Taylor Wimpey plc

Trading Update

Monday 12th January 2015, 09:00 GMT

Peter Redfern – Chief Executive

Thanks very much, good morning everybody, thank you for joining us. I also have with me our Finance Director, Ryan Mangold. I'll just cover the key highlights of the statement and then hand over to Ryan for some financial highlights and we'll open up for questions probably fairly quickly.

First of all, a backward look into 2014. Obviously a strong market for house builders and the housing sector generally, particularly in the first half. We saw strong sales price growth, most of which, but not all of which, came in the first six months of the year, with, in late 2013 and 2014, about double digit price growth in the UK market. And then in the second half of 2014, price growth slowing to an annualised level of more like 3% a year.

The second half we see as a much more sustainable market environment, still with good sales rates, and as I say, some price growth. So the Half 2 sales rates, just to give you a sense, in 2014 were 0.58, and a very strong second half of 2013 had sales rates of 0.59. So still pretty stable, and as the second half sales rate goes, still pretty healthy.

If you look at our performance against that market backdrop, our guidance is for a record margin in our UK housing business with slightly over the 400bps that that we flagged in November. A very small upgrade, but as you know, we've upgraded our margin guidance at pretty much every statement during the course of the last twelve months.

And then a record strategic land conversion of over 9,000 plots, and probably when we get the final data it will be very close to 10,000 plots with conversion from our strategic land bank into short-term land, and we've continued to add to the front end of that strategic land bank which continues to be at record levels of about 110,000 plots.

Our focus has been very much on targeting sustainable business growth, so we're pretty pleased with the 6.5% volume growth that we saw in 2014, very much around our target level, and I will talk in a couple of minutes about how we see volume growth going into 2015.

We finished the end of 2014 with a record order book, particularly with the increase in value coming from sales price, and therefore some margin growth within the order book. And margin in the order book is ahead of the level of margins and the completions in 2014, and we enter 2015, therefore, with a very strong position in terms of quality, but also in the order book a very strong insulator in the marketplace in the ability to stand and take long-term decisions about what we want to deliver.

If you look at other elements of the environment that we were operating in in 2014, the land environment remained reasonably benign and we were able to secure new short-term acquisitions at the level of volume that we wanted and at the continued level of high margins that we've been buying land at over the last two or three years.

Cost pressures were reasonably significant in the first nine months of the year, but in the last quarter were starting to soften, albeit at a relatively slow rate. We still see some cost pressures in the environment today but, going into 2015, those costs pressures are less significant than we were seeing this time last year. So the environment for future margin growth into 2015 is good.

The 2015 market has started well, one swallow doesn't make a summer, but with one week's sales and just sentiment in the marketplace, we've seen sales rates in the beginning of 2015 actually slightly ahead of the strong period in 2014. I wouldn't want you to read an enormous amount into this but this sense that comparisons can only go one way isn't necessarily quite right. We're certainly pretty comfortable with market conditions out there, and customers, and I was out and around sites in our Yorkshire business last week, customers that you speak to and our sales people are in a very confident mood. Generally the focus for customers is on, 'Can I get a mortgage? Is the mortgage at a price I can afford to buy the home? Am I secure in my own job?' rather than the macroeconomic pressures that we tend to focus on. And so the level of confidence in the environment out there is actually still very, very healthy.

We expect in 2015 to deliver positive price growth for the business. We expect, all things being equal, completion price growth to be in the order of 7% or 8%, even if prices in the market are completely flat. Our own instinct, and the year based on what we see in the marketplace at the moment, is that underlying prices will probably be 2% to 3% up over the course of the year, although that might be more back-end weighted with the election environment in the first half of the year.

We also expect to deliver the same sort of level of steady sustainable volume growth that we have delivered this year, order of magnitude 6% or 7% in 2015, and make the level of progress that we want to towards a sort of 14,000 level of what we see as being the optimum place for the business to operate.

We do expect to make progress in 2015 towards all of our medium-term strategic targets: that price growth driving margin growth forward with a manageable cost environment and some significant improvements ongoing in our return on capital, which Ryan will talk about.

But probably most importantly of all, we see 2015 as being the first year of significant cash generation; you saw some cash generation in 2014 from a year-end net cash balance. Obviously the first full year of our dividend policy with dividends of over £270m already committed, but most importantly, seeing the operating cash being driven out in the business.

So overall, we start 2015 in an incredibly strong position, in a very balanced environment, not without some market risk, but actually with the things directly impacting on the UK housing market being very stable, and with a customer environment where confidence is good, and the start to 2015 has been strong.

Ryan Mangold – Group Finance Director

Morning everybody and thanks Pete. Just to reiterate Pete's point he's making about the margin guidance, we've previously been guided to doing about a 400 basis points improvement year-on-year from 2013 to 2014, so that's up a from base of 13.6 percentage points and we're expecting to improve that by just little over 400 basis points. And we've ended in a net cash position of just on £113m, which is a growth of about £107m year-on-year, despite returning approximately £72m to shareholders during the course of 2014.

