Taylor Wimpey plc

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Trading Statement

Wednesday 28th April 2016

Pete Redfern, Chief Executive

Good morning everybody and thank you for joining us. Giving this is just an AGM Trading Update my comments will be relatively brief. I think I'll mostly focus on the market and just very briefly touch on updates in other areas and then open up for questions.

It's continued to be a good market environment for us. As we recorded at the preliminary results stage we were slightly surprised by the strength of the market in the early stages of the year. And that has continued, as you can see from the statistics.

There have been quite a lot of conversations in the wider marketplace around: has there been an impact on stamp duty change on investors? Has there been early impact, or caution on Brexit? You can see explicitly in the statement we don't think we have seen any of the latter; the market has remained strong through to date. And actually if you look at our sales rates as we go forward the constraint, as it has been in previous years as we get to this point in time, is the availability of profit that we can forward sell and not any limitation from a market perspective.

If you look at the question about whether the change in stamp duty has shifted balance in quarter one and quarter two, that's had no impact at all for our business, which isn't explicitly stated in the statement; but our sales to investors in the first quarter of 2016 were actually lower than in 2015. So that strong quarter one performance wasn't boosted by investor sales at all; if anything the opposite. That's not too hard to understand when you go back to that point about we don't have product available in that timeframe. By the time the stamp duty rules were changed we'd already sold any potential investor product for the first quarter of 2016. So, it doesn't distort those numbers at all.

So correspondingly we haven't then seen any drop-off in sales rates, sales, customer interest and availability, which as you can see has remained strong throughout as we've gone into April and as we look ahead. In fact if I just take, and it's always dangerous to take one week, but if I look at last week the sales rate was actually up 10% on the previous year. And, as I say, if you look at the next couple of months it probably will be a little bit lower, but more down to availability rather than the sales environment.

Obviously we're not saying that if there were to be a vote to leave Europe that that wouldn't cause some uncertainty in the market, that that wouldn't slow down transaction levels, but the things that are in our control: having a strong order book, being well forward sold, keeping cancellation levels low, making sure there's discipline about how we take those sales, people's mortgage process, all those sorts of things are in excellent shape. So yeah there are some things you can control, some things you can't, but we feel very comfortable about the market at this stage and as confident as we could be with that slight uncertainty in June.

If we then talk about the one specific part of the market that people I think are most interested in geographically, clearly prime Central London, our comments are broadly the same as they were at the prelim stage: we continue to see slower sales rates; we continue to make sales; prices continue to be resilient; for the mix of our schemes, which as you know are relatively small and a relatively small part of the business, the sorts of sales rates that we're getting are comfortable for us.

And actually if you look at our trading expectations from our Central London business they are at least as much governed by progress on build and timing of build and when different blocks complete as they are from that market position. So, we feel that's a pretty resilient place to be in.

So, overall we cannot complain about the market. It's continued to be good. There is some price growth; probably too early in the year to give too much of a signal about that. That's maybe something we can come back to in the Capital Markets day and at the Half Year, but definitely a positive environment.

In other areas, no major new news to report. As you can see, the short-term land bank, largely driven by good planning approvals on strategic land in the first quarter, has gone back up to about 78,000 plots. We did say that we thought it would creep up again this year, having been basically flat last year. But our overall strategy on land remains the same, so don't expect to see any major full-year movement. That 78,000 is probably a reasonable guide towards the year-end position.

If you look at build costs we continue to see a slightly better environment than we have done. And the guidance at 3% to 4% up year-on-year we still feel for the year is pretty sound.

And then looking at the broader land market things continue to remain benign. Availability is decent. Planning is neither any harder nor any easier, so very much in line with what we've talked about over the course of last 12 or 18 months. But the land environment remains good, and the margins and particularly the returns on new acquisitions remain high. And as I say, weighting on acquisitions is more towards strategic land in the first quarter; but as you know that does tend to be lumpy so I wouldn't read any fundamental shift from the roughly 50/50 balance that we've had over the last couple of years for the Full Year.

Anything I've missed, Ryan?

Ryan Mangold

No, I think you've covered it all Pete.

Pete Redfern

Thank you. Can we open up for questions now please?

<u>Question 1</u>

Aynsley Lammin, Cannacord

Thanks good morning. Just two from me. Firstly, just if you could comment on incentives? Presumably you haven't seen any big change in incentives you're offering and the kinds of sales rates are a reflection of the strong underlying demand?

And then secondly just on the outlets, I think you're currently operating 292, what you expect the average outlets this year to be versus last? And if you could just give a bit more colour around how the planning is and views to bring those through? Thanks.

