Taylor Wimpey plc

Trading Update

Thursday 23 April 2015

Peter Redfern, Chief Executive

Thank you, morning everybody and thanks for joining us. I'll get straight into it and we'll open up for questions later on.

I'm going to start with the market, which will probably be the main substance of the call, important enough, and this is just a Trading Update call rather than actual results.

I think overall, and you can see this in the statement, the market has been more solid than we would necessarily have expected coming into the year. It was a decent January and February, which you know from the Full Year Results, but I think we've seen a meaningful underlying improvement in the last month, which you can see probably most clearly in the sales rates, but those sales rates do affect the mood music that we see site by site across most of the country, where customer confidence seems to have taken a step forward.

I think if you look at what's happening there, probably the single biggest driver over the course of the last few weeks has been what's happened to real interest rates for some of our customers. I mean it's a headline deal, but it does reflect a general trend when you see HSBC with a sub-2% five-year deal, you get a sense of where some interest rates sit.

I think also you've got good cost confidence in people's own employment position, you're starting to see with both year-end and end-of-quarter one pay rises just a bit more of a positive step up in pay than people would have expected. And, at the same time, inflation is low, and all of those things are affecting positively on individual customers' take-home pay confidence.

And really, and we've said this many times over the course of the last few months, people don't tend to worry about an election until it's really facing them and staring them in the face. I think what's interesting this time is those economic drivers are outweighing even that. The strongest period of the market we've seen has been over the course of the last three or four weeks, and it's tended to build up.

You can see the sort of impact on sales rates very directly. In terms of prices, the first couple of months you saw positive but very small price movements. In the last month they're a little bit more significant and I think it's important to steer you that the impact will be more on 2016 than 2015, given how far ahead we are sold and the fact that those movements, even if they happen today, will largely translate into next year's order book. But [it] definitely creates an environment for price which is potential for positive impacts on 2016, which we wouldn't really have steered you to even a month ago, but I think to date that feels a lot more realistic.

Other stats, just looking overall at the market, which you might find interesting: web hits are particularly strong. I think at the point at the end of February, when we gave you the year-end results, we were seeing them up about 30-35%. March has been up by over 50% on last year. Now we would say part of that is because we've made a series of improvements to our websites, particularly our mobile website, but actually there is a stronger underlying level of demand. And conversion from that, it's particularly strong, which also helps our management of costs, as you can imagine.

Moving on from the market and thinking about land, the environment has also continued to be positive. I would say over the course of the last six or nine months competition has actually reduced slightly relative to the level of land availability. We're in what I would say is, in some ways, a mature land market, and I should explain what I mean by that. I think if you looked two years ago, you still had a reasonable number of land owners who were not prepared to bring their land to market because they felt they would get a better price in two years' time, three years' time. I don't think that is the case today. Any active land sellers with a strategy to dispose of land over the next five years are selling it now if it makes sense to, there's nobody really holding back. There's a sense that land prices have moved up with the markets during the course of late 2013 and 2014, have stabilised, and that's probably where they'll sit. So the land environment we continue to see as being reasonably benign.

We're pleased with the first quarter strategic land performance of over 3,000 plots for conversion. We steered you towards this year's total number being a bit lower than last year. We still have that view overall, but it's a very good start, and, particularly in an election period where you do get some planning deferrals, to be at that sort of level gives a sense of the underlying strength – both of the strategic land teams and our strategic landbank.

The short term landbank of 78,000 plots is a little bit ahead of where we'd expect it to be, but really all driven by those conversions. And as I've said to you before, where those strategic conversions are on larger sites, which we don't pay for upfront, we're reasonably relaxed that they'll increase the level of the short term landbank. It's a bit different to buying land in the short term market where you've paid, or committed in land creditor terms, a significant amount of capital.

It's worth commenting on the outlet count. We steered you, and we still think it's a reasonable guidance towards some growth in outlets this year, it's hardly surprising in an election period that some get deferred, and obviously with faster sales rates there tends to be more closures. But we're pretty relaxed with it, where it is to date and still see that post-election, with the level of sites that we've got coming through and planning applications that we've got in, that some level of outlet growth this year is reasonable, and we certainly don't see that as any way threatening to our volume aspirations for 2015 and 2016.

Touching on build costs, I would say you would get some regional variations. The North and Midlands have been probably more benign than we expected, with almost all the upward cost pressure that's melting away over the course of the last four or five months. The South is a little bit tougher, it has reduced from where we were nine months ago in terms of upward pressure but it's still there. Overall, net-net the guidance that we gave you a few weeks ago still stands good. There's still some upward pressure from flow-through from last year, but that particularly benign environment in the North and Midlands is definitely helping to balance up more pressure in the South, but just challenges around people rather than materials, so direct labour costs particularly.

