Taylor Wimpey Trading Update Call

Thursday, 27 April 2017

Introduction

Pete Redfern

CEO, Taylor Wimpey

Thank you. Good morning everybody and thank you for joining us. As ever, I'll cover the headlines from the statement and then sort of give Ryan a chance to cover anything I've missed and open up for questions. Clearly, there are two main areas to cover on this statement. If I deal with the leasehold issue first and give you more detail than we were able to give you in February, and a view of the decision that we have taken and announced today, and then move on to trading.

On leases, as we talked about in February, this is really a historic issue with two main components: issues in the market around leasehold practices generally and leasehold houses; and, more specifically for us, the historic contracts that we used on sites starting between 2007 and 2011 with doubling ground rents. It's clearly an uncomfortable issue but we've had a number of months now to really get under the skin of it, to understand the history, to understand to what extent these leases do have impacts for customers, and to work out what is the best way to reduce the reputational issue for the group but also, most importantly of all, to make sure that our customers have a product that they are not worried about in terms of mortgageability and saleability, and that's been the key driver for us over the course of the last sort of few weeks, months of review.

What we've announced today is that we will do a deed of variation for those customers which requires a negotiation between us and the freeholder, which we're undertaking on the customers' behalf. We are reasonably advanced with those negotiations with the major freeholders. There's a reasonably long tail where the numbers are low, but the fact that we've advanced the negotiations with the major ones gives us, I think, a good level of confidence in the cost of that process, and the way that we've arrived at the £130 million gross provision that we plan to make in the first half is based on that information and also based on our own independent valuations of the leases, because there are other routes to this process; the customers themselves have legal rights, and so there are other ways of arriving at a valuation. So, we're not sort of – just got one lever to pull with those freeholder conversations.

I think probably the most important comment in that is that those conversations have, from the beginning, when we first contacted freeholders, been quite reasonable and quite grown up and I think they see it as an issue that is our responsibility to solve but which they have some vested interest in making sure that we get right from their own reputational point of view, which I think helps.

We are happy to go into the detail of the mechanics of the process to a reasonable degree, to the extent that you have questions, to make sure that you understand it, and obviously we will be having those conversations with those customers that raised issues with us over the matter. We are not releasing a number and therefore a cost per lease of the actual provision, it includes the cost of the process, and we think it is calculated on a very prudent basis. We are not releasing a number because it is still a commercial negotiation and we think it is important because every discussion will be slightly different for each individual lease, depending on timing for each individual freeholder and so we think it's important from a commercial negotiating position to maintain that confidentiality but we are happy to be as open as we can about the process and why we feel confident about the overall numbers.

In terms of timing, we do not expect this to expect to result in a significant immediate cash payment from the group; we think it will be spread over a number of years. But I think most importantly, we are confident that this does not impact on our ability to follow through on our dividend plans to potentially increase our dividends in 2018, and we will announce in 2017 and follow through on the investment plans that the group has. You know, we still have, we think, cash upside over and above this that isn't yet factored in.

So overall, it's not an issue that we're entirely comfortable about. It's something that we think is the right thing to do, both for the group and for our customers, and yeah, we think through the last sort of six months of reviewing it we've got good information and can take a proper decision today and communicate it clearly to you.

If I then move on to underlying trading, it has continued to be a surprisingly strong 2017. We did not expect when we spoke to you in February, sales rates continue to be mid-to-high teens ahead of last year. To be 16% year to date was not sort of a level that we expected. That continues to lead the sector, we believe. We still believe the biggest single driver is the quality of our sites and our sales processes, and that positive trend has carried through to today. Prices in that environment are slightly up; the movement is still not huge and our guidance still remains for price increases for the year in the 2% to 3% range, more or less in line, perhaps slightly ahead of underlying inflation. The cost environment also remains very similar to what we've flagged two months ago and we expect a 3% to 4% overall cost increase over the course of 2017, but other sort of areas that we have talked about, in terms of general trading, the land environment, specific trading around London remain very similar to the sort of set of conditions that we set out with our full-year statement.

