15 May 2018
Taylor Wimpey plc
Capital Markets Day

Taylor Wimpey will be hosting a scheduled event for analysts and institutional investors in Bordon, Hampshire today. We will provide an overview of our new strategy and an update on new financial and operational goals. We will also provide an update on current market conditions, which continue to remain stable and in line with the trends we outlined at our Annual General Meeting on 26 April 2018.

Customer-led strategy

Highlights

- A refocused business purpose based on identifying and responding to our customers' needs, focused on improved products, places, simplification of the buying process and affordable access to the homes that we build

- Increased opportunity for long term sustainable growth, through increased landbank efficiency, as we work our existing and future assets harder

- Further strengthening and investing in our people and skills, including investment in direct labour, supply chain development and research and development to underpin growth and delivery

- A continued high-quality, strong balance sheet, maintaining our cyclically cautious approach

- An enhanced ordinary dividend, based on current outperformance, improved asset efficiency and confidence in long term growth

New goals for the next five years to 2023:

- Increase of return on net operating assets to 35%

- Maintaining operating profit margins at c.21-22%

- Operating cash conversion of between 70 and 100% of operating profit into operating cash flow

- Increased landbank efficiency - reducing length of short term owned and controlled landbank years by c.1 year to 4-4.5 years

Enhanced dividend announced

- Enhanced ordinary dividend driven by current performance and increased confidence in our ability to deliver future growth: increasing to approximately 7.5% of Group net assets, up from 5%, and equating to at least £250 million per annum (subject to shareholder approval each year), up from at least £150 million per annum

- 2019 special dividend announced of £350 million (subject to shareholder approval), taking 2019 total dividends to c.£600 million (an increase of 20%). Based on our current five-year expectations, and in current market conditions, we expect special dividend payments to remain comparable to the 2018 and 2019 payments

Pete Redfern, Chief Executive, commented:

"The changes we are announcing today to our operations will develop and be implemented over time, but are very significant - we aim to deliver increased growth, higher dividends and an increase in our return on capital by working our existing land assets harder and smarter. We have always said that running the business in the right way for the long term was more important than short term financial performance. We continue to believe this and the changes to the way we see our customers and the way we see the business long term are much more fundamental: putting our customers' needs and desires at the heart of our business, which will ultimately make us a more valuable, sustainable business for all of our stakeholders."

Strategy overview: key drivers of change

Taylor Wimpey has operated its current strategy since 2011, and has delivered over 90,000 new homes in the UK and created £7 billion of shareholder value over the last seven years, creating an excellent platform for the future. Inevitably the environment in which we operate has continued to change and develop over that period, and whilst many of the principles that we have adopted remain appropriate, we believe that now is the right time to stretch further and set out a new plan for the years ahead. This new strategy maps out our priorities and principles for at least the next ten years, and sets out some of the key numerical goals for the next five years.

The first and most important driver is that we intend to broaden our work over the last three years on product quality and customer service, so that the focus of all key business decisions is on identifying our customers' needs and delivering on them in a commercially sound way. This includes offering improved products, continually updating our customer facing process (particularly around electronic communications), a renewed focus on placemaking and community development, and a sense of shared responsibility for our customers' financial ability to access our homes. The Board and the employees of Taylor Wimpey believe fundamentally in this long term principle for the business, and that it should govern our key decisions.

The second critical driver of change is that we believe the land and planning environment has undergone a structural change in recent years and is now materially better than it has been historically. We believe that this change in what has historically been such a critical constraint to our business offers us new choices in how we deliver homes to our customers in a way that serves the needs of more customers effectively and adds additional value to our shareholders. The increase in the proportion of large sites that we have seen in the market, and that we have secured in our land pipeline, brings both opportunities and risks, and our approach to these sites is core to our belief that we can deliver significant benefits to our customers and deliver further financial value to our shareholders.

Thirdly, and partially driven by the conclusions above, the operational capacity of the business and the industry as a whole has become a very real constraint as the land constraint has eased. Whilst this remains a wider industry issue, we believe that with structured investment in developing our skills and the supply chain, we can grow the capacity of the business operationally. This will not happen overnight, and we are committed to doing it properly, but it will increase our capacity to deliver, to a high quality, many more of the homes that the country needs. We also believe that we need to support this with an in-depth focus on cost and efficiency which will contribute to maintaining high margins.

Lastly, it remains our belief that homebuilding is inherently cyclical, although we are pleased that sensible financial management (such as the Mortgage Market Review) has reduced the 'boom' feel of this particular cycle. We remain totally committed to retaining a strong balance sheet, not over stretching investment and maintaining financial discipline.