Pete Redfern

On incentives no change. We always set our business units up with quite a strong sales rate expectation in the first quarter so they get ahead; and you can see that as a pattern over the course of the last four or five years. Then don't and haven't been using incentives to do that; it's just making sure they've got the right sales tools in place. So, there's been no change in that incentive pattern during the first four months of the year; and we don't expect any change in the foreseeable future.

I don't think the outlet number for this year will be very different to last year. The 2.5% I think is down compared to this point last year, is kind of noise. And as I've said before, with that growing order book selling so far ahead, actually the outlets that would have been open are just sold out and still sitting there in the order book, and we're still building those plots as we go from reservation to completion.

So, in terms of the reported P&L, the volume growth we talked about, all those sorts of things it really is fine tuning around the edges exactly when we sell out a site and therefore when it ceases to technically be an outlet.

And on the planning side, as I said, I don't think there's been any material change. You get a good result somewhere that's a bit quicker than you expect; you get a bad result somewhere else – but overall I don't think our expectations and our experience at the moment is any different. You do get slight variances in central government's approach to appeals and the like; but again it's wins and losses rather than a sea change of it getting significantly easier or significantly harder.

Question 2

Will Jones, Redburn

Thanks morning guys. I think I've got three if I could please. First, just around margin for the year – maybe it's a question more for the First Half or the Capital Markets Day – but is there any change to your view that you expressed before of 50 to 100 basis points gained but with upside risk to that?

Second was around just tying up on cash flows or anything that's changed in terms of how you see the cash flow demands on the business this year. I guess the two main items being either your land buying intentions or any WIP investment.

And then maybe just on starter homes, just because obviously you mention it on the outlook statement, but could you just give us a more full update on when you think that will kick in and what the implications are going to be for TW? Thanks.

Pete Redfern

Yeah absolutely. In terms of guidance overall no real change from the prelims at this stage. I'm happy to talk about it a bit at Capital Markets Day and obviously happy very much at the Half Year to go into it in a bit more detail. But I think 50 to 100 basis points on margin with a bit of upside; around 5% on volume, probably the downside is on the volume, the upside is on the margin; 7% to 8% on average selling price with some upside.

Ryan, do you want to comment on the cash flow?

Ryan Mangold

Yeah on the cash demands we're not really seeing any change in the flight path. We're expecting to end pretty balanced overall from a cash flow perspective. I think the bigger driver is going to be the timing of when land deals are finally nailed in terms of i's dotted and t's crossed, which might swing things a little bit towards the end of the year to being slightly more positive cash. But in our view and philosophically the way that we're managing the business the medium-term outlook on that, that's a very, very short-term managing to a net debt number or net cash number at the end of the year. But no fundamental change.

As Pete noted, broad cost expectations at 3% to 4% is in line with where we we're expecting to get to. Sales rates are at a pretty much optimal scale from our perspective. They will probably be, as Pete noted, fairly similar on outlet counts, maybe slightly stronger towards the end of the year, but averaging at a fairly similar level, which would have a bit of demand on cash. But that's exactly in line with how we set out our strategy.

Will Jones

Are you thinking of a similar replacement on land relative to the usage versus last year overall?

Pete Redfern

I think probably a little bit higher, which is why I think the land bank will go up. But it's because we had a bumper year of strategic land conversions, if you remember, in 2014. We had a very good year in 2015. At the moment 2016 looks pretty strong again, probably a bit higher than last year. But we had, for instance, an extension at Didcot, which isn't in the numbers we've just noted because it happened in April, but it adds a fairly significant sum to the short-term land bank. But it's a long-term/short-term site because it's adding to where we already have significant land.

It's those big strategic sites where they're coming to the short-term land bank rather than us adding a large number of short-term or smaller sites to change the overall volume pattern or our overall up goals.

So going back to your final question on starter homes, you'll remember I think it was the very initial Trading Update of the year, I sounded a reasonably cautious note on starter homes because at that point the policy, as drafted by government which hadn't gone through the Lords, talked about a five-year period after which the buyer of the starter home walked away with that discount scot free. And I was very concerned – and I think over time others came to share that concern, particularly the CML and members of the House of Lords – that that created a real risk of some market distortion. Because how do you sell to your existing customer base if a quite large proportion of your first time buyer customer base can buy a home at a 20% discount and five years later own that discount?

As you may well have seen the Lords' amendment that went through, which isn't guaranteed to complete, went through to change that to 20 years; which reduces that concern significantly because it means that somebody buying that home is buying an intermediate class of home. That 20 years is a totally different perspective for a first time buyer to five years, that they can see in their own planning horizon. So, that makes it more of a separate class.