On my return on net operating assets position with significant investment continuing during the course of 2014 in the business and getting us to what we believe is optimal scale from a balance sheet perspective, the improvement in operating margin will be more than compensated as well by an improvement in assets turnover, so we're expecting to make good progress in return on net operating assets for the year. In 2013 we delivered a return on net operating assets of 16.8 percentage points, and we expect to do better than the margin progress year-on-year in delivery of 2014 results, and more on that when we actually do the update to the market in early March.

Thanks very much.

Peter Redfern

Thanks, and we're going to open up to questions please.

<u>Q & A</u>

<u>Question 1</u>

Aynsley Lammin – Citigroup

Morning, thanks very much. Just on your expectation of volume growth of 6% to 7%, could you just flesh out a bit what you expect average site numbers to be up and what you're budgeting for the average sales rate for the full year?

And then secondly just on the ASP, are you saying that a 7% increase will just be a mix effect, so if we get a bit of house price, pure inflation that could be towards the double digit level? Thanks.

Pete Redfern

Yeah, but let me take the sales price growth bit first, Aynsley. It's not all mix effect, that 7% or 8%, it includes the sales price growth that we've already seen, that's already in the order book and in current sales, so there is mix in there, but also historic selling price inflation. But yes, it doesn't reflect new price growth, so if we see further price growth then that will impact positively on that average selling price. You do though have to bear in mind that that new selling price growth won't affect the full year's completions because the order book is already priced, if you see what I mean, so you've got to average that out, but there is upside against that if the market is a bit stronger.

And on volumes, it will shock you that I'm not going to give you an outlet forecast. We do, and we probably put slightly more sort of bullish words in the statement on growing our outlets this year, because the timing of a lot of our strategic land conversions last year will come through into new outlets this year, so it's a bit easier for us to call this year than it has been in the past, but we're still not going to give you a target. But I think it's an environment where we see sales rates probably being a little bit more stable during the course of the year than they were last year, and those new outlets coming through from strategic land conversions, we do think outlet numbers will climb slowly during the year and we'd be quite surprised if we didn't finish 2015 higher than we were at the beginning of 2013 before the faster market started to keep pressure on outlet numbers and keeping them down.

Aynsley Lammin

So would it be fair to assume a kind of 4% to 6% growth in outlets on average for this year, 2015?

Pete Redfern

That's too much like an outlet forecast, so you're going to have to form your own view on that, Aynsley.

<u>Question 2</u>

Gavin Jago – Peel Hunt

Morning Pete, morning Ryan. Just a few from me. Could you just clarify, Pete, just quickly, what the sales rate you said was in the second half of 2013? I thought you said 0.9 but I might have misheard it?

Pete Redfern

No, no, 0.59, 0.58 last year.

Gavin Jago

That actually drives my next question then. So pretty flat then. Just looking at last week's Credit Conditions Survey from the Bank of England, they were talking about demand for mortgages being down pretty heavily and it looks like you had some pretty steady demand. Can you just talk about what you're seeing in the lending environment for the new-build sector over the second-half and what you're expecting for this year, any improvements?

And then just secondly on to the slowing in build and labour costs, are you seeing this across all trades, is it a general slowdown, are you still seeing some hotspots? And if so, would you care to name them please?

Peter Redfern

When you ask about the lending environment, I'm assuming you're talking about mortgage availability?

Gavin Jago

Yeah, but I think it's the demand that was seen to be fairly low in the Credit Conditions Survey but availability is still pretty strong, but that's just across the piece, and you've obviously had demand that's been pretty steady, but what availability are you seeing for the new-build sector?

Peter Redfern

Yeah, I mean we are seeing lending availability being solid, but I still don't think it's anything like back to the levels we saw in 2003 through 2007, but it's continued to incrementally improve. Actually, probably incremental is too soft, it's continued to improve during the course of 2013 and 2014, and so mortgage availability isn't currently a constraint, and probably most encouragingly, mortgage dependence on specific government-backed schemes has been falling rather than growing, and that's a healthy sign in terms of long-term sustainability.

On the demand side, we saw 12 months, half of 2013, the latter half, and half of 2014, where demand side was strong, but the industry wasn't able to step up production to meet that demand in the short-term, so order books grow and we're now seeing demand better than it was at the beginning of the period, but not at the same levels as the peak. And order books won't shorten very much, I think they will just stabilise, and so you'll see outlet growth; sales rate movements, as order books work through, you'll see steadier levels of growth in 2015 than you saw in 2014. But the way that the industry sales and order book structure, particularly the way we've operated, you'll see it generally across the sector, I mean there's quite a big dampening effect, but if sales rates are off by 5% that doesn't mean completions are off by 5%, there's still growth, not just in selling price but in volumes to come through, certainly for us, from sales that we've already taken.

