

# Taylor Wimpey

Analyst and Investor Day

17 May 2016

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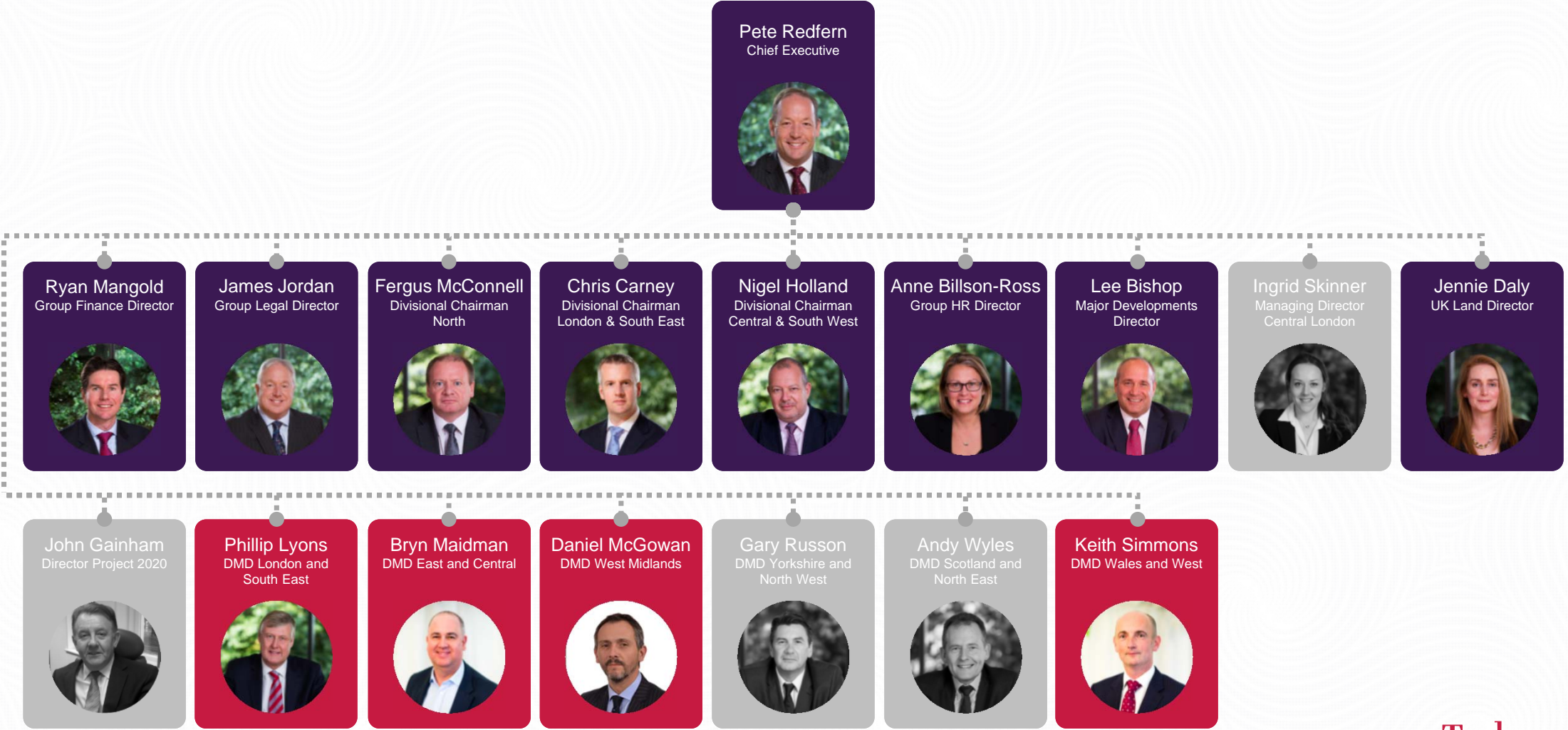
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# Introduction and Summary

Pete Redfern  
Chief Executive

# Organisation chart





# Agenda

Strategy

Managing  
through  
the cycle

Dividend  
Policy

Targets

Strategy

Managing  
through  
the cycle

Dividend  
Policy






Targets

# Testing existing strategy five years in





## 2011 – underlying principles

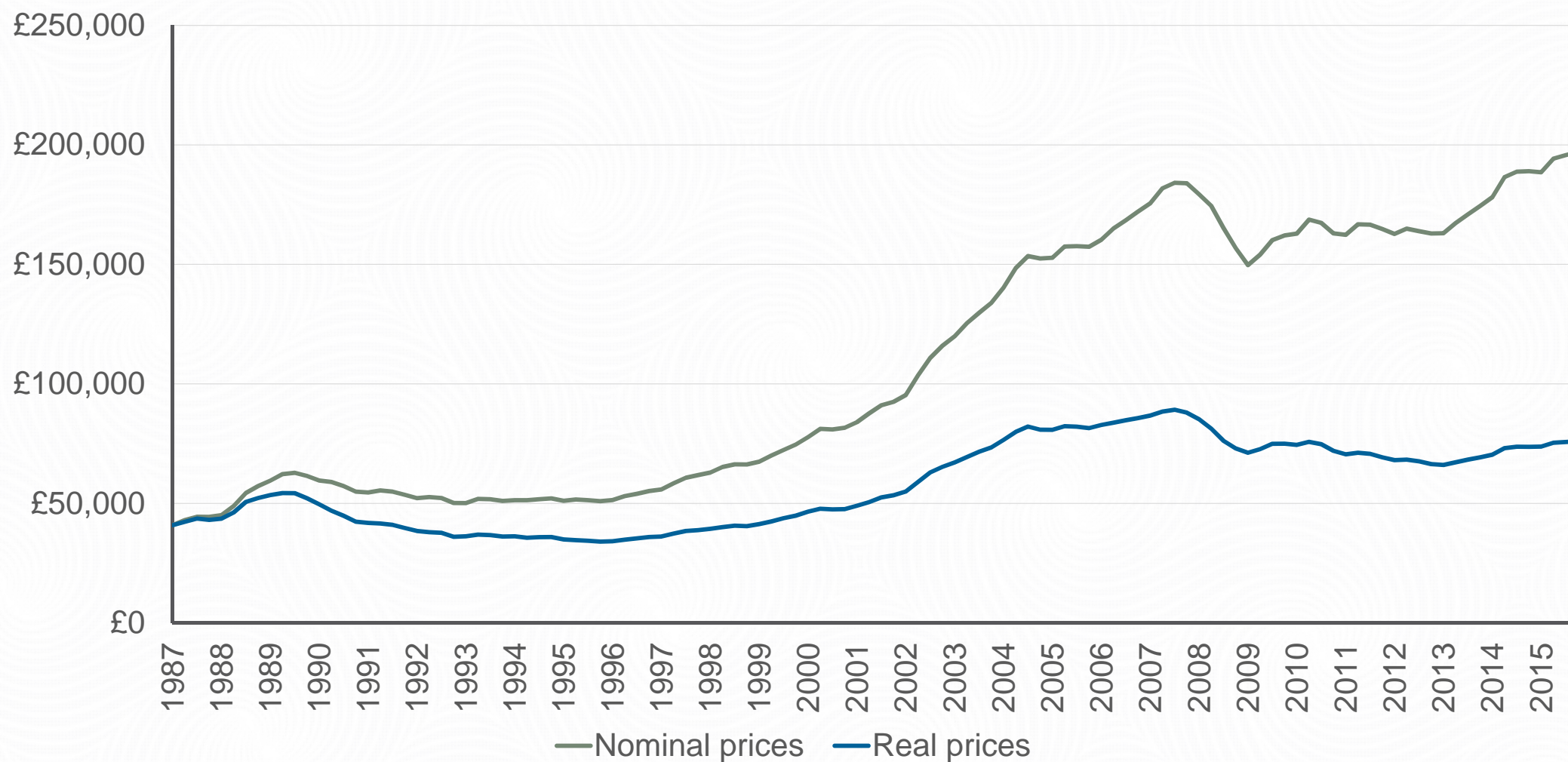
- Maximise the value from each home completion 
- Will not return to 'feed the machine' mentality 
- Active management of land portfolio is the key driver of value creation 
- Efficient 'engine-room' to protect and enhance value through build stage 
- Far more active approach to managing the cycle 



# 2016 – what's different – housing market?

- Drivers very similar at macro level:
  - Strong underlying demand
  - Mortgage availability and cost key short term determinant of volume and value
  - New build production likely to trend up to c.200k
- Financing market changed by:
  - Help to Buy
  - Tighter mortgage controls
- Customers largely driven by the same things:
  - Location, location, location – and a bit more by product than historically
  - Short term affordability of mortgage costs and cf rent
  - Confidence in underlying house prices and own employment positions

# Shape of the recovery



Source: Nationwide – Nominal house prices, ONS – RPI



# 2016 – what's different – housebuilders?

- Land and planning remain the single key determinant of success:
  - Defines target customers, product, locations, financial structure, market risk
- However, importance is slightly diminished:
  - Competition for land reduced
  - Potential for greater control of destiny through more strategic land opportunity
- Customers becoming more discerning – and the way that we communicate becoming more sophisticated
- Ability to manage and retain skills and resources has become far more impactful – technical and production skills
- Clear effective processes and systems have become more important

## Strategy conclusions – land / cash / volume

- Housebuilding remains a cyclical industry – targeting maximum growth every year will lead to bad decisions
- Acquiring the right land in the right way with the right planning remains critical success factor – landbank scale is about right – stand by c.5.25 years
- Strategic land remains a great way to add value and reduce risk
- Major Developments and success of larger strategic sites in greater numbers gives volume upside at minimal extra risk or capital requirement
- Focus on cash generation and asset efficiency can be stepped up – the next phase



