Full Year Results 2017

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2017 Overview, Market Environment & Operations

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Chief Executive, Taylor Wimpey

Good morning. Thank you for joining us and congratulations to – for actually making it here. I – this is probably the most surreal presentation I've done of a results presentation. I totted up the other day, I think I've done close to 50 results presentations if you throw in capital issues and other things. This is probably the most surreal because I think I'm presenting to about four people in the audience here, maybe five, and then sort of a group of our staff and advisors. So, you're going to get really personal attention on your – on your questions. A special congratulations to Chris who I'm told cycled in this morning and has still managed to put a tie on, you know, which I think is above and beyond.

We will try and take questions from sort of analysts particularly who dial in, which we don't normally, but given how hard people have sort of found it to get in here and the fact that we also clashed with Travis Perkins as well for one or two analysts, we think is appropriate. And we've also put the presentation up online earlier so that people can have a look at it who can't make it here. So hopefully, one way or another, we'll deal with most questions and we'll get through it.

My other sort of apology is this is probably a bit of a dull presentation, which I will come back to. There's a couple of slides on land in my sections that are really worth waking up for so I'll speak a bit louder and give you a nudge at that point. I'd like you to listen to the pieces on customer services and employees. And I've got two really interesting slides at the back so definitely wake up for those. Ryan's presentation of course is fascinating throughout so, you know, but I don't need to tell you that.

But it is very much, apart from those particular bits on land and on the couple of slides at the back, very much in line with what we expected. Trading is in line with what we expected. But I do think the interesting stuff, and we're sort of very conscious of this, is about starting to set the scene for the Capital Markets Day that we have in May, which we do see as being more than just an ordinary sort of update and operational review. But I will go through the slides.

So, first of all, just on the Group financial highlights, you know, sort of obviously we've continued to show significant improvement in each of the key metrics that we set out. I think, you know, just picking out the dividends paid, what we've committed to for 2018 will take us to the £1.3 billion target for over the three-year period that we set. I would reinforce, and I will probably sort of come back to this at the end of the presentation as well, that, you know, sort of whatever we say about strategy, we start from a base case that our 20 – sort of, 2019, 2020 dividend, start from where we are in 2018, that we're not expecting them to sort of go backwards. So, whilst we are not setting out forward guidance on dividends, you know, you shouldn't read anything negative into that. We will be setting out much more clearly in May, probably ahead of when we would normally do in July.

Just picking out some key operating highlights, and there's two or three of these numbers that I would like to sort of highlight. First of all on the strategic land bank, that 17,000 additions is a – it's just about a record. I think we did almost the same number about four years ago but it certainly runs well ahead of our long-term norm. And what you should read into this – and I will touch on this later – is actually, we have seen an easing in the forward competition for strategic land. We've seen less competition, particularly from land promoters who have been a growing part of the market over the course of this cycle but definitely seemed to have retrenched a little over the last year or so. So, we see – and this is about, you know, sort of laying out the next 5, 10, 15 years of what we do in terms of operating performance. But actually, the forward look there is pretty positive.

The other two I will pick out are softer measures. We're very pleased that our customer service scores have gone back over the 90% to be a five-star builder again. That's really been over the last six months. So, for the customer care year that just finished, we didn't quite get there but the forward look for the customer care year we're in the middle of at the moment is very good. And that's after a lot of investment and a lot of focus from our teams. But it's very much something we expect to continue to build on.

We see sort of a score of in the low 90s as something that we should be aiming for. But actually, once we get beyond that, improving customer care is about looking at other measures, other metrics, looking at how we actually recognise what customers really need, rather than just dealing with maintenance and snagging issues better. So, although we feel we've achieved that target, we definitely think there's more to come in that area.

And the other one is on health and safety. Clearly, a number that's above zero is always uncomfortable. But an incidence rate of 152 is an all-time record for us, and it's about half the industry average. It's something that in my entire 17 or 18 years in the business, the business and I have always taken sort of very, very seriously. But I think our underlying performance is good.

And as I have said to you before, I think those customer care performances and that safety performance, you know, sort of is about a business that's run in a very rounded way overall rather than just focused on short-term results.

Moving on to the market and I'll run through this very quickly because I think the interesting things for you will be what the market is, you know, over the last few weeks rather than over the last year. Clearly, the first half of 2017 was a very strong performance, and in fact particularly the first ten weeks. You know, the comparator that we have for last year on sales rates was an all-time high through those ten weeks period. And then dropped off and a large part the reason it dropped off, we didn't have anything to sell. You know, our order book peaked in that period at a point which was uncomfortable.

And what you saw, as I touched on in our trading update – and I'll come back to sort of a couple slides further on – in 2017, our production caught up and we started to be able to get our sales rates and our build performance back in line. And I will show you what our December completions look like in terms of phasing compared to some of the history, and you get a sense of how that actually is happening in reality. And we're very comfortable with where the order book is at the moment.

At the moment, we're selling roughly six months ahead on most sites. We don't want to be selling much further ahead than that. And so, you know, we do see the business growing this year, but growing and maintaining that sort of forward-lead in terms of timing, which is how we look at the order book.

The private sales price, if you exclude Central London – and I just think it's important for you to get a sense that that was up about 5% on the previous year. When you include Central London, that comes down to about 3.5%, given the falls in Central London but also about the mix of completions.

I think somebody asked at the trading update to see this sort of data which we've shown you before, which gives you a sense of the granularity of customer interest. And you could see – and I'm not going to go through each of the individual charts but they're there in the presentation – you can see that, you know, sort of overall the performance through sort of the back end of 2017 has remained strong. You see one or two sort of peaked but I wouldn't read too much into that. It tends to be sort of more about our own activity than market. But overall, we continue to see very strong levels of interest through all the channels that we sort of sell on.

I will spend slightly longer on this slide than I normally do. We obviously saw base rates sort of move up and we see, you know, much clearer signalling about potential for increase in base rates over the next 12 months more quickly than we would have expected probably six months ago.

At the moment, we are not seeing that feed through to the prices that our customers are paying. In fact, the ordinary mortgage, the sort of 85% loan-to-value on new build has actually come down over that time rather than increased. And you haven't seen the yield curve move in the way that you might have expected, which is probably quite frustrating for the MPC I would imagine.

But you can also see that on the Help to Buy equity loan, you know, the bottom end of the range has come down. The spread has increased. The others – one of two niche providers – were slightly more expensive products at the top end of the range. But still, the level of sort of mortgage costs that people are getting when they take a two- to three-year fixed rate mortgage is at an all-time low, and seems pretty resilient. Now clearly, that, you know, as we look ahead through the next sort of two to three years, that's an area that we need to watch.

On our land pipeline, I touched on the growth in the strategic land bank sort of with the additions that we made during the course of last year. Our short-term land bank remains very much in the range that we're expecting. I still think it's likely to step up a little during 2018. I wouldn't read anything into the fact that it declined slightly in 2017.