I think, you know, sort of clearly we have had a general election announced in the last few weeks; we haven't seen any impact of that as yet and if you go back to, you know, sort of the last two general elections, there has not tended to be a discernible impact on trading. You know, at most a week to two weeks before a slightly quieter period, compensated for afterwards. But with the strength of order book and sales performance that we start from, we go into that environment feeling pretty confident and pretty relaxed about underlying trading conditions.

So, overall, a very strong trading set of conditions, a historic leasehold issue that we think it is right to deal with but important to do and get right in one hit, which is what we believe this is and Ryan, what have I missed?

Ryan Mangold: I don't think so. I don't think you've missed anything, Pete. I think the quality and strength of the balance sheet is still a focus, and our strategy remains clear and we have the capacity and strength and ability in the business to deliver again to that.

Pete Redfern: Can we open up for questions, please?

Q&A

Will Jones (Redburn): Morning, thanks for the – thanks guys. Just in terms of the questions, two or three from me, please. I guess, first one just coming onto the leasehold issue and you've been quite clear there about the process relating to the £130 million. Can I just get a sense of your confidence that this is an isolated issue relating to doubling of ground rents? There won't be more to kind of think about further down the track with regards to just simply, I don't know, the sale of leasehold on houses themselves irrespective of the doubling of terms? Is this something that could grow as an issue, not just for you but for others do you think, or do you think this is just a one-off and that this news, essentially, deals with it?

And then I guess coming onto the more trading side of things, in terms of, I guess, the strategy really for the rest of the year, like you said, you didn't expect to be up mid-teens and you haven't really been in the game of pushing the sales rates up by that much over the last few years, so is there a kind of temptation now within the group to step back on that deliberately over the next few months and start to push a bit more on price, or is it not really a market that would allow you to push that price a little bit more?

And I guess related to that, can you just give us a sense, I think you talked about 2% to 3%, Pete, in terms of prices. I think that's an average comment for 2016, sorry 2017 like for like on 2016, but just a sense on where you think point-to-point prices might move, either January to today, or January to December, through 2017. Thanks.

Pete Redfern: No problem. In terms of sort of other lease issues, I mean, as we sort of set out with the prelims, there were two distinct issues and this issue was, you know, sort of one that we were specifically concerned about because of this particular lease structure. You know, you will be aware there's lots of noise around leases more generally but our own sort of use of leases on houses, for instance, is lower than many in the sector. And also what stands out about this is the scale and the fairness. You know, what's interesting in terms of whether, you know, it becomes a wider issue, which we think is unlikely, is that we haven't had a single legal claim, including on these sort of doubling ground rent provisions, because people did have independent legal advice, the contract is very clear – you know, this isn't a case – and we might feel differently about it if the lease terms were hidden – you know, sort of split between three clauses and really difficult to understand; they're not, they're very straightforward.

So, you know, technically this isn't compensation and it's splitting hairs but it matters in sort of assessing the risk. We're doing this because we think it's fair; there's clearly a reputational sort of element to it which is important to us but it's also genuinely, when we look at it, we think it's fair for us to do this. When we look at RPI leases and the sale of leases on houses historically, people knew they were buying a leasehold house and RPI is a reasonable measure of the inflation of a cost –

Will Jones: Yeah.

Pete Redfern: – so we're taking the step – that's why we think this is different; that's why we think this is the key cost. It doesn't mean there won't be some noise for everybody in the sector about those issues but to us, when we spent the time going under the skin of it, this does stand out as unusual, and the other element is actually you know, sort of, people knew they were buying a leasehold house, and RPI is a reasonable way of assessing cost inflation.

Will Jones: Yeah, great and then, sorry, just linked to that, obviously separately to the 130, you've now stopped leasehold terms on houses; do you have a scale of what the contribution to profit was last year, say, or the year before from that – the normal leasehold terms on houses? And clearly you've guided on margins anyway from 2017 onwards but within the PBT last year, is it a notable number that you're essentially forgoing or can you then get that back in price the other way?

Pete Redfern: For us, it's not. I mean we do think you get some of it back in price and you know, Ryan can give you probably a precise number for last year but I think the important thing is it has never been particularly significant for us. You know, sort of it's not been a big driver of – you know, ground rent sales generally haven't been a big driver of profitability over the last ten years for us and leasehold houses specifically haven't.