So the lending environment and level of demand out there we still see as being pretty solid. We're still taking sales on the vast majority of our sites five to six months out at the moment. We haven't got much availability for product completions in the next three to four months.

We've been very focused through the last 12 months at having a pretty even flow of completions, so we're not targeting high volumes of completions in 2014 for December, so we actually have completions happening in January at a fairly steady rate. So there's a much more stable environment there for us than you necessarily perceive. The Bank of England data looks backwards at mortgage demand is the sales rates we saw perhaps four or five months ago, so it's kind of old news for us.

<u>Question 2</u>

Will Jones – Redburn

Morning guys. I think just a couple from me please and in terms of the order book perhaps you could help us with where the private average selling price is, how much that's up year over year? And then within that how we’re looking on inflation versus mix, similar to some of the numbers you've given before.

When you think about price versus cost and the net impact on the P&L in 2015 obviously you've broken that out fairly helpfully in the last couple of sets of accounts. Are you thinking that the positive of the order book inflation compared to price versus cost movement this year will mean that that can still be a net positive or is it going to start to move slightly back into balance do you think, gut feel at this stage?

And then the other one was just around the 6% to 7% volume guidance, I'm just trying to understand how wedded you might be to that because clearly you have a strong order book and you might have the ability to tap that slightly at the end of this year? Can you just help us understand what week number you sold until last year before you started building the order book and whether that was normal or not, and to what extent you would be willing to tap the order book to deliver the volumes if you needed to with regard sales rates? Thanks.

Peter Redfern

No problem. I may need to come back to you on the detail of the last questions because I’m not sure I captured them, Will. But let me go through them and if I need to I will.

And Gavin, apologies, I didn’t answer your second question, which is why the long pause, on build costs and you asked about were there particular spots. Is the softening of build cost pressures that we’ve seen in the last quarter across the board geographically and build cost area? Not completely; but during the course of the quarter it’s been visible to see in more geographies and in more areas. In January most places are reporting that build cost pressures are less than they were 12 months earlier. So, it’s becoming a trend rather than just a few isolated examples, but it’s not across the board. And we do expect to see some build cost inflation in 2015, but not at the same level as we saw in 2014. But it will vary, particularly by cost type and a little bit by geography as to how significant it is and what the timing is.

And picking up your final question, because it directly relates to cost, Will, I think we still expect to see a small positive impact on the net effect of price and cost in 2015; but measurably smaller in 2015 than 2014. We’re not expecting to deliver improvements in operating margin over 400bps in 2015 for example. So still a net positive, but not as significant as we saw last year.

Going back to your first question, Will, on selling prices and looking historically first of all, I think it’s always difficult to be precise but I’m giving you a rough idea: the 11% to 12% price improvements we saw on completions in 2014 was probably about two-thirds market and one-third mix. And we’ve seen some price improvements on completions coming from the market in 2013 from the selling price rises there; and we’ll see some of the price inflations from the first half of last year coming through into price improvements in 2015. So, if about two-thirds of that 11% is price that’s about 7.5%, something like that, maybe 8%. The rest of it is either still to come or it’s already happened in the 2013 completions.

As I look forward into 2015 the 7% to 8% improvement in selling price on completions that we expect to see is probably about half historic selling price inflation and about half further mix; of which the single greatest element is an increased contribution from our Central London business but not the only element – that’s probably about half of that total improvement on selling price that we’d see in 2015 from mix.

Does that make sense? I’m conscious that’s quite a complex series.

Will Jones

Yes, it does. And I guess when we see the 12%, because I think the order book volume is basically flat and the values are up 12%, so when we think about the price change of 12% can we think of the private ASP in the order book as broadly up 12% i.e. social is not distorting things dramatically?

Peter Redfern

No, social isn't distorting things. In fact I think the private selling price is up 11% in the order book if I remember. The social is actually also up slightly more, but because it's on a smaller price it has very little impact on the total.

I think that's covered your three questions.

Will Jones

Yes. The other one was just around when you talk about 6% or 7% volume growth for 2015, and let's just take a view that sales rates are flat, clearly we'd need to take a view that your site numbers definitely do go up quite a bit, or alternatively that the order book drops a bit at the end of 2015 versus 2014 because you sell for maybe a week longer for example. Given where you've got the order book to would you be willing to let that ease a little bit if you had to? Or would you actually just make the P&L completions be a little bit less in the scenario?