I think I'll move fairly quickly on – and I said there were a couple of interesting slides to me. This one, although it doesn't have many numbers on it, is one of them. If we stand back and look at the land market that we operate in, it is different to what we have expected. It's, you know – and it feels like after a number of years of it being different, it's structurally different. And particularly, the planning system is structurally different, which I will come back to.

It still remains very benign by any long-term standards. Importantly, and I haven't said this before, we talked about the push up on margin that we made in the summer immediately post-Brexit. That's actually stuck and we didn't make that change particularly expecting it to stick. We made it in the short-term period of high risk to cover ourselves. But actually, as risks have tended to sort of stabilise, we've continued to be able to acquire land at higher operating margins than we were setting out two or three years ago, you know? And I'll come on to the next slide, the one that Ryan often covers, you know, and sort of show you what our margin on acquisition was in 2017 in a second.

And that environment has also enabled us to maintain the quality of locations that we've been focused on over the last few years, more consistently than we would have expected six or seven years ago when we set it out. You know, I think we have more choices in the land bank, you know, and in the land market than we're necessarily making. So, when we come on to May, I think there are things that we can do that, previously, we would have not expected to be able to achieve.

In London specifically, we see the land environment less highly competitive than we've seen historically. It's more in line with the rest of the UK. We have, as we touched on at the half year, seen better value deals over the last 18 months. You know, we talked about a couple of larger deals that we'd done in Central London at that point. We haven't done any more but if the right deals come up, we'd still happily do them.

We don't believe that it's right to sort of jump into the market and jump out. The timing and exactly the deals that you do at a different point should be dependent on the quality of what's available. But we expect to be in Central London to stay.

2018 and 2019 will be relatively low years in terms of completions but we have a decent pipeline of good sites from 2020 – sort of, 2020 onwards. And we are seeing an environment where competition is muted, certainly by normal London standards and I'd say by normal, UK standards as well.

And as I touched on with strategic land, we have seen reduced competition. We – yeah, if you go back to 2014, we set out a sort of target for conversions of 6,000 plots a year. That was significantly higher than anything we'd done historically. We've averaged 9,000 plots. And if you look ahead, you know, we're not setting a new target per se but that 9,000 probably isn't a bad indication of where it might average over time.

It does bring its challenges but it brings some huge benefits. You know, you do get larger sites. You know, as you've heard others touch on, larger sites mean fewer outlets. Where we will come back, you know, to in May is how we think it's right for us to manage those larger sites and drive value out of them. And it isn't just about doing what we've always done and just tweaking the metrics slightly. We think there are some slightly more fundamental changes about how you use them and how you drive the routes to market. The option for volume growth from our existing land bank and therefore, mathematically shortening the land bank, we think is reasonably significant.

Moving on to what that means in numbers terms, the yellow dot is the 2017 average. And that's where you can see both our margin and on return on capital, you know, us running ahead of the sort of guidance that we've given in terms of new acquisitions. And you know, as I've said before, don't expect the 2017 dot to be a totally new normal but actually more strongly than before, I think it is close to that, you know, sort of the – we're not getting big pushback and finding it really hard to find sites at that level. We've been through the last year – beginning of last year, we found it a little bit more difficult but then it eased off. And actually, we've been able to deliver those sorts of returns, which we then beat when it comes through the P&L account and pretty consistently now through, you know, sort of 18 months post-Brexit.

Just touching on looking at land from a, you know, sort – perhaps somewhat slightly more political point of view. The pie chart on the right shows you in dark blue the sites with implementable planning permissions that we're actually building on. And the very thin other slivers shows you the sites with implementable planning permissions that we're not delivering on at the moment. The red, next biggest sliver is the ones we expect to start on site in the first quarter of this year. So, you know, you get a sense, and we have this conversation with government, and I think, you know, as ever, we find, as we have certainly conversations on, you know, sort of with Oliver Letwin, the – when you lay out the facts, people do start to quickly understand the issue wasn't quite what they thought it was from a distance. It doesn't mean that there isn't any political risk in that area but does mean that I think we're already at a stage where the understanding has improved from perhaps where it was six months ago.

If you look at the chart on the left, it shows the long-run balance between the planning permissions we have received and the completions we've delivered. And over ten years, the two are almost identical. There's huge volatility in the planning permissions granted. Often, that's because it's lumpy on large strategic sites. Sometimes, it's because the political winds change in an election year or whatever. But actually, the long-run average is very much in line. We've grown our land bank basically in order to deliver the completions in the business.

Moving on to a couple of areas that I would just like to pick out on some of the softer measures in the business. And I'm going to talk about people and about customer service today. I'm not going to go through everything on this slide but it just sets out – and we've grouped them into three boxes of culture, attracting people and development and pay and benefits, you know, some of the areas that we've been working on over the last couple of years and some of the things that we've done.

I think the key message is it has made a huge difference. Our sort of staff turnover has been structurally lower than we think our competitors and where we were at any equivalent point in previous cycle. And we're probably at a point where the competition for people is at an all-time high. But it isn't just about money. So, we have made sure that our underlying pay is in the right place but I wouldn't say it's massively ahead of the competitors. But what we have done is changed fundamentally things around flexible working, how we deal with, you know, helping employees to buy a Taylor Wimpey house, how we engage with people, how we deal with diversity issues and all of those. And, probably one I'll pick out to sort of – actually, the level of employee share ownership, which are just about 60%, is roughly double the average for UK corporates. So, you know, our employees are very much bought into our business.

But I think we then see those having a very positive impact. I touched on a lower staff turnover rate, you know, sort of in the mid-teens over the last few years, and 93% employee engagement rate. The single statistic I was most pleased with last year, to be the 15th best company to work for in the UK. Nobody else in our sector sort of was in the top 50, which is as far as they recognise. And this is something that's voted for by our own employees, you know, sort of a bit like a net promoter type score, and it's, you know, it's done by people in their 20s and their 30s. And for an industry which is very traditional and actually has struggled to attract young people in to provide the future of the business, whether it be on site or in leadership terms, that's a huge win but it's also a huge, huge advantage for us.

And just jumping to the bottom bullet point, it gives us hard-edged advantages as well. The consistency of our teams is probably the single biggest measure of success at local business level. If you look at the history of the business in previous cycles, the worst-performing businesses dragged the overall business down a long way. We don't see that. The level of consistency and financial performance comes from the level of consistency in the people teams that we have. And we're not just keeping people by paying them more. We're crafting a much more rounded package of benefits and overall culture that people can work with.

Moving on to customer service, and you know, I'll go through this fairly quickly because I think it's the sort of build slide following it that's slightly more interesting. But you see in the red line, you can see the move I was talking about in the first couple of slides. You know, we dipped more than we were comfortable with in 2015 and 2016. It was a bit of a grind to get our way sort of back up there. But as I said, the key thing for us is now moving on from that, not just looking at customer surveys from a product delivery point of view but actually really working out what our customers want.