Ryan Mangold: Yeah and well the houses are just really isolated, as I've mentioned, they're North West – where they're traditional selling houses, it's not like it's a national issue.

Will Jones: Yeah, got you.

Ryan Mangold: It really – it just really is negligible on the income gain and as Pete noted, we should in theory get it back on pricing because freehold should be more valuable than a leasehold house to the customer.

Will Jones: Sure, thank you.

Pete Redfern: You know, is it £1 million, is it £1.5 million in total; you know, you're in that sort of...

Will Jones: Small beer...

Pete Redfern: Exactly. Moving on to the sort of strategy and tactics question, we haven't fundamentally changed our strategy, albeit you know when we said before when we commented in February, we always start the year, you know, sort of trying to make sure we get ahead even of our own internal forecasts on volumes. And that – you know and you've heard me say it many times – that lets us take good quality choices later in the year; depending on the environment, that can be not to sell as fast if the market is softer or it can be to move price if the market is firmer. Clearly with a general election, you know, having that kind of good sales order book under your belt is a strong place to be.

I think the only element of it which is, you know, in any sense a tactical shift – and I don't want to overplay this, so it's one part of the process, it's not the driver of the number – is, as we have said to you over the course of the last sort of 12 to 18 months, you know, we do have more larger sites and we are not pushing outlet openings and double-heading outlets in the way that we have historically and some of our competitors tend to do. But we still view that those larger sites should run at a higher volume level than the balance of capital efficiency and price. And some of that you see, you know, we should have a structurally higher sales rate than somebody who has a much higher number of double-headed outlets – or somebody using two brands, you know, sort of to sell broadly the same mix as we are on the site. So that will be an element, and it is one reason why we are fairly sanguine about our outlet numbers compared to the historics. So, yeah, it's a natural consequence of that. I don't think it particularly drives the year-on-year comparison, you know, because that's been a trend over the course of the last three to four years that we have moved that way; we just think it's a better way of running the business but it's definitely a factor when you're making comparisons on sales rates across, you know, sort of our direct peers.

Will Jones: Yeah, right. Then I think there's just really pricing, kind of, expectations through 2017.

Pete Redfern: Sorry, yeah. And I think because, you know, we've seen now, you know, over 12 months probably, you know, across – if you include kind of the London movement and take the average, you know, probably across the last sort of 18 months, sales price increases in that sort of level. It was really back to 2015, where we saw sales price movements of more than that, kind of between the 2% and 4% range, say. Then the answer for the point to point from 1st January to 31st December 2017 isn't fundamentally different than the year-on-year comparison.

Will Jones: Yeah, got you.

Pete Redfern: You know, it's around the 2% to 3% mark, and obviously it's slightly harder to forecast because for the first number, we've got quite a lot of the data that impacts on it for this number; we don't know what will happen in the autumn but I think our sort of sense is the market demand for new build, particularly with Help to Buy in place, sort of is still very healthy and I think, you know, we still expect to see probably a positive price trend, you know, in the second half of the year.

Will Jones: Yeah, great, thank you.

Pete Redfern: No problem.

Gregor Kuglitsch (UBS): Hi there; I've got a few questions. The first one, can you just update us on what's happening in land? I think you mentioned in the statement intake margins are sort of broadly similar, but if you could provide any extra colour in terms of the opportunities in the overall environment?

The second question is on margins, can you just update us where you see your margin landing in broad terms this year, and whether your view on sort of your multi-year targets have changed at all or whether they're still pretty consistent with what you said in – with the full year?

And then finally if I can just come back on the sales rate, with the sort of change in mix, larger sites, what do you think is sort of a normal sales rate now for your business – and you can sort of best guess, I guess – with the current mix of sites? Is it a bit higher than the sort of 0.7 that perhaps one would have thought prior? Thank you.

Pete Redfern: No problem. I mean on land, as you will remember, we pushed up our sort of hurdles immediately after the referendum last summer, and we then, during the back end of last year, sort of reduced back a bit as conditions became normal but still at a higher level, and we remain at that level today. You know, so we're slightly ahead of where we were a year ago but not in a massively different place and we do think, as we've touched on sort of in the past, that, you know, purely from a land vendor's sort of point of view, the opportunity to push hurdle rates and returns on capital – and particularly the hurdle rates much further than where we are at the moment, systematically across the board is limited so we think, you know, it's a very, very healthy place for us to be but we don't see a lot of future upside on that. Still, you know, sort of return on capital improvements to flow through as we've touched on over the course of the last couple of years.