# Strategy conclusions – operational improvement



Health  
and safety



Business  
operating  
methods



Customer  
service



People and  
resources



Product and  
production

Strategy

Managing  
through  
the cycle

Dividend  
Policy

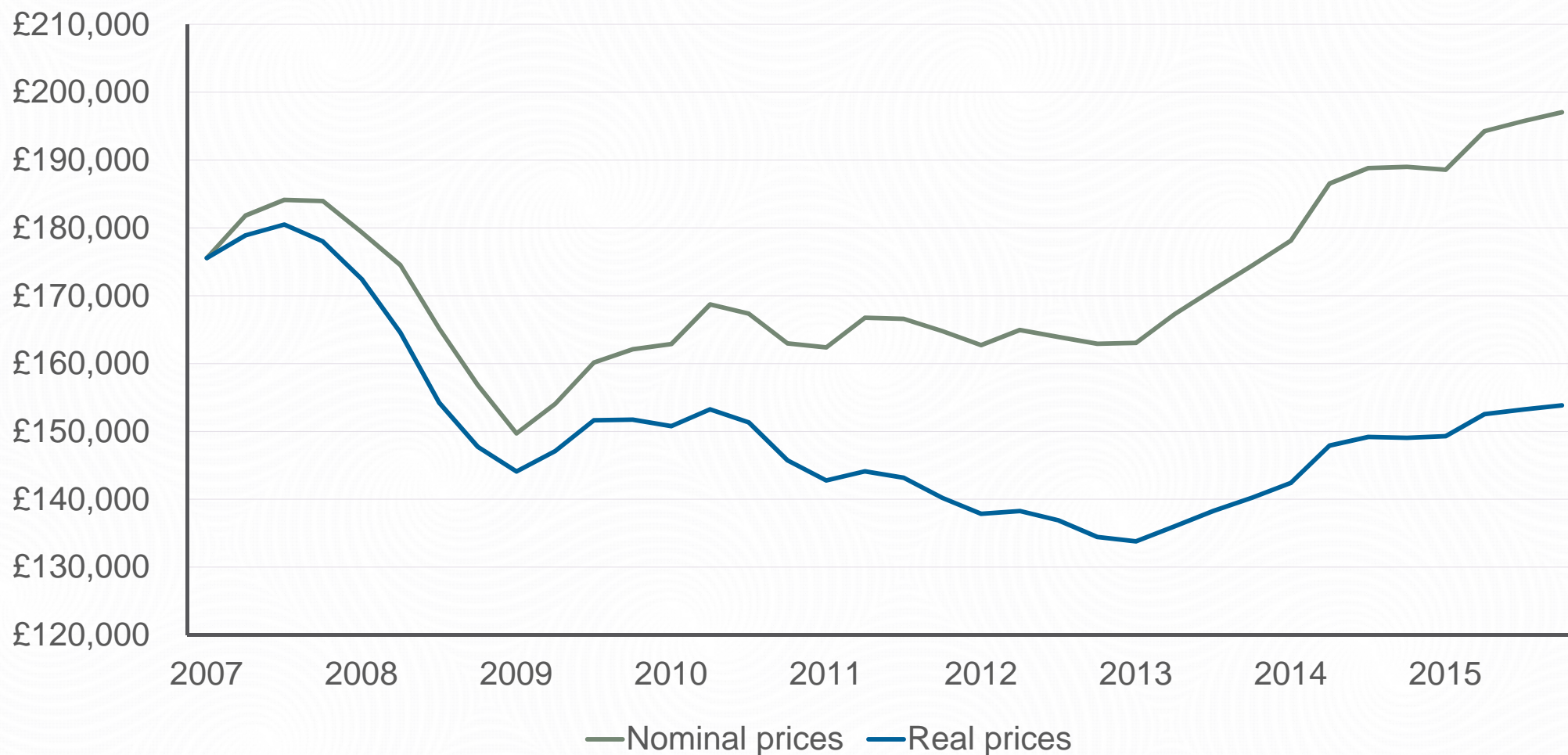
Targets



# Right time to review housing cycle

- Through the recovery and into a growth phase in prices and volumes
  - Environment remains supportive
  - Strong demand
  - Affordable lending
  
- Short term market risk low, but accumulates each year in this environment
  - Monitoring accumulating price growth, affordability and mortgage dependence / lending characteristics
  
- Politically driven risk
  - EU
  - Demand side policy change
  - Supply side policy change

# Shape of this cycle



Source: Nationwide – Nominal house prices, ONS – RPI



# Taylor Wimpey financial and performance comparison

	2007	2011	2015
Short term land – years	4.2	6.4	5.7
Strategic pipeline – years	5.0	8.3	8.1
Plot cost as a % of ASP	22%	24%	16%
UK operating profit margin %	15.2%	9.7%	20.3%
Cash conversion %	10%	24%	67%
Contribution per completion £k	38.4	28.6	59.4
Net cash / (debt) £m	(1,415.4)	(116.9)	223.3
Total cash dividends paid £m	118.4	—	308.4

# Our approach to managing cyclical risk

- Operational approach
  - Quality over quantity
  - Managing every site to the optimum – outlet opening, volume, margin, return
  - Strong disciplines for opening new regions or undertaking acquisitions
  - High strategic land proportion
- Balance sheet structure
  - Low / no debt
  - Tightening land creditors – reviewing profile
  - Tightening land policies inc. Major Developments
- Value proposition for shareholders
  - High earnings quality = high margin
  - Capital efficiency as cycle matures = high RONO
  - Dual stream dividend = underpinned by ordinary, maximising special in most years



Strategy

Managing  
through  
the cycle

Dividend  
Policy

Targets

# Dividend Policy

- New Dividend Policy announced today
  - Ordinary dividend to be paid through the cycle
  - Special dividend at appropriate times in the cycle
- From 2017, subject to shareholder approval, we will pay an ordinary dividend of approximately 5% of Group net assets - at least £150m p.a. This is intended to provide a minimum annual return to shareholders throughout the cycle
  - Including through a 'normal downturn'
- Special returns will continue to be a regular feature for much of the cycle



# Dividend Policy

## Ordinary dividend

## Special dividend

Increasing our ordinary dividend to a minimum of £150m p.a. from 2017

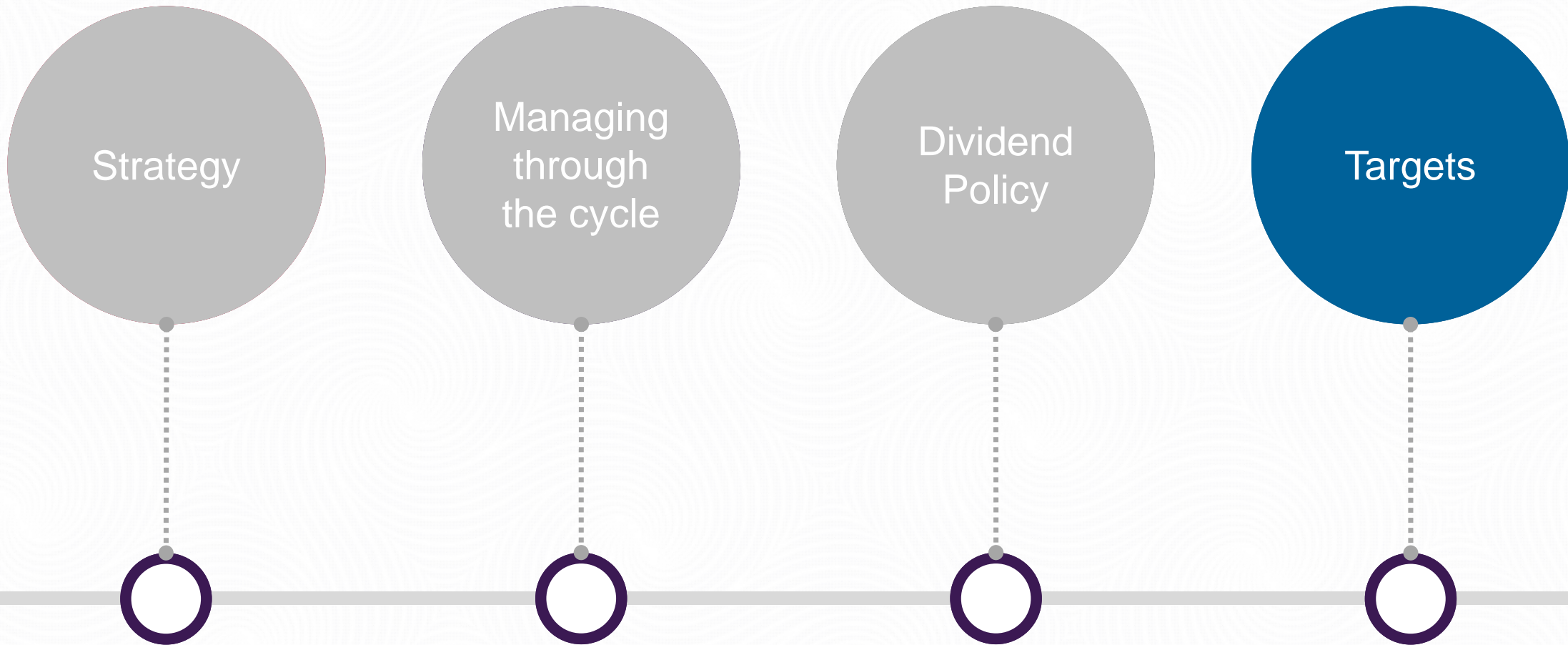
As previously announced we have already committed to pay £300m in 2016

The ordinary dividend will be paid in May and October (half and half)

2017 special dividend will be £300m\*

- In 2016, shareholders will receive a total of approx. £357m or c.11.0p per share
- In 2017, shareholders will receive a total of £450m or c.13.8p per share, subject to shareholder approval in 2017

\* Going forward, the special dividend will continue to be announced one year in advance at the half year results and paid in July the following year, in line with working capital needs of the business

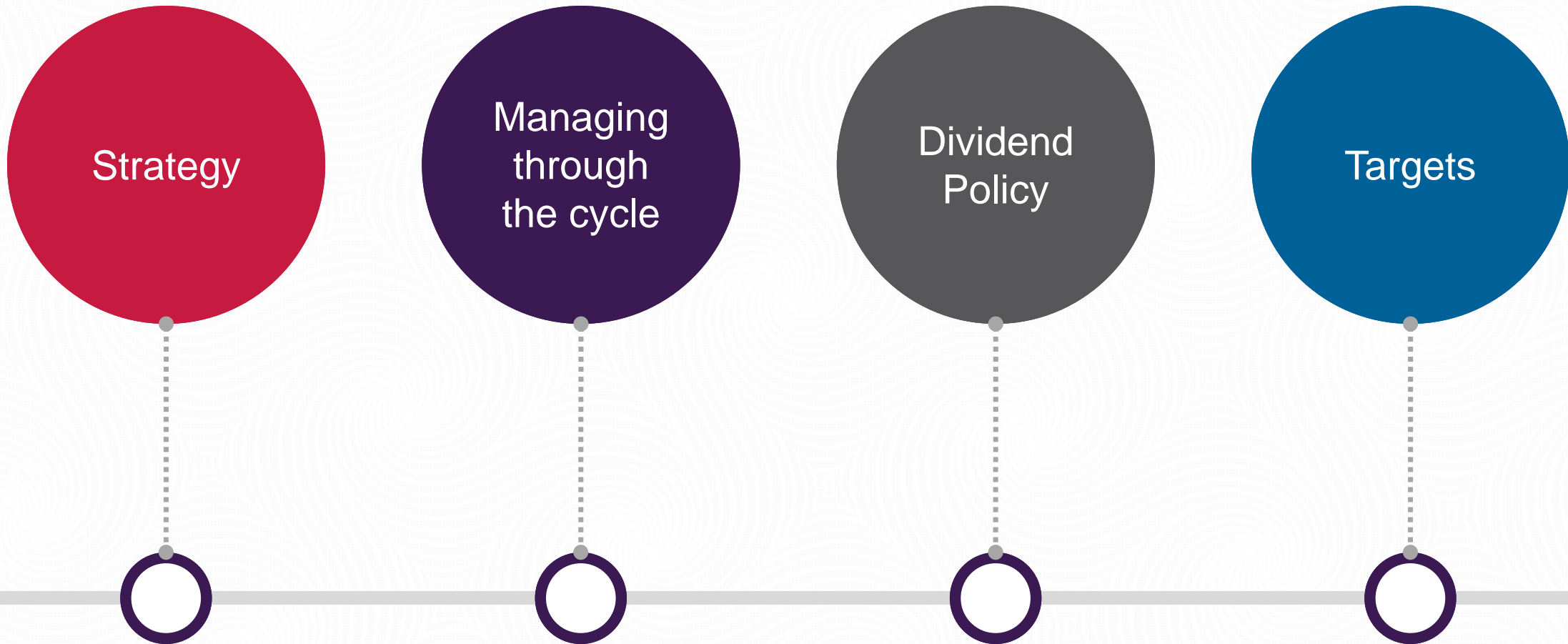




## 2016 - 2018 targets

- Stretching new medium term targets, each of which apply for the period from 2016 to 2018, are to achieve:
  - An average annual return on net operating assets of 30%
  - An average operating profit margin of c.22%
  - A total of £1.3 billion of dividends to be paid in cash to shareholders over the period

