 million provision to fund cladding fire safety improvement works which has been charged to exceptional items in line with our policy. The prior year exceptional charge of £10.0 million arose following a review of ongoing works to replace Aluminium Composite Material (ACM) cladding on a small number of legacy developments.

The net finance expense of £24.0 million (2020: £25.9 million) principally includes imputed interest on land acquired on deferred terms, bank interest and interest on the pension scheme. The decrease compared with the prior year is mainly due to a reduction in the net bank interest payable, which in 2020 reflected the full draw down of the previously unutilised £550 million revolving credit facility, which was fully repaid in the first half of 2020, following the temporary closure of sites. In addition, changes in foreign exchange rates in the year resulted in a small foreign exchange loss compared with a gain in the prior year.

Profit on ordinary activities before tax increased to £679.6 million (2020: £264.4 million). The pre-exceptional tax charge was £147.9 million (2020: £49.1 million). This represents an underlying tax rate of 18.4% (2020: 17.9%) which includes a £2.6 million credit (2020: £1.4 million credit) arising from the remeasurement, in part, of the Group's UK deferred tax assets at 25.0% following the changes to the corporation tax rates enacted by the UK Government in the first half of the year. A tax credit of £23.8 million was recognised in respect of the exceptional charge (2020: £1.7 million). This resulted in a total tax charge of £124.1 million (2020: £47.4 million), at a rate of 18.3% (2020: 17.9%).

As a result, profit for the year was £555.5 million (2020: £217.0 million).

Basic earnings per share was 15.3 pence (2020: 6.3 pence). The adjusted basic earnings per share†† was 18.0 pence (2020: 6.5 pence).

Spain

Our Spanish business primarily sells second homes to European and international customers, with a small proportion of sales being primary homes for Spanish occupiers. The business has continued to face market disruption as a result of international travel restrictions imposed during the COVID-19 pandemic. However, it has performed well against this backdrop and sales rates have recovered as restrictions have eased, with the 2021 sales rate comparable with 2019.

We completed 215 homes in 2021 (2020: 190) at an average selling price of €417k (2020: €375k), and our total order book as at 31 December 2021 of 324 homes (31 December 2020: 126 homes), reflects the recovery in the year as noted above. Gross margin decreased to 24.3% (2020: 31.1%), primarily due to the increased level of sales commissions incurred following the greater number of reservations compared with the prior year, and this flowed through to an operating profit of £14.6 million for 2021 (2020: £15.8 million) and an operating profit margin of 19.0% (2020: 25.0%).

The total plots in the landbank stood at 2,779 (31 December 2020: 2,819), with net operating assets at £108.9 million (31 December 2020: £111.5 million).

Balance sheet

Net assets at 31 December 2021 increased by 7.4% to £4,314.0 million (31 December 2020: £4,016.8 million), with net operating assets** increasing by £185.8 million to £3,450.6 million (31 December 2020: £3,264.8 million). Return on net operating assets** increased to 24.7% (2020: 9.9%) as the increase in average net operating assets over the year, compared with the prior year, was more than offset by the increase in operating profit over the same period. Group net operating asset turn*† was 1.28 times (2020: 0.92).

Land

Land at 31 December 2021 increased by £510.0 million in the year to £3,385.7 million as the Group continued to invest in land opportunities following the equity raise completed in June 2020. The increased land investment also meant that land creditors increased to £806.4 million (31 December 2020: £675.9 million) with new obligations exceeding payments in the period. Included within the gross land creditor balance is £59.0 million of UK land overage commitments (31 December 2020: £64.9 million). £314.2 million of the land creditors is expected to be paid within 12 months and £492.2 million thereafter.

At 31 December 2021 the UK short term landbank comprised 85,376 plots (31 December 2020: 77,435), with a net book value of £2.9 billion (31 December 2020: £2.5 billion). Short term owned land comprised £2.8 billion (31 December 2020: £2.4 billion), representing 62,660 plots (31 December 2020: 53,731). The controlled short term landbank represented 22,716 plots (31 December 2020: 23,704).