And you go back to those big sites and actually really understanding how to appeal to customers beyond the traditional sales model is one of the keys to the potential to drive out more volume and more value where we have large land holdings, and absorption can be the limiting factor.

And just on build delivery – and this is a complex slide to understand. So, I'll just focus on the top half. What you're seeing is our completions as a percentage of the sort of final couple of years, week by week. And you're seeing it for the last four years. So, the – if I jump to the end set of blocks, the dark blue and red columns are the 14 and 15 legal completions in the last two weeks of the year.

The grey and blue columns are the last two years. And you can see the extent to which we've brought those completions forward so there's less pressure on our build teams, there's more chance to just do those final two weeks of making sure that it's right. There's less pressure on our customers to move in on a set day that suits us rather than having the flex to move on when they choose to. And that's made a big difference to not just the delivery of customer service but making sure we're in control of costs. And particularly from a cost point of view, the potential for follow-on costs, you know, sort of when you're remediating issues, always much more expensive after somebody's actually moved in.

And if you look ahead, and this is looking at week seven and this is the bottom part of the chart, if you look ahead where our build is for the balance of this year – and this just maps out as a percentage of total 2018 targeted completions, where we are – again, you can see we're consistently further ahead on build stages. And that makes a difference to our order book but it also makes a difference, most importantly strategically, to our confidence if we want to step up production that we can respond to the market, rather than it's felt over the last three years, the market will be what the market is and we can only do what we set out to do at the end of the year. Being further ahead and being more in control and knowing what levers to pull gives us choices that we haven't had over the last couple of years. So, I'll hand over to Ryan.

Sustainable Financial Performance

Ryan Mangold

Group Finance Director, Taylor Wimpey

Thanks, Pete, and good morning, ladies and gentlemen. I will try and keep this very interesting for you, as Pete noted earlier. So, in this section, I'll talk through the financial performance for the year, highlighting specifically the further improvement that we've made in the quality of the balance sheet, the further improvement we've made in the increase in the scale and the quality of the land pipeline underpinning the sustainable financial performance, and the good progress we've made against our targets we set ourselves in 2016, covering the period 2016 to 2018.

So if we look at the summary of the Group results, Group revenue growth year on year just shy of eight percentage points, has been driven by positive price movements as well as some volume growth. Gross profit delivered in the period on just over £1 billion is up 9.8% and the gross profit margin of 26.1% is up 0.5 percentage points on the prior year. Net overhead recovery remains largely unchanged year on year, given the further investment in the business that Pete noted earlier, particularly on the people side and processes side, and this results in underlying operating margin of 21.2%, is up 0.4 percentage points on 2016.

The key drivers of the UK performance I'll cover later in the presentation, in terms of margin as well as quality, and just worth noting again that the Group results include our Spanish business. Spain delivers £26.8 million worth of operating profit in the period; it's up 30 percentage points on 2016, off a fairly similar number of home completions. And with a strong order book of over 300 homes and by value up by 21% on 2016, and demand remaining good, positions the business really well to continue to make progress into the future. We have maintained – I'm sorry, just go back a slide – we have maintained our investment strategy in Spain of marginal growth and the high-quality land bank that currently stands at 2,675 plots is up 25% in 2016. And there are a few more operational statistics and information on the Spanish business in the appendices that we normally would include.

Interest costs for the Group are slightly lower year on year, due mainly to lower debt finance costs following the repayment of the corporate loan that we had in the second half of 2016, as well as lower average borrowings for the period. We ran average net cash for 2017 versus average net debt for 2016. This has been partially offset by slightly higher land creditor discount unwind in the period as a result of average higher land creditors year on year. This results in underlying profit before tax and exceptional items of £812 million, up just over 10.7 percentage points.

Net underlying effective tax rate for the business, for the Group, at 18.7%, broadly in line with the statutory rate and is slightly lower than the 19.6% in 2016. And this benefits too from further recognition of the deferred tax asset, due to historical losses in Spain in the year. We expect the future tax rate to largely reflect the statutory rate for the P&L charge as well as what we are paying in cash annually. The strong return on net operating assets made during 2016 has continued into 2017, benefiting from higher profitability, driven off a fairly consistent scale of balance sheet, and also benefits too from the improving quality of the land bank. Tangible net asset value per share of 95.7p is up 8% year on year, reflecting the continued investment in the business as well as the lower pension deficit, and is after paying 13.8p in dividends.

If we look at the UK performance summary, strong demand in the higher quality sites is continuing to drive the volume growth and the quality of the locations also benefiting average price increases. But as Pete noted earlier in the presentation, the average price is up 3.5%; some of that is offset by the London market, which on a mix-driven basis results in a slight negative for us overall.

Several new joint ventures are coming online in future years through the success of our Major Developments business, and so we'd expect profits from joint ventures to grow in the coming years, but more from sort of 2020 and beyond as those joint ventures become to greater scale. We have a large joint venture site in Bordon in Hampshire, acquired through Major Developments, and three large joint ventures in London, which will all be contributing to volumes for many more years to come.

Gross margins are up 0.3 percentage points with 2017 impacted by the full annualised cost of the investment in our customer-centric focus, both in people and processes, which launched effectively in 2016, with the teams now largely in place, and now it's just a matter of about enhancing the value that they're going to be creating. Total underlying operating profit in the UK business at £814 million is up 9.5 percentage points in 2016.

If we look at the movement in margin year on year for the UK business, this is just an indicative movement, where we try and analyse how the market's performed and how we've performed relative to the market, and understanding the dynamic of the key drivers. We think that the net impact of the market-led sales prices in the locations that we sell from, offset by the build cost inflation that we're seeing in the wider market, added 0.7 percentage points to margins, with ASPs continuing to rise at a pace that is marginally ahead of build cost inflation. And as you heard earlier we guided to sort of 3% to 4% build cost inflation for 2018.

The land bank evolution of sites acquired around the 2012 to 2013 period and slightly before that that benefited from very strong market fundamentals, so therefore having much stronger margins year on year, are starting to trade out, and being replaced by sites that have been acquired at higher margins on average than from the original investment, but not benefiting from the same market uplift, has taken off about 0.6 percentage points year on year. As a result, the net market impact is positive, 0.1 percentage points.

The net change in land mix year on year has reduced margins by 0.3 percent, due to mix and trading pattern. And with the higher investment in customer services in some of the other processes that we've implemented in 2017, including the build quality, has reduced margins by approximately 0.3 percentage points year on year, but we're not expecting that to be an incremental change, but it's now a matter of bedding that in. Affordable pricing has increased margins by 0.5 percentage points and marginally better overhead recovery adds 0.1 percentage points. The way that we account for joint ventures and the share of net profits have added 0.2% to the margins in the year.

