# Full Year Results 2016

Tuesday, 28 February 2017

## 2016 Overview and Operations

Pete Redfern

*Chief Executive Officer, Taylor Wimpey Plc*

Good morning. A bit more sort of time pressure to get started because I'm very conscious this morning we've got three presenters because, as you may have already spotted from the slides, Jennie is here with us. So, my main goal for today is to get through my bit quickly so that we don't compress our time and leave you frustrated at the end.

Fairly normal structure apart from, sort of, Jennie speaking. We originally expected Jennie to come and talk about our land position, bit about the political environment at the half year, but with the referendum result only a few weeks before, we decided that the conversation was almost inevitably going to be about current trading, so, that's why we put it off until today. And we plan over the course of the next sort of 12, 18, 24 months, to also have our Divisional Chairman because we've had some change through natural retirement and through Peter Truscott moving on, some change in that Divisional Chairman group. I think that you've met all of our new Divisional Chairman, but we'd like to give them the chance to speak to you as well, as Jennie today.

I'm going to cover a brief overview of 2016 and some operational sort of questions. And then at the end, I'll come back and talk a bit more about current trading. And probably, where I'd like to focus, you know, sort of my time is on sort of the medium-term outlook as well 2017 performance. But as I say, first of all, 2016 sort of overview.

The three graphs are our three kind of headline medium-term targets. Clearly, improvement in all three areas during the course of 2016. I'll just pull out the one that's there at the bottom on cash conversion. I wouldn't want anybody to feel that we'd had a target, and then sort of, carefully hidden it. That was originally a target that we had for this year, but the performance of 81% in 2016 was both ahead of our expectations and your expectations and meant that the three-year target in that area that we set three years ago, we comfortably exceeded at the 65% sort of cash conversion.

Just picking out some operating highlights – and slightly unusually, the particular one on this slide I would like to pull out is the employee turnover number. It's not that the 2016 number stands out relative to 2015 or the last two or three years. It's that staying around 13% during the course of the sort of staff pressures that the whole industry has faced in subcontractors and in employees over the course of the last four or five years I think is a phenomenal performance. You know, through the previous cycle at this point, when the pressure on people was nothing like as great as it is in this cycle, we’re used to that number being more in the low-20s. And I suspect if you looked at our peers you'd see levels of that – at that sort of level today. To keep it in those low-teens levels I think is a real testament to the work that we've done on people development, on our packages – not just pay, but actually how we reward people. And it makes a huge difference to the consistency that we're able to deliver in other parts of the business.

I think the other number just sort of, like to pull out is the order book. Slightly down at the end of the year on last year. But we'll come back and talk about that when we come onto 2017 trading. The £1.7 billion, we finished 2016 at was a pretty comfortable level for us, so, no particular concerns.

I'm not going to spend very long on this slide because it looks back at market performance. I will come at the end and talk about 2017 and put on the column that I think is more interesting for you about trading over the last seven or eight weeks. But a pretty solid year, overall. And really, when you stand back and look at the year and split it into halves, you can't particularly see impact of the referendum and economic uncertainty. You all know we had a slightly quieter summer. I would say by the end of the year, the sort of slight reduction in the statistics in sort of July and August have been more than caught up, and the second half of the year, overall, looks very solid.

Cancellation rate was slightly higher, as you'll see, for the period over the last seven or eight weeks, the cancelation rate has fallen below last year. So certainly, noting there that concerns us. And similarly, with outlets. Our outlet numbers, you know, sort of remained in the kind of just under 300 level. They're actually slightly higher today. But again, it's something that we monitor, but aren't particularly concerned about.

Probably sort of more interesting, I'll talk about London in a second, and the 2016 statistic there. I just like – this is the slide that we always have in the appendix. It doesn't normally pull forward into the presentation. But just like to highlight a couple of things from the customer segmentation. The first is the level of investors. 17 – 7%, sorry, in 2015 was lower than we are used to seeing. It's been gradually falling over the last six or seven years. We peaked – and some of you will remember – in the low-20s in 2006 and 2007. And we've seen it as a longer term, lower risk environment to move strongly towards owner-occupiers. But you can see in 2016, our dependence on investors was very, very low. And we continue to target owner-occupiers as our key sort of buying group.

The other piece is – and if you look over these stats over the course of the last four or five years, we've seen a gradual but meaningful underlying growth for our business in first-time buyers. We see that's a core part of the business, but really looking for an even split between first-time buyers and move-up customers. And you see in 2016, partly through Help to Buy but also just through the underlying level of interest rates, that first-time buyers are buying even without a Help to Buy mortgage. You see a healthy growth in that first-time buyer group.

I'll say I'll come back to the Central London market performance and I'm not particularly going to pick up the last seven or eight weeks at the end sort of on Central London. So, I'll touch on that now. You can clearly see, particularly actually in the first half of 2016, we saw a lower private sales rate. Particularly, as stamp duty kicked in. It actually recovered in the second half of the year and yeah, we saw as we talked about during the course of the year, some price movements of around 5% or 6% on average for us in those Central London sites in the second half of the year. But we ended the year with what felt like a far more stable, robust market, with prices at a level where we were generating good levels of interest.

I think, and it's the bottom bullet point on the slide, which is a forward-looking measure, what's key for us in that Central London business where we have six outlets, probably seven in total over the course of the year, what we're looking for in terms of overall sales for completions this year is an average of 20 sales per site. So, we have no sites where we are looking for high sales rates and where the business is particularly dependent on those. So, we're seeing fairly steady, stable sort of traction in that business, clearly at a lower level than we've seen in the past. But certainly not something that's giving us concern in terms of our overall guidance for 2017 as a whole.

Moving on from trading and from 2016 to areas of operational improvement. And we said we would pick out in each presentation a couple of areas. First of all, just – and this is really just to remind you where sort of our management team sits because as I touched on earlier, there have been some changes. The main change in the year is that Fergus McConnell retired at the end of 2016, which was a long-term planned thing, and Daniel McGowan, who's in the room and who has been with us for many years, has taken that role which, you know, sort of certainly hasn't caused any surprise within the business. But, you know, we continue to have a very stable operating team. You're aware of the change that we made 18 months ago now, to split our Southern businesses into two halves, which are run by Chris Carney and Nigel Holland. And as I said, we'll have Daniel and Nigel and Chris come to talk to us about their businesses at different points during our presentations over the next year or two.

But on some of the operating changes, we've talked a lot over the last two years – I think earlier than anybody else – about customer service, and some of the challenges of getting it really right when production in the business is under pressure. Probably the toughest point for us was just over 12 months ago, so we feel that the changes that we've made over the last two years have really started to pay dividends. All our businesses, by the end, were transitioned to our new customer service approach. All of them are running our new home quality inspection by the end of 2016. All of them have got a restructured Head of Customer service – we had a primary role on customer service before that, but we've upgraded it. That meant changing quite a lot of the people, that meant changing the pay structure and where it reported. And all of them have supporting customer relationship managers. So, it means their customers have got an independent point of contact, separate from the sales and production roles. And I really do believe that we've got full buy-in from all our staff on some improvements that go from end-to-end of the business. And you can see that come through the statistics. It's a slow ship to turn because it takes nine months from our first real contact with the customer to getting the statistics at the end. So, it doesn't happen overnight. But even in the year-to-date scores which, you know, take even longer to turn, you see a step-up from 86% to 87%. And I think we'll continue to see that grow.