# Conclusion





# Confidence in sustainable delivery

Ryan Mangold  
Group Finance Director

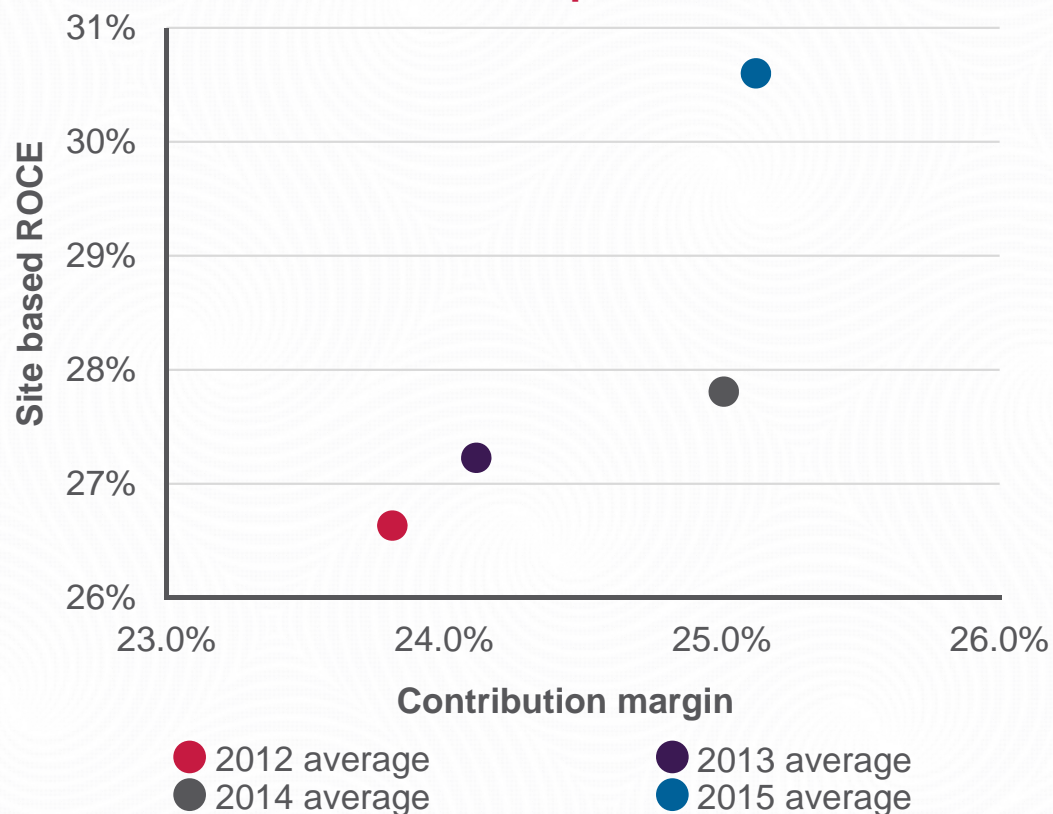
# Business focused on sustainable delivery

- Disciplined approach to land acquisition:
  - On the right financial terms; and
  - In desirable locations to withstand the cycle
- A secure future with over five years of consented land
- Strong strategic landbank with conversions equivalent to 77% of completions in last three years
- A focus on build and completion profile efficiency to manage working capital through the cycle
- High-quality balance sheet – expected to be maintained



# Disciplined approach to land acquisition

## Capital allocation of land approvals in the period



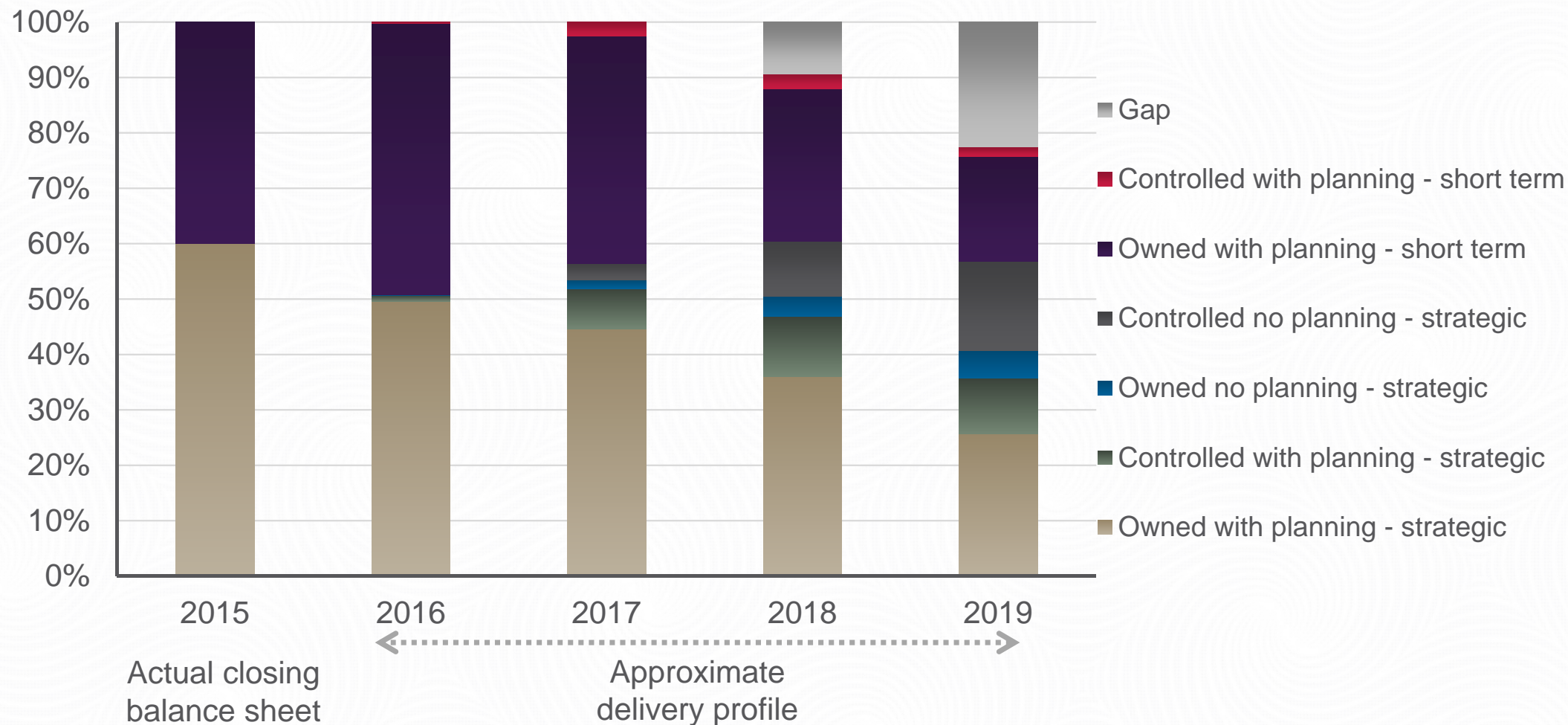
Total:  
458 sites in 2015  
short term owned  
landbank

## Micro location – position within macro location

		Micro location – position within macro location			
		A	B	C	D
Macro location – city, broken down by major suburb, town, village or rural area	Q1 – A	7%	14%	2%	0%
	Q2 – B	17%	34%	4%	-
	Q3 – C	3%	16%	2%	-
	Q4 – D	0%	0%	-	-

- Achieved a 2.8% upside to acquisition margins in 2015 on post-2009 land completions

# Securing the future through consented\* land



\* Some consented land may have planning conditions / consents to be met, before the land has implementable planning consent



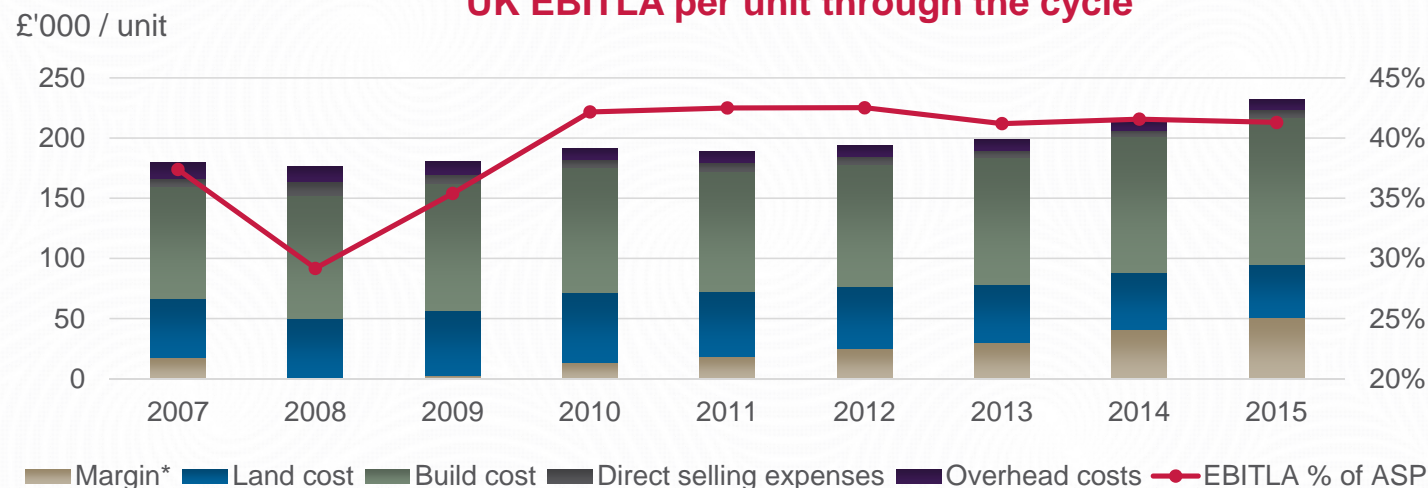
# Growth in profitability and capital efficiency

	2011	2012	2013	2014	2015
RONOA	9.8%	13.3%	16.8%	22.5%	27.1%
Operating profit margin	8.8%	11.2%	13.6%	17.9%	20.3%
Net operating assets	1,669	1,728	2,000	2,265	2,443
EBITLA*	544	676	813	1,043	1,216
Cashflow before interest, tax and land spend	471	593	746	1,049	1,031
Land spend	428	484	614	842	604

\* EBITLA excludes land costs amortised to the P&L and utilisation of land impairment provision (NRV)

