Capital Markets Day

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Strategic Direction

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Thank you for joining us; thank you for coming out to Hampshire. I always get, sort of, complaints if we drag you out on site and, you know, you don't get a lot out of the day. But hopefully, a) you'll get a lot out of the day and b) it's sunny, so you'll feel pretty comfortable at the end of the day that it was worthwhile.

I'm going to sort of introduce our new strategic direction first of all, and then were going to hear from Jennie and Chris, and they will both in different ways pick out different elements, particularly from the practical delivery side of what we're talking about means within the business, and give you a real sense of some specific examples - what we're doing already, why we think that what we're talking about is deliverable, and then Lee will, you know, when we make the transition over to the Future Skills Centre on this Bordon site, will give you a bit of a sense of this site, of the Major Developments business and sort of where that's going.

And then we'll come back for a kind of Q&A at the end and I'm conscious that at the end of my presentation I will do a Q&A, but probably quite a lot of the questions that will naturally be picked up by particularly what Chris Jennie talk about, so, I'll keep that Q&A pretty short and probably kind of constrain it maybe to overall numbers and real elements of key strategic questions rather than the – how do you think you're able to do X, Y, and Z if you see what I mean, because I think otherwise well end up stealing from a lot of their presentation before we start. And we haven't allowed an enormous amount of time for that Q&A but as I say, well finish with half an hour at the end that will be Q&A on the whole day, which I will lead and the rest of the team sort of contribute to.

Just for my sort of presentation, I'm just going give you a quick overview of the team. Obviously, we've had some significant changes a couple of weeks ago, but I think you know most of the team just to give you sort of an update on where we are with our sort of senior management team. I have one slide on trading and I'll cover that now. It's pretty much exactly as we said at the AGM and nothing has changed. So, if you want to pick that up in Q&A, feel free, but yeah, at the moment there's really nothing to add. I would say, we've probably seen slightly better trading over the last two weeks than we'd seen in the previous two, but nothing, you know, sort of fundamentally different from what we said with the AGM statement, and then obviously I will spend the bulk of my time talking about strategy, really setting out how we feel the trade – the environment we operate in, whether that be land or from a customer point of view or politically has changed over the last seven years, setting out, you know, with a couple of key slides in particular how we see our strategy developing and how that leads us into goals, and then talking about it, you know, from an investor perspective, talking about the dividends and the capital structure.

So first of all, as I say, the team. I think pretty much all of you will have met Chris at some point over the last few years. He's been with the Group for quite a lot of years in both finance, originally, and then in operating roles, and you have a chance to ask him some questions today. The rest of our Group Management team is around today and will be available for questions over lunch. Numbers have reduced by one simply because we originally had both Ingrid and Chris running different parts of the South East business; Ingrid originally central London and then Central East London reporting into Chris. Ingrid has now stepped up to replace Chris's overall London and South East role, and we don't see the replacement for Ingrid's role stepping onto that team. So it's a slightly tighter team which I think is healthy. But you know, a team that's been running the business for many years.

As I say, no real change for 2018. And I'd say in a general sense – and I'm sure we'll come back to this in the course of the day – our general guidance for the next 18 months, for the rest of 2018, 2019, isn't particularly changed by what we're setting out today. We're setting out, as I see it, a long-term track for the business over the next ten years and then some targets for the next five. It's not really about short-term performance. We can – happy to talk about 2018 and 2019, but as I say we're not expecting to particularly change the sort of financial guidance.

Then moving into the strategy. You all know this, but I think it's important to set the scene. We've been operating to our current strategy since around 2011. We've updated it and we've internally reviewed it, you know, sort of every 18 months to two years. But the review has tended to be along the lines of, it's broadly working, the environment is changing but the changes are not yet sort of clear and bedded in, are we doing everything that we said we were going to do, does it feel right, are we missing anything? And although we have tweaked a few things, I would say the underlying strategy hasn't changed in that time. And the tweaks included an increase focus on customer satisfaction, and increased focus on staff development and investment in both of those areas. It included new financial targets, I think, back in 2014. But in line with the existing strategy rather than really standing back and sort of changing anything fundamentally. And it included in two stages significant step ups in the dividend. But again, those step ups in the dividend were very much in line with what we set out in 2011. And for me you know I don't think I've been in a business before that's operating a strange – same strategy for as long as seven years.

I think there is a sense that I have that actually, having operated that strategy, we've kind of finished it. And there's always that slight sense of traveling and arriving. We've been looking at what we're going to talk to you about today for you know in real depth for a good 18 months, trying to work out how we see the environment. I think the uncertainty that Brexit created, that probably pushed that timeline out a bit, but I think where we sit today, we think we can look at the long-term environment and have a lot more confidence. In some ways the medium-term environment as well, but we'll come back to that. But it is the time for a more in-depth review. You know, it has – the environment has changed, particularly around land and to a certain extent in other ways, and we do think – and well come back to this as a flavour that it's important to test, challenge and push ourselves. Yeah, there is more that we can do, and I don't just mean from a volume point of view; Chris will talk about, you know, some of the cost and efficiency review that we're planning to do. We think that we need to sort of keep testing ourselves and pushing ourselves and the business, otherwise, you know, things get a bit too easy. And if you don't keep moving forward, you tend to either go backwards or fall off.

So, just coming onto the environment – and a good chunk of my presentation sets the scene about how we see the environment, how it's changed, you know, sort of first of all looking at the housing market and customer drivers, but then looking at land planning and the industry structure. Some of the engine room limitations around the business; people, production, resources, capacity, constraints. And then finishing with a little bit about Taylor Wimpey and where we see ourselves in that environment and how the business has changed over the last few years. Quite a lot particularly on the land side, Jennie or Chris will pick up. Jennie will go into the land environment and how we see the planning system in more detail, so I will skim through that. It's on the slides but I don't want to steal Jennie's thunder.

But looking at the house market, some basic things. The macro drivers haven't changed very much over 20 years. We still think there is a very strong case for strong underlying demand, new household formation, an awful lot of untapped demand with people who can't get on the housing ladder who would like to, or people who can't move up the housing ladder or don't have the confidence to who would like to. Supply running consistently below that level of demand, and, you know, we don't see an environment, despite what we're saying on land, where those two drivers are likely to change materially over the next ten or 15 years. Occasionally people say, are you worried that suddenly there'll be a glut of land that hits the market and suddenly housing production will go up, that there'll be a raft of small house builders. It's not that we're trying to stop those things happening; we just don't see there's any practical way because of the practical constraints that we're talking about, that suddenly it's going to change over the course of the next ten years.

But it does leave you with the key balancing factor, particularly in-house prices and to a certain extent with housing volume sales, both new build and second hand. Comes back to mortgage availability and the cost that our customers and second-hand customers have to pay. Those in the short to medium term still are and probably will always remain the main drivers of value in the short term.

But there are some things that have fundamentally changed. That financing market and therefore our new build sales market is very different. You know, stating the obvious, very low interest rates, the impact of Help to Buy; a very slow and concerning second hand market. Increased rental choices. I sort of debated the wording of that a little; is it increased choices? Is it just the increased need for people to make a choice to rent? But there is slowly growing a more recognisable and identifiable professional private rented sector, and we think over the next 20 years with, you know, sort of the kind of constraints on finance sort of financing available for buyers, that that rental market will continue to grow as a proportion of overall housing.

But also sort of tight mortgage controls. I flippantly said they did say it would be different this time and I am absolutely not saying that we are not a cyclical market; there will be a housing crash, nobody should take anything I say today as to mean anything other than you know, sooner or later this market will go backwards. It's the nature of housing. But things like the mortgage market review have meant that this cycle has been more muted in its growth; that we've hit a phase which has gone on for some years now, where house price growth isn't running too far off inflation. We had a relatively small short sort of recovery uptick in prices in 2013 to 2015, and then we've kind of settled into a much steadier pattern. That's a pattern that we would much rather see. It doesn't remove risk completely, but it certainly makes a significant difference to how long we think the market could continue in this kind of environment.

It's always hard to make sort of long term predictions, but as I say that balance on the supply demand is unlikely to move. Whilst we see issues like Brexit and its impact on the general economy as impacting quarter on quarter performance, we don't think that the next kind of three years are going to be absolutely smooth sailing with, you know, positive price growth in every quarter. We don't believe that it's particularly likely that they will, you know, trigger a major decline in house prices or a major reduction from where we see sales volumes today. And the key driver over that sort of medium time will remain interest rates and mortgage availability and how that balances with wage growth. And so, if we look at it from a land investment point of view, that quarter on quarter movement doesn't and shouldn't worry us too much. What does is, you know, where do interest rates go, and when, in a much more material way, and how does that balance it, you know, with the overall strength of the economy.

But it does leave house builders in an unusually positive position. And that's the backdrop to the strategy. And sometimes we forget it and I think sometimes the market forgets it. You know, we operate in a stable in most senses, developed economy, but there is far greater demand for our product than there is supply. And that's incredibly unusual, and I think perhaps we underestimate its impact and its potential value.