Peter Redfern

It would probably be a little bit of both but we don't think that's likely to be necessary. And again you've got to go back to the fact, we were not caning our sales rates during the course of 2014 first half in the same way as we might argue that others in the sector were. So you did not see, and you'll remember the comparatives, the same level of growth from 2013 to 2014 in sales rates for us as for others because we didn't want to push sales rates beyond a certain time because of the impact on customer service, the pressure on build, the pressure on costs. We just didn't think it was a good way of delivering both quality margins, but also quality product to customers. So we think relative to the market we're not particularly concerned about the comparatives from last year because we were not pushing that particular comparative particularly hard because there was absolutely no need to. So we feel reasonably comfortable.

So we think we will get some outlook growth. We don't think the sales rate comparative is that challenging. It's a bit more first half, second half weighted, so the order book might be a bit shorter at the end of the first half because of that balance. But for the year as a whole we feel pretty comfortable about that; particularly when we know we've got strong strategic land converted outlooks with great product where you tend to get a very natural sales rate boost. And we've been very focused on making sure our outlets' openings happen, when we've got show homes to open we're not opening from pub car parks and cabins as we have done in previous cycles and as we see others doing. So actually you then get a very natural sales rate uplift.

So there's lots of nuances under the surface that makes us a lot more relaxed about that than you might be looking at for your stats.

<u>Question 4</u>

Gregor Kuglitsch – UBS

Good morning guys. Two questions. Just on the cost inflation point can you maybe just give some numbers where you think cost inflation in the end ended up for the whole of 2014 and what kind of run rate you're expecting based on what you're seeing right now in budgets and tendering?

Then the second question is on London. Obviously you're still flagging a mix impact coming through in 2015, and I believe it's probably going to go into 2016. Can you just give us a sense how big London was as a proportion of, I guess revenues as a more meaningful indicator last year and where that goes by say 2016, so we can get a better sense of how the mix effect fully flows through? Thank you.

Ryan Mangold

Gregor I'll take the cost inflation point first and then Pete will come back on the London and land.

For cost inflation you've got to divide into two buckets for us: one of them we are selling from better quality locations and improved quality of product, which obviously drives a small amount of cost increase as a result. So we put that to one side; it would probably account for 1% or 2% of the total.

And then build cost inflation, underlying build cost inflation that we've seen during the course of 2014 where we've guided to approximately about 5% in total, we still expect that to be broadly about the same level, which is split differently between the commodity side of what goes into the houses as well as the labour side going into the houses.

From a commodity perspective we've seen a bit of cooling in the second half; but also from the labour perspective we've also seen a bit of cooling into the second half as the sector reacts or the industry reacts to the additional demands that came on for the relatively higher level of volume growth overall for the sector, going from about 120,000 odd units per year to being roughly running at about 145,000 to 150,000 per year. We don't expect that that volume growth necessarily to be as steep for 2015 overall. Probably order of magnitude, if I had to take a punt, of roughly 160,000 homes during the course of 2015 to be constructed relative to 2014.

We could clearly have some demand on labour and commodities; but on the commodity side I think that an additional amount of capacity is coming back to the space to mitigate some of those pressures. And on the labour side I'm quite pleased to see the number of new entrants that are coming out from there from a delivery perspective. So expect the labour component not to be as steep for 2015 as it was for 2014.

So mix impact as well as build cost inflation we'd expect 2015 to be broadly about the same as 2014, as the product that we're delivering and the location of the product that we're delivering is pretty balanced in 2015 as it was to 2014.

Peter Redfern

And on the London question we will at the prelims give you a more detailed breakdown. I actually don't have full total London data in front of me because it comes from a number of our business units. So what I can do is give you a sense of the scale of the order book of our Central London business, which is the biggest area of change. So roughly that made up about 12% of the value of the order book at the end of 2013; and makes up about 15% of the value of the order book at the end of 2014. And in terms of number of completions that business has gone from about 150 to about 220 units.

So it doesn't significantly distort the numbers but it does have just a measurable impact on the average selling price – not difficult to work out the maths of that.

If you look at the rest of our London business it's relatively stable, although it is slowly growing. But we can give you some overall London numbers when we come to the prelims and we've got proper full-year stats.

<u>Question 5</u>

Jeff Davis - HSBC

Morning gents and Happy New Year. A few questions from me just on current trading and sticking with London: I wonder if you could give us some colour on what you're seeing there; any areas or price brackets where there's any price weakness?

Second question, on the order book: could you split the private and social plot count out there please?

Then the last question just on the land markets: any change in competition that you've noticed into year-end or early this year, and any change in the supply of land coming into the market ahead of the election? Thanks.

Peter Redfern

Maybe if I take the first and the last and if you could cover the middle Ryan please?

London - no real change from what we said in November in London. We're still seeing a reasonably healthy market. We're still selling on all of our sites. There's no particular areas of price weakness. Volumes are not as strong as they were in the first half; but I think you'd be fairly amazed if that wasn't the case.