Improved planning environment creates opportunity for growth and increased customer focus

Whilst it has been a slow process, which is not yet complete, the planning system today is more balanced and effective than at any point over the last 30 years. Whilst an improvement has been evident in the delivery from strategic land and the high investment margins for some time, we now have the confidence that, barring a fundamental change in Government policy, this will continue to be the case for the foreseeable future. Consequently, although the planning approval process remains slow and often frustrating, land is no longer the totally dominant constraint on the success and scale of our business and for the industry that it once was. We believe that this presents opportunity in an industry which has historically been very reactive and heavily constrained by land, to be the first to truly shift our focus to our customers, putting their needs at the heart of our strategy, and to grow the business to provide more homes to more people, whilst continuing to manage the cycle cautiously and without compromising on quality.

There remains an overriding need for more homes in the UK, and whilst interest rates remain very low and mortgage cost is competitive by historical standards, good-quality housing and home ownership still remain inaccessible to many people. Whilst we see the market as currently stable, and likely to remain so in the near term, there are future risks if affordability is stretched further through significant interest rate rises or Help to Buy ends. As one of the largest homebuilders in the UK, we believe that we have a shared responsibility, and the opportunity, to meet a wider customer need by ensuring our products are affordable and accessible to more people.

Event details

Management presentations will be webcast live on our website and the presentation materials will be published on our website afterwards.

The event will be hosted at Bordon, Hampshire today and will include a brief update on current trading in the UK, as well as a series of presentations from senior management, providing more detail on the longer term strategic direction.

-Ends-

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Notes to editors:

Taylor Wimpey plc is a UK-focused residential developer which also has operations in Spain. For further information, please visit the Group's website: www.taylorwimpey.co.uk

Follow us on Twitter via @TaylorWimpeyplc

Customer-centric approach to execution and delivery

In an industry which has not been renowned as being customer-centric, we have increasingly focused our business in recent years to deliver on our commitments to our customers in the right way at the right time. We believe we can move beyond this and go further to better understand our customers' needs and aspirations, broaden our offer and deliver more of what customers want to a wider market place. We will enhance our use of data and customer insights to help us truly understand what our customers want.

There remains a recognised and significant unsatisfied demand for homes in the UK with affordability the biggest constraint and a long term issue for both our customers and our potential customers. Customer confidence and the ability to fund a purchase remain the key drivers of short term demand and drive the housing cycle. Whilst affordability is currently good by historical standards and is supported by very low interest rates and Help to Buy, looking ahead and considering affordability and access for customers in the future, we will start to explore routes to market for a wider group of customers. This includes broadening our product mix and an investment of up to £100 million in the private rental sector (PRS) through both joint venture and direct development by Taylor Wimpey. As part of the evolution of our product offering, we will also consider multi-generational developments, flexible and fully connected homes and we will explore some more innovative ways of serving the customer.

We believe that there are opportunities to improve the use of space, storage, and enhance flexibility of our products to better reflect the way that customers would choose to live in their home. We also believe that a home is also an integral part of the community and are committed to working harder to design and support local communities in which we build to develop and flourish.

We believe this is the right thing to do for our customers and will add value to the business, including being able to trade differently in a downturn. We believe that improving the products and services we offer and the places we create will add further value.

Driving sustainable growth from existing landbank scale

We have remained disciplined in the land market, building up a strong landbank of c.77k plots (as at the end of March 2018) located in high-quality areas, where demand is strong and where people want to live. We continue to believe that this quality of location is critically important and, alongside a strong balance sheet, reduces risk for our business. It has become clear that the land market dynamics have changed significantly during this cycle. The land market is structurally different today, with reduced competition and consistently higher investment margins than we have seen in the last few decades.

The planning environment has also undergone a gradual, but nonetheless meaningful change since the introduction of the Localism Act 2011 and the National Planning Policy Framework in 2012. Whilst there remain frustrations at a local level and particularly around a lack of resources in local authorities and delays in achieving implementable consents, the positive changes and our strength of strategic pipeline, has enabled us to achieve well in excess of our targets both in conversions to the short term landbank and in completions sourced from our strategic land pipeline. Importantly, this environment has been relatively stable for the last five years and barring a fundamentally different approach by Government, we believe it will remain so for the foreseeable future. These factors, together with our operational capability and confidence in our ability to run large and complex sites and deliver, will enable us to reduce the short term landbank length by around a year over the next five years, by driving further growth in the business both in the number of homes built and through the targeted operation of large sites. This will generate additional profitability and cash over this period, whilst maintaining our approach to quality.