If I then talk about customer drivers, and I'm then talking about customers as individuals, rather than as we tend to talk and think about it, as the market as a whole. Again, many of the drivers haven't fundamentally changed. Location is still probably the single biggest factor. Price particularly related to affordability and how much is my first month's mortgage going to cost me. And it is as simple as how much is my month's mortgage going to cost me when I buy this house is such a major driver. And then that sense of confidence. Not – I don't think and its very different to when I sort of first came into this business back in the sort of early 2000s, you got this real sense of people buying a house for growth and working out that, you know, sort of how much the house was going to be if prices went up 5% or 10%. That's not been a factor of this market over the course of the last five or six years, that sense of it, it's only going to go one way, isn't there. People just need confidence. And I'm talking about our owner-occupier customers; the vast majority of the business. People just need confidence that it's not going to go backwards and that they're going to feel that they made a sensible investment. And actually, their drivers for buying a house are then, does it work for me, is it where I want to bring my kids up. And is it, you know, the right place for my family.

But there are some changing trends and they're not as big as those big drivers. And you know, sort of, housing doesn't tend to move rapidly but it does move. Different lifestyle expectations. There is s a stronger desire for more flexibility; most of that increase in rental product is needs driven. But some of it is flexibility driven and desire driven. And you know, a real acceptance of, I'm going to need to rent for longer. More of a need for connectivity and convenience. One of the things we'll talk about you know, sort of a sense of a business that is more customer centric going forward. One of the things we missed, and the entire industry missed was the extent to which broadband sort of access, went from being something that people wanted to something they saw as slightly more important than electricity, running water and occasionally air. And we weren't geared up for that, so we're reacting. That's the kind of small thing I mean when I say we are reactive not proactive. And that sense it has also affected the geography that you know sort of we can operate in. You know our businesses in east Anglia and down into the south west are far stronger because, you know, than they would have been 10, 15 years ago. Those we see as really long term sustainable growth areas because of the changing ways that people live. And so, there are some real underlying demographic shifts and other changes that have an impact but not overnight.

We think if you look forward there are changing views of the car. I think if you look at, you know, particularly in urban and suburban areas, you know, people in their 20s don't have the same expectation that most of us in the room had at the same age that having a car was an absolute rite of passage and that, you know, you wouldn't dream of living without one and probably at least one per adult in the family.

That changes -actually changes massively choice of site, how you allocate space. I think planners are a long way from catching up with that. So we can't sort of immediately tweak and make those changes, but it is a changing trend. And I think there's a – you know I've described it as a growing re-understanding. I think there is a real sense from you know sort of our younger buyers of the need for community that's quite different to where it was even five or ten years ago, but there is sense of real frustration with our industry as a whole that actually we haven't moved with how they've seen other retailers – and we are a retailer from a customer's point of view – other retailers move. Yet in the most classic ways, the way that we communicate, the extent to which we're able to provide them with good up to date information, you know, and actually a degree of how transparent we are or aren't. You know, we often are accidentally sort of opaque in the way that we manage the relationship with customers and particularly that lack of empathy. Because buying a house is a scary process. People are scared of making the wrong decision that's the biggest decision they take. And particularly most of our buyers are reasonably young and often taking the decision for the first time actually we're not good enough at really identifying how that is impacting on them.

So as I say, on the land and planning piece I will skip through fairly quickly because Jennie will cover it in a lot more detail. But the land environment, our key conclusion is it has changed. And that shouldn't surprise anybody in the room because everybody in the industry has been telling you for a number of years how much easier the land environment is, how much, much better the returns are, how much less competition there is. Somehow none of us then make the next step, you know, to say, well, what does that mean about the business apart from the short term, well, we'll buy a bit more land then. And then in a sense I see what we're saying today in that the two things I want to take form this slide, you know, on land are – we think we have to conclude now, there is enough evidence, that it is far more likely that the land environment will remain as it is today and perhaps get a bit better, and that it won't be the fundamental constraint on the industry going forward, you know, for at least the next five to ten years. Who knows beyond that. That that's more likely than that it will revert to where we were in 2005 and 2006. And we have to start to base our business decisions on that.

And that means a few things. You know it means higher returns. It means, you know, less cash locked up in land. And you've seen the benefits of that. But it also means that other constraints become more important and that we have to think more carefully about those other constraints. I think you know sort of where we've looked at it over the last sort of year or so we've been quite reticent about accepting that maybe it's changed sort of for the longer term. We've tended to have a view, well, it's changed but we don't really trust that. But I think everything we test – and to a certain extent – I wouldn’t say this about most areas – I think that, you know, sort of positive drive in the planning system is you know sort of one of the things that would still be positive under a Jeremy Corbyn led Labour government. I don’t think it would be particularly party political.

Overall the industry impact is positive; you know, all the financial returns, more choices. I think you know but it brings some challenges and as I say most of those challenges are about the other bottle necks that it exposes in the industry on the delivery side which we’ll spend some time talking about.

So some of those sorts of limitations, you know, because you can see it already. You can see it particularly for the smaller companies in the industry, but you can see it for you know those companies that are growing quickly -production resources- you know, and I mean subcontract labour on site, I mean, you know, materials. I mean site management skills, technical skills. Just the sheer process of managing quality through that volume growth. You’ve seen those challenges and I think, you know, if anybody in our industry stands up in front of you and says that they’ve managed that, and they haven’t seen any of those impacts, they're not telling you the truth. Everybody’s seen those challenges. Some have managed better than others. Some of them take them proactively and said, you know, we can't let that happen. But everybody’s seen those challenges.

I believe, and we've really spent a lot of time talking about this and testing it, that over time we can manage all of those constraints. But I don’t believe there's any silver bullet. You know, I think sometimes people would have you believe, you know, and you see it with people coming into the industry from the outside that there is a particular modern method of construction. I hate the phrase, but there is a sort of a different way of building, generally in a factory, that will suddenly solve all those problems. It’s just not true. You know, our Project 2020 went through evert single methodology that’s out there and if you’ve been around the industry for a while you'll have seen a number of different external bodies come in and say, we can do this better, we can do this differently. And none of them survive. And there's a whole mix of reasons which I'm not going to go into. We can change which we’ll come onto. And Jennie will spend some time on. We can change the way we build. But there is not one, sort of, at a stroke the prisoner is free.

I think I would put vertical integration in the same bucket. You know, sort of, and you know what I'm talking about here. We can improve our process. We wouldn’t rule out going into one element if we saw a real bottleneck, but it’s not going to suddenly change the overall production limitations on site. There is no one bottleneck that is so material that solve that ad everything else is okay. We’ve got to plug away at a whole series of different things. And you know in a similar way I think people would sometimes have you believe, I can change all my house types and you know, sort of take out lots of cost by de-specing – we’ve been through that cycle a number of times. And it’s the right thing to do but it’s not a game changer. None of those things. You know, I'm not saying that any of these things aren’t things we should look at, but none of them suddenly change sort of. And to a certain extent, we are guilty of looking for a short-term answer that suddenly solves all those constraints, is a lower cost and suddenly everything’s easy.

It ain’t there. So actually, what we’re mapping out for you in a way and starting to talk about today and well talk about more is a series programme of a number of different changes around resources and skills and investment. And that's why it takes time. You know and its things like stronger supply chain links, more direct labour. We're running three of our businesses with direct labour pilots at the moment, real choices around production methods. So, we wouldn't rule out, for instance, more timber frame and various other production methods. But not thinking that something suddenly is going to replace traditional production. Better and more skills training, yeah and when we talk about margin it's one of the things we want to invest in, and one of the things we've allowed for in our view of margin is the need to invest more in skills training. Much better use of information. And you know, Jennie and Chris will both talk a little bit about our approach to sites and particularly around factories and outlets and how we actually really approach sites.

And in fact, because were using a slightly different language I'll touch on it here. We'll talk a bit today and well talk over the course of the next few sort of results announcements I think about trying to break down this concept that you've got outlets and you've got sales rates, and the sales rate's dependent on the market and the outlet's dependent on the planning system and there's not really a lot you can do about them and you multiply the two together and you get volume.

It is nothing like that simple in the real world and what we're trying to do is give you is enough of the sight of the range of different site sizes and how we think it's right to operate them., so examples of what we're doing at the moment and what we'd like to be doing in the future. And to do that we're just introducing some you know relatively simple concepts. A site is a physical piece of land. It might have lots of outlets on it; it might have lots of factories, production units on it. But it's a single piece of land. And often people blur those by using multiple brands, multiple outlets. And it doesn't give you a clear picture of what the choices that the business has. An outlet is a sales unit. That's – not changing that definition. It's sort of the more or less the definition the industry uses. We tend to have less double headed outlets. We think that's right but it's always an arguable subjective thing. There are times we have more than one outlet on a site but not often.

And a factory's a build team. And this is the one where we probably see the most need to explain and see the limitations. We can productively run more than one build team on a site, but each build team has got a range of potential capacities and so actually, we can flex our production capacity over time significantly more than I think people have tended to see. So well talk a bit about those concepts today but we'll use them over the next few years I think. We can change the balance over time and particularly on large sites. So I'm not going to talk you through the numbers and the metrics, but we'll talk about them during the course of the day.