I think in – the bit that concerns us the most, I think is, you know, sort of the month-on-month movements. And there you saw our low point was December 2015 at 84%, December 2016 – and December's always going to be the pressured month in our environment – a very material movement up to 88%. And that was the first month we have those new processes working in all of our businesses, so, a really significant turnaround.

I think if you look under the surface, we're seeing some major benefits from those changes. You can see a measurably better standard of finish and a decrease in defects. And we think therefore, longer term, a decrease in costs of sorting those defects as well as a much more positive result for customers. We're seeing that come through in our positive feedback from customers as well as in the statistics. But it continues to be an ongoing process, particularly to engage our subcontractors and make sure we deliver consistently 100% of the time.

On a different issue that we see as being customer service-related, I thought I'd just touch on leasehold which, I think, is a question that one or two have asked our competitors. And we have had one or two questions in the background because there's been some consumer press coverage. Really two areas that sort of are under question that I just wanted to highlight.

First of all, leasehold houses. The whole industry sells some houses leasehold. That's been true for 30 or 40 years in the North West and for Taylor Wimpey, it's only really in the North

West that we've ever sold leasehold houses. We – and I don't think anybody else has taken this decision – have taken the decision not to sell houses leasehold in the future unless, and this is exceptional, that we've bought the site in the first place in a freehold – on a leasehold basis. Tends to be if you're buying on a country estate or, you know, sort of from a local authority where there are particular reasons. We don't see that as a big financial decision, it's never been a particular significant income stream for us and it doesn't change forecasts. But we do see it as being more aligned to our overall approach to customer service. We think we're giving our customers a simpler and easier and, therefore, better product.

The other question that's been raised is on some legacy ground rent terms, and we're reviewing that quite closely. There's a particular class of lease where ground rents increase more quickly than for some of the more standard leases in the market. We used some of those leases on sites that started between 2007 and 2011. And whilst the lease is clear and customers had independent legal advice, we do recognise that it's a more expensive product for customers, and so we're reviewing that quite carefully.

Just moving on to production and our Project 2020. This isn't our full and final update. The project is not yet complete, although it's nearing its end. But I did think it was worth just giving you a bit of an update on some of the sorts of conclusions that we're reaching.

Not surprisingly, we don't believe that this is a single silver bullet to production constraints. The government / political drive towards modern methods of construction is often naïve. We've looked at many different methods over the long term and, particularly in detail, over the last 18 months. Existing modular and offsite construction methods tend still to be more expensive and less flexible. And they only really work at scale on a few developments in sort of urban and certain major suburban locations, and are heavily weighted towards apartments. But we do believe that there is real value over the course of the next five years in bringing more options, more choices into the way that we build. Yeah, we are sort of very heavily-weighted towards traditional double-skin construction. And so, we are looking at an increased use for timber frame on a more strategic basis. It tends to be a site-by-site, business unit-by-business unit decision. And we're looking to grow that materially over the course of the next two to three years.

We're looking at further testing beyond that of, what I would call, beyond timber frame or enhanced timber frame with SIPs panels. Don't think that's going to impact significantly over the course of the next 18 months, but will be something we'll continue to review. And we are looking at increased focus on brining labour and skills in-house on key trades. Not across the board, and I don't think in any trade, we'll ever reach sort of 80% or 90% of our total requirements. But looking to supplement sub-contracts on a local basis, where we are struggling to find a consistency of high-quality trades, I think is the right move for us to make over the next two to three years. And that lets us make an increased investment in training and development and new production skills. It's very hard to increase that beyond where we are today without actually employing more people directly because we just don't get the return on that investment.

And we'll continue to maintain the focus that we've built up over the last 18 months on new methods. And that's both, you know, not giving up on modular and offsite construction methods because that position may change. But also, actually continuing to improve and continuously improve our production methods.

In a world where land is easier for us, and particularly with the scale and length of landbank that we have, our ability to drive both flexibility, cost efficiency and to deliver changing levels of production more effectively is becoming more and more important to us as we look forward. So, this is more of a strategic area than a flag for 2017 and 2018, but certainly an area we continue to see as very important.

Jennie?

## Land and Planning

Jennie Daly

*Land Director, Taylor Wimpey Plc*

Good morning. So, to get started, a quick review of the land market. In overall terms, we're seeing continuing stability in the land market. And land pricing remains good, with good quality opportunities across a range of site sizes and geographies. And we're only seeing price pressures in the best locations. There's little disruptive behaviour in the market at the moment, although we are seeing an increase in the activity of housing associations emboldened by recent mergers and access to ready capital. And this is most notable in the London and South East area.

In terms of the London market more specifically, land pricing remains competitive, particularly in the sub-prime areas below £800 a square foot, and less so in the prime areas. As a result, we are seeing increasing activity and bidders moving out into the outer zones than we have previously, and that's likely to affect competition going forward. Our specific land search criteria in London is focused around good-quality locations and deal structures such as utilising joint ventures and partnerships that represent good opportunities and additional growth in returns.

During the last few months the Mayor has been consulting on affordable housing and viability guidance. And this will seek to increase the overall provision of affordable housing, and also introduces an existing-use value approach to planning viability. Both these factors are likely to put pressure on land prices going forward, and may mean that alternative-use values become more attractive for vendors, particularly in certain locations. It's also likely to drive more bidders to conditional bid structures.

Moving on to the strategic land market, opportunities remain plentiful, but there is increasing activity with promoters. And this is particularly, but not exclusively, noticeable in the South East area. Our longevity and reputation continue, I think, to differentiate us in the market, and we consider to see a reasonable level of one-to-one deals in this part of the market.

So, looking now at our UK land pipeline, we've continued to operate broadly on a replacement basis in our short-term land bank. This has allowed us to specifically maintain a measured and disciplined focus on new opportunities, and a focus on quality. And I think this is demonstrated by the addition of over 6,000 plots to the short-term landbank, with circa 26% contribution margin and circa 31% return on capital employed. So, we closed the year with a landbank of just over 76,000 plots, representing a 5.5 year landbank based on UK completions.

As an overview, the planning environment, I think, remains broadly positive, albeit the planning process can be sticky at times. The visibility and the timing of drawdown of planning consents, I think, remains the most challenging element to our teams on the ground. But in this environment, we had a very strong performance in transfering into the short-term landbank from our strategic land pipeline of over 9,500 plots. Despite the competition in the strategic land market, we added 10,800 net strategic plots to the landbank overall. I think it's been previously indicated in other presentations, we did have a considered pause after the referendum vote in land activity. And this did reduce some of our overall land acquisition in the year, but not materially and the expectation is that this will drift upwards in the coming year.

So looking at this slide, we've drawn this together really to help frame a response against the sort of political pressure and the continuing criticism that we've seen over the year on the size of landbanks and the lack of implementation of planning consents. The left-hand graph simply looks at our completions and the detailed planning permissions granted in the corresponding years. And as you can see, it's fairly variable, which is to be expected. And it can only ever be a snapshot. But over a reasonable period of time – in this instance, from 2008 to 2016 – it shows, I think, what one would expect to see from an efficient development business and efficient development process, which is that there's a very close correlation between our output – that's the planning permissions that we implement – and our intake – that's the planning permissions that we drawdown from the process. So, we consume what we drawdown.

The right-hand graph looks at our sites with implementable planning permission which, by our definition, means sites that have detailed planning permission where we have achieved a discharge of pre-commencement conditions and where other non-planning related regulatory consents have been achieved. This pie chart indicates that we have 387 sites, and that represents over 38,500 plots. And what it shows is, of those 387 sites, which some will call 'shovel-ready', there are only 0.5% which we're not planning to start by quarter two of 2017. That's just two sites representing 276 plots. And they're under close management. And I am confident that we are in conversations with the local authorities within whose areas those operate.