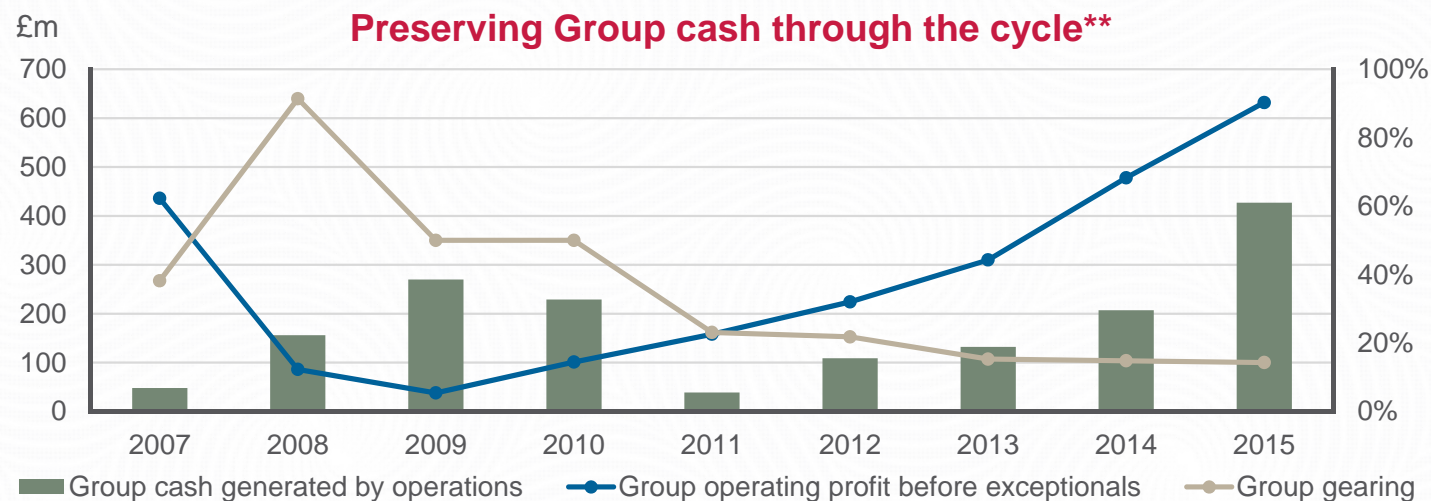
# Managing cash through the cycle

UK EBITLA per unit through the cycle



- EBITLA per plot has ranged between c. £50k and £95k since 2007
  - Used to build the landbank to the quality that exists today
- Our current landbank and strategy positions us well for delivery and to adapt through the cycle

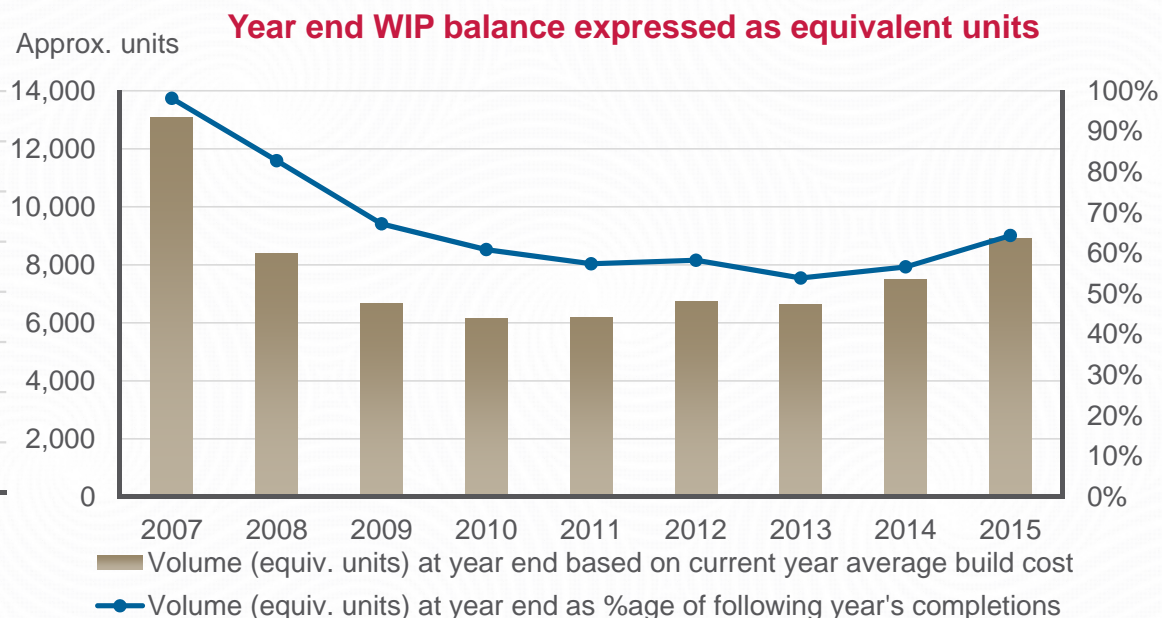
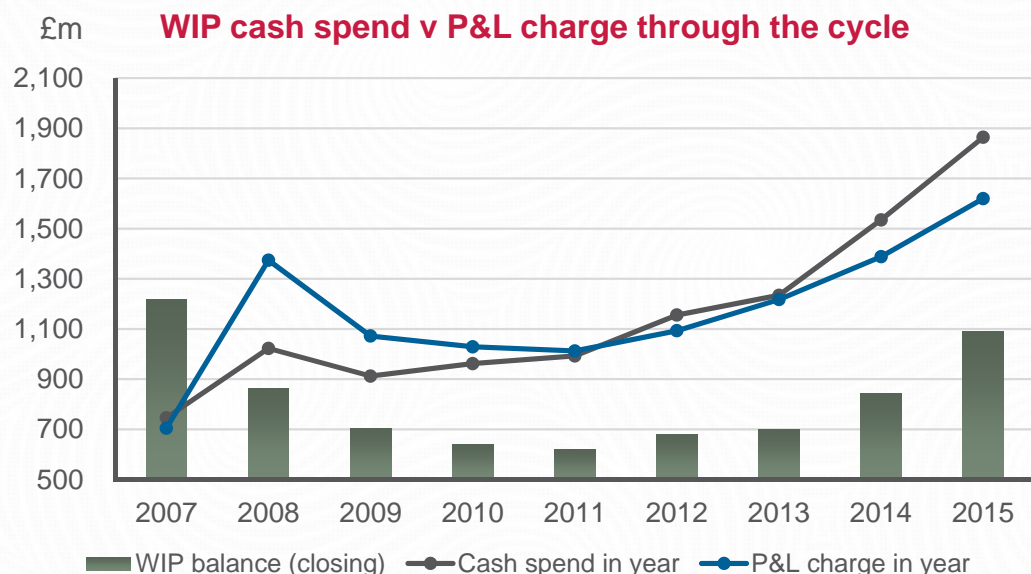
Preserving Group cash through the cycle\*\*



\* Margin including the benefit from utilisation of land impairment provision (NRV)  
 \*\* Group financials are unadjusted for the disposal of the North America business



# Managing UK working capital



## UK metrics

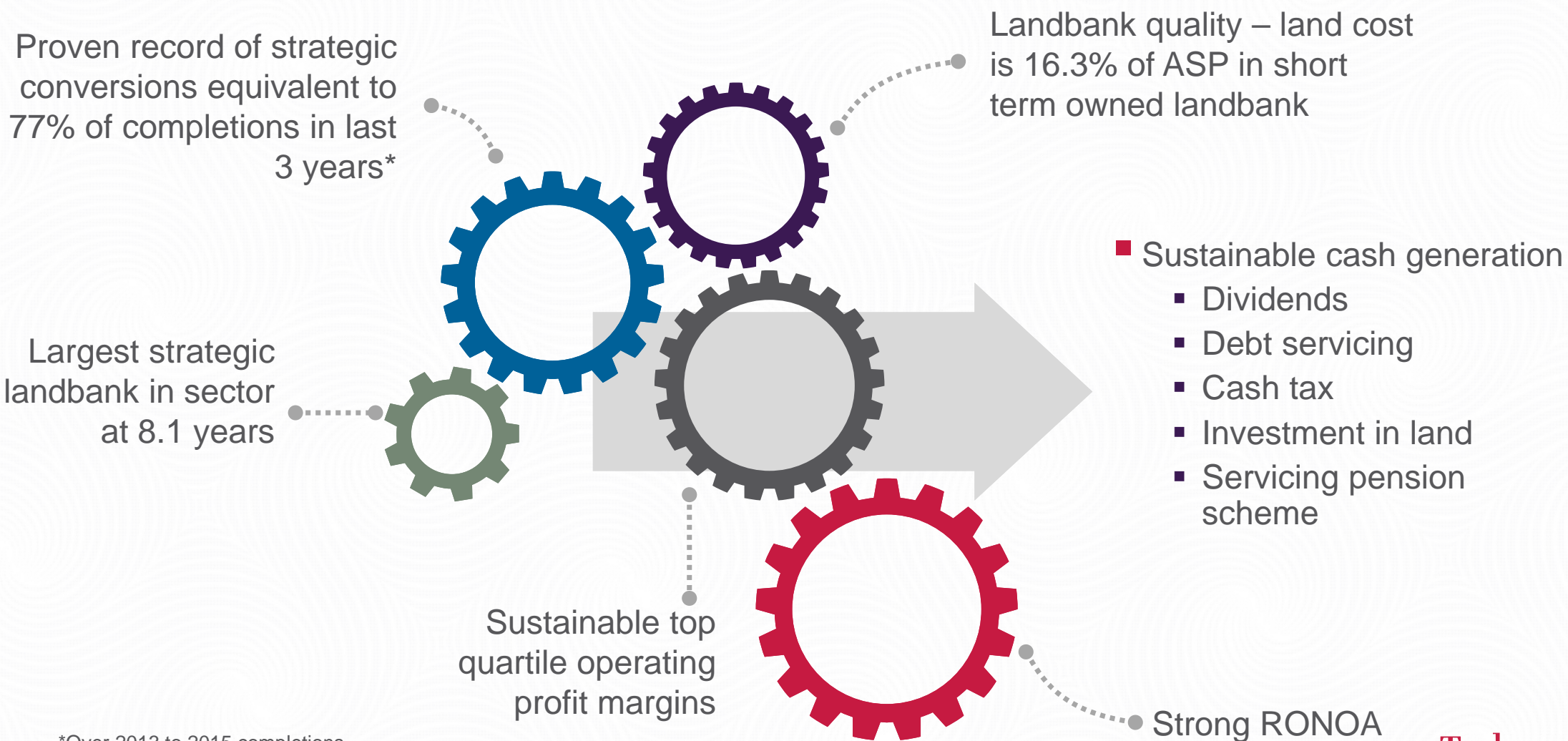
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Avg. WIP (£m)	1,196	1,041	785	672	629	650	690	772	967
Completions exc. JVs (no.)	14,572	13,336	10,141	9,927	10,123	10,788	11,547	12,294	13,219
Avg. build cost (£'000 / unit)	105	103	106	104	100	101	105	113	123
Avg. outlets (no.)	337	455	343	289	305	311	315	303	301
Private sales rate (net)	0.55	0.40	0.55	0.51	0.54	0.58	0.62	0.64	0.73

# Confidence through a cycle – dividend

- High-quality unlevered balance sheet
  - Land cost in short term owned landbank was 16.3% of ASP at end of 2015
  - Gross margins in landbank highest ever
- WIP broadly optimal scale
  - Limited further investment on a like for like basis
- Land creditors used selectively to balance RONOA maximisation without excessive cycle risk
- Expected material cash generation as we manage through the cycle
- Ordinary dividend – stress tested to 30% volume reduction and 20% price reduction