The value of long term owned land increased to £298 million (31 December 2020: £217 million), representing 37,425 plots (31 December 2020: 36,968), with a further total controlled strategic pipeline of 107,809 plots (31 December 2020: 101,676). Total potential revenue in the owned and controlled landbank increased to £59 billion in the year (31 December 2020: £54 billion).

Value distributed during 2021

Contribution to local communities via planning obligations
£417.7m
2020: £286.6m

Employment
£278.0m
2020: £264.9m

Net investment in land and WIP
£293.2m
2020: £362.2m

Pension contributions
£31.5m
2020: £52.3m

Taxes
£151.9m
2020: £136.4m

Dividends
£301.5m
2020: (nil)

2021 Group results

	UK	Spain	Group
Completions including joint ventures	14,087	215	14,302
Revenue (£m)	4,208.1	76.8	4,284.9
Operating profit (£m)	814.0	14.6	828.6
Operating profit margin (%)	19.3	19.0	19.3
Profit before tax and exceptional items (£m)			804.6
Profit for the year (£m)			555.5
Basic earnings per share (p)			15.3
Adjusted basic earnings per share (p)			18.0

Work in progress ('WIP')

Total WIP has reduced as completions originally planned for completion in Q4 2020 were delayed into the first half of the current year resulting in a greater WIP balance at the end of the prior year. Whilst the number of outlets at 31 December 2021 was lower than at the start of the year, the average WIP per UK outlet was broadly flat at £6.5 million (31 December 2020: £6.6 million), reflecting a continuing investment in build on active sites.

Provisions and deferred tax

Provisions increased to £245.1 million (31 December 2020: £130.5 million) due to the £125.0 million cladding fire safety provision recognised in the period. There was continued utilisation of the existing provision as works have been carried out as well as utilisation of the Ground Rent Review Assistance Scheme ('GRRAS') provision as claims have been received and processed. During the year the Group agreed voluntary undertakings with the CMA which built on the existing GRRAS scheme, the cost of these undertakings fall within the original provision made by the Group in 2017.

Our net deferred tax asset of £26.2 million (31 December 2020: £33.7 million) relates to our pension deficit, employee share schemes and the temporary differences of our Spanish business, including brought forward trading losses. The decrease in the pension deficit in the period decreased the deferred tax asset recognised, with some offset as the deferred tax asset has been remeasured, in part, at 25.0% (31 December 2020: 19.0%) following the UK enacted change in rate in the period.

Pensions

Following the 31 December 2016 triennial valuation, the Group agreed a recovery plan with the Trustee to pay deficit reduction contributions of up to £40.0 million per annum for the period from April 2018 to December 2020. During 2020 and in response to the site shutdowns, a temporary suspension of the agreed deficit reduction contributions was agreed with the Trustee for the three months between April and June 2020 and as a result, the recovery plan period was extended to 31 March 2021.

During 2020, the Group engaged with the Taylor Wimpey Pension Scheme ('TWPS') Trustee on the triennial valuation of the pension scheme with a reference date of 31 December 2019. In March 2021, a new funding arrangement was agreed with the Trustee that commits the Group to paying £20.0 million per annum into an escrow account between April 2021 and March 2024. The first six months of contributions between 1 April 2021 and 30 September 2021 were guaranteed. From 1 October 2021, payments into the escrow account are subject to a quarterly funding test with the first funding test having an effective date of 30 September 2021. Contributions to the escrow are suspended should the TWPS Technical Provisions funding position at any quarter end be 100% or more and would restart should the funding subsequently fall below 98%.

The Group continues to provide a contribution for Scheme expenses and also makes contributions via the Pension Funding Partnership. Total Scheme contributions and expenses in 2021 were £17.4 million (2020: £37.1 million) with a further £10.0 million paid into the escrow account (2020: nil). Further payments into escrow are subject to quarter-end funding tests and would amount to an additional £5.0 million being paid into escrow in 2022 each quarter if the funding test is not met at the respective quarter end.