I would say that the weaker area does tend to be the higher value houses, which just repeats what I said in November. So the apartment market in London has shown much less of a change. And if you look at the impacts of both stamp duty changes and the continued talk about potential for a mansion tax it's hardly surprising that higher value houses, particularly because they're a slightly more discretionary buyer than people buying into apartments, is definitely softer. But that's a pretty small market for us. And we're still seeing the apartment market, which is actually more significant for us in London, to be pretty healthy.

In terms of the land market no major change; still the environment is pretty healthy. Certainly no new competition. I'd say with a less strongly rising pricing market you're seeing one or two non-house builder potential land buyers fall away; but they weren't major. So I don't see that as a major positive because they weren't a major negative. So the land market remains pretty stable, pretty benign. You've got to work each site to make it work for you through the planning system, but we can't complain.

Jeff Davis

How many plots did you actually acquire in 2014? Obviously you've given the strategic conversion but not the total.

Peter Redfern

We had a landbank of about 75,000 units at the beginning of the period, which we described as being more or less at our target level. And it's going to be at about 75,000 units at the end of the period. So you can fill in the gaps, Jeff.

Ryan Mangold

Then Jeff on the order book the split between private and affordable is broadly the same year-on-year; so broadly the same in terms of number of units. But as Pete noted earlier on in the call, clearly the average selling price in the private is significantly up year-on-year in the order book. Some of that is for delivery in 2016 through our Central London business, which can skew things slightly. But the pricing is significantly up in the order book, but the volumes are broadly the same in terms of overall numbers.

<u>Question 6</u>

Chris Millington – Numis Securities

Morning guys. I've just got two separate ones really. The first one is really just thinking about the cash flow and the fact that you've outperformed this year. You're guiding to a pretty flat short-term landbank. And whilst I appreciate you're talking about outlets growing it does look like you're going to see quite a big increase in the net cash position by year-end, even with the dividends you're paying. I'm just wondering if I'm missing anything big in terms of build investment or if there are any other kinds of moving parts there?

Second one was really, sorry to go back on to London, but it was just your land buying actions in both the second half of 2014 and what your plans are for 2015? Has there been any change in your strategic plans there?

Peter Redfern

I'll have a first go at the cash flow there; but I'll also open to Ryan because he may well want to comment on what I say or add to it as well.

Yes, we do see 2015 being a key year for operating cash generation. We are at steady state in terms of our short-term landbank. There are not any major shifts in work in progress; the only exception being London sites which are in the order book and sold out will be continuing build through 2015.

And so you'll see some of those complete at the end of 2015, but probably slightly more in 2016 so that will have a bit of an impact, not dramatic, but it will have a bit of an impact. We still have land that we have in the short term, land bank to pay for, so there is a cash impact but you will see significant cash generation through the course of this year and you will see us build towards our medium-term target of 65% over the course of the next three years but 2015 will be a big step forward from 2014 I think. The exact quantum will depend on trading environment, the exact timing of where we decide the best way of paying for some of the larger strategic land sites are, there are a lot of choices but those are good quality choices to have.

London land buying, we've continued to buy land in London but almost without exception it's tended to be with a sort of planning upside, off market, one-to-one, and I think particularly in our central London business where we've been active and operating in that market for some time now our relationships are a lot stronger and so the kind of sites that are coming to us off market are a lot better than they were perhaps three or four years ago where we were turning down a lot and having to work hard to find the things that we felt were good enough. We actually find it strangely easier now in a market that's been more competitive, just because we've been there more consistently. So our London land buying hasn't stepped up but we haven't stepped away from it either but we're very selective.

Ryan, I mean particularly on the cash, I don't know if there's anything you want to add?

Ryan Mangold

Yes, just on the cash we, in theory, will start being cash tax paying towards the end of this year and, Chris, then obviously 2016 will be a full year of cash tax paying, so in terms of the generation that will be cash generation that we've done in 2014 whilst strong, there's clearly no cash tax that's been paid. 2015 a marginal level of cash tax to pay, but as Pete notes, generally on outlook, they might be a fraction higher, we're not going to be focusing on driving the outlets numbers because we don't like to give a forecast in that regard, but at build cost inflation which flows into outlets which does command a bit of capital as well as investing in the London business as the schemes come on stream for delivery in 2016 it's a bit more cash consumptive. But you're quite right, it should be a relatively strong year in 2015 from cash generation and going into 2016 and we are well placed from a balance sheet perspective of delivery of our medium term targets of that 65% profit-to-cash conversion over the three year period.

Chris Millington

Can I just ask fairly quickly guys and then I'll go, would you be comfortable with net cash starting with a two at the end of this year or would you look to actually deal with that another way?

Ryan Mangold

How many digits, Chris?

Chris Millington

Three Ryan. So basically is there a point where you would look to distribute the cash or reinvest the cash depending on where that year end number's coming in?