So, moving on and looking at capital allocation, for the 2016 capital allocation process, we reviewed the way in which we allocate land and WIP spend to reshape our business behaviours. This is a process that will evolve over the three-year budget view. Historically, land and WIP spend was business-derived. Sort of a predict-and-provide approach, if you will, where the regions predicted their needs and, to a greater extent, Group met those requirements. On review, this approach had led to a number of regions having a disproportionate level of investment and locking up capital somewhat inefficiently.

So in its place, we introduced a more centrally-led strategy assessing overall returns on our investment, looking at the land positions within each business, and also the opportunities for growth within each business. And whilst our intention is always to maintain sustainable businesses in the short, medium and long term, there are locations where there are opportunities and where investment is more desirable. And equally, there are those areas of our business where businesses can operate within their existing land assets much more efficiently. So, this more structured and internally challenging approach seeks to optimise the investment opportunity and its capital efficiency, whilst also considering the structure,

capability and capacity of each business, and particularly those where we intent to extend additional investment.

Just looking at the numbers, whilst we would tend to undershoot against allocation, overall, the capital allocation process delivered fairly well against the allocations made. And we have rolled it forward for the 2017.

So not surprisingly, a key driver for our business going forward is return on capital employed. So, hand-in-hand with the capital allocation process, we also increased the business focus on capital investment, and making it work harder and increasing overall returns, whilst maintaining margin. So, as a result, we've been communicating across all parts of the business the importance of return on capital. And from a land perspective, this has meant a sharper focus on robust assessment, efficient processing and ensuring that we have the right skills in place to deliver against those expectations. The land purchase process has more focus on return on capital measures. And reviews are ongoing through – from the process of acquisition through to outlet opening.

In addition, we've been continuing to our focus on capital-light structures. We've looked at sort of infrastructure delivery or building in lieu. And one such example was Central London undertook with Workspace, and delivered back some commercial space, in lieu of land payment. Obviously, joint ventures, and you'll all be familiar with Chobham Manor. And in the 2016 period, our East London business also made a sale to Fizzy Living for PRS purposes within their Walthamstow scheme. These structures deliver significant benefits to return on capital, they reduce market risk, and generally, they are non-competitive to our remaining sales.

Generally, what we're looking for is a balanced scorecard. And so, assessing our project risk, but also each operational risk cumulatively. So, whilst we're seeking better market opportunities, always a critical eye on market absorption rates, ensuring that we have the optimum product mix and range, particularly given the change in market segmentation that Pete mentioned. That land payment and WIP profiles are particularly well-managed for large-scale investment for large-scale sites and infrastructure investment. And, of course, getting onsite on time.

The capital allocation process and the continuing embedding of behaviours around capital efficiency, I think, are demonstrated really well in this slide, which shows that the businesses are selecting opportunities with continuing improved margins and a very pleasing improvement in return on capital employed. It's fair to say that the uncertainty over the referendum did enable us to push a little bit harder in some markets. And I think that there's unlikely to be much significant growth in margins, looking forward. But I think that there ought to be some improvement in return on capital measures.

And finally, from me this morning, a quick look at the Housing White Paper. So, in the Minister's own words on the morning of launch, 'There's no silver bullet.' It's a subtle Paper. It's certainly not radical, as we may have had some concerns. But there is a definite change in tone to that of the previous Administration. There's a new housing target, and a number of initiatives to help us speed its delivery.

We finally have some clarity around Starter Homes. There will be no compulsory minimum requirement introduced, and the discount repayment period has been extended to 15 years.

And both these elements, I think, operate to significantly reduce any concern we would have had around market distortion, particularly in certain segments of the market.

The government is also now consulting on a minimum affordable housing home ownership policy. But it will be a matter of negotiation between the local authority and the developer as to what the level of Starter Homes will be.

As I mentioned, a raft of initiatives across the three themes that I've identified here. And whilst I won't go into all of them, I think you'll be pleased to know, there is a number of positives and I'll draw out, for example, the standardised method for calculating housing need, which will be introduced by April 2018. This calculation of housing need is one of the major delaying factors in local plans, and it's a very welcome measure. The local plans will be in place across all areas and reviewed every five years, which should assist in driving certainty within the strategic plan process, an increase in nationally-set planning fees for reinvestment in skills and resources within planning authorities, which is very welcome, and that adds to that unlocking that sticky part of the planning process that I mentioned earlier. And the local authorities would only use pre-commencement conditions by agreement with applicants.

On the counterpoint, major developers would need to aggregate their build out rates and publish them. And there's consultation ongoing that planning consents could be reduced from three years to two years.

All in all, my view is that the paper significantly reduces the potential or the risk for a hiatus for the sector, and advocates a number of incremental improvements to the process. And despite the number of consultations , that Greeny-end, of the White Paper that are ongoing, I think it gives us some certainty in the medium term, going forward.

On balance, therefore, a net positive Paper, with the benefits such as a speedier land and simpler local plan process, and improved resources into planning departments to process planning applications, if introduced in concert, then I think that they will outweigh any potential negatives such as the reduction of the timing of planning consents from three years to two years. And all in all, none of the measures should really present a major concern to Taylor Wimpey.

So, thank you, and I'll pass over to Ryan.

## Sustainable Financial Performance

Ryan Mangold

*Group Finance Director, Taylor Wimpey Plc*

Right, thanks. Thanks, Jennie. And good morning, ladies and gentlemen. I am going to talk through the financial performance in the period, which I've titled 'Sustainable Financial Performance' this year, given that it's another very strong year of delivery by the Group. All financial KPIs are positive and making good progress. And the business is well-placed for sustainable delivery of our medium-term targets that we set out in May of this last year.

If you look at the Group results, the Group revenue up by 17% year-on-year. This is driven by both better quality sites positively contributing to pricing, a bit of market pricing that we have been able to capture, as well as higher volumes in both our Spanish business as well as

the UK business. I'll spend a little bit of time talking about Spain, and then the majority of the rest of the presentation on operational financial matters will be on the UK.

Spain delivered a very positive result for the year, at just over £20 million worth of profitability. That's double that of 2015. And a margin of 22%, which is just a tad higher than the UK delivered in total. The Spanish order book and quality of the landbank positions that business well to continue to deliver at these kind of levels into 2017 and 2018.

From a Group operating profits at £764 million is up 20% year-on-year. And with a more efficient debt structure resulting in a lower finance cost has meant that profit before tax at £733 million is up 21.5% year-on-year. This has resulted in EPS also up 21.5%.

Profitability in the year offset by the dividend payments has meant that the net assets value per share has grown by 6.1% year-on-year. And we're very, very pleased with the progress we've made on return capital employed, up by 3.6 percentage points at 30.7%, which is in line of our medium-term targets that we set out in May. And this has driven off much more enhanced profitability, off a balance sheet that hasn't grown by quite the same pace.

If you look at the UK performance from a summary point of view, the UK volume increase of 4.5% year-on-year or 589 homes, which is in line with the guidance that we set out during the course of 2016. Pricing, up at 12.6% for the private housing, but flat for affordable housing. And the private volumes delivered in better quality locations. So, we benefitted slightly from mix during the course of 2016 as well as capturing some market growth. Gross profit percentage at 25.6% is up 0.4 percentage points in the year. You'll recall in the first half, we booked a £10 million charge relating to some remedial costs incurred on some legacy sites that we have. So, underlying it means that we've grown the gross profit by about 0.7 percentage points year-on-year. And with gross profits per plot at £65,500, is up 10% on 2015. And we'll explore some of the drivers in the following slides.