But you know as you see in the sort of bottom bullet point, if we want to grow the volume in the business and particularly if we want to shorten the land bank by growing the production on large sites, there's a lot of different bottlenecks we need to work through. We think if we're smart about it, we can work through all those bottlenecks. But those are the things, those are the execution factors that we need to get right.

So just finishing the sort of environmental backdrop if you like, Taylor Wimpey and how we see our own business, I think – oh, sorry, go back. We still have, and they are still – and I in no way want to imply that land is not a massively important factor in our business. We have a land bank with a potential £47 billion worth of revenue on it and the returns in that landbank you know are at broadly the same levels as the returns that we're delivering at the moment. So you know, high operating margins, returns on capital into the 30s, you know, that vies an awful lot of visibility about where the business can go. A very strong balance sheet and you can call this good or bad but a generally cautious approach. And I would say even after today our approach is still a naturally a fairly cautious one.

A very strong network and a very stable network of 24 regional businesses. And we think in the right place, we won't spend a lot of time on it, but nothing we're saying today is kind of saying we're going to launch lots of new business units. We've been through the cycle of splitting business units and what you end up with is one decent one and one terrible one that then the really poor performer for years. There are times to spread into new geographies, but when your coverage is right then we think it's a relatively easy on paper, hard to execute in practice way of driving growth.

Very capable motivated stable team. And I don't you know sort of just mean the senior team. I mean throughout the business. And very strong consistent processes. And sometimes we wonder whether too strong and too consistent, whether actually we're too driven o kind of get consistency across the business. But a real belief in the business that, you know, the way that we want to do things is the right way. You know, the leasehold issue last year was very painful for us because it kind of threatened that core piece of who we were. But I think the way that we dealt with it, people in the business have then responded well to and said, no, that's who Taylor Wimpey is. And I do think it makes a major difference when you are in conversations with central Government, with local authorities in planning, with land partners. We are trusted. We accept we sometimes get it wrong, but we are trusted and it makes a difference.

And already before we sort of map out today highly motivated to give our customers better products and a better service and something that they don't necessarily expect from the industry. But – and you know, this is me acknowledging, we are perhaps a bit too safe, a bit too staid, bit too, maybe, institutionalised sometimes and that, you know, creating a higher degree of entrepreneurialism within some of our businesses is an important thing for us going forward. You know, we need to test and challenge them and then give them a bit more space and freedom to move.

Just some financial numbers. I've done something similar before and I'm just going to pick out two or three. You know, we put slightly different numbers up on the slide just to illustrate some points. I'm not going to talk particularly about the financial movements between 2006, 2011, 2017. You kind of know that story. But clearly land cost, you know, fallen from 25.5% to under 20% on new acquisitions. Actually, if you looked at the land bank proportion the fall is far more significant than that, because you'd seen such a big ramp up in 2006 which you just haven't seen. You know, that sort of 18% to 20% range that we've looked at has been very stable over the course of the last few years. Strategic pipeline, you know, sort of back in 2006 was about 45,000 plots. Today a sort of new record of 117. And we are continuing to add to it more quickly than we are taking away from it and we expect it is likely to grow over the course of the next few years rather than shrink.

But I'll pick out the bottom two. Customer service scores that we felt were okay at 88% in 2006 and then we were really pleased in 2011. But Chris will talk about this particularly. Just when we looked back didn't have the substance that we wanted in 2011., and so reduced in the meantime to, yeah, mid 80s and then we've ground our way back up to 89, just touching 90 over the last few months. But if you look at the number of people that it's taken to do that, it's very significant, you know. And actually, if you look back over the last 15 years you'd have seen about 100 people in customer service for 15 years and then us suddenly realising reactively there was a gap and there's a problem. I don't think that in five years' time those 400 people you know that we have today are going to be doing anything like what they're doing at the moment. Already they're moving from reactive management into more proactive management. And that trend will continue. I don't necessarily think we'll lose the roles as a number of roles, but they have the capacity to do far more in terms of community development and customer liaison than they are doing in their reactive way at the moment. And that – you know, in some ways it's uncomfortable to show you that shift. But at the same time, I think we can take that and turn it into a real advantage.

So last bit of sort of look back. That was the underlying principle slide that we set out in 2011. And I just thought I would look at which bits of those had changed. We're not going to use the slide again after this. But there are only two that I wanted to change. We said their active management of land portfolio is the key driver of value creation. I'm only making one change. It's a key driver. It used to be the be all and end all of the business; it's now one of the major factors that we have to consider.

And the flipside of that, the efficient engine room to protect and enhance value through the business, was important. You know if I updated that it now gets two ticks; it's now far more important than it was. And it's probably the biggest limiting factor. It's probably a bigger limiting factor today than land. Not sure that'll always be the case but definitely that balance has shifted, and we think that's a long-term piece.

So then moving on, and these two slides really encapsulate what we see, you know, in words as a strategy. Well talk about the numbers afterwards but this is the key direction. A continuing focus on customer satisfaction, but I think our engagement with the customers over the last two or three years has really given us a sense that there is more we can do and should do. Part of that's risk management; part of it's because we believe it's the right thing to do. Part of it's because we think there is huge opportunity long term to be the best house builder and understanding our customers and delivering products they want. Part of it is about large sites. If we're driven and limited by absorption rates on large sites, then having better products and better understanding the customers clearly has real value. It's a mix of all of those. We see this as a bigger change than I think you'll see in the share price today. I get that's more about dividends and financial targets; we see this as being a fundamental shift. And that's why I will describe it as revolutionary rather than evolutionary. The other elements perhaps more evolutionary.

We want to use the increased opportunity in the land market to work our land harder. You know, not to sit back and let it deliver sort of a steady stable level of growth, but to drive growth but to d it in the right way. But nothing has changed about our desire to invest in more land when the time and opportunity is right. Not all the time. We're not looking to suddenly aggressively grow the land bank; I don't think we could get the engine room to deliver both the efficiency out of our current size of land bank and further land bank growth on that right, so it would be a high risk approach anyway. And we are certainly not returning to any kind of feed the machine mentality. And while I am very happy to talk about volumes and where we see they might go, what we see the capacity might go, what I am not going to do and why it's not in the statement is give you a volume target for a given year, 'cause that's what gets you onto that feed the machine mentality of, 'I've said I'm going to do that, therefore I have to buy this site even if it's not the right site. Therefore, I have to build that house even if I haven't g0ot the resources to do it properly.' So that's why we won't give you a volume target, but we will talk very openly about what we think we can do in different conditions.

Develop best in class engine room processes and really look at the way that the barriers that the whole industry's used to as things that it's our job to knock down, rather than something that is immoveable, and we can't change because it's just a fact of life. We can change pretty much everything about the engine room side of the business if we have long enough to do it.

Stay cyclically cautious. And I'll touch on this in a little bit more detail. Probably the one change there is, if we understand our customers better than anybody else, we think that gives us an additional strength. That goes over and above our view of location quality being a good defensive strand, so I think there is more to it than that. And then thinking about the overall market, actually to have some kind of ownership of the affordability for our customers. And I don't mean we reduce our prices so anybody can afford to buy a house; I just mean really thinking about, if Help to Buy were to change, for instance, not just what does it mean to us a s a business, but what does it mean to individual customers and how do we change the way that we sell and the sites that we operate and the products that we use to maximise the chance that people can still afford to buy or access through a you know sort of PRS vehicle our product.

There's a lot we want to do, and I won't spend long on it today, looking at how the business connects in with communities and setting out a firm social purpose. It's something that actually has driven the people in the business a lot over the last three years. And we'll touch on it, you know, sort of in the breaks if people want to talk about it. We are committed to more investment in skills, supply chain development, research and development over the next few years. And it is a balancing act with the margin. It's captured in our overall margin guidance but it's a balancing act. It's about investing for the longer term but making sure that we do that in a way that we dive some of that from efficiency in the existing overhead structure.

And particularly around skills for employees. We've seen you know the ability to retain our staff in this environment has been incredibly valuable and making sure we get that right, but giving, as I said earlier, a bit more sense of agility, innovation, entrepreneurial ship in our business is important. And I guess the last piece, you know, which Chris will talk about – we don't think we're as efficient as we can be. We think we can get more out of current trading. I think you always can. You know, sort of, it's not our biggest driver but it's definitely something that we're focused on. And you know we'll continue to update you on that over the course of the next couple of years. But you shouldn't see that it's all about the long term; we do have to drive the best possible short-term performance as long as we're not compromising the long term.

So, setting out what that means in numerical terms, we'll measure customer service performance based on the things you already understand, like the five-star survey, but we'll start to talk more about the nine-month survey which we think is a better deeper longer-term measure. And also look at sales and pricing relative to the market to judge whether we're getting sites, products, communities right. But not just when we're on site but also when we've left. And look at how the communities that we build are developing and interacting.