So, overall, a very solid market and a real upside on where we expected to be. We weren't worried about the market coming into the year, but it feels like there's just more underlying strength. And most importantly, I think that speaks about what could happen with the market over the course of the next two or three years in terms of short term performance. We think we would have delivered even in a softer environment, but this gives us a real sense of where 2016 and 2017 could go.

We're obviously tracking election policies. There seems to be a new one for housing most days of the week, but there's nothing fundamentally new in those policies and all parties, not just the major parties, are supportive of house building. We recognise there are risks in some policies but nothing that we see as dramatic, so we track it and it's incredibly difficult to call. So overall, we're very pleased with progress during the course of this year and we'll open up for questions.

Question and Answer session

Question 1

Aynsley Lammin, Citigroup

Thanks, good morning, just two for me. One, if you could comment a bit more on the pricing and I wondered if you could give us the underlying price inflation you've seen year-to-date and what your expectations are? I know it's early days but in 2016 what kind of uplift are you thinking of if current trends continue?

And secondly, I wondered if you could just break out what the kind of sales rates have been in March? You said it ticked up a bit from January / February and I just wondered what those sales rates per site per week were running at in March.

Pete Redfern

On pricing, I'll give you what we think it might be for the year. It's actually quite hard for such a short period of time to really pin down a movement and it becomes very un-statistical because it depends exactly where the step point is. So a sense for the year is that about 4%, maybe 4.5%, is a reasonable view 1st January to 31st December. If you'd asked me the same question six weeks ago, I'd have said 2% - 2.5%, so we've not seen that much relative movement yet over the course of the last five or six weeks, but the shift is enough to give us that sense that we're ahead of what I see as normal long-term underlying inflation of 2% - 2.5%, rather than running at it [that level] at the moment.

And in terms of sales rates, the sales rates for the last six weeks or so have been in the mid 0.8s.

Aynsley Lammin

And just on that pricing comment, is that widespread regionally across the country or a particular area?

Pete Redfern

It is widespread and I'd say the one area of the market which is pretty flat - and do take that flat means flat not going backwards - is the sort of higher end of London, houses more than apartments. Other parts of London, East and West, you're seeing some progression, but the high-end stuff is pretty flat, which you can understand given the electoral headwinds.

Question 2

Will Jones, Redburn

Morning, and just a few from me please if I could.

Just picking up on the price point before, Pete, around maybe 4% - 4.5% for this year, what do you think is helping to get there? Because obviously wages inparticular are still probably usually below 2%, it's not like the lenders appear to be changing loan to income ratios particularly dramatically at the moment. Do you think new build is taking share of an existing homes' market potentially, or is this more a function of your strategy as well and where you've been able to position the business in terms of pushing on price? So just coming back on that point there as well.

And then I guess with regard to land spend, 78k from 75k, is that more of a temporary issue around the landbank size, and do you think that eases back a little bit from here? And perhaps you could just help us with what completions you've taken to the P&L roughly so far this year, just so we can back out of the free net growth what the overall investment has been in land, obviously bearing in mind the 3,000 strategic as well. Thanks.

Pete Redfern

Ryan will take your second two questions with the land and the completions bit and I'll just try and give you a sense on price.

If you've got 2% - 2.5% wage inflation, you've got energy prices falling, you've got negligible inflation in other areas, then, very simplistically, that will directly lead to probably a greater level of price inflation than I've just described in terms of if affordability stayed exactly the same, the mortgage market controls stayed exactly the same, mathematically that's where you'd end up. So I don't think it's that hard to understand in that environment, disposable income has increased by more than that. But if you look at it from an interest rate [perspective] and then what interest rates customers are actually paying, that's probably, I think, the most significant shift because that has reduced materially.

Now I don't want to point to that one deal and say that's the level everybody's paying, but it is a good example of the general trend. And whilst that particular deal with HSBC wouldn't be available to the majority of our customers, there are deals that are heading in the same sort of direction and actually people are paying even lower interest rates on two and three-year fixed, and that makes a very meaningful difference. In some ways, it's surprising, and if you maybe took the election out of it totally, that you didn't see some of that before in the environment that we see, and [it is] positive that you do.

We'd like it to stay at 4.5% and no higher, and we'd be perfectly happy if it was 2.5% or 3%. It's kind of inevitable when you've got the challenges to get supply up and you've got the level of demand up there if the economy is recovering.