The most recent funding test at December 2021 showed a surplus of £43 million and a funding level of 101.7% and as a result no payment into escrow is due in the first quarter of 2022.

At 31 December 2021, the IAS 19 valuation of the Scheme was a surplus of £149.9 million (31 December 2020: deficit of £89.1 million). Due to the rules of the TWPS, any surplus cannot be recovered by the Group and therefore a deficit has been recognised on the balance sheet under IFRIC14. The deficit being equal to the present value of the remaining committed payments under the 2019 triennial valuation. No such adjustment was recognised at 31 December 2020 since the deficit on an IAS 19 accounting basis exceeded the present value of committed payments at that time. Retirement benefit obligations of £37.3 million at 31 December 2021 (31 December 2020: £89.5 million) comprise a defined benefit pension liability of £37.0 million (31 December 2020: £89.1 million) and a post-retirement healthcare liability of £0.3 million (31 December 2020: £0.4 million).

The Group continues to work closely with the Trustee in managing pension risks, including management of interest rate, inflation and longevity risks.

Net cash and financing position

Net cash increased to £837.0 million at 31 December 2021 from £719.4 million at 31 December 2020, due to strong cash generation from operating activities being partially offset by an increase in land investment, and the payment of dividends in the year.

Final dividend pence per share

4.44

(2020: 4.14)

2022 share buyback

c.£150m

Average net cash for the year was £788.1 million (31 December 2020: £399.3 million).

In the year to 31 December 2021, the inflow of cash from operations as a result of the improved trading led to cash conversion of 69.4% of operating profit (2020: (54.9)%).

Net cash, combined with land creditors, resulted in an adjusted gearing‡‡‡‡ of (0.7)% (31 December 2020: (1.1)%).

At 31 December 2021 our committed borrowing facilities were £634 million of which £550 million was undrawn. The average maturity of the committed borrowing facilities at 31 December 2021 was 2.9 years (31 December 2020: 3.8 years).

Dividends

Subject to shareholder approval at the AGM scheduled for 26 April 2022 the 2021 final ordinary dividend of 4.44 pence per share will be paid on 13 May 2022 to shareholders on the register at the close of business on 1 April 2022 (2020 final dividend: 4.14 pence per share). In combination with the 2021 interim dividend of 4.14 pence per share this gives total ordinary dividends for the year of 8.58 pence per share (2020 ordinary dividend: 4.14 pence per share).

The 2021 final ordinary dividend will be paid as a cash dividend, and shareholders in the United Kingdom have the option to reinvest all of their dividend under the Dividend Re-Investment Plan (DRIP), details of which are available on our website www.taylorwimpey.co.uk/corporate.

Our intention remains to return cash generated by the Group in excess of that needed by the Group to fund land investment, all working capital, taxation and other cash requirements of the business, and once the ordinary dividend has been met.

Following the strong performance of the business during 2021, we are today announcing our intention to return excess cash of c.£150 million in 2022 through the implementation of a share buyback programme, with an initial tranche of c.£75 million expected to be completed by no later than 3 June 2022.

Alternative Performance Measures

The Group uses Alternative Performance Measures (APMs) as key financial performance indicators to assess underlying performance of the Group. The APMs used are widely used industry measures and form the measurement basis of the key strategic KPIs (operating margin, return on net operating assets, and cash conversion). A portion of executive remuneration is also directly linked to some of the APMs. Definitions and reconciliations to the equivalent statutory measures are included in note 32 of the financial statements.

Going concern

The Directors remain of the view that the Group's financing arrangements and balance sheet strength provide both the necessary liquidity and covenant headroom to enable the Group to conduct its business for at least the next 12 months. Accordingly, the financial statements are prepared on a going concern basis, see note 1 of the financial statements for further details of the assessment performed.