Ryan Mangold

I think that philosophically whilst we're looking to distribute and we've committed to distributing £270m odd during the course of 2015, as we've said, we've got £113m worth of net cash at the end of 2014, so we don't have a symmetrical composition that if we've got £300m of cash at the end of the year we'll distribute £300m of cash, for us it's more about balance sheet capacity and the ability to execute our strategy that we are incredibly well placed to deliver against. And then a view as to whether we want to do more or less, but that's a bigger call on the cycle and we're certainly not going to be making it right now.

So if it starts with a two at the end of the year it doesn't mean we're going to be distributing 400 the following year and the answer to that's probably no. I think we'd rather the investors and the investor community to be a lot more focused on the medium term targets of that conversion of operating profit to cash, that for us is the key measure as opposed to how much cash is physically sitting on the balance sheet at the end of the year.

You know, one single land deal in London could consume £40m worth of cash potentially, we don't really want to be managing to that kind of level to have £40m positive or negative on the balance sheet, we philosophically just don't think that that's the right approach to run our business.

Pete Redfern

Yes, I mean operationally, reinforcing what Ryan is saying, if you look back at the end of 2014 and December we've probably had £100m of swing land decisions, dependant on timing of planning permissions, our own call, whether we were happy with the final price of the negotiation, whether by paying the cash in December we could get a better value than by paying it in January, a whole series of, as I say, good quality choices to have. So the swing factors tend to be bigger.

So for us to be slightly arbitrarily focused on a year-end debt number as the driver in an absolute sense of that dividend strategy just doesn't quite feel right. We wouldn't target £200m of cash if we thought that was a very reliable number and that we were likely to get to that number, that wouldn't be what we would be aiming to do and that would impact on our decision to increase dividend payments but we have to allow for those sorts of movements and that sort of flexibility. So we might be targeting £100m and end up with £200m because the deals weren't good enough or they just didn't quite happen on time for planning reasons or because of the negotiations. And that means you shouldn't base a dividend payment too strongly off a year-end debt number. We have a view of what we're targeting but there's quite a big swing around that because of land.

We paid out in the end slightly more on some of the land deals this December than we would necessarily have anticipated, slightly more came through, so although cash is better that's largely driven off operating cash before land spend being at the better end and we paid out a bit more on land than we thought we would just because there were a few good deals that we could get nailed down rather than rolling over to 2015. But there are some quite big swings and that makes it hard to directly relate a dividend payment to an absolute year end cash number.

Chris Millington

Okay yes, very clear. Thank you guys.

Pete Redfern

No problem. Chris, could I just go back on the London piece and just give you an example, just because I think it's helpful to illustrate the point? In November 2013 we bought a site in Kew which didn't have a planning permission and we bought it off market, it was about £9m. We got planning on that site in December 2014, it was literally a year and a week after we'd bought it. The value at that point is order of magnitude £13.5m to £14m.

Those London deals we're happy to do, we thought it might take us 18 months, that one happened to happen quicker, that's quite rare on the planning front, but it means we start off a site like that with a very strong margin potential which gives us insulation against the market conditions.

And that continues to be our London strategy, particularly in the higher value areas. In some of the more bread and butter areas we do a more standard land deal because the price growth hasn't been as strong and so the environment is very stable.

Chris Millington

Got you, very clear. Thank you.

<u>Question 7</u>

Glynis Johnson - Deutsche Bank

Morning gents. Two if I may, the first one is just in terms of the land market. I just wonder if you can give us any nuances you're seeing coming through in the land market. We've heard one of your friendly competitors moving to slightly larger sites because they see that as being less competitive, I'm just wondering if you're seeing the same?

And the second one is just in terms of the cash number, you've obviously talked about the fact that a number of deals came through in December that were perhaps more than you were expecting. I'm just wondering, were there any kind of big land payments that were brought forward or pushed back, just in terms of deferred? We obviously saw again one of your peers talk about an increased number of land acquisitions done on deferred terms, I'm just wondering if you saw the same or if you saw different?

Pete Redfern

Did you say one of our friendly competitors, Glynis? I was trying to work out which were our friendly competitors and which were our unfriendly ones. I mean I think we've tended to be focused, you know, weighted towards the larger land deals for some time, because we've seen it as an environment that's the healthiest. It's varied a bit, I'd say in the Midlands and the North it tends to be a little bit less the case because the competition is less and the environment has been such that we get some big chunky strategic sites coming through and then balancing them up with shorter term ones works well if you see what I mean. And so it does vary a little bit geographically, but I'd say we were already focused on larger sites, I don't think that's particularly changed for the last year or so.

I don't think there's any fundamental local changes in the land market? I'm just looking to Ryan?