Will Jones

In terms of the new build relative to the existing homes market, do you think lenders, for example, are just a bit more benevolent towards your side of the equation than they were before, or are they struggling to hit their targets in the second-hand market do you think? Is there an element of share shift at all?

Pete Redfern

I don't think so. The only material piece, which we've obviously talked about many times, is help-to-buy, which obviously does make a difference. But I'd say the take up on help-to-buy has just been ever so slightly lower because of the level of high quality low interest rate mortgage deals for a non help-to-buy customer are better. So there's probably slightly less dependence. Plus there's been some restrictions in availability in Scotland which have meant that people have gone to the normal mortgage market, which has been improving in the background. So apart from that help-to-buy impact, I don't think there's any particular [impact]… I would guess – and you know that historically we would have never given any kind of price forecast, but I think as long as people take it as what it is, it's a view, then I'm happy to do so – but I would guess you would see roughly that level of price inflation over the year in the overall market. As long as you're looking at the price the home sells for on 1st January to 31st December. It does get distorted if you look at the time lag then to completions, whether you're new build or second-hand, it just delays it. But I think you'll see that in second-hand, give or take, as well as new build. Shall we move onto your other two questions?

Ryan Mangold

On the land scale and spend, Will, the 78,000 plus is obviously a fraction higher than ideally where we would want to be, but that is some strong conversions from the strategic pipeline as well as the level of completions forecast for the rest of the year. Our completions year-to-date in the UK are a fraction ahead of 2,000 units, which is in line with last year. Just as a reminder, January is a fairly slow month from a completions perspective, but overall it's broadly in line with last year's level of completions. First half volumes would be probably just marginally up on the prior year, but as Pete noted before we're making progress in overall delivery.

Linked to your land question with the overall spend, we expect land spend to be broadly in line with last year, a fraction lower than that given the strength and quality of the strategic land pull-through, and us being at a broadly level scale from an investment perspective, which was circa just about £700 million.

Question 3

Jeff Davis, HSBC

Morning, I've got three questions. The first is on outlets, obviously flat running at the moment. I just want to get a sense of what the 5% - 7% volume growth is in terms of how reliant it is on planning conditions easing soon after the election and getting out there to open in the second half, and perhaps linked to that what your expectations could be for 2016?

Second question, I'm wondering if you've had any interactions with senior Labour politicians over the last couple of months, and anything positive or negative incremental to the Lyons Report coming out of that?

The third question, just on the land market. Are you seeing any sign of SMEs coming back, particularly in the south-east?

Pete Redfern

On outlets, I hope everybody picked up from the comments we made at the year-end that we were pretty robust on the level of volume growth this year and that the outlet dependence at that point was low. The outlet dependence today is even lower, the number of outlets we'd expect to open from April onwards and deliver completions into this year. It might have been high six, seven, 10 years ago, but it's not high anymore, so the level of dependence is very, very low. The constraint on volume this year I think in this stronger market is about building within those individual outlets. That doesn't mean that I'm flagging that it's high risk, but that's why it's more likely to be 6% than 8, 9, or 10%, which is where the sales would probably take you.

Our view for next year (today) is that same sort of level of 5-7% is a reasonable guide with the outlets we've got coming through. But there is obviously some dependence on outlet openings in the second half of this year on that, so that's our view sitting here today. That does factor in that we're in an Election year and it won't immediately recover afterwards, but there's got to be slightly greater risk about that, as you'll understand.

In terms of Labour interactions, obviously fairly limited over the course of the last three or four weeks because we really are into an Election period. It's not a period anyway where policies are being sort of set, although sometimes it doesn't feel that way. But the sense we had quite strongly at the back-end of last year and through January and February, is that housing remains at the top of the agenda, you can see that, that [the] Lyons [Review] is seen as the blueprint for Labour policy around housing and planning, and as we've said before, we see some small negatives, some small positives, some things that if they're executed well could make a difference, but nothing dramatic in that sort of positive and negative and changing environment that we're in at the moment. I would be wrong if I gave you the impression that we're not watching various different Parties' policies in the area very closely, and we don't see some variations, some risks and upsides, but at the moment we're not looking at it thinking 'well, if this happens then that risk is dramatic and it completely changes the game'.

In terms of the land market and SMEs, no I would say overall we're not seeing any measurable movement. There'll be the odd new entrant but the odd entrant that exits, so net-net it's more or less the same.

Question 4

Kevin Cammack, Cenkos Securities

I actually thought I had two questions but I've now got three prompted by...

Pete Redfern

I thought you were going down to one, Kevin, because we've already answered one?!