This is a margin reconciliation for the UK housing business. It's a slide that we've used consistently over the last few years. And just a reminder, this is an indicative indication of where our margins have gone, trying to reconcile that 0.5 percentage point growth year-on-year. We believe that we've captured about 3.9 percentage points in margin on pricing growth year-on-year. Both cost inflation for the market we've estimated as being about 3.5%. There's no reasonable index or indices that we can use to be able to benchmark that, but that's our sense. And we think that that's impacted our margins by about 1.9 percentage points on the year.

The landbank change which is trading on for more recently acquired sites as opposed to sites acquired in 2012, 2013 and 2014, that would have benefited from a more significant pricing uplift, given how positive the sales market was in that period. We think that that mix has taken out a small amount of margin, resulting in a net impact, from the market perspective, of roughly 1.2 percentage points.

The increase in specification and the quality of the homes that we're delivering in 2016 we think has impacted margins ever so slightly. Slight change as well on the build delivery point of view. The points that Pete was making in the customer journey, for example. This means that we'd committing a little bit more money to the sites upfront which, hopefully, will translate into some longer-term gains.

Affordable pricing, whilst you saw in the previous chart it was flat year-on-year, the overall size of the affordable units is just a fraction down, which has meant that it positively

contributes to margins. The lower profitability from joint ventures in the year, principally driven by the timing of delivery of completions in our East London business, has meant that the margins are a fraction softer year-on-year. We're expecting the delivery for 2017 and 2018 to be much better from these joint ventures, and hence some slight contribution to profitability.

Overhead recovery in the UK added 0.3% to margins, with us being able to deliver a far greater topline from not as big a growth in overhead costs. And as I mentioned before, the £10 million remedial cost we booked in the first half of the year took out about 0.3% from margin. This resulted in the overall movement, from a UK point of view, of 0.5 percentage points.

If you look at taxation, the tax rates that we've got for the business largely reflects the statutory rate, which is 19% to 2020, after which it reduces to 17% from 2021 onwards. We started paying cash tax in anger from the third quarter of 2016. So, as a consequence, the the P&L charge on a go-forward basis will largely reflect the cash tax that we would be paying from 2017 and beyond. The deferred tax asset that we do carry on the balance sheet is mainly as a result of the pension deficit we've got in the UK as well as a small amount of deferred tax asset we've recognised in Spain on the temporary differences. There's approximately £70 million of unrecognised losses in Spain that we'll bring on to the balance sheet in due course as every year evolves and the business continues to generate profitability which will soften the tax rate just a fraction, but it's worth just noting that.

From a Group balance sheet perspective, the net asset growth before the dividends in 2016 was 19.6%. As you will see, the land creditors were below £600 million at the end of the year and they are down 4.8 percentage points year-on-year. And we'll continue to use land creditors on a selective basis to fund schemes, but principally to drive a better commercial return as opposed to simply make a scheme work. Just worth highlighting the land creditors does include £130 million worth of overage accrual on sites. And this is compares to £109 million in the previous year. The land creditor balance, £286 million, is expected to be paid in 2017. And if you combine the land creditors with the net cash position that we ended the year in, the overall gearing on an adjusted basis is 8.1%, which is the first time I think that we've been in single digits, versus 14.9% the previous year. This further strengthens the well-capitalised balance sheet despite us returning £355 million in dividends in during 2016.

Jennie has spoken about the UK landbank in terms of the scale. The point that I'm trying to draw out here is that the overall quality of the landbank has continued to improve year-on-year, with the average plot cost ratio to average selling price down to 15.4% versus 16.3% in the previous year. The approvals that we've made in the period runs slightly higher than that at 18.7%, that's principally driven by the mix and the South East focus that Jennie pointed out earlier on the capital allocation slide.

The average contribution in 2016 of sites acquired since 2009, if you go back to the chart that Jennie presented in terms of that collection of dots – the average contribution margin that we delivered in 2016 was 2.5 percentage points higher than the investment thesis. And this gives us the sort of robustness and reinforcing the belief in the quality and the inherent profitability that's inherent in the landbank. The revenue in the landbank is now up to £42 billion, of which the short-term landbank is up to £19 billion. And just as a reminder in terms that the balance sheet light landholding, our strategic landbank, despite being a significant

proportion of our future potential revenues, is only on the balance sheet at £195 million. And the strategic land, as is well-known, is a significant underpin for our future delivery at very attractive margins.

If you look to managing our working capital, if we look at the build costs that have been incurred during the period, the average build cost per square foot year-on-year is up by 12.5% to £135, but remains broadly in line with 2015, and historical trends have been roughly 54% of average selling prices.

The build cost increases are driven by a number of things. One of them, clearly, is build cost inflation, which we've guided to being about 3% to 4%. And we expect that to be consistent, going into 2017. But it's also impacted by a more significant contribution from strategic land sites, which are far more infrastructure-heavy. So, in terms of allocation of gross development value, lower into land and slightly more into work in progress, as a consequence.

The overall work in progress levels have increased year-on-year, you know, due to this build cost comments I made before as well as the fact that we've added about two weeks to our build programmes. And that two weeks added to our build programmes is to ensure that the quality of our homes that we're delivering is far greater and better and what our customers – we believe our customers actually want and deserve. The cash spend, as you can see from the chart, is a fraction higher than our P&L recovery. And the percentage forward built year-on-year continues to increase ever so slightly as we prepare to have a far more structured delivery to our customers on a go-forward basis.

I think it's worth spending just a little bit of time on pensions. The accounting deficit increased to £233 million year-on-year. That's principally driven by actuarial assumptions, notably the materially low discount rate in the period, as well as slightly higher inflation assumption. This has been significantly mitigated by the hedging programme that we put in place during the course of 2015 and 2016, which softened the blow a large amount. And the scheme is approximately 75% hedged, both in nominal terms and real terms against the interest and inflation movements. And we continue to work very positively with the trustees, both on liability management as well as asset allocation and expected returns.

2016 is the year that we've got the triennial valuation that we'll be working with the trustees on in the coming months. And we expect to conclude the funding requirements during the course of the year, in the second half.

If you look at managing cash through the cycle and we look a little bit on the P&L contribution on a per plot basis – and as you can see, the cost per plot for land has got a marginal increase over the six-year period, despite us selling from much better quality locations. In 2011, the land recovery was roughly about 20%. In 2016, at 17.8% of average selling price. Over that period, we've contributed an additional 2.2 percentage points to margins. The closing owned short-term landbank we've talked about before has got an average plot cost of around about £40,000, which is significantly lower than the P&L recovery, albeit some of that is underpinned by some of the large strategic sites. And so, we'd always expect to see a slight differential between P&L charge versus the balance sheet accounting. The average recovery on the plot cost basis in the P&L in 2016 was £45,000 as a comparative.

As noted before, we've got a slightly higher proportion of our costs is in build now as opposed to in land, particularly on the infrastructure. And there's some – clearly some cost inflation in

the analysis. Selling expenses over the period have stayed broadly static. And the cost recovery contributes to some improvement on the period relative to revenues. And my famous acronym that's getting a huge amount of traction, EBITLA, remains at roughly about 40%. But I thought I'd actually give you what the EBITLA number is as opposed to just a percentage. And that was over £1.4 billion in 2016 which compared with £1.2 billion in 2015.