# Strong operational performance and dividend stream



\*Over 2013 to 2015 completions





# Definitions

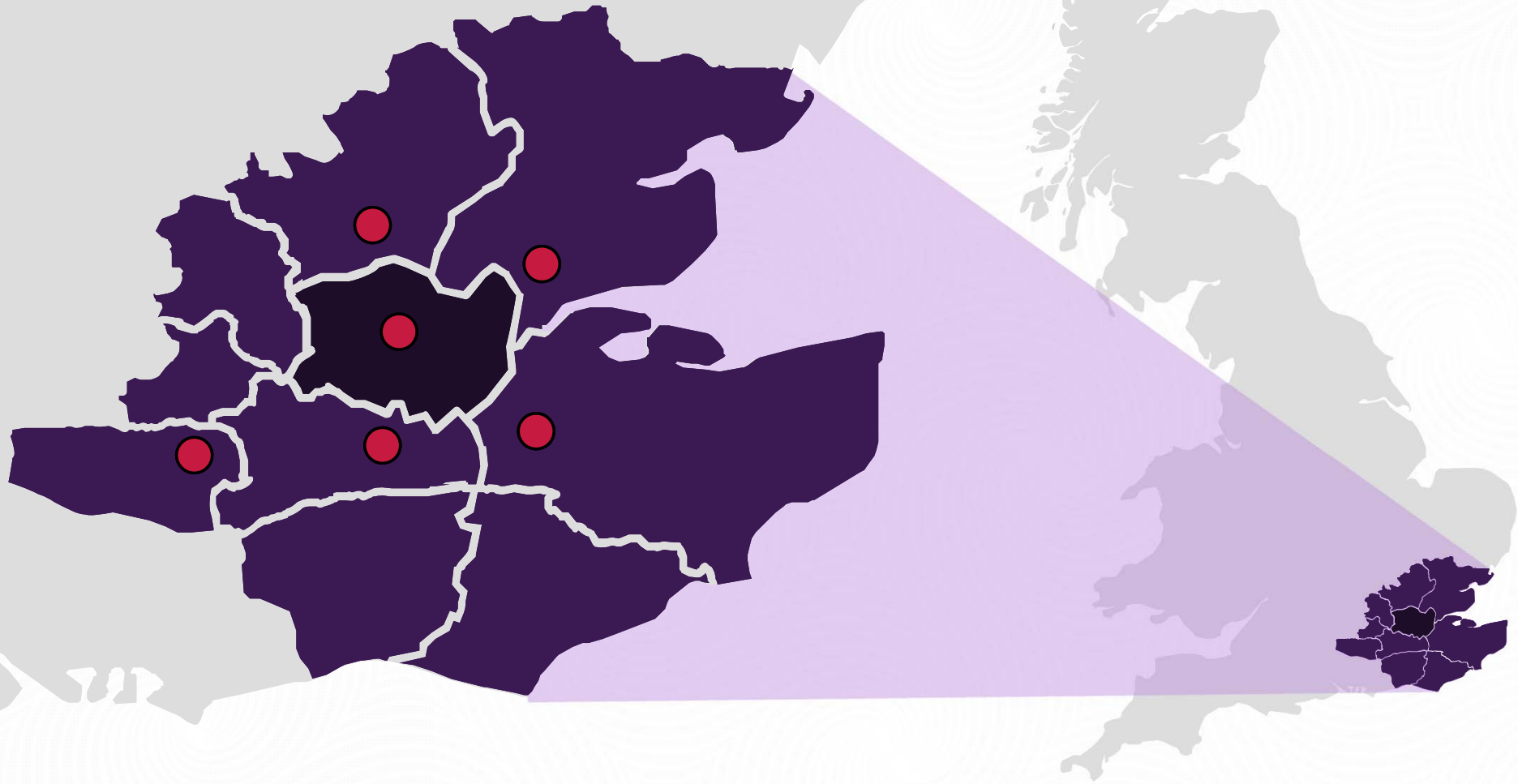
- Operating profit is defined as profit on ordinary activities before net finance costs, exceptional items and tax, after the share of results of joint ventures
- Return on capital employed (ROCE) is defined as 12 month rolling operating profit divided by the average of the opening and closing capital employed
- Return on net operating assets (RONOA) is defined as 12 month rolling operating profit divided by the average of the opening and closing net operating assets, which is defined as net assets less net cash less deferred tax balances, less any accrued dividends
- Contribution is defined as operating profit before direct selling expenses, overheads, net other income and the share of results of joint ventures
- EBITLA per plot is defined as operating profit per plot (excluding joint ventures) before land amortisation, which is defined as the value of land (net of impairment provision) charged to the income statement on completion of land and house sales
- Cash generated by operations is defined as net cash from operating activities before income taxes and interest paid or received

# London and South East divisional overview and customer service

Chris Carney  
Divisional Chairman, London and South East



# London and South East Division



# Current trading in the division

- Positive trading environment with no noticeable impact from Brexit
- Central London market stable
- Order book value increased +17%
- Active in land market

## London & South East, including Central London

	2016 week 16 (excluding JVs)	2015 week 16 (excluding JVs)
Average outlets open	53	55
Private sales rate (net)	0.76	0.83
Private sales price £000	407	389
Cancellation rate (private)	12%	11%
Private order book value £m	783	669
Private order book units	1,536	1,550



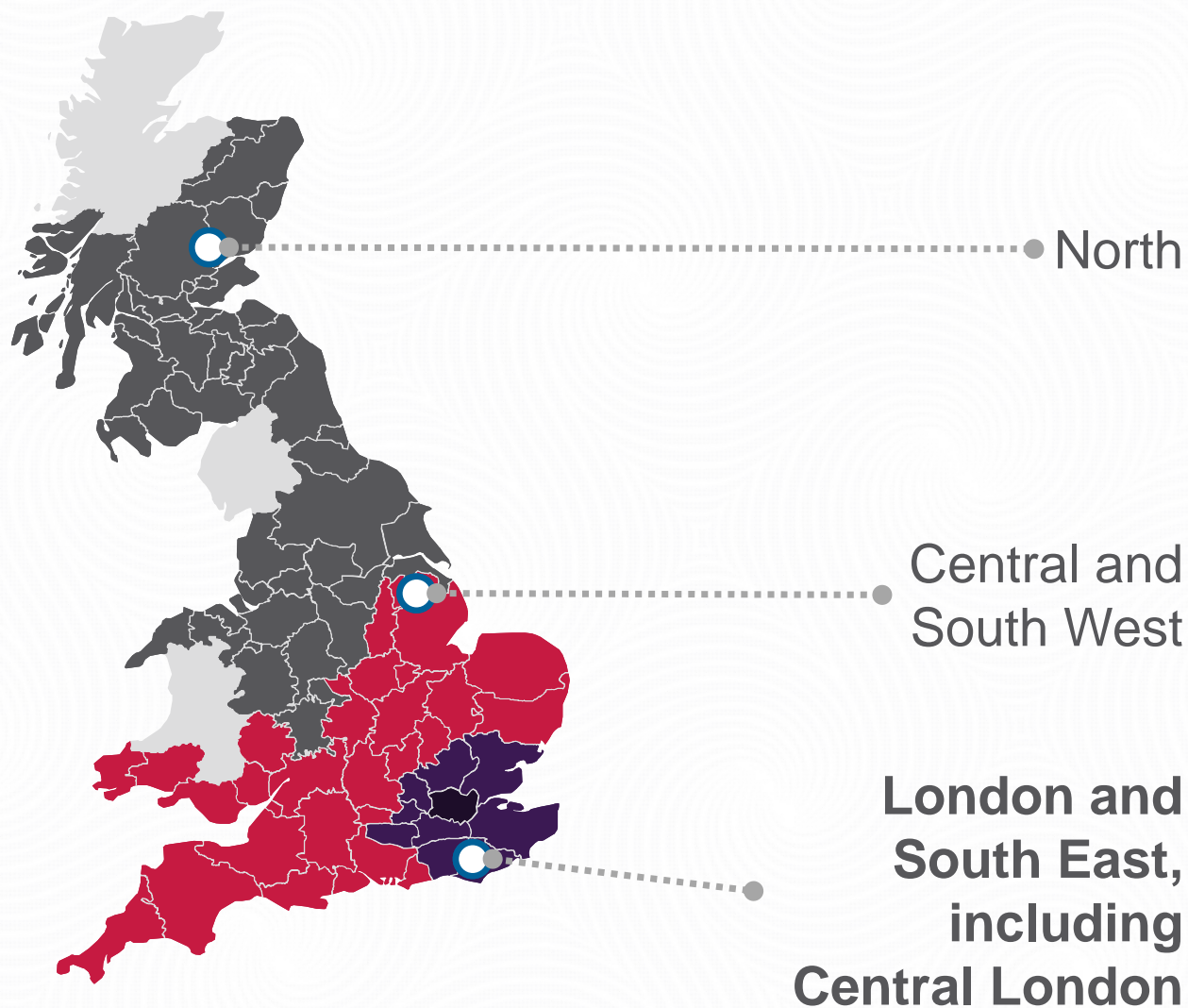
# Financial summary

	London and South East, including Central London		TWUK		London and South East, including Central London as % of TWUK	
	2015	2014	2015	2014	2015	2014
Completions*	<b>2,889</b>	2,895	<b>13,219</b>	12,294	<b>22%</b>	24%
Revenue £m	<b>912</b>	826	<b>3,082</b>	2,652	<b>30%</b>	31%
PBIT £m	<b>203</b>	155	<b>627</b>	477	<b>32%</b>	32%
PBIT margin	<b>22.3%</b>	18.8%	<b>20.3%</b>	18.0%	—	—

\* Excluding JVs

Please note: TWUK includes an additional operating segment covering the corporate functions, Major Developments and Strategic Land, which have not been allocated to the divisions

# Capital invested and returns



## Net Operating Assets

2015: £813m  
2014: £772m

2015: £705m  
2014: £727m

2015: £994m  
2014: £819m

## RONOA

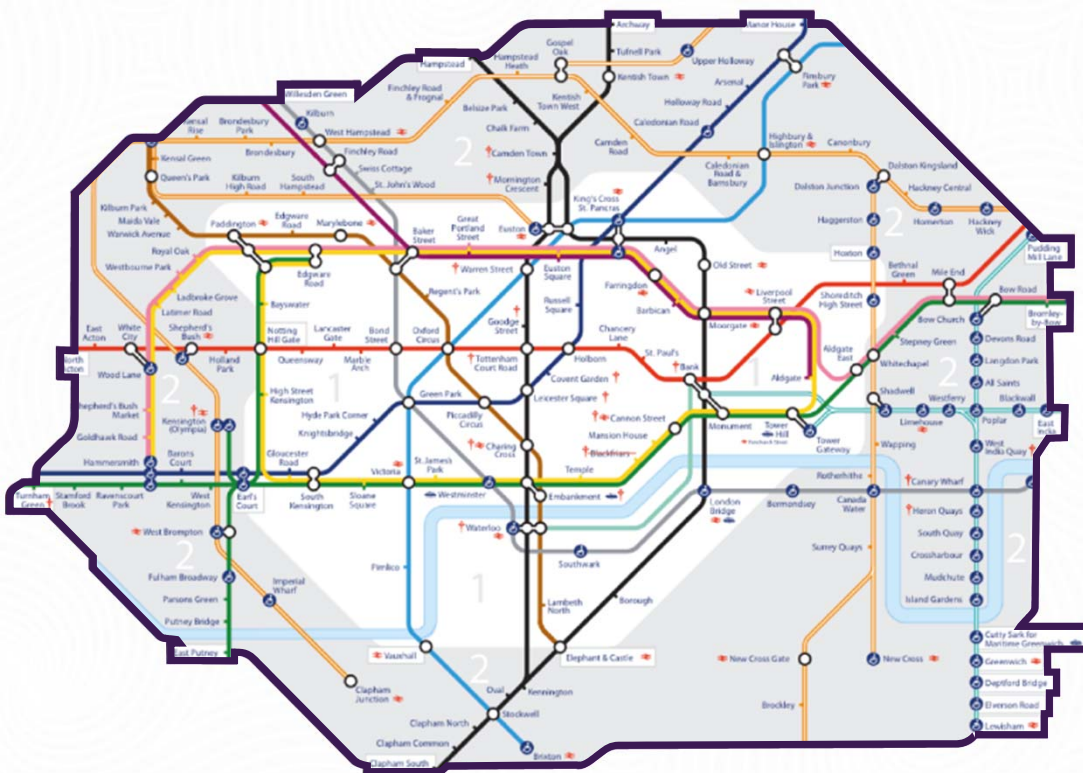
2015: 31.8%  
2014: 29.0%

2015: 34.1%  
2014: 25.3%

2015: 22.4%  
2014: 20.6%



# Inner London (inside zones 1 & 2)



■ 2015\*

- Completions\*\*: 445 (2014: 297)
- Total revenue: £227m (2014: £150m)
- Operating profit: £66m (2014: £36m)
- Blended ASP\*\*: £496k (2014: £503k)