Kevin Cammack

You've already answered more than one. It's actually your comments on the market pricing etc is the one that raised the most interest to me, and I might as well kick off with that one. The comfort factor that you're now exuding in terms of more confidence, stability, depth to the market, you're now talking about edging up expectation for pricing, and potentially that coursing through 2016 as well. With that in mind, tactically ought you not to be shifting your sales technique a bit? In other words, if you feel that there's a reasonable chance that you might be moving to a medium-term of 4% price growth, should you not be trying to capture more of that by selling later given how strong your order book is at the moment? I don't know, I suppose the first thought that occurred to me was does this view of life, tactically how do you move the business, or don't you? Are you tempted to move your attitude to sales in view of this view of the market?

The other two are very straightforward. The first one is, I'm sort of looking at your order book volume move from the end of December, the 24%, is that sort of what you'd expect the seasonal influence to be? In other words, something 20-30% would be the range of uplift that you might expect on a normal seasonal market?

The third one I had was just to explore the PD ASP in the order book, that jump there. Is there anything unusual about that, or is that genuinely a reflection of where the underlying average selling price in the business is now trending?

Pete Redfern

Let me deal with the first and the third together because they're both related to price, and then we'll come back to the order book volume. In fact, let's do the order book volume first because it's the simplest one. Is the uplift we've seen from the end of last year to date normal? I'd say it's a bit higher than normal, I'd say it's a stronger first quarter. It's certainly a bit higher than we would have expected coming into the year. And it does affect your first question around tactics. We have always seen the strongest potential to sell with the least competitive sort of behaviour in terms of price discounting, being February through to April; and so we would tend to take the tactic coming into every year of setting tougher targets for that period like-for-like to make sure that our businesses were slightly ahead at that point so that if there is any softness they can deal with it, and if there's not then there's forward opportunity value-wise in the later part of the year. And that's exactly what we've done this year; the opportunity has been there to get slightly ahead of where we would have expected to be, we've taken it, but as we go through the balance of April and into May that balance will shift from banking that degree of security to making the most of the threads that it gives you.

That doesn't quite answer your first question about do you end up selling later because of price. I think if you were in, and I'm not making any forecasts for 2016 price, just that the environment just feels that bit more solid and robust than you might have expected. But say you were in a three to four-year view of house prices moving at 4% a year, which isn't a million miles away from where quite a lot of economists are, then it wouldn't massively change that value judgement on sales. Because we're talking about a lag from reservation to completion on an ordinary site at the moment of about six months. If we shortened that to four months, for instance, the extra selling price inflation value that we captured would only be a sixth of that 4% and it's not massive. If you look at the impact that then has on consistency, deliverability, what happens if you hit an autumn period where suddenly there aren't quite as many sales and people are chasing, the gain is quite a lot sort of less than the risk that you create.

The thing that we are pretty exercised about at the moment, and we've talked about this in the past and I think you heard Stephen Stone talking about it 12 to 15 months ago as well, is getting the balance right for customers about how far ahead is the right time to sell from a customer's point of view; what gives them a reasonable level of certainty, security, but that we can be confident of delivering at timescale. And that is quite tough at the moment. Certainly that would mean that we would not want to drive our order book any further on individual sites because we would really struggle to deliver consistently at dates, just because the time lag becomes too great. It's more driven by getting customer service right, getting controllability of build and certainty than it is driven by fine tuning. We'd rather have a strong order book and be able to take strong pricing decisions over the course of the year than just hang on to an extra sort of month and a half, two months of inflation.

The PD average selling price question: I don't think there's anything materially distorting, except what we talked about before – and I don't think this makes a massive difference, but it does make a difference to the order book – that we have a bigger proportion of Central London completions in the order book than in completions. We have given some stats in the past, I don't have them to hand, but we can give you a view offline. It has an impact; you do see it pushing the order book average selling price up.

For this year we would still see the inflation on completions relative to 2014 as being in the high single digits sort of level. And I will repeat what I said before, that although we're starting to see slightly more price movement, the impact on 2015 is pretty small where we're already two-thirds sold. It's the beginnings of it in a measurable way happening at the moment. It's more about next year.

<u>Question 5</u>

Gavin Jago, Peel Hunt

Couple from me if I could please, first of all, just touching on London again, I wonder if you could maybe give a bit more flavour on what's going on, you see with sales rates maybe across the capital, and maybe dig down a little bit further to just give us an idea between price points. Has there been a slowing generally as certain price points perform better than others this year?