And with the balance sheet and landbank operating at broadly optimal scale from a net investment perspective, at roughly about 75,000 to 77,000 plots, a greater proportion of our profitability that we generate in the period is converted into cash. Clearly, there's going to be some investment into work in progress, you know, to – for both growth as well as some of the build cost inflation and that strategic land dynamic that I mentioned before. And taxes for 2017 onwards is going to be a slightly greater proportion, given that we'll be paying a full year worth of taxes. However, the surplus cash followed – following our strategy, is increasing, which means that a greater proportion of profitability generated is available for return to shareholders by way of dividends.

The total dividend payments for 2017 is £450 million, subject to shareholder approval at the forthcoming AGM. This consists of an ordinary dividend of £150 million to be paid equally in May and November. So, £75 million in May, which is 2.29 pence per share, and £75 million in November. The special dividend for the year is 9.2 pence, which will be paid in the first weeks in July, totalling £300 million, which means that the total dividends expected to be paid in 2017 at £450 million is up by 26.5% versus the 15.6% increase that we saw into 2016.

So, in summary, we made good progress against all of our medium-term targets. The operating margin remains the more challenging target that we set out. And that was well-communicated back in May, but it's something that we are very focused on. We are very pleased with the return on net operating assets that we've delivered in the period. And the strength and the quality of the landbank means that our medium-term targets remain something that we are firmly focused on. The strong financial performance, the business quality, provides us with great confidence. And the strong cash generation coming out of the business, to support the dividend target into 2018 and beyond.

And I hand over to Pete to talk about current trading and strategy.

## Current Trading and Strategy

Pete Redfern

*Chief Executive Officer, Taylor Wimpey Plc*

Thanks, Ryan. It's the final straight, I promise. And I will hopefully not labour things too much so there's plenty of time for questions.

I said I'll come back to this slide with up-to-date performance. And I think the number that probably jumps out the most to people from the statement and from the presentation is that private sales rate over the last seven weeks of 0.91, which is 18% ahead of last year. We've not been actively driving a sales rate that's been materially higher in the past. So, that has happened naturally. There's no price action in that. There is no major marketing drive. And there is no major regional difference either. If you look at our London and South East business, it shows a material step-up on last year.

We've never been of the view that the first quarter of 2015 was a particularly tough comparative. We've seen people mention that both peers and the media and the like in the first quarter of – sorry, 2016 - the first quarter of 2016 was a very normal quarter. But still, that's a very strong performance. And we think it comes down to very good quality demand, good mortgage availability and the fact that we believe we've got an excellent portfolio of sites out there that are set up well for sale. And so, we think it's happening very naturally. And as I touched on earlier, there's also a very low cancellation rate in that period. But nothing really in that that certainly gives us any concern. I don't think we should then draw major medium or long-term conclusions from it. But I do think there are some medium and long-term conclusions we should talk about which we'll come on to.

I'll just flash this up. It's the sort of various stats we've given you over the course of the last couple of years showing underlying customer interest. All of them show positive performance. Just flag that that brochure request number isn't quite comparative year-on-year. But overall, strong and consistent demand across all of our main market. I touched on Central London, which is the only outlier earlier on.

What I do think is interesting – and we always tend to put up a mortgage lending slide, but then race through it. I do think the next couple of slides are interesting because what we've spent quite a lot of time in the last few months is really looking at what we think is going to happen in the market over the next two, three, four years, rather than just what's happening right now. And you know, you know me pretty well, I tend to be at the more cautious end of expectations and you know, you've got to be careful with that and I've got to be careful with that. But actually, I've worried about how low interest rates have fallen because of its sustainability. And you look at those January 2017 sort of numbers, particularly for first-time buyers to be paying, you know, sub 2% interest rates, you know, normally would give me a concern. But we've really stepped sort of into the detail of that and got behind it. And what's been very interesting is the strength of appetites of lenders in 2017. And particularly, when you look at the lack of volume in the second-hand market, how much of their business they need to take from new build. And actually, we find it hard to construct in the economy that, you know, we sort of see ahead, which will be uncertain through the Brexit process, I find it hard to construct significant increases in interest rates either at the base rate level or for lenders over the course of the next two to three years. You know, if you had asked us 12 months ago, we were concerned about the end of 2016 maybe into 2017. Actually, I really think that timeline is pushed out. That's not certain. But I think our base case has moved over the course of the last six months to being a much more stable environment. That stable environment may well have caught us where demand is weaker because people are less certain. But the risk of a major house price decline, we think has actually receded over the course of the last six months rather than grown. And you know, it doesn't change our underlying strategy, but it may change our tactics within that strategy.

I think one of the things that underpins that is – and we've been positive about the mortgage market review and the associated controls on lending since their inception. But again, when you get under the skin of them, you really start to see how they're operating now we're in stability. You know, the 3% stress test that people have to undergo is actually working. Affordability on a monthly basis for people is very good. We haven't got a comparison between rental and sort of home ownership here today. But actually, that balance has continued to improve in the sense of home ownership has got, you know, sort of cheaper still over the course of the last six months. And we wouldn't have anticipated that.

And when you look at it from a lender's point of view, this graph shows the average of lenders' loan to income ratios. And if we focus particularly on the red line, it's new mortgage – that shows a percentage of new mortgages with loan to income ratios that are greater than 4.5. Under the test, that's not allowed to grow over 15%. You can see it's kind of, you know, hovering around the 10% level at the moment. There's a bit of growth in that. But it's a combination of that stress test and this kind of limitation on individual lenders that mean, we think, price rises in the market will probably stay in the low single digits now. We don't think this sort of environment we've seen over the last few years of 6%, 7%, 8% is coming back, but we think that's a great place to be. You know house – we've always wanted a house-price inflationary environment that was in – kind of between 1% and 3%. And it feels like we've got the dynamics that that's far more likely over the course of the next three years or so than we have seen ever before. And I think, you know, it's given us a bit more confidence about the medium term and planning for the medium term. And it just shifts the focus a little bit.

So against that backdrop, what are our strategic priorities? It remains for steady, sustainable growth. The measure of quality over quantity has not changed. Above 14k, just goes back to where we were in May, that where we have larger sites, particularly the gains we've made on strategic land sites, it's right for those individual sites to produce at slightly high levels than they have done historically. And so, we see our volumes going above that 14k level. We're not setting a new target and we're not driving for dramatic volume growth. But actually, volume growth per annum that's in the sort of 3% to 5% range – you know, 5% last year, maybe 4% this year. We're quite comfortable with that in this kind of environment and think we have the landbank to achieve that. We're still monitoring that cyclical risk very carefully. And we're – as I say - we tend to be at the more cautious end. But we think the environment is slightly different from that which we'd expected.

And against that, our land strategy continues to be to maintain the scale of short-term landbank in the sort of 75,000 to 80,000 plot range. As Jennie said, we won't be surprised if land buying this year is slightly ahead of last year or slightly ahead of usage. Last year, we were slightly under. You know, we still don't see it changing dramatically because we think there is huge virtue in both managing the cycle and being able to focus on the quality of each purchase. But that will exclude what we call land-light holdings, where we're not really taking a material, you know, sort of risk on the land environment where, effectively, we're insulated from prices. And over the course of the next two or three years with that backdrop, a bit more volume growth, but not driving the landbank hard to back up long, long-term growth then we expect the landbank years to shorten slightly. And the efficiency – and we've talked about this over the last two or three years – the capital efficiency of the business to improve.