I do think it means the numbers are tougher for the government to deliver, but I think pretty much everybody, local authorities, the House of Lords, the CML and I think now most of the major developers would agree that's a much more balanced structure that can fit into an overall housing market; rather than sitting as a slight oddity, being driven too hard.

So there's still lots of detail to go. I understood last night that that amendment actually on the years was taken into the government's own policy, which to be honest surprised us; we thought it would be some sort of horse trade and it would end up somewhere between five and 20. But I understand they adopted it; although I don't think that's certain yet.

But all of that creates a structure that actually has lower risk, probably a lower impact, but a lower risk than what we were looking at back in January.

Will Jones

And sorry just to understand the 20 years: do you gain the discount as you go along through the 20 years or is it all or nothing, you have to be in for the full 20 years?

Pete Redfern

You do. It's a 1% a year paper. What I'm not sure of yet if you sell the house in that period do you repay the discount to government or does that then pass onto the next buyer of that starter home. But actually that matters from a local authority perspective; it matters a lot less from an overall commercial point of view.

But I think the amendments, because we were worried about it from a commercial point of view for us; but we also worried about from an overall social fairness point of view because a housing market where you get a significant slug of capital going to a small number of people and taking out effectively affordable housing environment puts a lot more pressure on local authorities. So, we worried about the impact of that on planning permissions, because affordable housing is one of the key positives for local authorities in granting a planning permission. So, the sorts of amendments that are being discussed do make more sense.

Question 3

Gregor Kuglitsch, UBS

Good morning I've got three questions. First of all can you maybe give us a bit of an update on the pricing trends you're seeing, perhaps trying to split out specifically what you think underlying inflation is outside London and in London, because obviously it's slightly different dynamics there?

The second question, and you may not want to answer this one, but obviously you've got a Capital Markets Day coming up shortly, can we just understand what you intend to communicate? Specifically talking about or thinking about the dividend which normally I think you announce for the year ahead at the interim stage in July, are you intending to update us on that in May already?

Pete Redfern

On pricing over the course of the last five or six months, we tend to work from our budgeting process in November rather than just from January, but we've seen price movements in the 2% to 3% range. So, annualised you're in the 5% to 6%.

I know we've talked about before that increasingly starts to look at more of next year than this, but certainly healthy and more than offsetting that cost movement. Our guidance on selling price movements of around 8% for the year is weighted towards about 3% mix, sort of 4.5%, that sort of order on price, so consistent with that, and we're probably running a bit ahead of that which is why I say there's probably slightly more upside on the 8% price mix rather than downside.

In terms of what we intend to communicate, if we told you that now then you wouldn't turn up, Gregor! We will spend some time, as I said, at the prelims on some of the specific operational improvements that we're making around customer service. You will certainly get exposure to Nigel and to Chris Carney who are the two new Divisional Chairmen running the South, that's a key part of it for us. But we will be going through also our strategy, updating you on our thoughts, but you shouldn't read that as a strategy change, but there will be, I think, some interesting things about where we see the next two or three years develop, and we will be updating you on our thoughts on dividends as well.

<u>Question 4</u>

Kevin Cammack, Cenkos Securities

Morning guys. My question's actually been asked already but I wanted to come back on your comments to an earlier question around outlets. And could you just run through again, I'm not sure I entirely caught it, were you implying that there was a sort of definitional reason why the outlet number was lower but you weren't concerned, i.e. was around still defining an outlet or defining an outlet where you only actually have product for sale even though you might still be building through? And in view of your understandable comments about optimal sales rate, 0.8 per site per week, going forward how much visibility and confidence do you have of getting that outlet number growing again, or is it really not something that in your overall strategy is a key thing for you?

Pete Redfern

Going for the definitional piece, firstly our definition of outlets hasn't changed. The way that it works is, an outlet is a sales term so we have sites that are in a pre-outlet stage that are having infrastructure but we haven't got show homes open or we haven't launched the sale for other reasons. We also have sites which are continuing to build which are in a post-outlet stage. So a site stops becoming an outlet when all of the product on that site is reserved. Because we use outlets to measure sales pace so obviously if we've got nothing to sell then it distorts that. So if we sell out seven months ahead of a site being completed physically build-wise rather than four months ahead, then we have exactly the same activity, exactly the same completion rate, but less outlets.