We believe there remain good opportunities in the land market and our strength in converting land from the strategic pipeline into plots in the short term landbank enables us to continue to add to the landbank in a way which does not incur any material additional cyclical or market risk. In addition, our Major Developments business continues to focus on large, complex, mixed-use sites with acquisition structures that require low upfront capital investment, offering reduced land risk. We are unlikely to grow our land position beyond the c.80k plots that we have targeted at present with the current macroeconomic uncertainty. We will keep this under review, as market conditions and land opportunities change over the years to come.

Creating value through investment in skills, driving efficiency and reducing cost

Delivery is and will remain a key challenge as the industry grows. We are committed to investing in skills, supply chain development and research and development. This will underpin growth and delivery from the existing overhead structure and help build a more innovative and agile business.

Driving the best performance out of current trading, and ensuring that we can maintain high operating profit margins through changing conditions means that we need to be as efficient as possible at all stages of the cycle. We have accordingly started a cost and efficiency review to make sure that our underlying cost base is as efficient as possible and that value-added cost investment is measured and benchmarked.

We still consider that operating profit margin is an important management benchmark for performance, and that in our sector a high margin business is an important part of risk management. Our medium term guidance remains at the 21-22% level in current market conditions.

Enhanced dividend

We believe that our dividend strategy is an output of our overall strategy. In the three years since 2014, we have returned £1.1 billion to shareholders.

The strategy that we have outlined above will result in a larger scale business with strong and secure cash generation. Accordingly, the Board is pleased to announce this will benefit shareholders in the form of a refocused and enhanced ordinary dividend. From 2019, we will increase our ordinary dividend to approximately 7.5% of Group net assets, up from 5%. This equates to at least £250 million per annum, up from at least £150 million per annum. This will provide an enhanced minimum annual return to shareholders throughout the cycle, including through various planning scenarios based on a ‘normal’ downturn and including a scenario where average selling prices reduce by 20% and volumes reduce by 30%.

Our Special Dividend Policy is to pay out to shareholders the free cash generated by the Group after land investment, all working capital, taxation and other cash requirements of the business in executing our strategy in the near term and the Group’s ordinary dividend payments have been met. Subject to shareholder approval at next year’s Annual General Meeting, we will increase our special dividend for 2019 by £10 million to £350 million from £340 million for 2018 (due to be paid in July 2018), taking total dividends to £600 million, an increase of 20% from 2018.

In 2019, based on the above, shareholders will receive a total dividend (including ordinary and special dividends) of approximately £600 million or c.18.3 pence per share, comprising an ordinary dividend of approximately £250 million and approximately £350 million by way of a special dividend.

Operating cash conversion of between 70 and 100% on an annual basis will support a reliable annual dividend stream.

The Board intends to keep the mechanics of how the Company will pay its special dividends under periodic review as and when appropriate.

Going forward, the proposed special dividend will continue to be announced one year in advance at the half year results and subject to shareholder approval at the following Annual General Meeting. Based on our current five-year expectations, and in current market conditions, we expect special dividend payments to remain comparable to the 2018 and 2019 payments.

As previously announced, further to our 31 December 2016 triennial valuation, we agreed a four-year recovery plan with the Trustees. This included a funding mechanism, tested quarterly, such that should the scheme reach a technical provisions surplus, further contributions would be suspended and only recommence if the funding level fell below 96%. The first quarterly test as at 29 March 2018, identified a deficit of £23 million which we have paid in April 2018, therefore putting the scheme into a fully funded position and triggering a suspension in regular contributions. The Group will continue to cover scheme expenses and make contributions via the Pension Funding Partnership. Total scheme contributions are expected to be £34.1 million in 2018 (2017: £23.1 million) reducing to £7.1 million in 2019, assuming scheme funding levels remain at least 96%.

Trading update

The UK new build housing market remains stable across our geographies. Consumer demand remains high with good customer confidence, supported by very low interest rates and mortgages at competitive rates.

As we announced in our April trading statement, sales rates remain at healthy levels against very strong comparators. Average private sales for the year to date (to week 18) were 0.85 per outlet per week (2017 equivalent period: 0.93) and remain in line with our expectations. Cancellation rates remain low at 13% (2017 equivalent period: 10%).

Our strong order book position, with 70% sold for 2018 private completions as at the end of April 2018, positions us well for the remainder of this year and beyond.