On the financial side, our operating margin guidance is 21% to 22%, and that's really for the foreseeable future. You know, in the current environment, we think that's about right. We will be driving to try and get it up to 22%, 23%. We wouldn't rule that out. But I can't guide you to those numbers until I see sort of the path to it. You know, sort of we believe we can make the investments we think are right within that sort of level of guidance, and that's why we've arrived at those numbers. We can push forward the return on capital, particularly the shortening of the land bank naturally drives that, and we think there is more efficiency to get at. We also think we can drive forward our work in progress efficiency on site. You know, in getting our customer service right we've let our build times go out further than we think is necessary and gradually well be trying to pull hose back over the next couple of years.

And making sure that we remain a cash generative business. We're prepared to invest in the land bank up to a point but – and you should see 70-100% as an annual range. The average should be at least the mid-point of that range, probably higher, but because of the volatility of cash generation as an annual measure, we've had to go with quite broad range. But if you went with 85-90% as an annual – as a sort of overall average over the time that wouldn't be a bad guess.

That land bank efficiency, which is a lot of what well talk about through the rest of the day, is the biggest driver of, you know, both the enhanced dividend that we'll talk about but also sort of the changes to the return on capital. We think we can run our big sites harder and really make that work. We think it's the right thing to do. Our sense of scale at the land bank hasn't massively changed, so as we look at the next three, four years and the environment we expect, we expect that to come from volume growth by definition. And you can work out from what we've said as land bank years, four to four and a half years, and what we said as the range of sort of land bank size is roughly where we think the business will get to in volume terms over that time. And it's deliberate to give you a range because it will depend on the investment conditions and the sort of sales market conditions. But it gives you a sense, you know. Do we think 18-19,000 plots is reasonable over that time? Yes. You know, do we think 20,000 plots is a reasonable view of the capacity of the business in its current form? Yes. It doesn't mean that is the furthest the business could ever go but we'd have to make some other more fundamental changes to move beyond that - it gives you a sense of what can be done which is what we're trying to do.

And then last of all, a sort of more – an update point. We still see strategic land as very important. We couldn't be doing what we're talking about doing if we didn't have the confidence in our land supplier from strategic land, the scale of the sites and the financial returns. And I think you know it remains both a margin differentiator and a return on capital differentiator. And as you can see from the comments, you know, sort of on London and south east – and Jennie will talk about that – well continue to improve and invest and develop those teams and those assets. We're not just standing still on that.

I think I probably cover most of the point on completion growth, but we've always said we won't give you sort of an outlook number. And I kind of felt here actually I wanted to look at it slightly differently. And Jennie will talk a lot about where we think outlets go. We're not saying that outlets don't matter; were just saying you know we need to break down that relationship a little. So, you'll see and it's why I'm comfortable to give you more of a sense than I've tended to over the last few years – you'll see as we go through the presentation on, you know, sort of sites and on factories, why we don't see it as the dominant factor. If you accept it's not the dominant factor I'm more happy to give you a bit of guidance on it. I don't like that sense of, you can kind of take that number and you can't control that, and you take that number, you can't control that, and then that's the answer, because it ain't like that in the real world.

And as I've already touched on, there are definitely parts around improved efficiency that we can continue to deliver. I'll cover this fairly quickly, but it is really important to us and I probably did it at the beginning. I'm just going to give you two examples. There's a few more on there. What does turning the business round – so it starts from customers and what customers need and aspire to as being the driver as decision actually mean? I'll give you a couple of very simple examples. The first one is garages. My favourite statistic when I came into the industry was eight out of ten people in the UK insist on having a dining room when they buy a house, and eight out of ten people in the UK never use their dining room as a dining room.

That's moved on actually. Our customers would never – or almost never walk in and have a dining room on their list of things that they want. It shows that trends in housing do move on they just move on slowly. But today it's true of garages. We all know nobody puts their car in a garage, but we still build a garage on thousands of houses that's designed for a purpose that our customers don't use it for. And it isn't designed for the purpose they do use it for. So, it's not double skinned so it's not watertight; it has a door that's completely impractical if you want to turn it into a utility room or a gym or whatever people actually use it for. And sort of actually just turning it round and saying, how do we persuade planners that we actually want to deliver the same space for the purpose that our customers want to use it for? Its just a simple very practical small example.

And the other one I'll pick out is around pricing transparency and process communication. As an industry we are shockingly bad. It's like, you know, sort of being in the sort of second hand car dealership sometimes, that sense that I've got my release list price. Just really thinking through how do we make, you know, what actually doesn't need to be an opaque process much more transparent. Because in a world where actually customers are nervous about buying a house, we're making that process worse for them rather than easier. And if we can be the easiest company in the industry to do business with, I think that is a good long-term advantage. Two examples Chris will talk about some more.

And then this I put in because we spent quite a lot of time in the lead up to today the Private Rented Sector. And I see that as one example of widening our reach to market. If we believe there's a lot of long term demand and we take a fifteen to 20-year view of our industry I think that's, you know, sort of an obvious statement, but the challenge is people having the capital capacity to buy our product. Then having a view of the private rented sector has got to be the right thing for us to do. We have stopped short of saying it is right for us to invest in a material way into the private rented sector. There's a number of reasons for that. You know, the obvious things about sort of the returns on that capital and how we get the valuation of that right tin the business. But also having the confidence that we're the right people today to run that kind of portfolio on that sort of scale which I don't think we have. But what we are committed to do, and it's why we've sort of put a place holder in the statement on capital which is not huge but is enough for us to do a number of pilot schemes, some of them as joint ventures and Lee will touch on one later on today. But you know, we have others. And some of them which we might do on a standalone basis which will sometimes involve us building and holding consciously private rented product, but really to test and make sure that we know how to operate it effectively, how to maximise value, how to provide a good quality product. And actually be able to move if that market changes. Because our long-term view remains that that is a fundamental growth area in terms of demand for our product.

And the other thing I'll pick out. There are – and actually not so much one example, but really thinking about in a world where our customers are constrained by availability, how we make sure there are as many different roots. You know, if we don't have Help to Buy in ten years' time, you know, one thing I've always been clear on is Help to Buy won't suddenly disappear at the beginning of 2021. It'll either happen before that or long after that but it will never happen on the date that it's supposed to happen. That's the way these things work. But we do have to kind of look forward and say, there will be a time when it's not there, how do we maximise the ways in which customers can buy our product and how do we kind of share that and own it. And again, Chris will touch on one particular example.

On cyclical management, really what I'm flagging is we don't see a major change. Touched on it already but very much driven by a cautious balance sheet, high margins, not overstretching land investment, making sure that we get the right quality of sites rather than the best sites we can buy at the time. And one thing I've just added on the bottom which we'll perhaps talk about on a later presentation, but just the principle of if the world changes being able to turn the business cash positive within a defined period of time. That's why we're reticent about large numbers of land creditors. It's really just thinking through if the world changes how quickly can we become cash positive.

And then on dividends we haven't changed the structure; we've changed the amount. I know you will have picked that out. We thought about this long and hard. We think the dividend structure we've got is still right; we would have been prepared to change it if we felt that the new strategy required a new policy, but we don't think it does. But two things have changed from the point where we set our ordinary dividend level. First of all, performance since then has been better. You know, we have today more cash and more cash generation than we expected to when we set the ordinary dividend at £150 million. And second, if you look at what we're talking about in terms of land investment and land efficiency and our view of the market going forward, we have more confidence that we can continue to drive out even in a weaker set of market conditions, a much higher level of underlying cash flow. And that's why we think its right to increase the ordinary dividend rather than the special because we see it as a long-term shift rather than just more cash on the balance sheet today. But our guidance is you know sort of the level and it really hasn't changed that the level we set today we set with as high a degree of confidence we can get that it's a level that we can sustain and hopefully grow from there. One word I think we may have got slightly wrong that I've just seen in a couple of notes is that people have taken the flag that we expect dividends – special dividends to remain comparable to the levels in 2018. We probably should have put 'at least comparable'. That doesn't mean that it's definitely going to grow but we are not trying to signal to you that that's a cap if you see what I mean. The way that the ordinary dividend works because it's based on asset value there is more natural growth in that anyway which will obviously offset the balance over time between the special and the ordinary dividend.

So, we see the long-term directions being very much focused on customer needs and aspiration but delivered in a commercially sound way. We have strong strategic land assets and skills and we want to build on them but also work hard in short term land and make that land work harder for us. We want to invest in the capacity of the business I think over time. You can do almost anything with the build capacity of the business; I think people's, you know sort of constraints are to a certain extent self-imposed and to a certain extent because they only look at what they can do in the next 18 months. Higher margins continue to remain important and that 21-22% level - our primary goal is sustaining that sort of level. We will always continue to drive a bit more if it's available.

Stay cyclically cautious with a strong balance sheet and sort of cash return to the dividend policy as part of that, but actually create something that's got real value over and above the history of the sector because it's better and more professional at dealing with its customers and its people and is more robust. You know, we live in a world where there are political risks, where there are environmental sort of risks and actually, the sorts of things we're talking about, I think, build not just a better business but a much stronger and lower risk business as well.