This is very rough but it gives you a feel, if you look at our order book numbers we're at 8,800 plots compared to 8,200 plots last year. That 600 plot difference, if an outlet tends to average about 100 plots, just to keep the maths simple, so the average size of an outlet through its life is about 500 plots. That 600 plot difference in the order book equates to 12 outlets, that effectively we wouldn't have closed if we had exactly the last year's order book because we'd still be selling on them. At the moment we're still building at the same pace but we're sold out. Does that give you a feel on that outlet question?

Kevin Cammack

Yes, that makes much more sense relating it to the physical volume numbers in the order book yeah.

Pete Redfern

And it's not quite as simple as that but it gives you a sense. So that sort of movement worries us very, very little.

The piece about forward looking outlets and say the sales rate fell, if the sales rate fell, and we see where we are at the moment as being the top end of what we see as being a normal sales rate through this cycle, if the sales rate fell first of all the outlet numbers would start to then grow, and our new openings are actually happening at pretty much the pace we expected, what's happening differently is the closings. The other important dynamic, which is fundamentally different to say 10 years ago, is our underlying outlets, our underlying land, are much bigger, and so the dependence on new openings to keep that level resilient is much, much lower, and so those big strategic sites are outlets for a long period of time. We may open a new phase and that has a slight timing impact, but our underlying number. And it makes it harder to grow it, but it also makes it far more resilient if things slow down.

Kevin Cammack

So basically if you look specifically at new openings there's been nothing on that horizon which has changed at all?

Pete Redfern

No, not at all. As I say, the planning environment is what it is. If you took our business unit by business unit forecast they'd always show through the last years and at the moment maybe a 20 unit/20 outlook growth and then maybe expecting to open 100 outlets in the period. We kind of work in our own mind on that sort of 20 unit growth. If it's 100 they're opening they'll probably get to 80/85 of them and so it stays stable.

Kevin Cammack

Okay so, to just round the circle for me, have you in any sense tactically sold further forward on across the sites?

Pete Redfern

Yes, but not dramatically. It would be wrong to give you a sense that we came into the year and thought, 'Right, we've got a Brexit kind of issue, let's really aggressively sell'. As I've said before, we tend to give our business units quite strong targets in the first quarter because we like to be ahead of the game, and then it means second quarter if things are softer for whatever reason we're in a strong place, and if things are good then we can focus even more strongly on price. And that's basically been our tactic all the way through.

I think what's more different than our tactics this year is that the market has been better, the underlying demand is stronger and, as I say, not driven by investors. It surprises us it doesn't come more clearly from others that the market through the first four months, the ordinary market around the country from ordinary buyers wanting to be homeowners has been stronger and interest rates are in a good place for them, all the government's, all the things you know about. So yes we would try and build our order book up strongly, and that slight risk in June encourages us to do that more, but it's the market that's let us do that rather than that we've gone out strongly on price or incentives or anything else.

Kevin Cammack

And has that been all price points, Pete?

Pete Redfern

Pretty much. Apart from that £1,400 a square foot prime London market, yeah pretty much. I'd say if there's an area which has still remained a bit slower it is the higher end elsewhere, but that's been true for the last four or five years. The right at the top end of our business prices stay resilient, but sales rates relatively that market isn't as liquid as it was in the previous cycle.

Question 5

Andy Murphy, Bank of America Merrill Lynch

Morning guys, just one from me. I'm just interested to perhaps understand a little bit more about your Capital Markets Day coming up and whether given the targets that you put out previously on operating margin and a return on operating assets etc. whether you just intend to perhaps recalibrate your targets around those, or whether in fact you'll be looking to introduce other either operational targets or cash flow targets into the mix?

Pete Redfern

You'll have to be there to find out, Andy.

Andy Murphy

I'll definitely be there.

Pete Redfern

We will be updating you on all of our thoughts on strategy across the board, so I don't think you'll find it dull.

Question 6

Aynsley Lammin, Cannacord

Sorry, I think I fell off the line earlier on. Just one follow up on the forward sales position of 70%, could you say how that compares with recent years and also the kind of longer-term historical averages at this point in the year?

Pete Redfern

I haven't got the direct comparison with last year. I know it's ahead of last year but it's not fundamentally different. But it is very different to where we would have been either three years ago or ten years ago, so it's a cumulative improvement on last year and the year before but structurally quite different to more distant history.

CLOSING REMARKS

Pete Redfern

Thank you very much for your time this morning. We look forward to seeing you in May to try and answer Andy and Gregor's questions. As I say, very pleased with the market conditions, but fundamentally we feel we have focused on putting the business in the strongest possible place and are happy with how 2016 has progressed so far. Thank you.