Chris Carney
Group Finance Director

Viability disclosure

In accordance with the 2018 UK Corporate Governance Code, the Directors and the senior management team have assessed the prospects and financial viability of the Group for a period longer than the 12 months required for the purposes of the 'going concern' provision.

Time period

The Directors have assessed the viability of the Group over a five-year period, taking account of the Group's current financial position, current market circumstances and the potential impact of the Principal and Emerging Risks facing the Group. The Directors have determined this as an appropriate period over which to assess the viability based on the following:

- It is aligned with the Group's bottom-up five-year budgeting and forecasting cycle; and
- Five years represents a reasonable estimate of the typical time between purchasing land, its progression through the planning cycle, building out the development and selling homes to customers from it.

Five years is also a reasonable period for consideration given the following broader external trends:

- The cyclical nature of the market in which the Group operates, which tends to follow the economic cycle;
- Consideration of the impact of Government policy, planning regulations and the mortgage market;
- Long term supply of land, which is supported by our strategic landbank; and
- Changes in technology and customer expectations.

Assessment of prospects

We consider the long-term prospects of the Group in light of our business model. Our strategy to deliver sustainable value is achieved through delivering high quality homes in the locations where people want to live, with excellent customer service, whilst carefully managing our cost base and the Group's balance sheet.

In assessing the Group's prospects and long-term viability due consideration is given to:

- The Group's current performance, which includes the current year performance (pages 2 to 3) and the output from the annual business planning process and financing arrangements;
- The wider economic environment and mortgage market (further details of which are provided on pages 18 to 21), as well as changes to Government policies and regulations, including those influenced by sustainability, climate change and the environment, that could impact the Group's business model including the recent announcement on the Future Homes Standard (further details of which are provided on page 19) and Residential Property Developer Tax;
- Strategy and business model flexibility, including build quality, customer dynamics and approach to land investment. Further detail is provided on pages 22 to 27; and
- Principal Risks associated with the Group's strategy and business model including those which have the most impact on our ability to remain in operation and meet our liabilities as they fall due.

Principal Risks

The Principal Risks, to which the Group are subject, have undergone a comprehensive review by the GMT and Board in the current year. Consideration is given to the risk likelihood based on the probability of occurrence and potential impact on our business, together with the effectiveness of mitigations. The full list of Principal Risks, including mitigations, can be found on pages 62 to 65 and are referenced 'A' to 'I'.

The Directors identified the Principal Risks that have the most impact on the longer-term prospects and viability of the Group, and as such these have been used in the modelling of a severe but plausible downside scenario, as:

- Government policies, regulations and planning (A);
- Mortgage availability and housing demand (B);
- Availability and costs of materials and subcontractors (C);
- Quality and reputation (F); and
- Cyber Security (I)

A range of sensitivity analysis for these risks together with likely mitigating actions that would be adopted in response to these circumstances were modelled, including a severe but plausible downside scenario in which the impacts were aggregated together.

The impact from 'Natural resources and climate change' (H) is not deemed to be material within the five year forecast period, albeit known costs from regulation have been included in the modelling (e.g. updates to Parts L&F of the building regulations in England and Future Homes Standard).

Assessment of viability

The Group adopts a disciplined annual business planning process involving the management teams of the 23 UK business units and Spain, and the Group's senior management, and is built on a bottom-up basis. This planning process comprises a budget for the next financial year, together with a forecast for the following four financial years ('forecast').