How are we for time? Actually, better than I thought. So sort of probably ten minutes for questions and if we can keep questions to sort of areas of principle, perhaps if we're happy to take questions on numerical guidance as well; don't want to get too much into the very short term. But you know, in terms of the detailed delivery piece, if we leave that and I'll give Chris and Jennie the chance to do their presentations and we'll share questions at the end of those. Glynis?

Q&A

Glynis Johnson (Deutsche Bank): Glynnis Johnson. Just in terms of your margin target, because you talk about retaining margins approximately where they are but customer service costs money. You are talking about some cost savings and looking at range and all those things that go with it, but within your guidance, are you assuming any house price inflation above build cost inflation, and what is in your current margin in terms of the capture between those two elements?

Pete Redfern: So we are assuming – and, you know, in terms of the way we've arrived at those targets the same way we always would, that we're assuming either current costs and current sort of selling prices or that the two offset each other. And the environment we continue to see at the moment in which I don't see any you know kind of logical reason to change the view that you know we're betting selling price inflation in the 1.5-2% range and were getting build cost inflation of 3-4%. And those more or less offset each other. And that's inherent in those targets. So we're certainly not building in any future sales price upside.

I would like to believe, and I think you know we have to believe but I just don't have the data to be able to put it into the targets that if you get the customer piece right then over time there is a premium in that. But I think it's a dangerous road to go down as driving your decisions if you see what I mean.

Glynis Johnson: Your current margin has no benefits of house price inflation of the build cost inflation i.e., the starting point, so…

Pete Redfern: No, I think that's – there are so many, and you know we've set out each year the sort of mix effect and clearly over the last two to three years those have started to plateau. So I think it would be wrong to say that there is none. But you've also got higher margin land that's been bought and is coming through which offsets that. You put that all together, you know, and I don't think we've got a particularly meaningful movement either way.

If we turned around and said, actually, we don't really care about what's going to happen in five years time, we don't really want to do anything differently, we don't really want to invest in production skills, I'm going to do exactly what we're doing with customers today, then you know, you could probably argue you could drive 1% out the margin that you kind of think, yeah, I must be able to get at that cost wise. That's probably what we see as being the offset. I'm not sure sat here todayI'd still feel the confidence to say that's our guidance even in that environment but that's kind of the rough sense. You know, so there are meaningful movements, but it's not a dramatic shift if you see what I mean.

Will? Oh go, let's stay. We'll just move forward.

Jon Bell (Barclays): Jon Bell from Barclays. Just one actually. Letwin's initial findings have focused on absorption rates and – excuse me – multi-outletting. You've told us that you've got fewer double-headed sites than others. I just wondered how much of a consideration that is.

Pete Redfern: How much of a consideration Letwin is or how much of a consideration the double-heading sites is?

Jon Bell: The double -headers.

Pete Redfern: I think on that you'll get some – you'll get a bit more of a sense, sort of particularly as Chris talks about that part of it. Because he'll talk about sales rates on different sites and with different numbers of outlets. You know I think it's easy to mix up double-heading sites with double branding. You know we felt for a while that having a second brand only has logic if it's doing something different. And so we wouldn't rule out at some point having a second brand, if we were clear this is the part of the market that it's trying to serve, the product is different and it's worthwhile. We've not seen that over the last ten years and were not seeing it right now. We have some instances on large sites where we double head, but they are almost exclusively where we've got a separate access and very differentiated product. Because we think when you go back over time it confuses customers, it actually sometimes confuses the business where you've got two local businesses competing with each other with you know different sales presence.

It's a view and we'll tweak it a bit as we go forward but we think it's more about – and this wouldn't really, yeah, be inconsistent with Letwin's' conclusions we think it's more about having a wider product range, better clearer ways in which you're communicating with customers and accessing them than it is about the number of sales outlets, per se. and its why I want to kind of try and de-link that outlook piece a little bit because I think we're guilty of it as an industry but it's too simplistic and it's not – you actually then miss what you really should be focusing on because it's easy to stick another outlet on. You don't have to plan it in advance. It takes a few months and it's sort of – it's there and suddenly everybody feels more comfortable. But it's a false comfort because it doesn't get under the underlying sense of why are customers coming to the site, what are they actually looking for and have you got the product to satisfy them.

Do you want to move it forward to Will? Thanks.

William Jones (Redburn): Thanks. Will Jones –

Pete Redfern: I think I strayed into your area then Chris didn't I. Sorry about that.

William Jones: Sorry just a couple. Yeah, the first one just to think about the dividend guidance and can you just update as to your latest thinking on appropriate capital structure, be it net cash, amateur[?] cash, [inaudible] creditors, and whether that's changed post Chris's arrival as FD.

And the second just thinking around the land bank length, 4, 4.5 years I think, five and a quarter was the previous number. Has your thoughts changed on how the split should be on the owned and controlled portion of that because it's quite important for cash?

Pete Redfern: I think the capital structure question if you don't mind I'll leave till after Chris's presentation because I know he'll touch on it. And then you know perhaps sort of re ask the question there. In terms of – and we've thought long and hard about this, because inevitably when you're trying to come up with you know sort of market guidance, you're trying to come up with something that's reasonably straightforward and not overcomplicate it. And the balance between owned and controlled makes a huge difference you know. And we've umm'ed and ahh'ed whether we should guide based on owned land only. Because there's no logical reason why we wouldn't want the controlled land to be – you know, sort of a bit like strategic land almost be as big as it possibly can be. But we think overall, it's more stable and that gives a better kind of guidance.

I wouldn't rule out that we will end up with more controlled land because of the number of sites we've got coming through strategic land over the course of the next sort of few years, and that might push up the you know sort of absolute land bank side. But if it does it doesn't change the cash metrics and that's why we've gone with it as a guidance because we think the thing investors care about it doesn't affect. So it's then the land we control but haven't paid for that is more flexible. You know so the 80,000 might go up a bit simply because we have two or three really big sites that come through and sit in that number and that shifts. But it doesn't change the cash dynamics and working each side harder that we've talked about.

William Jones: Probably hard to think that the owned land bank could be anything less than say three and a half years …

Pete Redfern: Yeah, yeah, definitely. Shall we just move back over to this side and sort of work backwards through the room?

Chris Fremantle (Morgan Stanley): Hi, Chris Fremantle from Morgan Stanley. Just want to follow up on the question about the Letwin review. It feels just reading – I mean just listening to what you haven't said and the amount that you haven't said about that that you don't really think that that is going to change the dynamics of returns and the remedies that they – that is imposed by a government that's under a lot of political pressure to fix this - it's not really going to change the dynamics for you - is that a correct reading of the fact that you haven't really talked about it?

Pete Redfern: I think it's probably true but in a way all we can do is run the business in the right way in the environment that we see. I don't think that the way we see that review going is going to fundamentally change things. And the way in which it is changing them, or in which it might, everything we're talking about will make us better prepared to be able to respond to anyway. So it doesn't change the conclusion, if you see what I mean.

Now you know you always worry with any political based review that there's a left hand – left field, sorry, left field response that you haven't seen coming. We can't see it at the moment. I think what we're saying is actually very consistent with this direction of thought. I would argue if there was chicken and egg, our chicken came first, because you know we've talked about a lot of this over the last year and we've talked about it with Oliver Letwin as part of that review. You know in a sense we're saying some quite similar things that, you know, one of the key factors is absorption rates; that the other constraints can be managed over time and in an easier planning environment we should be able to do more. All of those are consistent. I think we recognise what needs to be done in the real world to make that happen which isn't always obvious when you're looking at it from a political point of view. But I don't think our sense is that there's going to be some radical shift that will suddenly make everything we're talking about not relevant or that the financial returns, you know, sort of significantly worse than they are. You know I think we'd be pretty surprised if that happened.

Chris Fremantle: If I could just ask a follow up question. I mean, if I reduce what you have said a little bit to say, well, look, you're basically saying you're going to grow the returns but basically, you're increasing the pay-out ratio and you're shortening the land bank. You're effectively – you know if you're paying out more you can't grow as quickly and yet the Government wants you to grow as quickly as possible. Is there any conflict in that, I mean are you…?

Pete Redfern: There is far less conflict. And this is not why we've you know, sort of why we're planning to adopt this strategy. We're planning to adopt the strategy because we think it's right. But I just think there's far less conflict in this than there is in where we've been over the last sort of seven or eight years. So, you know, we are planning to grow the business from within our existing you know resources overall. That means we have more cash available to pay out but also means that we're doing more from the existing sites we've got and replacing them and but continuing to work them harder. And we're probably growing you know sort of faster in 2021 and 2022 than we would ever have mapped out before this point. So, you know – and at the same time we're planning to do it in a way that is more responsive to customers and is really trying to update how the industry thinks. It's hard to see why that's not a better message from a Government point of view if you see what I mean. It makes me quite uncomfortable that it's quite that positive, but it is. You know, so it's never perfect, is it. Sorry. Jill, if we do one on the same row and then move forward.