And finally, I don't know if you'd be prepared to answer this one. you've obviously talked about the political support, and it's pretty well known that all the parties are pushing for [house building], but I wonder if you'd be prepared to comment about some of the wider economic risks about election outcomes for the economy, and therefore the knock-on effect of that maybe in terms of mortgage rates or similar.

Pete Redfern

I think in terms of the London market for "affordable" London products then we're seeing the market, in terms of sales rates to be strong. In terms of pricing, to be no different to what I've described in the rest of the country. It's not moving ahead as strongly as it was 12 months ago; but that's both inevitable and desirable. There's still a very solid set of market conditions.

At the higher end there's more variation. On apartments you're seeing solid sales rates; but equivalent to the rest of the country, rather than where you were for two or three years where you're seeing 1.5 to 2, you're seeing something more consistent with the rest of the country, so it's not bad. And the way our sales strategy is structured, we're not dependent on those higher sales rates, so it actually makes no difference to volume timing whatsoever. But definitely there's not the strength that there was.

I think the only area where you do see what I would describe as anything like tougher market conditions is in the higher end housing in London, where a combination of mansion tax, stamp duty, and just slight political risk definitely has slowed things down. That is a tiny part of our business, but you definitely see a slightly different set of dynamics there.

The bit that performs continually very strongly are sites like the Olympic site. But also all of our pretty affordable East London and West London sites actually the dynamics are probably still stronger than the rest of the country, but certainly at least as strong.

And then the political and economic risk. It's hard to add more than you hear from the press, economists and I read in the notes that you guys write. There obviously are different political environments and economic environments you'd expect. But actually, the desires of most of the main parties, the environment you'd want to create, is not that different, and specifically is not that different around housing. I don't think you see a particularly different prognosis for interest rates in the next 18 months, dependent on the outcome of the election. You can judge as well as I can whether you think one party will handle the economy over the course of the next three years better than another. I can't add much to that, I'm afraid.

<u>Question 6</u>

Clyde Lewis, Peel Hunt

Pete, I just wanted to ask on land; I was interested in your comments that you think the land market is less competitive. I'm just hoping you can maybe put a little bit more colour on that. You made a reference to the SMEs on Will's question. I suppose linked in to that, with the pull through from strategic and less competition, are you actually thinking about tweaking your gross margin targets on land deals upwards again, I suppose would be the other part of that?

Pete Redfern

I think the land market is less competitive. But I think it was Jeff who asked specifically about SMEs. We're not seeing particularly more or less competition from SMEs. But what we are I think seeing compared to 12 months or 18 months ago is just more land coming to the market; hence my comments about a more mature land market where most land vendors are bringing land to market if it's ready in planning terms. So there's a bit more supply and that leads to slightly less competition.

And yes, I am thinking about tweaking up the gross margin targets. I think it will be the half year before I give you any real guidance, because what we tend to do is tweak them up, see what happens and then tell you that we've done it, rather than the other way round. We're at the point of really looking at it into this part of [the] year. I think election planning doesn't stop us doing it, but it means we'll be watching that and that timing and then if that impacts on land owners at all. But yes, we are considering that.

I think you also have to remember that our focus on short-term land at the moment is very focused, and very focused on the right kinds of sites that deliver the best long-time dynamics for us. So it's a lot less crude than it might have been in the past about just moving up the target broad brush; to say it's already happening to some degree because of that focus on filling in the sites that we want that really hit the dynamics that we want at a local and regional level.

Clyde Lewis

In terms of the land that is coming, is it coming in a different state? Is there more detailed planning or sites with detail on, or more outline? And I suppose linked into that is what's happening with strategic land opportunities as well – has there been much change on that front?

Pete Redfern

Yes, I think we're not seeing a fundamental shift compared to say 12 months ago on the mix of land that we're bringing through the short-term landbank. It has been for some time a bit earlier in the planning process than we would have been targeting five years ago, or seven or eight years ago, because you have a stronger land position and you don't need it to be. And where price competition is most acute, even today, is around sites that can deliver quick volumes for those that need them. But that hasn't fundamentally changed over the course of the last 12 months.

I would say that the strategic land market right at the front end then there is more competition today than say two years ago. It's probably the only area where there is. You see one or two land promotors with a different model to somebody like ourselves. We're still adding reasonably significant amounts, as you can see from the overalls: we've taken over 3,000 plots through the strategic landbank, and the strategic landbank has gone down by a few hundred. So we're still adding. But I think we are starting to see a little bit more front end competition there than we have done.

Concluding comments: Pete Redfern

I think if there are no further questions that have come through now we'll draw to a close there because I think we've covered most of the main areas. Thank you everybody for your time this morning and I look forward to giving a more full and detailed update at the half year.