In 2016, we set ourselves a target of 22% operating margin for the group for the periods 2016 through to 2018 and at the time we indicated that this was one of the toughest of the targets that we set. However, the key driver supporting this target is continual improvement in the quality of the land bank and driving continual efficiency improvements across the Group. With 2015 as the base, as a reference year, land recovery has improved by 1.2 percentage points relative to selling price, with the quality of the land bank at circa 15% of average selling price currently, we'd expect to make some continued progress in this regard, albeit this is offset a little bit by the short-term acquisitions where the plot cost to ASP ratio is slightly higher.

Build cost recovery continues to trend towards upwards, given the greater burden of infrastructure on the larger strategic sites and the effect of build cost inflation and higher spend on improvement on product quality offsetting the lower land recovery, so it's fairly symmetrical during the period. The higher level of infrastructure cost should largely remain consistent going forwards, given that the strategic land mix is expected to stay broadly the same, but there can be certain minimal elements of volatility in there, but broadly about the same.

We've made improvements on our selling expense efficiency by 0.3 percentage points, resulting in gross profit per unit improving by 0.3 percentage points. And contribution per completion has increased to just over £69,000, which is up 5.8% on the year and up by 17% since 2015. Several of the initiatives that we've embarked on in 2016 and 2017, including customer service and delivery excellence programmes, have added more to the cost base in the short term. However, we are expecting to drive some gains from these initiatives in the future periods as we improve in the quality of the home delivery.

As announced earlier, in 2017 we completed a leasehold review and we've booked the previously announced £130 million as an exceptional charge in the year. We believe that this is a full and prudent provision that we have made on the cost estimate, which we are not legally bound to incur. The provision is supported by agreements with freeholders covering over 90% of the customers effective and we make further good progress on the remaining 10% during the course of 2018. We expect the majority of these cash outflows to be over the next two years with a fairly long tail. This is very much dependent on the pace at which customers make application to change their leases to being one that is RPI-based rather than ten-year doubling. And as a consequence, an exceptional tax credit of £25 million was booked against the provision.

Turning to the balance sheet, the dynamic of ever so marginal cash release from net land investment, including changes in land creditors, continues despite the overall scale of the land bank staying broadly the same. There has been a slight increase in overall investment in work in progress year on year, reflecting the slight increase in infrastructure cost, combined with build cost inflation, and a greater level of work in progress that's on the balance sheet for the additional time required for improving the quality of home delivery that Pete spoke about earlier. The increase in provisions mainly reflects the additional £130 million that we recognised on the leasehold, with only a small amount of that actually utilised during the course of 2017.

Net asset growth, after returning £450 million to shareholders in the year, is up 8.2%, reflecting the strong profitability, as well as pension deficit movements, offset by the leasehold provision. Net asset growth before dividends paid in 2017 of 23.7% is a reasonable proxy for the return on equity generated by the business.

For the UK land bank, the total potential revenue in the land bank has increased by £5 billion year on year to £47 billion. This is driven by an increase in average selling price as well as the overall scale of our strategic land pipeline, where we continue to actively pursue planning permissions. Land cost per plot relative to the expected revenues in the short-term, owned land bank is down by 0.6 percentage points to 14.8, reflecting the continued quality of investment margins as well as growth in the wider housing market. The margins delivered in the year on sites that were acquired since 2009, when we re-entered the land market following the financial crisis, were 1.7 percentage points on average higher than the investment assumptions that we'd made at that point, and these – this higher return from investments versus the assumptions, further validating the quality that we believe that we've got in our land bank, which will underpin future profitability as well as returns from the business.

The pensions' deficit is materially lower on 2016, driven principally by the asset performance following the investment strategy, and also helped by the hedging programme that we've got against our liabilities and improvements in actuarial assumptions, particularly on mortality. Under IAS 19, the scheme is actually in a surplus for the very first time of £24 million; however, given the ongoing commitments we've got for funding this scheme results in an IFRIC14 adjustment of £88 million, resulting in a deficit for accounting purposes of £64 million. As part of the triennial valuation, as at December 2016 we undertook a medically underwritten mortality study that indicated that the actuarial assumptions that we had historically for the membership were more prudent than what the underlying membership reflected. This, combined with updates in mortality tables year on year, has resulted in a significant reduction in the liabilities.

The triennial valuation for 2016 has been concluded with the trustee and that resulted in a technical provisions deficit of £222 million. If you had to roll that forward from 2016 to 2017 on a consistent basis, the deficit has reduced to only £30 million, using exactly the same actuarial basis for the calculation. As a consequence, we have agreed a four-year recovery period with the trustee and contributing £40 million per annum versus the £16 million we currently contribute. The recovery payments will, however, be suspended to the extent that the scheme becomes fully funded on a technical provisions basis. It will only recommence payment if the scheme drops below a 96% funding level.

This process will be tested quarterly. The first test will be 31 March 2018 and subject to market movements, the expectation of the next three years will be that we will probably contribute marginally less cash into the scheme, given how well capitalised it is. And we also continue to work very, very closely with the trustee overall in managing the pensions exposure, including hedging programme and de-risking.

The level of investment into the business continues to grow, funded by profitability generated. outlet numbers are broadly consistent year on year; however, there's been greater levels of infrastructure investment on – particularly those larger strategic sites, as we noted before. The profit and loss work-in-progress recovery has continued to get closer and closer to the cash investment levels as both the shift to larger strategic sites is being completed with the related higher infrastructure burden. And the more significant investment into work in progress as part of the customer journey that Pete highlighted earlier, and the knock-on effect on build programmes that's added approximately two weeks to delivery is broadly at steady state.

Land cost per plot recovered through the P&L has shown marginal growth over the past five years and with the current cost per plot on the balance sheet, I expect this level of net land investment to only marginally grow as the land is replaced.

As noted before, the Group is cash tax paying and we paid £128 million in tax over the year, with future cash tax payments to largely reflect the P&L charge. Net cash ended up £147 million year on year, despite the higher tax payments, and returning £450 million to shareholders over the year reflecting the strong operational cash generation and balance sheet discipline. With the balance sheet broadly at what we believe is optimal scale. And a high proportion of the quality earnings generated are being converted into cash and that's available for distribution to shareholders. The strong cash generation trend we expect to continue for the foreseeable future, underpinned by the high-quality land bank and low level of adjusted gearing.

We have declared a final dividend for 2017 of £80 million or 2.44p per share, which is in line with our ordinary dividend policy of 5% of net assets. This, combined with the £340 million special dividend declared in July of last year for payment this year, means that we will return £500 million to shareholders in 2018, subject to shareholder approval at the AGM in April. The declared dividend for 2018 represents a yield of approximately about 8% against the current share price.

In February we have completed an amendment and extension to our £550 million revolving credit facility with the banks, on slightly improved terms, reflecting the good progress the Group has made since we last renewed this. This takes the revolving credit facility term to 2023, with an option to extend for a further two years. And this, combined with the other credit lines means that we've got committed facilities for over a five-year period.

Overall, the balance sheet remains strong, with adjusted gearing including land creditors of only 4% gearing relative to the 8% in the previous year. And we anticipate that the facility will stay largely undrawn during the course of 2018 and have a fairly similar profile to 2017, which was average net cash of around about £190 million.