<u>Question</u>: Thank you. What are you looking at to make the basic premise that underlying demand is at least – you know, that supply is ahead of supply until 2030?

Pete Redfern: No, it is, but there are so many different measures. I mean I'd spent a lot of time during 2016 years sort of doing the Redfern review. And we looked in a lot of detail at underlying demand and what – you know, some very simple basic things become patently obvious when you do that and when you then start doing – whether it be individual focus groups and discussions with people or statistic economic reviews of household formation and where the trends are likely to go. You know, demand constraint is not really the problem; it's the ability of that demand to be able to afford to buy a house at different points. So whether you look at recent household formation, projected household formation, demographic shifts, divorce rates, demand from, you know, sort of people still living at home with parents or students style accommodation, whether you look at it statistically anecdotally, you know, sort of, you get to the same broad conclusion and it's also our lived experience through the last 20 years. You know I remember being quite uncomfortable with that sort of comment you know because it felt kind of glib back in 2006, 2007. But actually, we're not saying that means you can't have cyclical changes in the market; we're just saying actually, unlike say Spain where production was so far ahead of that underlying demand and then it takes ten, 15 years, if there is a recovery it gives you a real sense of underpinning in, you know, sort of where the market is. You know the short-term pricing will depend on you know factors that aren't really affected by that long-term demand.

Question: So just a quick follow up to that. Do you think at some point for that to be true as an industry you've got to move down your price point a little bit? You've moved up too high?

Pete Redfern: I think we're – I think some of the growth has to. We'll come back to that to go through the other presentation. So you know, definitely. But that's more about Help to Buy necessarily than it is about where demand sits. But it will definitely feel that that growth should come from generally smaller product. Can we take just one more now and then we'll move on because there's plenty of then chance to ask other questions through the day.

<u>Question</u>: My question's sort of related because it's about Help to Buy. You're providing guidance sort of out to 2023 in terms of cash flow and dividend but the biggest uncertainty for the industry is what happens with Help to Buy 2021. So what sort of assumptions are you making, and does it matter for your business?

Pete Redfern: First of all, it definitely matters. You know sort of – and there are always going to be factors that you can't completely control or be certain about that matter and you have to take a view. Secondly our view remains – and this is based on conversations that we have, the issues that we see, where we see the different pressure points for Government. You know, the decisions that we would take if we were them – our view remains that Help to Buy will probably continue in some form after 2021. It still remains that it will probably be in a slightly reduced form. That's therefore our base assumption in the guidance that we give. But it's also why we think it's worth us spending a lot of time and effort on making sure we've got ways of bridging that gap for different customers depending on where we end up. And we see for instance in Scotland a significantly curtailed Help to Buy scheme and so we have some experience of how we can manage that and how that might change. And the impact has been less than we would have expected.

If you know suddenly you know the Government came out tomorrow and said right we're taking away Help to Buy completely next week, then you know, short term, our views would change. I don't think our long-term view of what the right strategy is would change but there would definitely be you know sort of a need to adjust in the short term you know sort of what was going to happen. I think you know our views of the ordinary dividend wouldn't change but our views about where, you know, sort of short term returns would sit probably would. So you know we can never give guidance that's completely independent of what happens, but our base case is that it remains in some form but reduced and that we work harder to compensate.

Question: So your comment about releasing the cash from the business within six months, that would be in response, say to the situation that Help to Buy was cancelled?

Pete Redfern: Yeah. And it's you know it's about how quickly you can – land credit is as I say the biggest movement. It's about how quickly you can turn the business round into a different mode to at least, sort of, take stock of where sort of the environment is going to end up.

Okay? Thanks very much.

Planning, Land and Engine Room

Jennie Daly

Group Operations Director, Taylor Wimpey Plc

Good morning, everyone. I have quite a lot to get through this morning, so if you'll forgive me, I'm just going to jump right in.

So, Pete has said that we believe that the land and planning environment has changed and undergone a structural change in recent years, and as a result, we can change the way that we manage our land bank lengths, and the way that we deliver our schemes. And I hope that the next number of slides will help illustrate why we hold that belief.

From a planning and supply-side perspective, we've had a relatively liberal planning system running from 1947, but as long ago as 1923, there has been a presumption in favour of development of one kind or other, other than where there is clearly detriment to interests of public importance. And that principle remained ingrained in development until the inception – nationalisation of planning in 1947. And that persisted through quite a liberal period, of the 1950s and 1960s, until, in 1991, we saw the introduction of the Planning and Compensation

Act. The presumption then changed. It changed to a presumption in favour of determination in accordance with the development plan, unless material considerations indicate otherwise, a well-known phrase. But it was a fundamental shift in the way that planning determinations were made, and it led to an unresponsive strategic planning framework, particularly in the absence of functioning and up-to-date local plans.

In 1997, the Labour Administration came into power, and their housing target was 200,000 units a year. And they quickly brought forward PPG III, which introduced a brownfield-first philosophy, and a target of about 60% of sites and housing to come from previously developed land. It introduced a sequential approach to site allocation, a minimum density requirement, and it also sought to increase affordable housing levels. And when that was taken in combination with the 1991 presumption in favour of the development plan, it radically changed the housing market and the supply in the negative.

We then had in 2004 the Planning and Compulsory Purchase Act. And it introduced regional spatial guidance, regional planning guidance, instead of the county structure plan, which up until that period had delivered housing numbers. And importantly, it introduced housing numbers or housing requirements as a maximum. At that time, they also changed local plans through the local development frameworks, which effectively caused chaos, confusion and delay in the system. So, taken together with the presumption in favour of a development plan when no development plans were in fact coming forward.

The PPS III, which was the updated version of PPG III, was issued in 2006 and this was specifically in response to the Barker Review in 2004, which was really all around why housing land wasn't being delivered. It retained that brownfield focus, and started the introduction of a five-year supply, but as it was guidance rather than a requirement, many authorities didn't deal with it in a responsive manner, and there were only marginal improvements.

We then moved into the Brown Administration era, and housing number requirements increased to 240,000. And then very swiftly, we moved into the Conservative and Lib Dem coalition, and the housing numbers requirements dropped to 200,000 per annum again. Butvery quickly, we had a sense of what the coalition government were looking for, by the introduction of the Localism Act. They threw out the LDF process, which we had barely gotten used to, and reintroduced the development plan system, which was a combination of the local plan system that we were more familiar with, and neighbourhood planning. And that was the introduction really of that bottom-up planning process that we've come to know and love.

Very quickly, following the Localism Act, we had the NPPF 2012, and if you remember that period, the localism and the bottom-up plan, it was quite a concerning period. We weren't quite sure how it was going to work. But, with the NPPF 2012, we had housing proposals being considered in the context of a presumption in favour of development, we had a fixing of housing requirements through the objectively assessed needs, albeit at the local level, locally derived. But, most importantly, we had the need for a five-year housing land supply of deliverable sites and failure to have that five-year supply of deliverable sites effectively meant that the plan was out of date, and the presumption in favour of sustainable development and the tilted balance applied. It was a significant shift for us. There was a significant appeal activity if you recall around that time, as the extent of the new framework became fully understood, but really what we have had since then is a system that, albeit with some negatives, particularly around greenbelt areas, is more responsive, and we see housing land being delivered at a more reasonable pace than we did previously.

We then had Help to Buy introduced in 2013, and it's a reminder to me that not absolutely everything is related to planning. And then, in 2015, we had the Conservative government being re-elected and a 200,000 a year housing requirement, a million homes by 2020.

Since then, I think it's fair to say that we've had a period of nervous excitement around planning consultation, planning reviews, and various Acts have been introduced. We've had the Housing and Planning Act of 2016, which introduced starter homes, if you remember, but also continued the supportive direction of travel.

The May Administration in 2017 moved to a 300,000 units per annum housing requirement. We saw the neighbourhood planning act and the housing White Paper coming through earlier in 2017, again, all looking to speed up the plan process, introduce delivery tests, and effectively reinforcing the importance of plan.

And then, finally and more recently, the consultation only closed last week, the draft NPPF of 2018. Again, reconfirming the importance of housing delivery and housing supply through both the local plan process and that five-year land supply balance.

I would say that there are some challenges worth noting within the draft NPPF, particularly around viability and valuations, and also definitions around affordable housing that are worth noting. But the direction of travel does remain positive.

Moving on then, and looking at the strategic land journey, I would just draw your attention that this graph is in hectares of land use rather than in numbers, and as a result tends to understate the impact on housing numbers and in particular apartments that we saw through the period of significant brownfield delivery.

So, we've talked about PPG III before, and how it changed land supply with the brownfield preference. And because of that brownfield, viability and the ability to deliver sites became quite significant, and as a result, the percentage of apartments dramatically increased. And many areas introduced caps on greenfield land delivery. As a result, greenfield supply and conversions from strategic land fell.

We also had, in some of the worst affected areas, absolute housing moratoria through the HMRA, that is the housing market renewal areas, where, because housing numbers were set at a maximum, authorities effectively stopped granting planning consents on anything that wasn't a previously developed site. We looked to the 2004 Act, the slowdown of the local plan process, and an aspiration to try and resolve it, which never really picked up momentum.