I wouldn't say we've seen any major change in the land environment during the course of this year. You know, availability is still good but every site is still a negotiation, you know and there's still competition for most decent sites. I think, you know, what we can see and we've been talking about it recently is, if we were prepared to, you know, compromise on the quality of sites that we bought, then we could buy more land and probably, on paper, at a higher sort of hurdle rate than the land that we're buying today; we just don't feel that that's the right balance of decision for us to take at this point in the cycle. We think that we've been pretty clear on our strategy around the quality of locations, and you know, sort of when the environment is very good, the performance of a good site against a mediocre site, the difference is not huge; when the environment softens, that gap becomes much, much wider. So, you know, we remain very focused on quality over quantity but staying in that environment, you know, probably does mean we can't push – you know, sort of intake margins much higher than where they are at the moment.

Looking at margin updates for the year, no new news. I mean clearly we've only moved on two months. Nothing has fundamentally changed from where we were sort of a couple of months ago. So, our sort of target still remains the same. I would still say that our sort of operating margin target is the most challenging of the three sort of targets that we've set and – you know, but we're pretty comfortable with where consensus, you know, sort of is for this year overall.

Ryan Mangold: Yeah.

Pete Redfern: You know, we don't see a lot of upside to that. You know, that's – it's not a big strategic thing for us but it remains, operationally, one of the areas we're very focused on.

And in terms of sales rates, what's the new normal – I think it is ahead of the 0.7 we'd have tended to guide people to. And again it's a combination of market environment and not just a short-term view of market environment but how it feels like it will probably be for a while to come. But it's also that strategy around quality of locations and size of sites does naturally mean that the balance of sales rate, you know, can be and should be higher without it being sort of at the expense of price. And so, you know, if the – what we would see as the new normal, 0.75 or 0.8, it's in that range; I don't think it's the 0.9 or so we've been at this year – but I could be wrong on that because I think there's perhaps upside against where we fit. Because we're seeing that as being a real underlying trend and it's something that we're achieving without having to either compromise on price or introduce, you know, sort of huge new marketing initiatives; it's happening very naturally. So, you know, that inevitably means we might be on the cautious end of how we see that going forward.

Gregor Kuglitsch: Excellent, thank you very much.

Pete Redfern: No problem.

Christopher (Morgan Stanley): Yes, good morning, I just wanted to ask you a quick further question on the leasehold review. I know you've said that you didn't want to give any detail on the number of homes that this relates to but can I just ask you what assumptions are you making within that 130 million provision on the level of take up? Are you assuming that everyone responds to your offer or is it a proportion that you're – is it a sort of proportion of the total number that you're assuming will take up?

And then secondly, can you just give a little bit more colour on how you think the market in London, specifically Central London, is shaping up and what your latest thoughts are for the full year, please? Thank you.

Peter Redfern: We're assuming in our calculations that everyone who is the original purchaser and, you know, remains the owner of their home today, takes it up. And that's probably the most cautious assumption that we've made overall is, you know, that we have 100% take-up from that group. You know, and that probably gives us the most confidence that, if we've estimated slightly wrongly on cost or on other elements, that we've got quite a lot of coverage.

In terms of central London, you know, it hasn't changed fundamentally during the course of the last two or three months. I think, you know, as saw at the back end of 2016, we've seen, you know, market conditions stabilise and normalise. It clearly gets significantly less press coverage today than it did during the course of 2016, which is largely helpful, because there was, you know, sort of the fear factor that was there, and so we're very much into the environment I think we expected where, if you've got sort of good sites, you've got good product on those sites, you've got your price right, then you'll make sales, and you'll make them, you know, at a slower rate than you did at the peak of the market but at a reasonable rate. And as we've touched on before, you know, with our generally smaller sites, without particularly, you know, ambitious sales volumes target this year, we remain reasonably comfortable, but it's very site specific, you know, because there's a lot of local competition, you know, then it's more challenging. It's about, did you buy the land well in the first place, and are you, you know, making sensible assumptions about, you know, sort of, how you can sell it, and have you got the right product on it?