The other key thing in that environment – and I touched on it earlier – you know, sort of where the land environment is easier, the short-term operational performance, operational excellence and continual improvement becomes more key. So then investment in R&D, making sure that our people strategies are working, that we're retaining the high-quality people that we've got that help us with consistency, that we're getting customer service and product quality right and that we start to move our product forward sort of strongly, are all particularly important.

So finally, 2017, been a great start to the year. Don't read too much into that. That sales rate won't continue at that level because we won't have the production capacity to meet it. But it gives a sense of the demand and the quality of our sites, which I think is important.

Without a major change in interest rates or lending we expect positive but low house price inflation for the year in the kind of the 2% sort of range. Our base case is now for a more prolonged period of low house-price growth, but actually reasonable stability on a kind of annual basis. The build cost pressures remain, we're still guiding to about 3% or 4%. So, ahead of inflation, but certainly at a manageable level. We'll continue to invest and see real value improvements in the customer service and getting the build capability right and flexible. And we remain disciplined on landbank scale and the dividend policy. No announcement on the dividends today, we're sort of on a programme that you understand, I think, for our dividends. But the value case is for continued discipline growth and improving return on capital and very strong cash generation.

Can I open up for questions, please?

## Q&A

**Pete Redfern:** Let's start with Glynis on the front row.

Now, before you start with four questions, Glynis, I have no problem with – unlike others – with three or four questions. But if you ask more than two, ask them slowly so I can write them down.

**Glynis Johnson (Deutsche Bank):** I'll give you two with lots of little bits attached to them. Glynis Johnson, Deutsche Bank. The first one is in terms of margin guidance. Looking at plot cost to ASP, what went through in 2016 suggests there should be upside compared to your landbank plot cost to ASP. But I noticed the approvals for 2016 plot cost to ASP was actually much higher. So, I'm wondering if you can just put a little bit context in terms of future profitability, given that plot cost to ASP movements that we've seen?

The second one, in terms of the strategic land, your slide 18 gives us a nice, you know, example of the strategic conversions you've taken each year. Given the lumpiness, what should we anticipate for 2017, in terms of what might be seen converted through, and perhaps even 2018, if we could be so bold?

And then lastly, surplus cash. It's a nebulous phrase that we throw around regularly. You talk about surplus cash increasing, yet your dividend indication for 2018, the implication is that you're not going to be returning any more cash. How do I tie those two bits together?

**Pete Redfern:** Okay. If I take the margin guidance and probably the surplus cash, and then Jennie, if you can take the strategic land in the middle, and Ryan, you may want to answer on the surplus cash and dividend as well.

On the margin guidance, don't place too much sort of direct correlation between land average plot cost and the margin. You know, clearly, directionally, the two are connected. But as the strategic land number changes and the North-South mix changes, they can be quite volatile. So clearly, if the plot cost is falling over time, then the margin should be going up. But neither place too much concern in the fact that it's slightly higher in 2016. If you look over the course of the last three or four years, that's been consistently the case and as Jennie touched on, I think, the Southern mix – sorry, as Ryan touched on – the Southern mix, you know, is sort of slightly greater in that. You know, sort of – you have to – there are so many small moving parts within the margin guidance as we start to sort of plateau off. I think

taking any one of them and saying, 'Well, that must give a 1.5% movement,' just is putting too much store in one number.

I think our margin guidance is, you know, best focused on our 22% operating margin target over the three years. And we're of the same view, that we were when we announced it in May last year, that it's a sensible target for us to go for, but it's not easy and it depends a bit on the environment and we have to grind out the improvements.

We have a slight headwind from Central London against where we were in May, and some upsides on other things. So, that slight headwind is probably an order of magnitude, you know, sort of 0.6 to 0.75 of a percent, just because of the price movements in Central London since May, sort of at the Group-level impact. You know, I think that without that, we'd be standing here today, guiding you to that sort of number. Though it's a bit tough to do that, it's still – it's still achievable. But we've got to make sure we capture any upside in market, don't have any, you know, sort of slip-ups on cost. So, it's in our grasp, but it's not easy.

Jennie, did you want to pick up the strategic land question? The question was really on can we give guidance on the sort of level of 2017 and 2018 strategic land conversations against the 2016 targets.

**Jennie Daly:** Yeah, I think for 2017, it's been a little bit easier. The 2016 performance was particularly strong. We have a number of strategic land sites of scale that are in the planning system at the moment. I mentioned earlier that the process is sticky and the thing we have most difficulty with is the timing of the drawdown rather than the acceptability of the principle in itself. I would expect some easing off of the 2016 numbers in 2017.

2018 is more difficult for us to see, and I'd expect that potentially to drop a little bit again. But with an eye to the future beyond that, if those provisions in the housing white paper do come in in concert, and we see a speeding through of the local plan process, our teams are very active in site allocation promotion through the local plan. And I'd expect to see that coming out of 2018 fairly strong.

**Pete Redfern:** I'll get back to the dividend question. You know, as we've said before, we'll announce 2018 dividend for July in July 2017, and nothing has changed about that. I'd just pick up two sort of bits from what was in your question. We haven't given guidance for 2018. We've given guidance for the three-year target which people have, not unreasonably, sort of taken as guidance. But you know, we obviously probably wouldn't want to come in underneath that. You know, sort of that's the choice to take later in the year when we see how the next few months goes.

But I will go back to – and I think this is the most important thing. You know, we don't intend to sit with surplus cash on the balance sheet structurally in the medium-term, you know, we're not particularly focused on what it is on any particular sort of period end. But we're not expecting to see that build up and hold a war chest; that just doesn't fit with the strategy that we have. So, if we see long-term or medium-term sustainable additional levels of cash, then dividends will go up. If we don't, then they won't.

**Ryan Mangold:** If you look at our average net cash or net debt holding for 2016, it was just marginally net debt. And so, it's to the point that Pete's making, that we don't, over a period of time, plan to hold substantial quantums of cash. We might have, at a period end have a more substantial quantum of cash, given the phasing of completions to be more second half

weighted. But on average, we would expect to run probably zero through the course of it for the year over a period of time.

**Glynis Johnson:** So, we should assess surplus cash as the cash that – the net cash average over the year is the surplus cash that, on average, you'd like run at a zero level through the year?

**Pete Redfern:** No. I think you should look at, you know, a two to three-year view of where cash is, and not to expect it to be building up significantly, that's the point.

**Will Jones (Redburn):** Thanks. Will Jones from Redburn. Three as well if I could, please?

First, please, on the land buying data you gave around the intake margins. I think in the statement it talks of 6,000 open market plots at about a 26% contribution to margin which is pretty much the same figure, I think, as the all-in land buying. So, should we infer from that that the – that for the year, obviously, open market and strategic were pretty much the same?

And I think within that, I think back at the half-year results, you talked about open market at 24. And therefore if it's 26 at the full year – was it 28 in the second half, or am I just getting too entrenched in the numbers there?

And then, second one just generally around Central London with land buying. You've painted a picture of limited competition today. Prices starting to stabilise in the last six months. And added competition in outer London. To what extent do you think that now is the time to just start taking a look again at opportunities back in the more prime areas potentially?

And then, the last one just around cash conversion, the 81% ratio last year. When you think about the demands on the business this year, particularly around land and WIP, would you be thinking about a similar ratio? Could you edge it higher potentially? Thanks.

**Pete Redfern:** Just picking out the second question, sort of 24 in the first half, 28 in the second. I think, you know, it's sort of mathematically, it's correct. The second half of the year was definitely stronger. I wouldn't sort of then say that's the new normal. As Jennie touched on, it was a particularly sort of, purple patch. And we were particularly cautious as well. So inevitably, when you're cautious, you pick out the smaller number of the higher sort of value opportunities.