So in summary, good progress was made in the year against all the medium targets we set out in May 2016. The declaration of the special dividend means that we have met the £1.3 billion cash target that we set ourselves over the three years. The net asset growth year on year before dividends returned to shareholders of 23.7% reflects strong total equity returns and, as noted before, the return on net operating assets continues to run above the target we set ourselves. And I think that the quality of the business, the quality of the people and the quality of the balance sheet, combined with good capital discipline, I think positions the Group very well to continue to make strong progress in years to come.

And I hand back to Pete for current trading and the medium-term outlook

Current Trading, Medium-Term Outlook and Strategy

Pete Redfern

Chief Executive, Taylor Wimpey

Thanks very much. So, three slides on how trading has been over the course of the last few weeks and then two on our thoughts in advance of our Capital Markets Day in May. So, UK market performance to date, I mean, we touched on the strength of the comparative, the equivalent period on private sales rates. A private sales rate of 0.81 in the first ten weeks of this year, we're very happy with but it is against, you know, an all-time high in the equivalent period last year. My instinct is, unless the market changes significantly from here, that will balance out during the course of the year. During the course of both 2016, when obviously the first half was strong but not as strong as last year, and 2017, the second-half sales rates were compressed because of our availability of product and things to sell. You know, you go back to, if we're selling six months ahead, get much ahead of that and we get pretty uncomfortable. So you know, actually, I don't think that the second half or even the second quarter needs to be sort of any better than it is today for that to even out over the period. So it's not something that we're particularly concerned about and, as you can see, cancellation rates still in line with sort of what we've expected.

I would say, just the last bullet point, you know, sort of the one area where we definitely see a slower market is in generally higher price points. I think, you know, the – it's where the second-hand market has more of an impact because, you know, sort of, you have to put chains together. It's not a particular concern for us but it's definitely sort of a bit slower and a bit softer at the top – not, as we've said a couple of times, not so much on price, but definitely on rate.

Just, and this is probably the only time I'll put up this data and this slide, but I know with the trading update it did cause a little bit of concern because our affordable order book was down. It's not something that we see as a big driver either way. It's something – you know, we don't tend to look at it in an order book sense, but I get that the way we quote it externally, it, you know, gave people slight cause for concern, but you can see sort of to date that our affordable order book is pretty much in line with the end of 2016. And we wouldn't normally see that sort of seasonal shift, so it's pretty much in line with this time last year as well. We just had a bit of a timing difference at the end of the year, but I just thought I'd put that up by way of reassurance.

And picking out Central London, don't want to spend a huge amount of time on it, but you know, it remains a slower market than we've seen. Just that second bullet point, you know, sort of in order to deliver our 2018 plans, we have 126 sales to make across seven sites. If you work that back, you get to a sales rate of about 0.34, which we're pretty relaxed about.

Our exposure, in terms of guidance and profitability, is short. And we still have yeah, very much a perspective that, you know, Central London is a good place to be long-term and actually, if we get too much into our short-term reactivity to a market, then we make the – the wrong long-term decisions. So, you wouldn't necessarily expect to see us push large amounts of capital into Central London over the course of the next six to 12 months, but if there are great opportunities, then we won't be averse to taking them.

So, it's very much opportunity-led, at the moment, but we're certainly not expecting to pull out. And we see that profit contribution from sites we already have is starting to build up again – as I say, back-end of 2019, but particularly 2020, 2021. But, we don't see it as causing too much of a problem in the short term and a healthy long term place to be.

So, going to the final two slides, the first one, I just wanted to use – just to give you a flavour of some of the things that we feel have changed. And if it's on this slide, it means we feel it's changed in a meaningful way over the last seven or eight years since we set out our current strategy, you know, not just that it's subtly different.

And the final slide, I'm just going to run through the areas we expect to cover on that Capital Markets Day. There's quite a lot of areas on that, so we won't necessarily go to all of those in detailed presentations, but in the information we'll give you, we'll give you a sense of where we think the business should go over the medium time – medium term.

The first point on here is one that everybody knows and almost through the last cycle, you know, we became uncomfortable talking about. But actually, as we've gone through this cycle, you can see it clearly impacting on the stability in our market. The supply/demand imbalance remains and that means that confidence in our long-term prospects remains very strong. We've probably been the most cautious in always saying that we remain in a cyclical business. We still feel that.

But I do think there is a – you know, we have a sense that whereas historically, we have seen, and I have seen, that a downturn is almost this black hole that you go into and what emerges out the other side is not recognisable from what went in, you know, our view on that has changed. There's a lot we can do not just to prepare the business in terms of its balance sheet strength and its trading position for, you know, sort of a future downturn, but also longer term things that we can do now that do then pay off post a change in the cycle, not just in the short term. So, you know, that underlying sense that we have the unusual luxury of operating in a market where supply just cannot physically keep up with demand, does underpin our sense of where the business should target longer term.

The flip side to that is in the short to medium term, you know, we should be cautious and concerned about customers' ability to finance a house purchase, about dependence on Help to Buy. We're not worried about what's going to happen in late sort of 2019 – sorry, 2018 and 2020, but as you look over the next five years, we wouldn't – you know, there are clearly risks there. And our understanding of that customer dynamic and how best we can help our customers through potential changes in Help to Buy is important. We shouldn't just be saying we need Help to Buy to forever and when Help to Buy goes, there's nothing we can do. There's lots we can do. So, you should expect us to talk about our views on some of the things we can do in a world that has maybe different Help to Buy, you know, sort of into the future.

The third thing – and this has flowed on from us working very hard over the last three years – to get our short-term customer service right – actually understanding what customers really want and where we have less constraint on land. Particularly on large sites, our ability to tap into a broader base of customers and sell to them effectively and really understand their need, has much more value than it did in a world 15 years ago, where, actually, our massive constraint was land and our ability to sell and identify customer need was much less important.

The fourth area, and probably the one that you will see as most significant – certainly, it makes a massive difference to the business – I think the land and planning environment we operate in is very different. We've talked a lot about the land market we operate in being different, but I think we have a tendency, as a sector, to say, "Yeah, planning is a bit better at the moment, but it's still terrible and nothing has really changed." I think as we stand back now, six, seven years on from some of the changes made by the coalition and then following through, the planning environment we see today is structurally different to what we have seen in previous cycles. And I think the combination of the competition for land and that planning environment has a significant impact on the business. And that should, then, impact on our views of strategy more than it perhaps has over the last couple of years.

So, you know, you can clearly see it in margins in the business, but I think people underestimate the extent to which it's impacted on the financial structure of business. The amount of capital we have to lock up to keep the size of the land bank we have is less, but it also means our ability to potentially shorten that land bank is greater.