Ryan Mangold

No, we've grown the land bank a reasonable amount during the course of 2014 as part of that transitional period getting to our optimal scale and if I look at the growth in the land bank in pound notes and the change on the land creditors they are about symmetrical which would suggest that the nature of the deals that we were doing during the course of 2014 has got to be pretty reflective of the deals we've done prior to that. So we don't have any tactical plan to fund a substantial amount of our land buying through on deferred payment terms, we will use deferred payment terms when we think that is the best result for ourselves commercially. Philosophically we don't believe that there's any free lunch in this world and the kind of bigger balance to deferred payment terms means some of that value's got to be going somewhere, we don't necessarily always believe it to be coming to our investors so we're use them quite selectively.

Pete Redfern

One thing we're very focused on though, and Ryan's absolutely right, that it is very much deal by deal, that if land creditors are the best way of financing it and it's cheap and it doesn't affect the price then great, but one thing we're very focused on is not losing value simply to report the best possible cash position at the end of the year. So if we can save a few hundred thousand pounds, and it can be those sorts of sums, by paying on 31st December rather than 1st January because somebody else cares about that window dressing more than we do then we'll do it, because that's real economic value in return for just a reported number.

And it goes back a bit to Chris's question about year-end debt, we have paid one or two things in December that we could have paid in January that optically would look a bit better to pay in January but it's real money that we save by paying that little bit earlier, and real economic value rather than impact. So our decision is always taken on the economic value rather than the presentational impact.

<u>Question 8</u>

Clyde Lewis – Peel Hunt

Morning Pete, morning Ryan. Happy New Year to you both as well. A couple if I may, one on your thoughts about strategy and whether you'd change anything at all in obviously what's an election year. You've obviously got a very strong forward order book, what are you going to be telling the sales teams in March, April, in particular and also the land buying guys, will you be changing anything in terms of thought processes and that style of how you go to the market?

And the second one I had was a very simple one on internet traffic. I think, Pete, you referred to this year being a better start to the year and I think you were talking about site visitors and enquiries, but what was your experience over the Christmas period I suppose as well as into this year in terms of internet traffic? Maybe you can just give us a little bit of a guide on that front as well?

Pete Redfern

Yes, I mean do we change strategy in an election year? No, and I know this is splitting hairs on wording but might we change tactics? We might. I think in terms of sales rates we would expect there to be slightly less sales because it's an election year in April and May. We don't expect that to particularly impact on January/February, maybe you see it midway through March because people tend to be quite short-term focused on what's in front of them. So we won't be particularly concerned about that and it'll steel our confidence just to let sales rates be a bit lower believing that we're likely to make up that difference in July and August, particularly as I say given the strength of the outlets and the elements we talked about earlier.

So it's not necessarily that it changes the strategy, but it does something that you semi expect to see so you're very conscious of that from a pricing point of view. And it's definitely already coloured our view in terms of maintaining a strong order book into the end of 2014, it gives you the ability to do that with confidence.

I don't think that the election year particularly changes the directions that we give to our land buyers, it's a relatively short-term impact and land buying is a relatively medium to long-term gain. The thing that has significantly changed our instructions and the bias of the skillset that we're looking for and focused on in land is the strength of strategic land and what that's bringing through.

In most of our businesses we're in the short term land market looking for great sites, but in most of our businesses if they don't find great sites then they don't need to buy sites, so the focus is on maximising value from the strategic land, taking forward new sites to fill in the gaps and to give the icing on the cake, but they've got to be a great return.

So that bias has been changing for 12 or 18 months in terms of the actions of the short term land buyer's, Clyde.

Clyde Lewis

Okay. Before we go on to the internet traffic maybe I can follow up on the strategic land and the success that you've had in terms of the pull through this year, there's obviously been a big, big difference with the NPPF, is that nearly 10,000 units that you've pulled through, is that going to be a high-water mark for the Group for the next three or four years do you think?

Pete Redfern

We talked about an annualised rate of 7,000 back in May and at that point we were already confident that we'd be above that level in 2014. We'd expect to be above that probably on average when we look at the current progress rate and the fact that we've continued to add to the strategic land bank since then, the conversion rate and the success rate on that conversion is higher than we'd expected.

Will the number that we end up reporting for 2014 be the maximum number? Maybe, but directionally it'll be higher than we have said for two or three years to come, unless the environment changes significantly, and if we're getting it right potentially beyond that. But it is lumpy stuff, so we're more interested in what the average is, what the flow is, than we are in any one year's number. It will be dangerous for us to feel too targeted on well it was 10,000 last year so it ought to be 10,000 this year, that tends to lead to the wrong decisions. So 7,000 or above is still a pretty good average, probably likely to be a bit better than we expected, but if we end up with a mix of 5s, 10s, 12s, then we'll be pretty comfortable with that.