But, the importance of all of this is, as a result, there were significantly diminished levels of strategic land conversion and strategic land portfolios became quite stodgy. And in some regions, there was a complete wind down of strategic land activity.

We saw a change with PPS III, as I said earlier, but not – not dramatically. So, it was really the introduction of the Localism Act, and the NPPF, that saw significant increase in housing consents and housing allocations via the plan process. These have benefited strategic land supply conversions quite materially, such that we are now exceeding our previous 40% target from strategically sourced land.

Whilst I think it's fair to reflect on the context of best and efficient use of previously developed land, continues to be something that's emerging in policy, that presumption, and the presumption for the five-year housing land supply, does give us confidence that strategic land will continue to contribute significantly to our housing delivery, and to move to a higher target of 50% conversion.

So, I like this slide in particular. There are three pillars to housing land supply, in my view, represented here. Need - I think Pete has covered off some of it, but suffice to say, significant housing need really is quite well dispersed around the UK. From a planned perspective, I think you'll see an increasing number of green on this middle – middle plan, and local plan progress has been improving. It remains slow; I don't think it's fast enough. But many areas have produced a plan.

Greenbelt areas remains a particular issue, where there is little incentive, or has been in the past, for local authorities to bring forward their plan. With the housing White Paper and the emphasis in the draft NPPF, we should see a continuing progress and a little bit more drive for those reluctant authorities to bring forward functioning plans. But most importantly, we have the five-year housing land supply, which is a significant and material counterbalance to the lack of an up-to-date plan, again, other than in greenbelt areas. I think it's worth noting that many councils continue to lose five-year housing land supply appeals, even, you know, five or six years after the original NPPF, and so it's fair to say that the local plan system is unlikely to meet all of our needs. But, with these three pillars effectively each in operation, we should enjoy both a more stable strategic planning environment, and a responsive policy environment if or when those plans fail to deliver.

So, one last time. It's obvious, I think, although focusing down on the planning environment specifically, put simply: pre-NPPF, housing land supply was restricted by lack of viable planning consents, supply was constrained and often uncertain. Post-NPPF, whether locally approved or via the appeal process, the system has been generating more land supply and more consents.

The planning consent reservoir is now such that we have confidence in a strong delivery pipeline. The overall number of residential units approved in 2017 is 21% higher than the preceding year. And whilst the local plan application process often remains frustrating, land is no longer the dominant constraint, and we can modify our business behaviours accordingly.

So, looking at this graph, I think all lines are pointing in the right direction. Mergers and acquisitions gathered pace in the late 1990s until 2007, and whilst there were, of course, other business drivers at the time, there is no doubt that the inability of businesses to procure the land that they needed for growth was a key driver during this period. Land strategies of the time were both defensive and predatory. So, this graph, I think it is clear that the land market dynamics have changed significantly, reflecting a greater depth of housing land and planning consent availability. As a result, the land market has structurally different measures and different characteristics than previously with reduced competition and consistently higher investment margins than we saw in previous decades.

So, I think you'll have seen this slide before. This matrix is well understood and universally applied within the business, and in the last few years, our site quality has continued to migrate from poor or weaker locations, with the majority of our land bank now positioned within BA and BB locations, which are good markets with healthy sales rates. We have remained disciplined in the land market, focusing on quality sites and areas where customer demand is high, and where people want to live. And we continue to believe that this quality location remains critically important to our strategy going forward.

So, just stopping off to have a quick look at our short-term and strategic land pipeline, you'll observe that since 2010, we've incrementally increased volume and incrementally decreased our land bank size. Strategic land conversions have remained strong and steady, with the percentage of completions from strategically sourced land climbing from 17% in 2011 to 53% in 2017. There remain good opportunities in the land market, and our strength in converting land from the strategic pipeline enables us to continue to add strategic land holdings in a way which does not incur material additional market risk.

So, I believe that the land pipeline that we see today is primed for the strategy that we are presenting. Hopefully you will note that about 38% or thereabouts of our short-term land is in the larger site categories, whilst about 60% of our strategic pipeline is within that larger site category, and super large.

There are an increasing number of large sites available, both strategically and in the short-term market, I think primarily a reflection of local political preference to place housing requirements and fewer allocations than in the past, though I think it's also an acknowledgement of the increasing level of infrastructure needed in order to support a quality housing development.

The increase in the proportion of large sites brings opportunity to deliver significant benefits to our customers, in terms of the quality and place making that we can deliver, but also the financial returns that we can bring based on more efficient operation and the way that we deliver them.

I think over time it's fair to say that we've become of the view that managing large and complex sites on our own is more rewarding. In consortia, we often take the lead in planning and technical. We do drive health and safety because of our business commitment in this area. And among other things, we are thereby carrying a larger degree or a higher degree of the workload for these consortia sites, but ultimately reducing the proportion of the market. A strategic land pipeline of large sites, and a growing confidence within our operational business of our capabilities to deliver complex sites well on a stand-alone basis will enable us to deliver significant benefits to customers and also better financial returns.

So, taking a very quick look at the current market, I think there remains a good opportunity in the land market, but we are seeing material advantage on those larger scale sites, particularly with infrastructure requirements that excludes many others in both short-term and strategic land markets, and I think our track record in delivery and our operational capabilities tend to differentiate us in the competition in this part of the market.

In the short-term market, we are seeing increasing activity from new regional offices by others, the RSL sector, and some SMEs. Whilst in London, we are seeing the pricing remains competitive for sites with planning consent, I think it is worth noting that the mayoral affordable housing guidance and the new emerging London plan which is quite prescriptive is likely to increase risk and reduce opportunity, and we are observing much more competition from other sectors in the London market.

From a strategic market perspective, I think that we continue to perform very well, and I would sort of draw attention to the fact that we have a dedicated team now in the London and the south-east area which has increased our presence and our success in this area.

So, from a land strategy perspective, we have a solid pipeline and a continuing good supply of new housing through the planning system, and we are now in a place where we have choices that we didn't previously have. And I think it's important to say that we will exercise them. And we will focus on qualities, on sites where there is attractive metrics and attractive locations for our customers. We will increase the use of large sites for the reasons that I explained earlier. We will look to increase the percentage of low-rise apartments in the right places in preparation for those market changes that Pete referred to. In order to deliver it, there will be an increased focus on our technical and planning teams, including earlier investment to ensure that we are getting on those sites faster and in a better way. But it is important to reinforce the fact that we do intend to stay in the short-term market, but maintaining our disciplined pursuit of quality sites, and are unlikely to grow that landbank significantly.

So, Pete talked about site's outlets in volume, and I'm going to try and illustrate some of that now. So, operationally, what does an efficient large site look like? So, this is a site. It's Great Western Park, and I know that some of you will have visited it in the past. And on Great Western Park, we have two sales outlets, Great Western Park and Brunel Rise. And there's a differentiation in the market that we are delivering there. We have six phases at present, and we are building out of four factories. So, historically, where market demand exceeded traditional site build capacity of a factory, we would have added incremental pressure, without fully considering the whole effect or the resource required. We reviewed not just the efficiencies of management and supervision, but have considered the ability to deliver a consistently high standard of safety, quality and customer service. We've taken a factory approach, considered the labour resources required, the material supply chain, and delivery constraints, and have identified an output level that enables us to build more homes with only marginally enhanced resources, and Chris will touch on this in a bit more detail.

Increasing the output from each factory enables an improved workflow and consistency in quality in the finished home. This means that, on larger sites and larger developments, where there's the sales demand, we may have multiple factories operating independently of each other in different service parcels, such as on this example at Great Western Park. This will give improved efficiency in the use of our managers' times and the number of homes that they are capable of supervising, and even after taking account of the enhanced control resources for materials management and customer services.

I've also included in this slide a snapshot of what that site outlet and factories numbers would have looked like for 2017, and done a little bit of future gazing into sort of 2023 of what it might or could look like.

So, just to reflect on what a traditional approach would have looked like before our change in strategy, this slide shows that traditional approach, and you might recognise this from some of the sites that you visit. Different flag colours represent different housebuilders. Multiple sales areas across multiple phases by multiple developers. And importantly, at times of market stress, very divergent interests. Sites delivered in this way can often fail to maintain a good presentation from a customer perspective, and can also, despite best efforts failed to achieve a comprehensive and cohesive placement. Traditionally, each outlet would have had a production team and the sales area. And as Pete said, in some instances, multiple sales areas. In review, we believe there needn't be a link between the number of factories and the number of sales areas. So, unless there are other issues such as sort of geographical separation, a single outlet should be able to meet the needs of customers from multiple factories. This makes for a more cost-effective approach, but it also allows us to increase the number of, for example, sales people to be present in a sales area, help to provide a better service and experience for our customers.

So going forward, we'll increase the total number of homes that we deliver in a period, with an increasing number of factories, whilst the number of outlets may not materially change.