Christopher: Thanks very much.

John Bell (Barclays): Morning gents, two from me, I think. Firstly, on the leases, could you just wind back the clock to 2007 I guess, and give us some colour really into why these leasehold arrangements came in, you know, in the first place? Was it part of a wider market trend? Just a bit more colour about how they came into place.

And then secondly, on the dividends, I think in your preamble, Pete, you referred to, you know, at some stage potentially increasing your dividends in 2018. Could you just give us some insights into possible timing or when we might hear news on that front in the fulness of time? Thanks.

Peter Redfern: Yes, I mean, the second one's, you know sort of, a very straightforward question. We'll announce the 2018 special dividend in July this year, as we were planned to. So, you'll get a number at that point, but you know, you heard my comment correctly.

John Bell: Yes.

Peter Redfern: The first question, as you can imagine, is harder to answer, because there's not one, you know sort of, one single decision point or one single answer. But let me, try and paint you briefly a little bit of a picture. So, you know, sort of, historically through 90s and early 2000s, there was a massive – and you know, what I'm going to say is, you know, we understand now and in hindsight and after six months of review. If you'd have asked me that six months ago, I wouldn't have been able to start an answer, and you know, wasn't, sort of, aware of the decision at the time. But if you trace back, sort of, the history, through the 2000s there was a very wide variety of leases used across the industry and not just by new build, a very wide variety of leases of all sorts of structures, sort of, in place. And in fact, the sort of structure we're talking about was in existence at that point and particularly used in and around London and the South East. And you still see more – generally more expensive and more varied lease terms in London today. You know, the pattern across the rest of the country is a bit more normal.

Our guys around the time of the merger operationally, you know sort of, both before and afterwards, looked at, you know, consolidating a number of different things, including leases. And they chose three different lease structures which were then used by different businesses, and this was one of them. So, it doesn't cover anything like all of our leases used in that 2007 to 2011 period, and they didn't look forward clearly enough at what would happen in a lower inflationary environment for capital values of those sorts of leases, and they looked at it with a kind of view of, well, 50 years out is 50 years out, and discounting has a big impact. But that feels very differently when you're a customer, and you're ten years into that first 50 years and when discount rates are as low as they are.

So, they were used at that point. But once that decision had been taken – and I have to say, if you go back, you know, they were not sitting there thinking, 'This is going to be a problem in five years' time,' they just didn't see that pitfall. They were then used, without really much of a, sort of, a deep underlying review, until we went through detailed processes post-US sale, post-refinancing, so in 2011, and we stopped using them and really consolidated, as, at the time, so did most of the industry, on a fairly standard RPI structure. But there'd been, kind of, an explosion in different lease terms, much more interest in ground rents as a class and an asset from investors, which you can understand – you'll understand the impact of, you know sort of, yield and its change over the course over the last, sort of, five to ten years.

So, you know, if you look back ten years ago, genuinely it was a different position. I still think if we'd have done a really good diligence job, we should have seen the issues at that point in time but we didn't, but we're looking back now with the benefit of hindsight and in a different world.

John Bell: Thank you, very clear.

Aynsley Lammin (Canaccord): Great, thanks, morning guys. I just firstly wondered if you'd seen any beneficial impact from the mortgage market. I think that's become a bit more competitive recently. I just wondered what your view was on that, whether that's contributed to the kind of positive sales trends you've seen.

And then secondly, just on building material costs, obviously you're reiterating a 3% to 4% increase, but if you've seen anything, kind of, different to what you may have expected as the cost inflation comes through. Should we expect a bit more to come through later on in the year? And just anything on that, really. Thanks.