With that has come an underlying trend which has been there for 20 years, that sites have got generally larger. You know, the average site that we acquired when I – in the year I joined the business was 70 units. Today, it's probably about 250. That makes a big difference to how we operate. It gives us some good choices, good options, but it brings some challenges. But one of the things we're very focussed on is how to make those large sites work for us, and that means doing things a bit differently from what we've done in the past. Some of that we've done on some of our sites, but we haven't really reflected that through our use of strategy.

I also think in a world where land is easier, and it is easier than we are used to, what I'm calling engine room ability – the ability of the business to buy sites, to take them through a complex system, but also to build product in a high-quality way to resource that that part of the business that, in previous cycles, where the industry has been valued purely really on its asset base rather than its ability to run a business, has more value than it ever has done before.

And you see, across the sector, those that have struggled with it – the obvious example being Bovis at the extreme end. Actually, there's value in this structure if you get it wrong, I think there's also value creation if you get right. So, the engine room has a value and it's in short supply. You know, there is a political and economic need for more housing, but we genuinely can't deliver it. So actually, being able to enhance that, build it, improve it, do it better than others has value.

And lastly, this sector is and will remain in political focus. And, you know, you've heard me, over the years, talk a lot, I think before others have, about customer service, about health and safety, about other things. I think the risk of not being a business that operates in a responsible way and not having an understanding of those drivers is significant. And the potential if you do, I think, is also significant. We've always believed it's the right thing to do and we also think over the course of the next ten years, it'll be the only thing to do.

So, just thinking about areas we expect to cover – just to give you a bit of a flavour – we will go through all of the key operational metrics. You know, and the ones– not everything on this chart will change from where we are now, but we're seriously looking at all of them and some of them will change: our views of land bank length, including that impact of large sites; views of what we think the sales rates we should normally expect and how that ties into outlook numbers and how we link them. You know, I think where you – we present our outlook numbers and sales rates in a way that reflects the strategies of 20 years ago when sites were so much smaller and it was a much more mechanistic production. I don't think it works quite that way and I think we could probably give you better information than just a simple sales rate and outlook numbers. You should understand the relationship between the two better.

Our long-term growth aspirations, I don't really – and I've put long-term so you don't think I'm talking about 2018, you know, sort of – and probably not much in 2019, but 2020 and beyond, I think we have slightly different view developing from where we've been. As part of that though and essentially in that broadening our routes to market, you know, sort of looking at, you know – and I touched on it before – how we look at customer affordability and how customers finance, how we do that in a post Help to Buy world, how we look at the rental market and PRS. You know, I do not expect, you know, us to be sinking large sums of capital into that market, but actually, having a far more strategic sort of view of that and working out, particularly with large sites, how we can make that work for us, rather than in an opportunistic sense, where our market positioning of our products is, and actually how we can improve our products over time.

I touched on managing through the housing cycle. We still see we're a cyclical business and having a strong balance sheet is key, but all – and that we still see that having a significant dividend is a key element of the value proposition to shareholders, but actually, trying to map out for you probably better than we have done over the last five years, where we see that going in the long term. Do not expect a nine-year dividend plan with an LTIP attached, but do expect clearer guidance on where we expect that long-term dividend policy to go, you know, I haven't changed my view. You cannot predict what's going to happen in nine years' time, but I still think we can do a better job for you of mapping out where that dividend trend may go and how it will be impacted by our cycle as well.

An update on Major Developments and, particularly, how that ties into the large sites piece. Our customer proposition and where we see ourselves in the market. Some of the things that we've touched on already around resourcing, direct labour, you know, actually how we get our build strategy right over a longer period of time, and pieces on social purpose and that community and political risk.

And lastly of all, and I've touched on it already, but also, just making sure we're clear on our dividend policy. And I'll repeat what I said at the beginning – please do not read anything into that, that the 2019 dividends are going to go down from 2018, you know, we still have the view that that's a key part of the value proposition, but as I say, the main thing for us is then mapping out where we think that will go into different economic conditions and how we view that as tying into the business's strategy.

So, we think that's an important part in our, you know, sort of future development, but having operated the strategy we've operated to over the course of the last seven or eight years, there's a lot that will carry forward from that, but we do think it's the right time to really review it thoroughly. And we wouldn't be saying this if we haven't got some pretty clear ideas about where those conclusions went.

Q&A

Open up for questions. Shall we start in the front row, Will, and then, we'll just work our way backwards between the two or three rows. And, you know, you could – on this occasion, you're allowed six or seven questions, if you want that, although I don't know if you've got any questions on the line? Not yet. So…

Will Jones (Redburn): I'll stick to three. Will Jones from Redburn. Just – the first one just on build, actually. Your two larger peers we've seen make quite a lot of – a big push, if you like, on build cost efficiencies. One is kind of executed, the other one, for him, it lies ahead, and I didn't – it wasn't really a part of the priorities you highlighted there for the CMD. Can we infer from that that you're pretty happy with where you're at on your ratios? I think about 54% at the moment on the build side.

Secondly, just on the land buying. I think in the statement, you talked about a 28% intake gross margin for, I think, short-term land and yet, the average is about 27% and a bit in the slides. Is that right and therefore did this strat land come in a bit below the open market, if I've read that right?

And the last one was just around outlet quality. I think in January, Pete, you talked about how this year, particularly in certain regions, the outlet quality is improving. Does that play out this year or does it continue, you think, in 2019 and 2020, in terms of that improvement? Thanks.

Pete Redfern: Thanks. I'm not sure I understood the second question, so if you did, Ryan, if you can take that one? If not, I may have to ask you because I was sort of still writing down the first one. Did you kind of get what the second question – which data it was looking at?

Ryan Mangold: Yeah. I think the point that Will is making, on one chart, you've got a gross margins or contribution margins and the yellow dot being somewhere between 27% and 28%, but on your presentation on the slide, the actual intake margin on the short-term land was circa 28%. And so, I think it's just a matter of rounding, Will, rather than anything else.

Will Jones: Okay.

Pete Redfern: Yeah. And you know, we still see yeah, overall, a higher margin on strategic land. The gap has narrowed simply because land costs are lower. So, strategic land percentage, yeah, sort of saving is lower, but no, the – we definitely haven't seen a position where strategic land is – you know, delivers a lower margin.

Will Jones: Can I just extend that? Do you think the 27% or so you did last year, is that something you think you can repeat in 2018 for intake?

Pete Redfern: Yeah. Okay. I'll come back to that. So, let me take that one first and then work a way through. And actually, I'll almost go in reverse order. So, do we think it can repeat in 2018? Broadly, yes. I mean, it will massively depend on the exact mix of sites.

And if we, you know, sort of have a mix of smaller sites, particularly, you know, sort of that would tend to push it down slightly, but by order of magnitude, yes. We are not seeing a sea change and I think there's enough sites in that 2017 mix that it's reasonably statistical. It's not distorted by any one measure, you know, so we don't see it going down south, particularly, you know, but certainly in the same sort of range.