And on the website traffic, I have in front of me the data up to the end of the year, I don't actually have the last week or two's data on this. Ryan doesn't have it either. But if you look at the flow of internet traffic through until Christmas, it tends to be much more stable than site visitors, for obvious reasons, and has been pretty strong and pretty healthy through the period. You end up with a peak that comes in Spring and Autumn like sales, but just a bit more muted, but you're talking about a level of about 100,000 visits a week, which is about the same level as it was in Week 1 last year, which is the data that I've got in front of me. So certainly the level of interest is still pretty high.

Question 9

Jon Bell – Barclays

Morning gents. A couple from me, if I can. I think you've referred to them in dispatches, but any steer you can give us on your land creditor number at the year end?

And then secondly just to clarify, I think you referred to 110,000 land plots. Were you referring to your strategic land bank, and if so how many current plots do you have in very broad terms? Thanks.

Peter Redfern

If I do the second and then Ryan if you're able to comment on the first?

110,000 is the strategic land bank roughly at the end of 2015. The short-term land bank is about 75,000. I referred earlier to that being the same as the previous period, I was actually talking about the last reported short-term land bank number which was about 75,000 in June. It has increased during the year, but that increase came in the first half of the year.

Ryan Mangold

Then the land creditor number. John, is expected to end up just slightly above £480m for the year, including an amount in Spain.

Jon Bell

Just slightly above £480m?

Ryan Mangold

Yeah.

Question 10

Kevin Cammack – Cenkos Securities

Thanks very much. Morning gentlemen.

Just really one for me, which I think you've sort of given half the answer to anyway but I was just interested to try and gauge what the natural maturity of your strategic land was delivering as distinct from what may be a relatively one-off effect of NPPF. And I suppose the specific question I was going to ask, and the answer may be the 7,000 you referred to as a sort of medium-term guide and the 10,000 that you've achieved this year, is do you have any information of how many of this year's number was applicable to success on appeal?

Peter Redfern

The first part of the question I think we've probably answered as much for today as we reasonable can. I'd be happy to come back to it when we've got the data sitting in front of us and we can talk about it in a bit more rounded way, but I think the answer is what's the natural maturity? Well it's 7,000 plus, or it's 7,000 but that's probably quite a cautious estimate.

In terms of the number on appeal, I can't give you the absolute split but the number on appeal will be relatively small, not non-existent but quite a small proportion and I'm certainly going to say less than 10%, and we might be talking about significantly less than 10%.

We prefer to use the appeal route as a way to overturn a totally daft decision. We tend to win on appeal, but we'd rather negotiate and answer if we possibly can, because you end up in a better position longer term.

Kevin Cammack

It's a much lower number than I would have anticipated. And just as a rider to that, do you roughly have the number of sites that constitute the conversion number?

Peter Redfern

I don't to hand Kevin, and because we're literally just off the back of the year-end and there were quite a few in December, which is why we're telling you over 9k but it's probably more like 10k, I'm slightly loathe to guess at it because I think there are a number of smaller sites that came through in December that have made up that difference. If it was just one or two bigger ones I'd be able to tell you. So I'd rather come back and answer that question properly with the prelims if that's okay?

Kevin Cammack

That's fair enough. Okay. Thanks.

<u>Question 11</u>

Andy Murphy – Bank of America Merrill Lynch

Morning gentlemen.

Just a quick question from me. Given what you're saying about the land bank, are you anticipating that over a period of time the current land bank starts to come down in absolute terms as the volumes go up, or is it likely to remain at the 75,000 level?

And would you view that as a kind of a sweet spot, and if it is can you give us a bit of colour around that?

Peter Redfern

We think it's a pretty sweet spot. It wouldn't stress us if it ended up being 72,000 or 77,000, but in that kind of range we think it's the right place to be. With a combination of strategic land and the short-term land that we're acquiring, as we near the 14,000 unit target we expect to be more or less at the replacement level into the short-term land bank.

I think I commented in June that the only thing that just tweaks that slightly, which doesn't really impact on cash, is that as we bring through some bigger strategic sites, as we have done this year and probably will do into 2015 into the short-term land bank but haven't paid for them. And they're not necessarily even in land creditors because they're in controlled land because we have a planning permission but we might have an option on it, then that might push up the reported short-term land bank number, but doesn't really push up either the cash or the creditors because they're controlled but not fully committed.

So yeah, structurally that just distorts that number a little bit. So it's more likely to go up rather than down if we get the strategic land success right, but the cash dynamics should remain pretty stable.

CLOSING REMARKS

Peter Redfern

Thank you everybody for your time and your questions this morning. I feel very comfortable about performance in 2014, I think it was a very strong year for us, but most importantly for Taylor Wimpey we feel we've used the year to show that we can deliver strong operating performance but also prepare the business very well for 2015.

The Election brings a degree of risk, but the confidence that consumers have buying in our sector and the strength of both the order book and the land bank going forward mean that we feel we're very prepared to continue to improve on our performance and deliver the medium-term objectives that we've set out.

Thank you very much.