Peter Redfern: Yes, I think on inflation, we haven't seen anything fundamentally different. We're still in a world where it does depend very much on the individual, sort of, product and to a certain extent the supply. So, we had, sort of, one commodity – commodity's probably a slight stretch, but one, sort of, fairly mutable product – that we were looking at pricing for yesterday, that came down 20% because of competition in that particular sector. But you've still got a general trend where cost inflation is, sort of, upwards. We're not expecting that there is a big bow wave to hit in the second half, because of, you know sort of, historic exchange rate movements or whatever, you know. You can never guarantee it will remain at 3–4%, but the, sort of, downside risk is 5% not, you know sort of, 8% or 9%, if you see what I mean. So, you know, I think, we're seeing more or less what we expected to see, but each individual negotiation is slightly different, and there is a range depending on the competitive pressure.

I think on mortgages, you're right, you know, there is more competition for mortgages, and particularly with a much quieter second hand market, with both less sellers and less buyers, that means that that competition is happening in a very focused way on new build, and that's bringing down costs still for our buyers. And I'm absolutely sure that's one of the things that's driving the scale of health in the market. I don't think the cost has changed dramatically for our buyers, you know, in terms of reducing dramatically over the last two or three months, but it certainly is at an all-time low, and is clearly, you know sort of, one of the things that's making a big difference to the marketplace.

Aynsley Lammin: Right, thank you.

Peter Redfern: No problem.

Kevin Cammack (Cenkos): Thank you. Morning gents. It's such a rosy outlook on the trading, that you can't expect me to ask anything other than something on the leases. I'm just wondering, if you – wearing your political hat, Pete – is this something which you've done, and other in the industry hopefully do, to, sort of, pre-empt Government taking, you know, taking this onboard and, sort of, championing the homeowners' cause, or do you think there is any possibility that Government may do something which, actually in a sense, questions your provision that you've made? And I suppose, the cheeky question – which I totally understand if you don't want to answer it, but – do you know whether the 130 provision you're making is actually more or less than the proceeds you would have received for selling the ground rent?

Peter Redfern: Yes, and it's not that cheeky a question, Kevin, and you know I prefer to answer questions if it's reasonable to do so. The only time I don't is when I think it's a commercial piece. It's clearly more, you know. It has to be more, if you think through the logic that I've talked about, you know. Our guys, in creating them and selling them, didn't understand the potential future impact, and that means they didn't understand the potential future cost, if you see what I mean. So, it's clearly more. I don't know whether that's more or less uncomfortable, to be honest, but it's a fact.

I think, you know, politically it's clearly – and I think it's in many ways the more important question, and it is an important question. It's impossible to be sure. I think, you know, it's clearly had a reasonable amount of political coverage. But we think there is a very clear difference between something that can be improved, and, you know sort of, communications in this whole area can definitely be improved, and something that isn't really quite fair. And we think this specific lease class, with hindsight, isn't quite fair, and that's why we're putting it right. I don't actually think it's that likely that Government will take retrospective action on that. And clearly, if we thought that was imminent or likely to happen, we wouldn't be making this announcement today. We'd wait and see what that is. But how we read that situation is that is unlikely. There may be forward-looking leasehold reform, and that's not something we fear or would particularly argue with. You know, having spent a lot of time looking at it in detail, there are definitely areas – and I'm not talking about, you know, just new build leasehold, and I'm certainly not talking about, you know sort of, our processes – there are definitely areas where you think, you know, actually that could be clearer and better. Sort of, but I think the chances of Government retrospectively looking at a specific lease clause like this is slim. It's not non-existent, but it's slim, and it would have affected our decision and our timing, if we thought differently to that.

Kevin Cammack: And if you had to hazard a guess at the actual – you know, let's assume for a minute that the 130 proves to be exactly the right number – just hazard any, sort of, guess as to the pace at which that cash goes out?

Peter Redfern: I think it is a guess, but it goes back a bit to the question – we're assuming 100% take-up, and that, kind of, leads to you to there'll be, you know, probably a material take-up this year and next and then a long, slow tail. What's really hard is to work out how big those two are. But I think, you know, clearly, if we were writing a cheque for £130 million tomorrow, then it impacts on our forecast for this year. I actually think, with all the information we've got, sort of, today, including this, our cash – yes, our view of the cash for the end of this year is the same as it was two months ago, in fact probably slightly better. So, you know sort of, in the context of our cash flows, I don't think that it's likely to have a particularly measurable impact on this year or next year. But it is hard to know. You know, the book ends are fairly clear, and even if it's faster than that, I don't think it – I still don't think it impacts on dividend policy or, you know, the strength of the business. We have more cash than, you know sort of, we would have expected and planned to have.