On outlet quality, yeah, I think the changes, yeah, that we sort of flagged in the underlying quality – and quality is partly about scale and not having to be in and out of outlets too quickly, and it's partly about the quality of the locations and how the sites are set up. We certainly don't see that going backwards. You know, it varies a little bit regionally, so there are some regions that's about to get to the same place, but I think we'd say the net direction is continuing to be positive rather than a one-off benefit in 2018.

On build cost efficiencies, I think we – there's still more we have to do, definitely. You know, what we are not setting ourselves up to be is the lowest cost producer. You know, it's not where we want to be and it's not where we see the long-term sort of value. And we do think, if you look at those customer service measures and such an important purchase for people, being the lowest cost producer is always going to result in quite a high risk strategy, particularly when the market changes.

That doesn't mean though that we don't a) need to be very much in the range about where our build cost efficiency is, and be able to deliver the most efficient product at the level of quality and specification that we think is right. So you know, we are not particularly sensitive about pound per square foot comparisons, but we do think there's more things that we need to do.

You know, sort of I think if we are looking again, at the moment, at our house type range and quite significantly reducing it, these things tend to grow up over time. You know, it's about five years since we last sort of had a significant cut-back and so, you know, there is efficiency that comes from that.

There is more that we can do on the supply chain. I think over time, what we want to do on direct labour helps costs, although I don't think it makes a particularly big difference, either way, over the first couple of years, but we are interested in how we control more of our input costs over the medium term rather than be very much at the mercy of spot markets as well.

So there is definitely things to talk about but strategically where we want to be as being able to produce a high quality product at the most effective cost, rather than being the cheapest possible producer out there. And then – no, I think we covered them all haven't we. Yeah, should we move back and along?

Jon Bell (Barclays): Jon Bell from Barclays. I think I've got three. Just wondering where you currently sit on land creditors? I think at previous Capital Markets Day, you indicated you might be trying to reign them in a little bit. Looks like they've gone the other way. Is there anything that's changed? Secondly, I wonder whether you could just elaborate on your medium-term aspirations for the Spanish business. It seems to be getting a few more column inches recently; what should we read into that? And then finally on your comments on the land and planning environment, having structurally changed, are you guiding us to a change in how you see the overall capacity of the business? And I'm sorry if that front runs what you're going to tell us in May.

Pete Redfern: The short answer to the last one is yes. On land creditors, if you look year on year, if you take out the Mount Pleasant site, which say long-term land creditor, which we flagged at the time, you know, sort of as a significant part of the funding of the deal, then land creditors are completely flat, you know, sort of. So in – are we uncomfortable where they are? No. But actually, we will be uncomfortable if you saw them, you know, sort of grow and quite relaxed if they fall a little, but not too exercised about where they are right now.

It is, as we have said before, about combination of land creditors and where we are on cash, you know, to be sitting there with £500 million cash on the balance sheet, and land creditors which were now over the large part number of years, we're pretty relaxed overall. So, I think our flag about land creditors reducing was on the assumption that cash will be more in that £250 million to £300 million range so overall in terms of balance sheet sort of strength, pretty relaxed. Is that fair, Ryan?

Ryan Mangold: Yeah, I mean, we use land creditors on a deal-by-deal basis. You know, the Mount Pleasant site that Pete highlights is a good example. You know, it's a fairly capital intensive site from a land point of view on a phased drawdown basis, subject to whether Royal Mail completes the enabling works, you know, that becomes a quite chunky number on its right on the balance sheet, but it's not something that we are concerned about. There is no structural change to how we are going about to fund land.

Jon Bell: Is Phase 2 of Mount Pleasant in the land creditors' number now, or you still just captured the first phase?

Pete Redfern: It's just first phase. But still the number that's actually in there is the gap between the two years. Yeah.

Pete Redfern: Our Spanish business, yeah. So, I don't think there is anything hugely new to say, apart from the performance of the Spanish business and the Spanish market has clearly, you know, sort of moved on significantly in 2017. So, our options are more short-term and more real than they were. If I'm honest, our strategic focus has been on the scale of the UK and where we go and getting that right. I think we'll sort of go through that one, serious think about Spain. But, you know, it remains a view that it's a good business in a market that's improving. Its value is better and you have started to see, as you will have seen, you know, sort of a number of deals happens some, you know, sort of private to public sort of deals, so that there is an environment there that we could do something if we chose to, which hasn't been the case really until the last 12 months.

<u>Gavin Jago (Peel Hunt)</u>: Good morning. This is Gavin Jago of Peel Hunt. Just three if I could as well please. First one is just on kind of your working caps swings going through the year, you had a net cash position on average, just to get a sense of where the cash is moving over the next few years. What kind of peaks and troughs do you – would you be kind of looking through in a normal year? A reminder there please.

And the second one is on average site size. Obviously, you've seen how that kind of land percentages of the ASP has shrunk over the years but I think that your site size has gone up.

And then I guess linked to that you're going to have more infrastructure cost, so can you just give us a sense for the mix of the site size that has come through?

And I guess kind of linked to that as well, just looking towards this May Capital Markets Day, I note there is a bullet point on the rental market potentially coming in. And I've pushed you on this before, Pete, but do you think the build-to-rent is now a real prospect for becoming kind of a part of the business now on these larger sites to drive return on capital, I guess, the overall magnitude of your profits, rather than necessarily just focusing on the margin?

Pete Redfern: Are you happy to take the first one Ryan? Do you, want to take that one first and then I'll pick up the next one?

Ryan Mangold: On the working capital demands, as you've seen from the statement, Gavin, we ran average net cash of last year over £186 million, having started the year at about £365 million and ended at £511 million. The only time we dipped into net debt during the course of the year was immediately after paying the special dividend of £300 million in July. Our average working capital swings in terms of demands are roughly about £150 million to £200 million, that hasn't really changed. As you saw from Pete's chart earlier, in terms of the number of completions in the last two months of the year, we are still backend weighted. And so, there is a bit of working capital that goes in but it doesn't change us into a net debt position.

Pete Redfern: And I'm not quite sure how to give you a mathematical answer to the question on the average site size. It has grown and it's continued to grow and you're right, that makes a difference in the balance between land cost and infrastructure cost. We're not – you know, you've seen that come through in the last two or three years. Is that trend going to continue? I certainly don't think it's going to reverse. It's probably going to come through a little bit more on the P&L but I don't think it's going to come up through massively more on the balance sheet. I think net-net its impact on margins and performance is a positive one, but as you say it changes the mix. So it definitely pushes up build costs and pushes down, relatively, land costs, you know, sort of but it's hard for me to give you an answer that says it's 3, if you see what I mean. Directionally you're right.

But in terms of build trend, I do think – and it goes back to what I was saying about land. Land is more available than it was, which doesn't mean the land environment and the planning environment is easy. But yeah, we're so used to that being the constraint on the business that almost all of our mind-set becomes defensive about that, and then that doesn't think maybe as open as it should about other things.