\* TWCL contributed 214 completions, £153m in revenue and £47m in operating profit

\*\* Excluding JVs

## Inner London (inside zones 1 & 2)



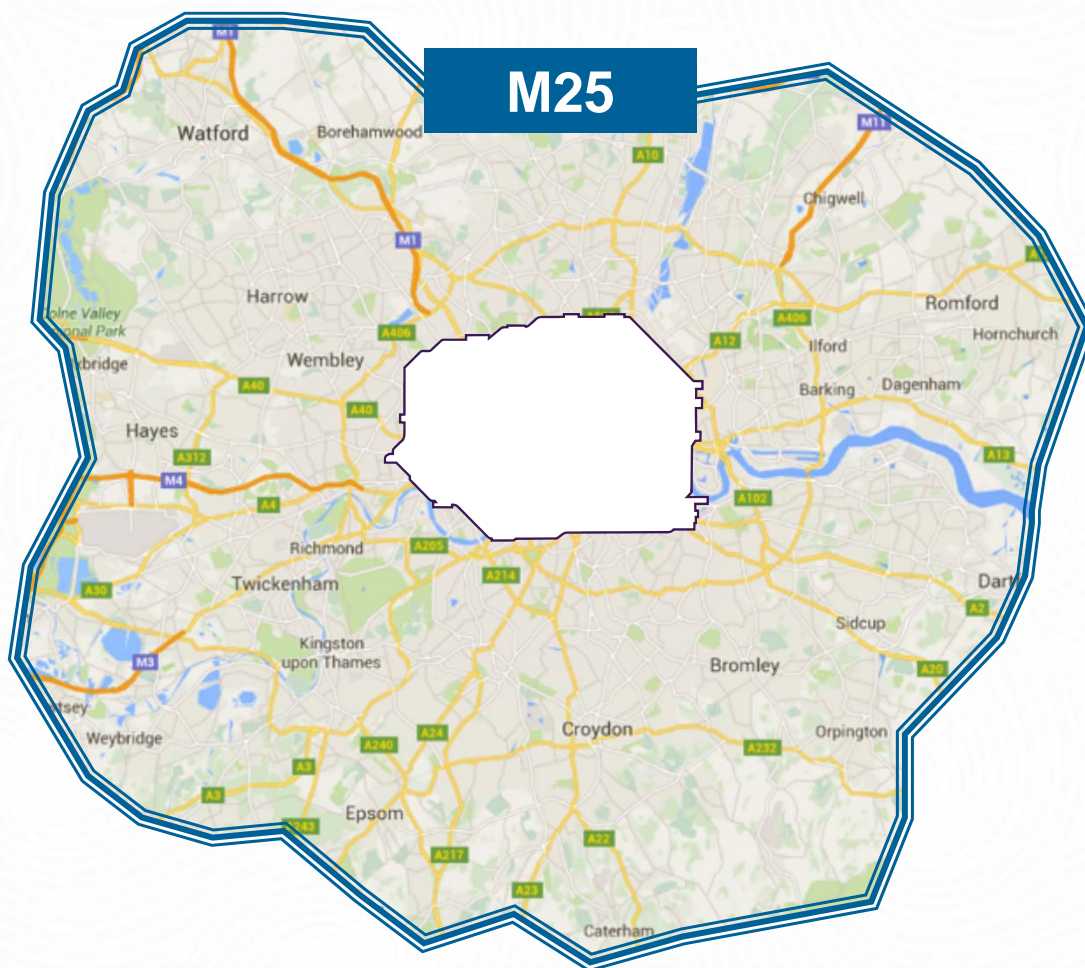
The Music Box, Southwark



Battersea Exchange, Battersea



# Outer London (inside the M25, excluding zones 1 & 2)



## ■ 2015\*

- Completions\*\*: 534 (2014: 533)
- Total revenue: £154m (2014: £148m)
- Operating profit: £35m (2014: £35m)
- Blended ASP\*\*: £287k (2014: £277k)

\* TWCL contributed 66 completions, £25m in revenue and £11m in operating profit

\*\* Excluding JVs



## Outer London (inside the M25, excluding zones 1 & 2)



Balham Walk, Balham



Emerald Gardens, Kew



## Home Counties (outside M25)



### ■ 2015\*

- Completions\*: 1,910 (2014: 2,065)
- Total revenue: £531m (2014: £528m)
- Operating profit: £102m (2014: £83m)
- Blended ASP\*: £277k (2014: £252k)

## Home Counties (outside M25)



Dovecote Place, Westcott



The Bridge, Dartford



# Customer service

- Completed in-depth review of every aspect and stage of our Customer Journey in mid-2015
- 2016 focus is on implementing changes in three main areas:
  - New Head of Customer Service in each region
  - Named Customer Relationship Manager for each customer
  - New Home Quality Inspection to complement existing Build Quality process
- How are we doing?
  - All of our regional businesses have new Heads of Customer Service
  - 100% of Customer Relationship Managers recruited
  - Home Quality Inspection implemented on c.60% of sites – with all Business Units forecast to be using this by September

# Customer service – London and South East

## ■ Regional challenges

- Understanding and implementation of new standards
- Embedding customer focused mindset in all departments
- Obtaining buy-in from our subcontractors to the new standards
- Delivery of training to staff members to ensure consistency in delivery of new process
- Getting used to a new way of working with our customers



# Looking forward

- Focus on achieving significant improvements in customer service
- Realignment of resources to increase the flow of strategic land within London and South East
- Attraction and development of emerging production talent to combat skills shortage
- Drive more consistency in our approach to the varied products we deliver

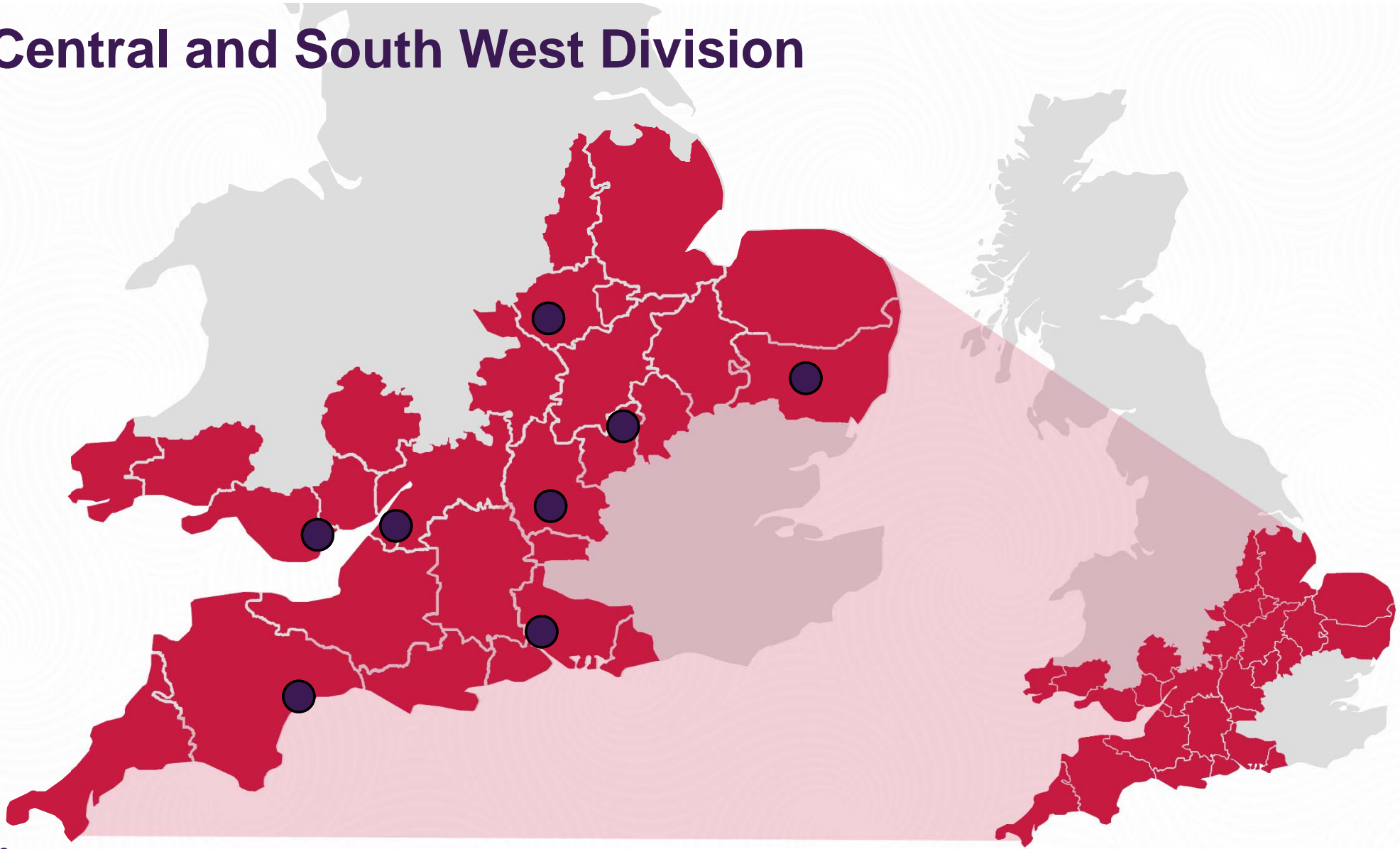




# Central and South West divisional overview and land

Nigel Holland  
Divisional Chairman, Central and South West

# Central and South West Division





# Current trading in the division

- Consistent level of new enquiries from Q4 2015 into Q1 2016
- Sales rate 19% higher than in 2015
- Outlet numbers marginally down YoY – managed
- 24% growth in order book value YoY

## Central and South West

	2016 week 16 (excluding JVs)	2015 week 16 (excluding JVs)
Average outlets open	94	106
Private sales rate (net)	0.88	0.74
Private sales price £000	272	242
Cancellation rate (private)	13%	11%
Private order book value £m	553	447
Private order book units	2,068	1,856