I think on sort of strategic land and short-term land, the margins for acquisition are closer than they've been historically. But there's still a gap. And, you know, sort of if in one period they're closer still, that's probably also slightly distorting. But they are closer as the ordinary short-term margins have increased. But what we still find is that as we then deliver on those sites, the strategic sites do better because the competition is less and the plots that we've got tend to be exactly what we want. So, you know, we still get the uplift from that.

On Central London, we're still looking. We haven't bought a site in sort of prime Central London business in the last two years, I think it's just over two years. We're still looking. But I don't think there's a huge likelihood we would do normal land acquisitions in that prime Central London business over the course of the next six or eight months. I don't think the land environment has yet come into line with the balance on market risk and return. I wouldn't rule out us doing, if we can, you know, sort of land-light type deals, where actually it's more of a joint venture where we're using our skill base and taking less of a land risk.

You know, there is more opportunity to do that. And we've always been of a view that our Central London landbank is shorter than we would choose it to be. But the only way to sensibly grow it with the right balance of risk and reward is through those kind of deal structures, you know? We're not into putting hundreds of millions into a small number of sites in that environment. It just doesn't suit our overall strategy. So if there's an opportunity to do those sorts of deals in Central London and grow it strategic presence, but without taking big land risks then we'll take them. And they may come up. But they tend to be very localised. So, there might be two or there might be zero. You know, that's life.

Is there anything you want to touch there on those land questions?

**Jennie Daly:** No. I think I would agree certainly around Central London. I mean, the teams are engaged and considering opportunities on a, you know, specific basis. And those land-light structures have exactly been leading a number of the activities that they've had in – over the last few months.

From a margin point of view, I think I would really just reiterate, post-Brexit there was an opportunity in the market to drive margin on this. As Pete mentioned, you know, we were very selective in the sites that we drew down. Our ability to maintain that is always going to be a reflection of the competition.

**Pete Redfern:** Yeah. And Ryan do you want to take a crack on the cash conversion question?

**Ryan Mangold:** Yeah, on cash conversion, I mean it was a pleasingly strong year for us, you know, into the 80s. Is that a benchmark on a go-forward basis? I think that's going to be largely predicated on where we go for work in progress and where we go with land. I'm not expecting to necessarily see enhancements on that. But certainly, we should be somewhere in that range of 65% to 80% is broadly what we see for the moment. Thanks.

**Gregor Kuglitsch (UBS):** Gregor Kuglitsch from UBS. I got three questions. Just, can I follow-up on margin? I think your 22% is average over three years and obviously, you've done some – a little bit under 21, I think arithmetically, you should be at some point running at 23. I just want to be clear what you're saying. Is it challenging to reach the 22 or the 23? Maybe I'm splitting hairs.

Same question is on ASP. Can you just give us any indication if there's anything left on mix or whether you think sort of things have plateaued now?

And then finally, and this is a small point, now that Spain is back to a sort of reasonable return, is it time to sort of move on and then sell it?

**Pete Redfern:** Sorry, I missed the beginning of that. Is it time to move on from Spain, was that it?

**Gregor Kuglitsch:** Right. Yeah.

**Pete Redfern:** Okay. On the margin, you know it is the averaging that sort of makes it difficult. We've always said it was an average target. And you know, we'd feel slightly different if it was a sort of 22% in the third year. And you know, we understand how the maths works and that makes it tough. So, you know, sort of if we're going to hit 22% as an average, then we ought to be hitting 22% this year and still seeing growth.

That's why I say I still see that as a target we should go for. But it's slightly ahead of where our guidance is. But given that the – all the previous targets that we've set, we hit in the first year of a three-year period, you know, I'm not feeling too uncomfortable that there's two of them that we're either hit or very, on target for and there's one that, you know, we always knew it would be tight. Feels like the right balance. You need some tension within the business about driving for that. And I'm not going throw myself off a bridge if we don't quite get there as long as I feel we're doing the right things.

In terms of mix, as we said before, it's always going to be a reducing sort of balance, and each year has been a bit more than we expected. I think if you look at 2017, we see probably another 2% that year on mix; you know, 2018 sort of tough to call because it's the way we look at the numbers in detail and which plots come through, but potentially up to the same sort of level. And then, I would be assuming that it sort of flattens off from there. So, a bit more, but not the sort of numbers that we've seen over the last three or four years.

And with Spain, I don't think anything has changed. It is a better environment, but it still not an environment where you see, you know, sorts of meaningful new capital come in. And so, our business continues to trade well. But, you know, we're still of the view that if there was the right offer for the business then, you know, it's not a long-term strategy to be in Spain.

**Gregor Kuglitsch:** Thanks.

**Pete Redfern:** Thanks. If you to just want to pass that along the line and we'll keep working backwards?

**Gavin Jago (Peel Hunt):** Good morning. Gavin Jago at Peel Hunt. Just a couple from me, please. First one is for you, Pete. Your comments around bringing some labour in-house. I was just wondering if you could give us a feel for kind of what you've kind of got in-house at the moment. Where do you think that could go to, and whether there's any sort of regional differences? Is there from a North v South? How much cost might that actually add to expenses?

And the second one was probably for Jennie. Just around the strategic land, you know, when you're kind of quoting the number of plots in strategic, it's kind of on a, you know, percentage of probability of getting it through planning. Do you hold much in terms of pure freehold land and does that contribute each year? I'm just wondering how that's sort of moving through to kind of support your margins, going forward?

**Pete Redfern:** Okay. With labour in-house, we have something in the order of 1,200 paid employees at the moment who are, yeah, pretty much all site-based. That, as you can imagine, is pretty heavily geographically focused in the Midlands and Yorkshire, where there's been a more traditional dynamic for a long period of time. We have a couple of prototypes going on at site-level where we're testing in other markets how to do that. Doing it properly, we think, is a long-term thing. You know, going out and stealing, you know, sort of a hundred people from your subcontracts at a local basis doesn't really change anything strategically. So, it's a mix of finding some key individuals and then investing behind it. So, it's a sort of five-year plus game. But actually, over time, could we see in certain trades that in-house labour going up to a 30% or 40% of the sort of the overall, you know, resource base that we need? Yes, definitely. But that's a longer term sort of balance.

Jennie?

**Jennie Daly:** Yeah. In terms of the strategic land, we hold about 25% of our strategic land plots as freehold. I think as Ryan mentioned in his slide deck, we're carrying that fairly light at £195 million. The expectation always that freehold land will be margin enhancing. In terms of the timing, it really is on a project-by-project basis. And we have a fairly active position – management position – on our freehold positions.

**Chris Millington (Numis):** Morning. Chris Millington at Numis. I've also got three here. I just want to touch on, firstly, just a follow-on from Gavin's there about the freehold strategic land, and just how much it's contributing to the P&L now and whether that's likely to be a growing proportion, going forward?

The second one I've got really is just any thoughts about Help to Buy extension, and at what point would TW have to slowdown investment if there wasn't that certainty beyond 2021?

And then, the final one I've got is just really on the legacy ground rent sales and just really how big a potential issue could this be?

**Pete Redfern:** Do you want to take that land question and I'll then – I'll then take the other two?

**Jennie Daly:** Yeah. I really don't have the granular detail around sort of the freehold margins embedded within the landbank. But I mean, I would consider them to be sort of broadly consistent.