The financial planning process considers the Group's profitability and Income Statement, Balance Sheet including landbank, gearing and debt covenants, cash flows and other key financial metrics over the forecast period. The forecast also incorporates the likely market impact of the planned changes to Help to Buy and considers the impact of the Government announcements for example on transitional arrangements for the Future Homes Standard and the Building Safety Levy. These financial forecasts are based on a number of key assumptions, the most important of which include:

- Timing and volume of legal completions of new homes sold, this includes annual production volumes and sales rates over the life of the individual developments;
- Average selling prices achieved;
- Build costs and cost of land acquisitions, including the impact from the updates to Parts L & F of the building regulations in England and the Future Homes Standard;
- Working capital requirements; and
- Capital repayment plan, where we have assumed the payment of the ordinary dividend in line with the previous policy, which is a minimum of £250 million or 7.5% of the Group's net assets, throughout the period as well as the distribution of excess capital to shareholders in 2022 via a share buyback.

Stress testing our risk resilience

The assessment considers sensitivity analysis on a series of realistically possible, but severe and prolonged, changes to principal assumptions. In determining these we have included macro-economic and industry-wide projections as well as matters specific to the Group.

The severe but plausible downside scenario reflects the aggregated impact of the sensitivities, taking account of a sharp decline in customer confidence, disposable incomes, and mortgage availability. To arrive at our stress test we have drawn on experience gained managing the business through previous economic downturns and the COVID-19 pandemic.

We have applied the sensitivities encountered at those times, as well as the mitigations adopted, to our 2022 expectations in order to test the resilience of our business. As a result, we have stress tested our business against the following severe but plausible downside scenario which can be attributed back to the Group's Principal Risks that have been identified as having the most impact on the longer-term prospects and viability of the Group.

Volume (Principal Risk: A, B, C, F) a decline in total volumes of 20% from 2021, recovering by the end of the forecast period.

Price (Principal Risk: B) a reduction to current selling prices of 20%, recovering by the end of the forecast period.

Costs (Principal Risk: A, F, I) a one-off exceptional charge and cash cost of £150 million for an unanticipated event, change in Government regulations or financial penalty (e.g. from a Cyber Security breach).

Within the scenario build costs are forecast to reduce with lower volumes reducing pressure on the availability of materials and resources and land cost remains flat as the possible increase in availability due to lower volumes is offset by a restriction in supply. An estimate for the cost of the Future Homes Standard has been assumed.

The mitigating actions considered in the model include a reduction in land investment, a reduction in the level of production and work in progress held and reducing our overhead base to reflect the lower volumes.

If these scenarios were to occur, we also have a range of additional options to maintain our financial strength, including: a reduction in capital expenditure, the sale of assets, reducing the dividend, and or raising debt.

The Group's liquidity (defined as cash and undrawn committed facilities) was £1,471 million at 31 December 2021. This is sufficient to absorb the financial impact of each of the risks modelled in the stress and sensitivity analysis, individually and in aggregate.

Confirmation of viability

Based on the results of this analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Approval of the Strategic report

This Strategic report on pages 2 to 71 was approved by the Board of Directors and signed on its behalf by

Pete Redfern
Chief Executive

Definitions

* Operating profit is defined as profit on ordinary activities before net finance costs, exceptional items and tax, after share of results of joint ventures.

** Return on net operating assets (RONOA) is defined as rolling 12-month operating profit divided by the average of the opening and closing net operating assets, which is defined as net assets less net cash, excluding net taxation balances and accrued dividends.

*† Net operating asset turn is defined as 12-month rolling total revenue divided by the average of opening and closing net operating assets.

† Tangible net assets per share is defined as net assets before any accrued dividends excluding goodwill and intangible assets divided by the number of ordinary shares in issue at the end of the period.

†† Adjusted basic earnings per share represents earnings attributed to the shareholders of the parent, excluding exceptional items and tax on exceptional items, divided by the weighted average number of shares in issue during the period.

‡ Net cash is defined as total cash less total borrowings.

‡‡ Cash conversion is defined as operating cash flow divided by operating profit on a rolling 12-month basis, with operating cash flow defined as cash generated from operations (which is before taxes paid, interest paid and payments related to exceptional charges).

‡‡‡‡ Adjusted gearing is defined as adjusted net debt divided by net assets. Adjusted net debt is defined as net cash less land creditors.