# Financial summary

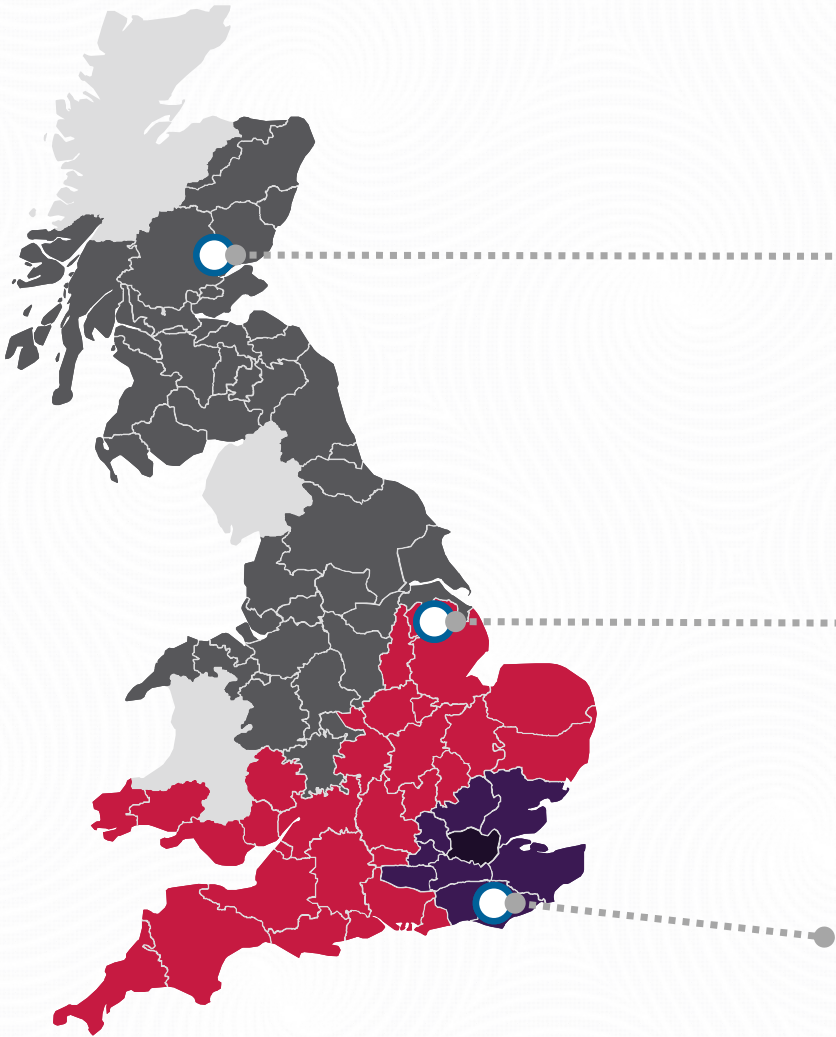
	Central and South West		TWUK		Central and South West as % of TWUK	
	2015	2014	2015	2014	2015	2014
Completions*	4,810	4,383	13,219	12,294	36%	36%
Revenue £m	1,075	890	3,082	2,652	35%	34%
PBIT £m	243	180	627	477	39%	38%
PBIT margin	22.6%	20.2%	20.3%	18.0%	—	—

\* Excluding JVs

Please note: TWUK includes an additional operating segment covering the corporate functions, Major Developments and Strategic Land, which have not been allocated to the divisions



# Capital invested and returns



North

Net Operating Assets

2015: £813m  
2014: £772m

RONOA

2015: 31.8%  
2014: 29.0%

Central and South West

2015: £705m  
2014: £727m

2015: 34.1%  
2014: 25.3%

London and South East, including Central London

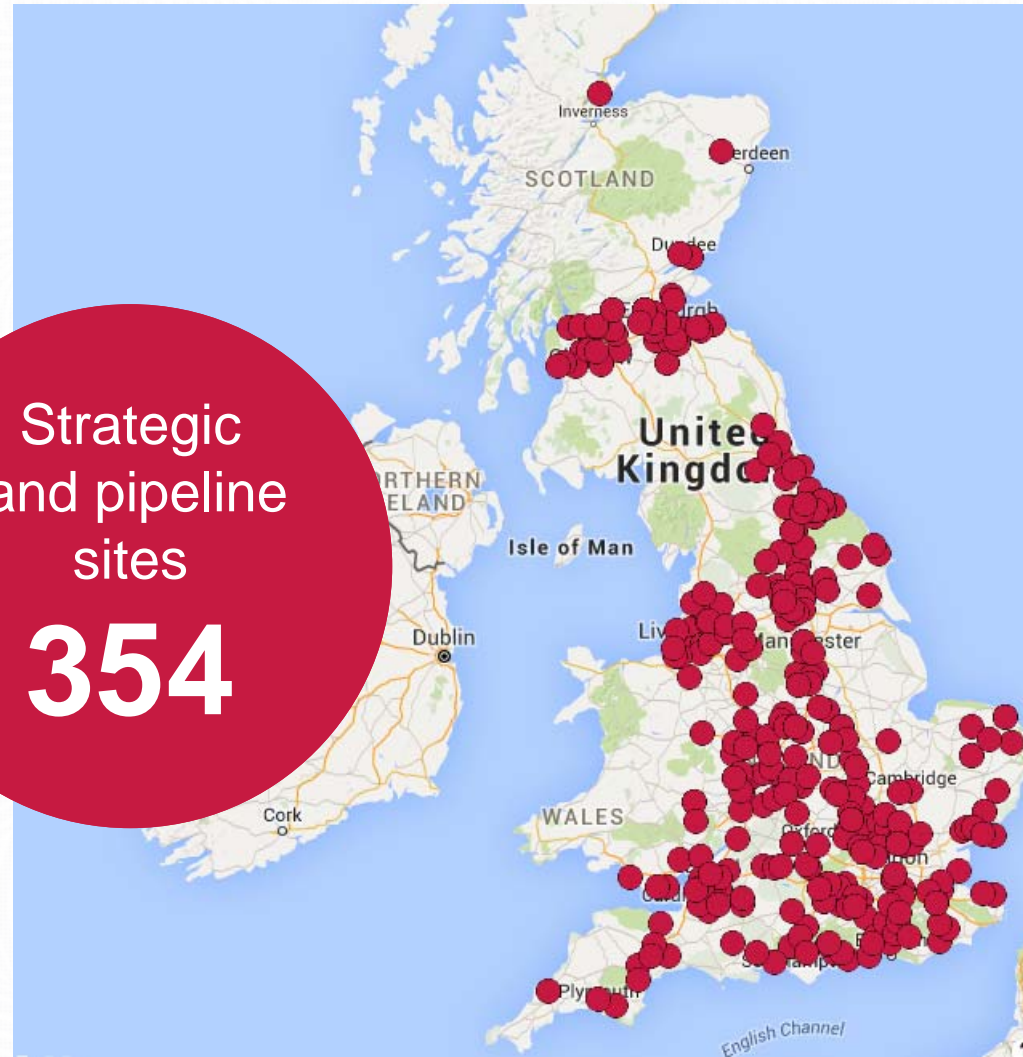
2015: £994m  
2014: £819m

2015: 22.4%  
2014: 20.6%

# Strategic land pipeline

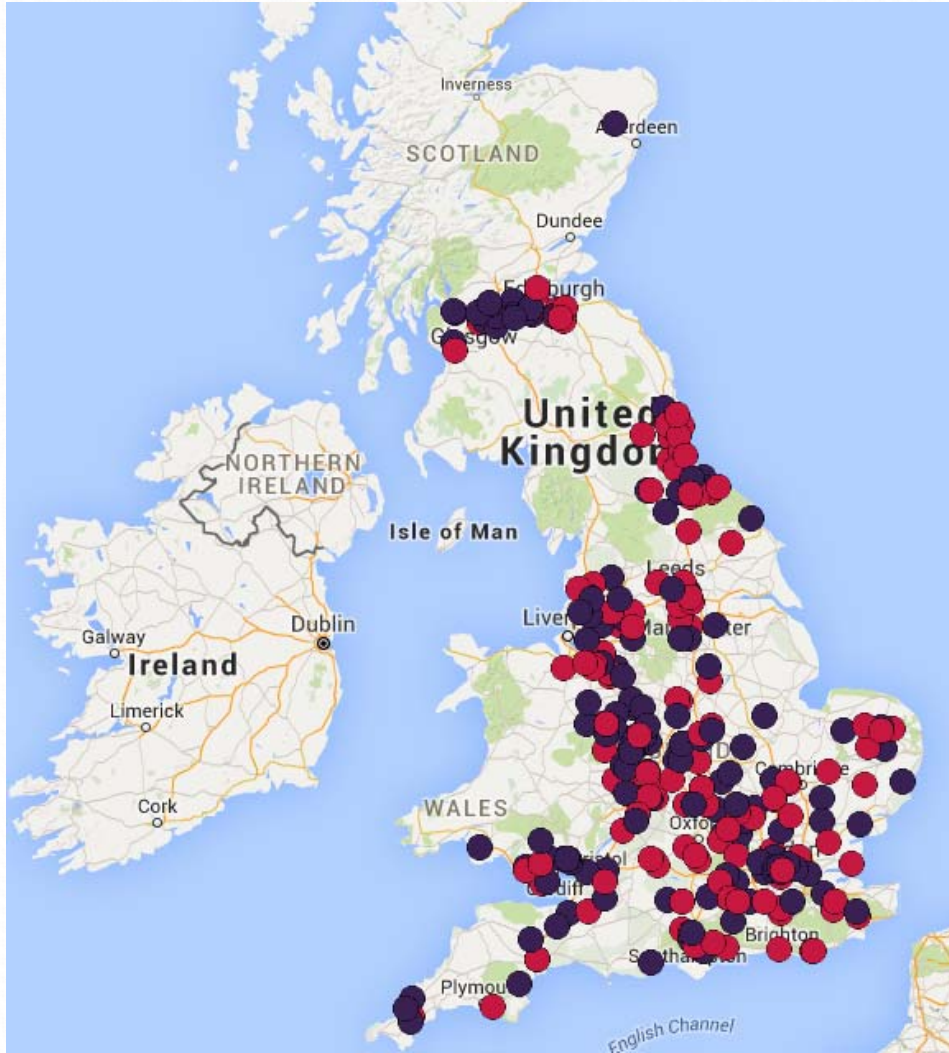
■ As at 31 December 2015:

Strategic  
land pipeline  
sites  
**354**





# Strategically sourced developments



■ Outlets, as at 31 December 2015:

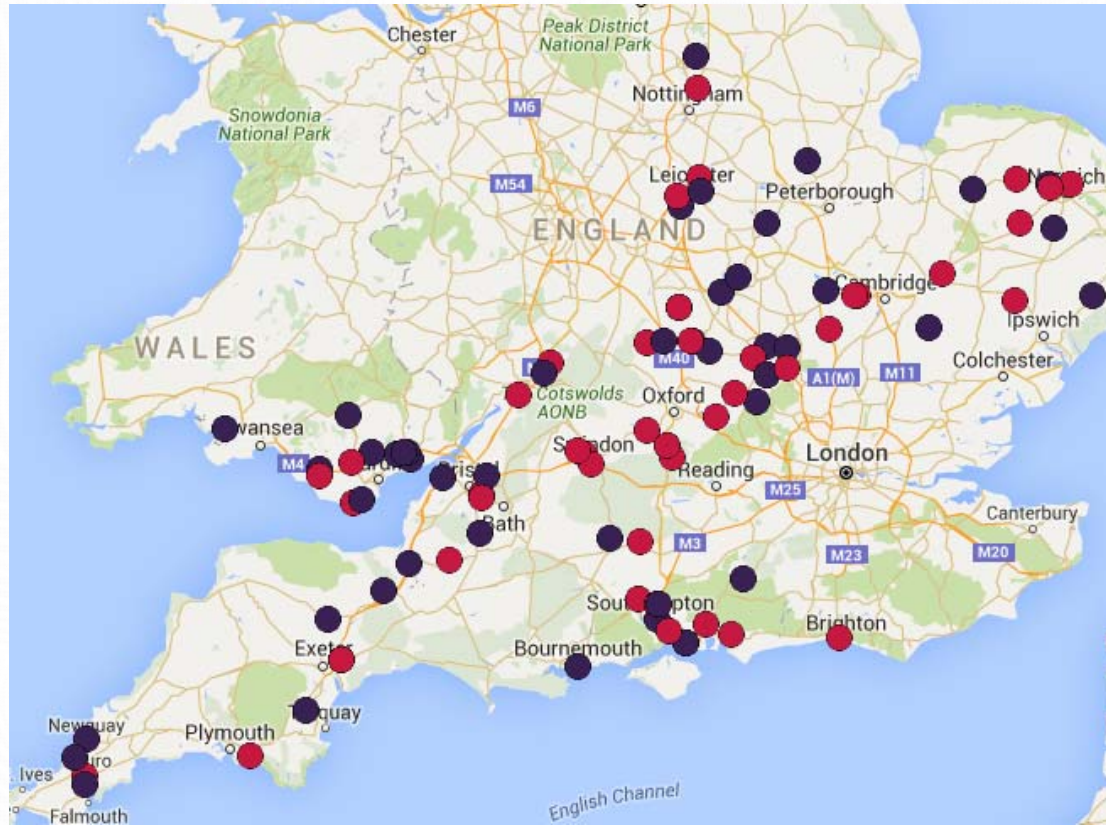
Strategic

**143**

Non strategic

**154**

# Strategically sourced developments – Central and South West



■ Outlets, as at 31 December 2015:

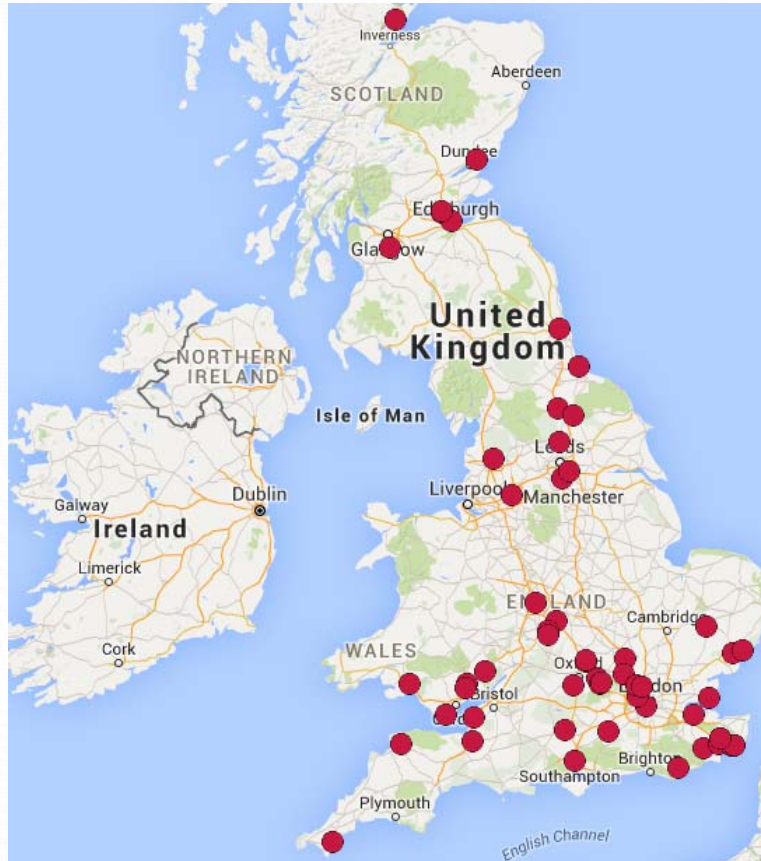
Strategic  
**46**

Non strategic  
**49**



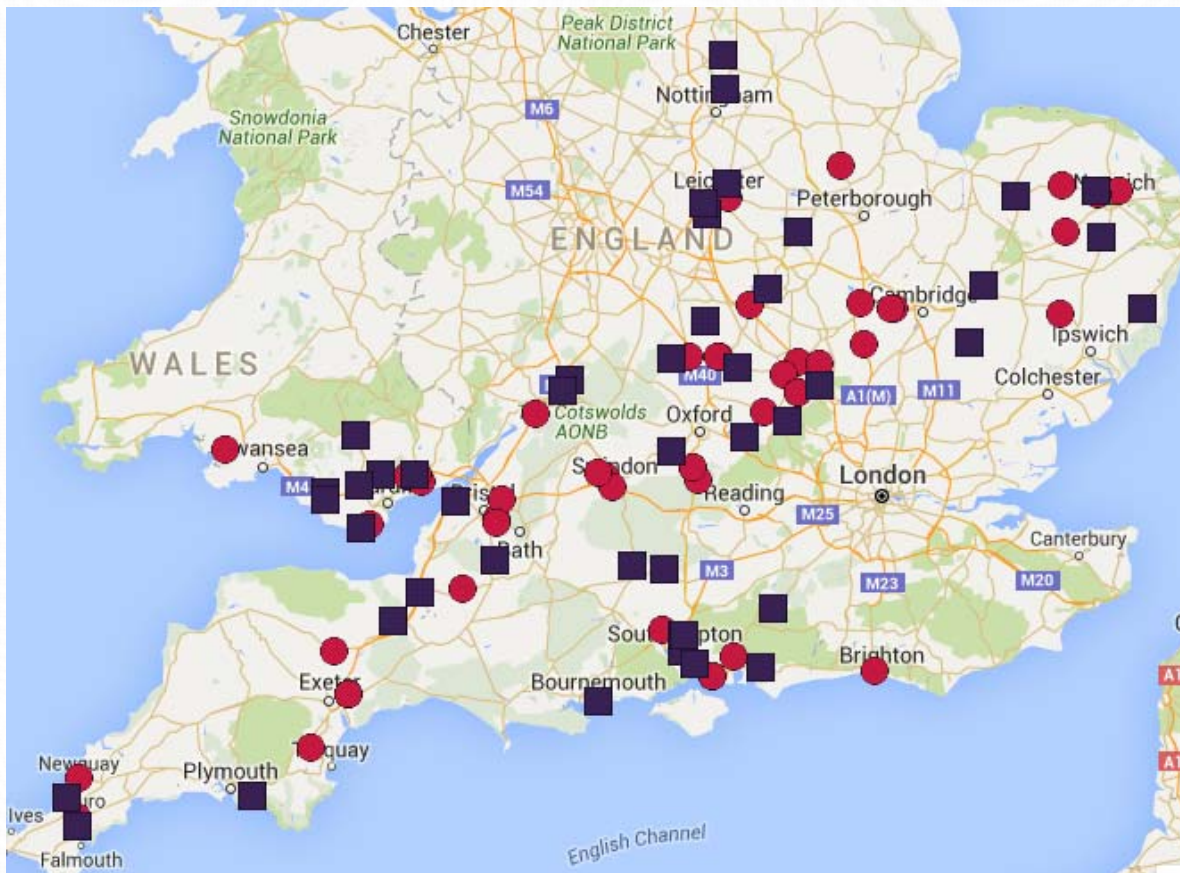
# Strength in strategic land

- Strategic land conversions in 2015:





# Making assets work harder – Central and South West



■ Future scope of outlets, as at 31 December 2015:

Under  
200 plots  
**45**

Over 200  
plots  
**50**



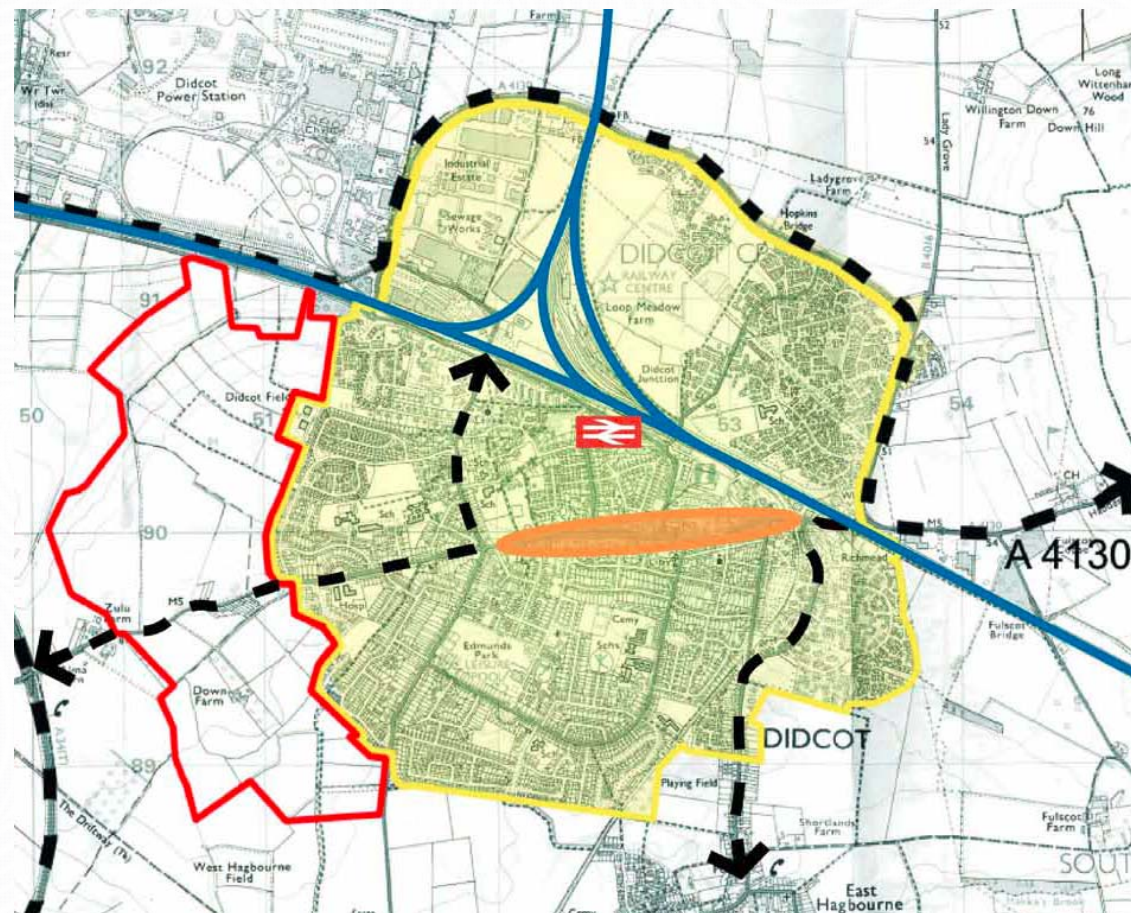
# Great Western Park, Didcot

## ■ Working a strategic asset

■ Land acquired *	December 2008
■ Site start **	May 2010
■ Total plots (TW)	2,837
■ Plots sold to others	520
■ Net TW plots	2,317
■ Legals to date	840 (36%)
■ Balance to complete	1,471
■ Completions 2012	113
■ Completions 2015	233
■ Completions 2016	244
■ Operating margin 2016	30% (approx.)
■ Turnover 2016	£66m
■ ROACE 2016	>35%

\* Final date of completed land assembly

\*\* Construction start on infrastructure





# Emersons Green, Bristol

## ■ Working a strategic asset

■ Land acquired *	January 2013
■ Site start **	March 2014
■ Total plots (TW)	2,400
■ Plots sold to others	1,256
■ Net TW plots	1,144
■ Legals to date	156 (14%)
■ Balance to complete	988
■ Completions 2014	57
■ Completions 2015	84
■ Completions 2016	85
■ Operating margin 2016	30% (approx.)
■ Turnover 2016	£20m
■ ROACE 2016	>20%

\* Final date of completed land assembly

\*\* Construction start on infrastructure





# Looking forward

- Look at where else we can use the approach of “develop not sell” to make our larger assets work harder
- Improve the quality of service and completed homes for our customers – especially their living environment
- Continue to find and convert great strategic land opportunities in places where people want to live
- Attract, develop and retain key people
- Finish the job on consistency of operating processes – and then look to continuously improve