I think if you turn around and say actually the land environment is different; it's likely to stay different. It might get a bit harder, it might get a bit easier but it's likely to stay different to what we've used to. That then forces you to think, well, okay, if I'm less constrained than I thought I was there, how do I make sure that some of the other constraints, local level absorption, that I make those – that I work through those and adopt a strategy that makes those more effective? And one of those is broadening our reach to market. One of those key pieces is actually being able to sell in some form or other into a rental market. So yes, I do think over the course of the next 5 to 10 years that has to become one of the levers that we use.

That doesn't mean that we end up the long-term owner. I think, you know, the way we looked at it, we would be happy to own for a period of time. But I think, you know, we're unlikely to decide it makes sense for us to be the long-term owner of a large portfolio, but actually having much clearer roots into that market that aren't just a reactive – we're not selling as fast as we want. We've got some spare stock for next year, let's sell it off, which has tended to be the way that, you know, the industry has done it in the past. It just isn't strategic enough and doesn't give us the sort of levers into the market that we might want. So, you know, yes, I think it will. But I don't necessarily think that's an overnight thing, so it will build up steadily over time.

You feel like you've got to ask questions, don't you, because there's so few people here.

Chris Millington (Numis): Yeah, good morning. Chris Millington at Numis. I may as well go three, given that everyone else has. So, first one is just on the political landscape, you know, you mentioned it's uncertain there. Can I just get your thoughts on a potential Help to Buy extension, but also obviously we've got the land bank review from Letwin going at the moment and any possibilities of windfall taxes there?

Second one is really just on the margin outlook. You obviously had a little bit of a headwind from some of the customer care costs you put in. What I was wondering is do they completely leave the business next year as a headwind? And also can you just kind of tie what London is doing with regard to the headwind into that answer?

And then final one I'd like to ask really is, there was a reference in the statement to looking at share buybacks, if appropriate, rather than giving cash back to shareholders through dividend. Can you just talk us through kind of, you know, what would trigger a response to share buybacks versus dividends and just kind of how you think about that?

Pete Redfern: I'm sure that was four. Yeah. We'll definitely allow it but I'm sure it was four. So, I mean, the political landscape is – you know, sort of has risk in it. We know that. I think you've got the Letwin review. You've got, you know, sort of reviews of build quality and you've got political sensitivity around the level of production. I mean, our take has been, and remains, the most important thing we can do is try to get things right ourselves, whether we're talking about customer care and service or whether we're talking about being clear about what our policy on land is, and, as we've said to you many times on land banking, it does frustrate us all as a sector a little because it's so far away from the reality of what happens and what I said to you this morning, you know, in the early conversations with Oliver Letwin, that comes across and actually, you know, sort of he is a bright guy, it's not that hard to understand. And I think where that conversation is going and I don't think I'm giving away huge secrets here, is about, well okay, it's about how large sites actually operate and how quickly they sort of – they come through and what the other constraints are. That's a pretty sensible conversation. You know, it's not unreasonable politically and it's not particularly threatening from our point of view. I think that the sort of the big scary things that you worry about, you know, sort of don't feel like they're sort of really in serious consideration; you mentioned, you know, windfall tax – the things you can do nothing about because they are just kind of slightly arbitrary. You know, I think the conversations that we're having at the moment are pretty rational, sensible ones about what the constraints really are.

But, you know, we're in a sort of politically uncertain world – well, not just in our sector but across the piece and the risks are a bit greater in that environment, so you can't cut totally leave them out, odds are low but not zero. And so I don't think that's going to change in the next six months either way.

On sort of the – did you ask question – did you ask about Help to Buy and where we thought that would go? I wrote down land bank review but I think I actually wrote down… Yeah, on Help to Buy we don't know anything in particular. There has been no sort of specific feedback. My – they're definitely looking at it, I would say slightly well critically then was the case previously. Obviously, the change of leadership, while old now but, you know, sort of – but it takes time to filter through changes it because it was George Osborne's policy, so, you know, sort of it was not something he looked out desperately critically. I think the most likely thing is that they look at 2021 and look at some kind of phasing out, you know, and the phasing out, as we touched on before, could take many different forms.

I still think that's the right answer. So I wouldn't be sort of arguing against that. You know, I don't think it's very likely that suddenly they will click their fingers and remove it because the risk, you know, sort of to buyers, to housing market, to overall economy is too great, so it would be a pretty irrational self-destructive thing to do. And I think the risk of it being wound up over to the time is that we should adapt to and manage and should see as sort of a positive. So I think that's likely to end up as a rationale answer. But you know, I've always been in a slightly different position from sort of my peers who would tell you, "We can't buy land unless we know what, you know" – we shouldn't have that view. We shouldn't want to be dependent on that level of government subsidy.

On margin outlook, I mean, I haven't – and it wasn't particularly deliberate – I haven't touched on the 22% target, and you know, it hasn't really changed. I think it is sort of very unlikely that we get to it over the three year average, ending in 2018. I still think it is very likely that we get to 22% as an operating margin and, you know, still view potentially beyond it. The headwind we've had on Central London, you know, is probably been the thing that's made it just that bit too difficult to get to over the timeframe we initially set out. But even without sort of any recovery at Central London, I don't think there is any reason we can't get there over time.

It is a bit grinding out. You know, you can see from Mark Bryan's margin reconciliation site, it is a bit grinding out, you know, sort of exactly what you do. You know, our historic kind of legacy site can pull it back but actually you just need every – you know, we don't need everything to fire on all cylinders to get there. So, you know, I certainly think it's a perfectly reasonable target. But we'll probably try it set out in May a little bit more detail where we see, you know, sort of margins going overall. But I certainly still think there is a bit of potential upside to come.

And then lastly on share buybacks, it's not in changed wording this time. It went into the statement I think 12 months ago, or 12 or 6 months ago. All we're flagging is in a situation – you know, and if you think in the months immediately post-Brexit when the share price dipped to sort of £1.40, if there is something happening in the market which we feel is significantly depressing the share price below what we think is any medium to long-term recognition of value, we'd seriously think about it in that environment.

I don't only think we're likely to think about it just with the kind of short-term share price volatility we've seen over the course of the last sort of few weeks and today. You know, that's life and you sort of move on. But if we saw, you know, that kind of piece where actually we thought, no, business is well capitalised, it's very strong, actually there is lots of opportunities in the kind of – that kind of environment but the market was very cautious about house builders, then I think we'd seriously consider it. And as I've said before, I think where we'd seriously consider it will be incremental to any dividends we'd announced generally, rather than just switching it into a dividend payment. But it'd have to be structurally different in terms of price.

Any online questions, Debbie? No. Any others from the room? Okay, thank you very much. Thank you for making the effort to get here. You do get a prize. I'm not sure what it is yet but soon or later we'll work it out. It's not a house, no. So, yes.

Pete Redfern: As my 15-year old would say, "Do I get a prize?" The answer is it's a sense of achievement. Thanks very much.

Ryan Mangold: Thank you.

END OF TRANSCRIPT