Kevin Cammack: Okay, thanks very much.

Chris Millington (Numis): Morning, I just wanted to just ask you a quick question about your ability to accelerate the build rate in light of this higher sales rate you've talked about and potentially, you know, higher than what you've previously seen as the norm. And similarly, maybe just a comment around labour availability and just what's going on there at the moment.

Peter Redfern: Yeah, I think our ability to accelerate the build rate over the course of three or four months is fairly limited. You know, we've talked a lot recently about, you know kind of, customer service and getting that right, and I think, when you try and accelerate up, particularly at a local site level, in a material way, in the short term, that's when you tend to get it wrong. Our ability to increase the build rate for 2018, say, you know, seeing a strengthened order book going into that, that year, you know, is much greater, and it's something that we're looking at, at the moment. And again, it goes back to those large sites and how they, sort of, operate. It takes time to get the resources in place and to plan it. And when we tend to find it goes wrong is when you try and do that in the course of a, sort of, planning period, you know, and make a material change.

So, I think, you know, we tend to view it, and again, you go back a bit to outlets. You know, our internal forecasts will tend to show outlets increasing during the course of this year, you know sort of, probably more than we expected at this point last year, but we're always cautious about that. And so, what we're looking at, at the moment is, you know, making sure we can increase the build rate on individual sites, you know sort of, for next year, because of the strong order book. If the outlet numbers happen as well, we've got a lot more volume and potential growth, if they don't we've got a good cover. And so, our guidance for volume isn't really changing, but it definitely gives us an extra place to go in a healthy way, an upside if, you know sort of, the outlet numbers do increase.

I mean, probably the, sort of, the only material concern we have about the General Election is the inevitable, you know sort of, short-term hiatus in planning, that you get between now, you know, and early June. Because it's a short-term election with a, you know, snap announcement, that risk is probably a little bit more muted than usual. But it's still, you known, it's almost inevitable that you get decisions delayed and the odd rejection you wouldn't otherwise have got. So, you know, we have a bit more outlet upside, but also, we probably need that because of that risk. And you know, the volume per site is a good lever that we can use into 2018 to balance that.

Chris Millington: And perhaps just a quick follow-on from that, I mean, with regard to kind of normalised volumes, or what your optimal volume is, does that change at all under this scenario as well?

Peter Redfern: Yeah, it changes but in the way that we have talked about over the course of the last 12 months. So, you know, sort of, I think we do see, you know, as we've talked about, volume upside over and above the 14,000 units, but I don't think it changes significantly how much upside that is. What we're seeing in a way is sort of what we talked about 12 months ago happening in sales but with a smaller number of larger sites but, you know, with what we think is sizing us up very well in the right places with good products, you know, sort of the ability to sell them, and the exact pace at which we deliver them will depend a little bit on outlet numbers, a little bit on the depth of the market, a little bit on build constraints.

I mean, probably one bit I didn't cover was availability of labour. It's not the bottleneck that it was, say, three years ago, but still at a local level it will be a bottleneck in specific instances, so it's not a completely free and easy market, where you can just click your fingers and get the right quality of labour at the right price instantly, but it is something that we can manage, and it isn't an absolute constraint today in the way that it has been over the course of the last two or three years.

And if you look at what we've done on our end build processes and how that ties into our customer service processes, if you look at the build we're expecting to deliver in June and

December this year, the extent to which we are progressed in that and our ability to tweak it and see any issues coming is significantly better than it's ever been before. It's very much under a tight level of control. Our information systems are better; the management focus on it at a detailed level is better. And that means – that always means you've got a bit more upside if you really need it, if you see what I mean, but our focus is not on using that to make sure that we get the quality right and the consistency right. We're loath to change that in the short term but, as you say, as we look into next year, then it gives us the opportunity to do that.

Chris Millington: Understood. Very clear, thank you.

Peter Redfern: No problem.

Closing Remarks

Peter Redfern

CEO, Taylor Wimpey

Thank you, everybody, for the time and for the questions this morning, look forward to catching up with you again at half-year point. Thank you.

[END OF TRANSCRIPT]