**Chris Millington:** Yes. Sorry, just to rephrase, the freehold question was really about how much of that is contributing to the P&L at the moment. Is it disproportionate to the 25% in the landbank, or is it broadly similar?

**Jennie Daly:** Yeah.

**Ryan Mangold:** I think it would be more of a consistent benefit to come Chris, the freehold strategic land is significantly higher margin than an optioned land, given the fact that ratio works at the point of acquisition. If you own a freehold then you get all the uplift. If it's an option, then some of that uplift goes to the existing landholder. But as a relative percentage, I think it's probably at a fairly consistent level in terms of churn rate of strategic land through the P&L, I think.

**Ryan Mangold:** So it's margin enhancing, but it's at a fairly consistent level.

**Pete Redfern:** I don't think there anything new to come through, it's not changing.

On the Help to Buy extension, I think what we pick up from Government is sort of – a lot of support, and almost an acceptance that Help to Buy is a part of the market for the foreseeable future. I think that there was no serious conversation that I picked up through the White Paper process about changing it. I think, and I think this is helpful, and it's bit like the mortgage market review, in terms of managing risk, you know, there's a sense of starting to think about how you would taper it off. But it's how you would taper it off. And I think – and this is kind of reading between the lines – I think, but with an acceptance that it's probably going to their long, long term in a form, and you know, I'm sort of – I've always been concerned about these long-term aspects. And I think actually if they taper it down, but then have it there long-term, that's probably a little bit of compromise. So, I think that the market risk that it is removed or meaningfully reduced over the course of the next sort of

three or four years before the programmed, you know, sort of announcement date is pretty low. And then, beyond that, there's probably a greater acceptance that there has to be a sensible longer-term exit route. And against that backdrop, some kind of extension is therefore likely. But I would not be surprised or unhappy if that extension came with, 'We're extending it, but we're slightly reducing its impacting, you know, sort of from 2021 onwards.'

And on lease-hold, I mean, not lot to add from what was on the slide. You know, I mean, the sort of go-forward position doesn't concern us particularly. I think, you know, we're sort of looking at those legacy leases and we'll give you a better update, you know, when we've kind of gone through the review that we're doing at the moment.

**Aynsley Lammin (Canaccord Genuity):** Thanks. Aynsley Lammin from Canaccord. Just looking at the forward-sold position, I think you're 50% forward-sold for completions for this year, sales rates obviously very high. Just wondered how tempted you are and how much scope there is to push pricing a bit harder, or you happy with that kind of big order book, the balance there?

And then secondly, I'm just thinking about the landbank. In terms of the years of short-term landbank, you said that naturally will reduce as completions obviously increase. Just given the favourable kind of content you expressed in the White Paper on planning, I just wondered if structurally, you could actually operate with maybe a four-year landbank, or just structurally lower? Any opportunity or scope there? Thanks.

**Pete Redfern:** I think, I mean, just sort of taking the 50% forward-sold, it's always a balance between sales rates and price. You know, we haven't been giving up price to get the sales rates that we've got. But clearly, it puts us in a strong position. And there are two things you then do with that strong position. You either move price a bit more later in the year or you protect yourself if we hit a softer patch in the second or third quarter. So that, you know, clearly will be our strategy.

I think the one thing I would say is – and it goes back to those mortgage comments – we're not seeing – and this is both positive and negative – we're not seeing anything like as tight a relationship between sales rates and prices as we are used to over the longer term. So, you know, customers are getting good affordability on a monthly basis, but they can't stretch that much further from a mortgage lending point of view. And so it's why we think sales prices will be somewhat high bound by that. But at the same time, the level of demand, and the number of people who are able to get a mortgage and afford it, is very good. So, that both underpins our sort of stable growth and more stable market, but it also means there's not as much price upside. It doesn't mean there's none, because, of course, in any environment, you know, if you've got the right sites and the right strategy, you can squeeze out a bit more. But it does mean that the moves are probably not as great and the risks aren't just great as they've been historically.

So on landbank years, I think that is what we're saying. That, you know, sort of, in this environment, you know, we don't need to hold, and it's a balance, you know, we still view having a long landbank, having a lot of strategic land as being a huge asset, and the choices that come from that. Just if the land environment is easier, the balance between balance sheet efficiency and the length of the landbank shifts slightly. I don't think it gets as low as four years. I mean, you know, we steered you towards five and a quarter being, you know,

sort of what we saw as the optimum balance between the length of landbank and the sort of efficiency that gave us and the choices that gave us. I would say standing here today, that's a bit lower. But it's not as low as four. But it just means there's more capital efficiency to come and a bit more growth to come off the same asset base. But I still see us, even in that environment, staying at the longer landbank end of the competitor base. And there's an element of once you have that, then the choices that gives you are so great that actually giving it up, you know, does not feel strategically right. Because the environment we're in feels like it set for a while, but it won't necessarily be here through, you know, another the cycle in the future. And history has tended to say it's the key thing to maintain control so you have choice. So, it's not a change of strategy, but it is a flex on the numbers. And I don't think it is just a short-term flex, otherwise we wouldn't be raising it.

**Andy Murphy (Bank of America Merrill Lynch):** Morning. Andy Murphy from Bank of America Merrill Lynch. Just two questions. One of your competitors has obviously taken a few things in house in terms of production facilities. Just wondering what your view was on that, and whether you're tempted to go down that route at all.

And just secondly, on the sort of advanced build sales rate you've recently, what pressures that puts on your planning department? Or does it mean that you end up with a sort of an easier second half or an easier period over the next 12 months?

**Pete Redfern:** I mean, just picking up the second one, you know, it's – we couldn't increase build in a properly managed and cost-effective way to match the sales rate that we get at the moment. So by definition, that will start to reduce as we go sort of certainly into the second half and probably into the second quarter, even in a strong environment. So, it doesn't particularly put pressure on our sort of on our planning departments or our production departments in that way. But what it does do is give us good choices. You know, if you're slightly tight, if you're aiming for a 0.7 sales rate and that's exactly where you are, you'll always have some plots on some sites or some sites that are lagging in that. So, it means that, you know, sort of actually all of our sites are in a good place and it gives you good choices. It gives you the ability, as we touched on, to manage price. So it's a very important tool to have, but you should absolutely not extrapolate it to the volume growth over the course of the year.

And in terms of in-house production, I think it's some and some. You know, we know what we're good at. And actually, you know, the product component parts of our cost base are not material enough for us to feel that it adds an awful lot of strategic value, to stretch massively, you know, sort of into vertical integration. There are some areas, and if we go down a material, timber frame route, for instance, where actually there is not a huge amount of cost relative to the overall scale of business, but enough of an interaction between that process and how we build and delivery schedules and the like for that potentially to have a benefit. But us manufacturing the individual components feels like we're trying to stretch our skill base to somewhere it shouldn't go. So it would be very, very targeted if we did it, and it would have to be things that we felt were really going to make a meaningful long-term impact on the business. I mean, we had a timber frame business in-house sort of that we shut about three or four years ago which was an old Taylor Woodrow business called Prestoplan. We shut it knowing that it was quite possible we come back to timber frame because we were only about 5% of its customer base, because it wasn't set up in the right way. So, if we went

down that route, it would have to stay very targeted on supplying the core of what we do, and very connected into our long-term production strategy rather than just a short term cost piece.

**Andy Murphy:** Thank you.

**Pete Redfern:** Thank you. It looks we've covered all the questions. Thank you very much. Hopefully having Jennie here gave you a bit more depth on the political environment. Thanks very much for all the time today.