So, in the next few slides I'll just take you through some of the things that are happening in that engine room. The operational capacity of the business and the industry as a whole is acknowledged to be constrained, but with structured investment and developing our skills and supply chain, we believe we can grow the capacity of the operational business. I think it's important to say that this will be an ongoing effort, and it's not going to happen overnight, but we have started by putting in place a number of initiatives that will increase the capacity to deliver and importantly maintain and improve quality. This has begun with strengthening and investing in our people and skills, including investment in direct labour, our apprentices, our production teams as a whole, as well as technology and process improvements, and I've captured some of those process improvements on the slide. But specifically, around direct labour, we are working to knock down some of the barriers that exist in predominantly subcontract regions. We've been running a number of pilots across five businesses, and we'll be reviewing the lessons learned from those pilots over the coming months. And the aspiration and the aim is for it to be an all-in cost neutral process. Apprentices and apprenticeships will support our plans for direct labour and effectively we can grow our own overtime, and therefore it is fundamental to our overall strategy. We will increase the numbers of apprentices, and more importantly, we are working very closely with our HR colleagues to deliver a more consistent framework and development path for apprentices through the business.

Supply chain security will deliver and drive build efficiency. With focus and greater standardisation on everything, from process, compliance, house types, design, suppliers, we believe we can deliver a greater quality and efficiency from our supply chain. We are working to build alliances and partnerships with the supply chain, and will be seeking greater collaboration to deliver solutions to build quality and efficiency issues on an ongoing basis.

From TW Logistics, I think it's important that one of the benefits that they deliver is a longer lense into the supply chain than we would get with a sort of a traditional approach to supply chain, and our first point of negotiation is always to explore the potential to advance supply through TW Logistics. It has the ability to build stocks of materials if the supply chain risk exists, and buffer operational businesses from shortages, and this is particularly important where we move to large sites that are running particularly fast, and we'll be monitoring those high-output sites much more carefully. I think it adds significant flexibility, and is a tactical advantage for our business, and in recent years, we have buffered things like bricks, and in particular block stocks and door supplies in particularly constrained times.

And finally, and the time today doesn't really allow me to do justice to the busy area within our sort of design and place making, and I hope that we can come back to it in future presentations, but we've started with a detailed customer feedback and design review of a range of sites that we completed some years ago. We brought in an independent architect, and we ran a parallel process in-house, so that we could compare the outcomes. We've also been reviewing property price movements post completion on a number of these sites. We've undertaken a series of quite detailed engagements with our customers, who have lived on these sites for some time, and the feedback from that has been particularly rich. These assessments have helped us to understand more about what our customers value in the longer term, not just their homes, but also the communities within which they live. We are now in the process of developing skills training, bringing those learning points from the exercises to our design work, including, but not exclusively, feeding into the development of our new house type range.

I hope you found that helpful, and I'm happy to take any questions. Yes?

Q&A

Question: I'm just wondering, is there anything that you can see as being structurally different in how the housebuilding cycle worked pre-1991 compared to post-1991? Because you've got such a totally different environment. What are the structural differences for the industry during that period?

Jennie Daly: I mean, I think there's a number of things. There's been a significant amount of consolidation since probably the end of the 1980s. There's been – land supply I think drove an awful lot of that consolidation, and we have seen, during those downturns, a significant move away from direct labour to the use of subcontract, and, with some of what we're talking about, direct labour is a recognition that whilst we can't go all the way back to those sort of mid-1980s period, that direct labour gives us additional agility. It can deliver significant improvements in quality, and it can help buffer us from some of the stress and strain that we would see within the subcontractor base.

Pete Redfern: Can I – and this is sort of a – it's not so much a direct response to the question, but it's a sort of parallel example, because I don't just think that it's that the industry, you know, was different, you know, back in the 1980s under a – you know, sort of a different planning system and will – will revert to that. I would draw a parallel with the car industry, and lots of other industries that you saw through the second half of the 1980s and the 1990s becoming much more efficient, becoming much more customer-led, consolidating supply chains, and I think through the last 25 years, the housebuilding industry hasn't moved on anything like lots of other industries because of that. And even if you take the site outlets piece, can you imagine going to a sort of auto park and finding three different Mercedes outlets selling essentially the same things competing from local dealerships? Even when they don't own the dealership, if you see what I mean. I think because of the land constraints our industry didn't move on in many of those ways that other industries did, and a lot of what we're talking about is trying to move it on because we don't think the land constraints are as big.

<u>Question</u>: Yeah, a couple of questions, if you don't mind. You mentioned house types, you're going to be consolidating and rationalising them. I mean, how many house types are there now, and how many are you going to get down to?

Jennie Daly: In a few weeks there'll be 47. We – we have a very diverse portfolio. We operate right across the UK, and over time, it's not entirely unreasonable that the house type range grows in reaction to different local authorities with different policies. Really what we've done is we've taken a really good hard look at those, were trying to determine, you know, are they truly differentiated, or are we carrying extra technical sort of weight, just for relatively minor changes? And in consultation right across the business, we were able to bring that house type range really back into a controllable level, and we say we are probably at about 47 house types now, is our core range.

In terms of going forward, and in terms of house type review, I think that we could probably reduce that further, but it does need that investment of thought, playing back the customer requirements, ensuring that we are alive to the needs, and sometimes the very different needs, of the planning system. We want to create an opportunity for our production teams in particular to be building a repetitive, well tested product, but we have to ensure that we are agile and flexible enough to achieve planning permission in the first place. So, it's – it's always maintaining those tensions. So, a little bonfire every now and again to bring everybody back in line is pretty healthy, and that's what we've gone through recently.

<u>Question</u>: Just one from me. Just on sort of the target, 30% direct labour, can you just remind us where you are now, what percentage of direct labour?

Jennie Daly: Yeah, we're at about 15%. I think we've got about 700, 750 direct labour employees at the moment. Okay.

<u>Question</u>: You've obviously painted a very favourable and supportive view of the land market, and your confidence that that's sustainable has increased. Are you surprised you haven't seen more small and medium-sized housebuilders come into the market? And maybe if you could just talk about the trends you are seeing there, and you know, would you expect them to come, given the returns and margins you've been talking about today?

Jennie Daly: Yeah, I think it's sort of a tale of two halves. We have seen some of the sort of SMEs at a regional level becoming more active in the short-term market. They are predominantly focusing on a part of the land market that we don't occupy; you know, sub-50 units. But I would say, despite seeing that activity, we haven't seen a massive resurgence of SMEs. I mean, frankly, the cost of entry, the burden of regulation, remains a significant barrier to the SMEs. We are – we are not in their areas of market. I think that authorities will and should look at a broader width of land type in order to encourage them, but really, that cost of entry, the burden, I mean, when I look at our teams and the expertise that those teams now carry compared to what they would have looked like in the early 1990s, are fundamentally different.

Question: And you wouldn't expect the government to be able to do anything to make it easier, or change that cost?

Jennie Daly: I think they've tried on a number of things. If you look at the small builder fund that Homes England have introduced on that very point around, you know, policy encouraging the allocation of smaller sites, but until they remove some of the barriers of getting into planning, and there's a whole suite of cost and risk that can't be underpinned by debt, then you know, that's really where the fundamental problem is.

Question: Just a very quick follow-up to the point on small, sub-50 unit size. Where you've seen that happen, is it impacting pricing on those types of sites, or is there still enough land that it hasn't done that?

Jennie Daly: There has been some impact, and I think that the smaller the site opportunity, to about that sort of 50 units, there is – there is price pressure.

Question: I just wondered what you thought the timeline was for the remaining local authorities filling up their five-year land supply, and as that happens, to what extent do you worry that land supply would just incrementally diminish?

Jennie Daly: I would have to say I'm good, but I'm not that good. There is – the biggest issue remains authorities around greenbelt. You know, because greenbelt is so significantly constrained and protected in policy terms. So those – those authorities, St Albans, York, you'll have seen a number of them in the press over the last year or so, are always very, very difficult, and five-year housing land supply is not an argument for housing in those places. I think, I am a passionate believer in the local plan process. I think with investment in local authority resources, it can work. And if it did work, the level of certainty that it would bring to our business and other businesses would be fundamental, and we potentially could see another shift. But I'm not naive enough to think that after, you know, all this time, since 1991, that it's going to be an easy journey. But the government will push authorities more and more, particularly through the delivery test, to bring forward plans, and they wrote to 15 of the worst performing authorities last year to try and drive out that sort of laziness. So I think that we should start to see a change over the next few years, but those greenbelt areas, and particularly the greenbelt authorities around London I think, will remain quite difficult.

Question: And when authorities have reached the five years, have you noticed land prices moving up at that point, or is it the fact they have to keep maintaining that five years by doing another year of supply each time, has that kept prices low?

Jennie Daly: From a pricing point of view, the deliverable, you know, so it's a five-year supply of deliverable sites, and has kept a constant flow. And so, what we haven't seen, where we did in 2000, where authorities met the housing requirements, and they pretty much pulled down the shutters and that was – that was it. So, we're not seeing that. So we're seeing a relatively regular supply of land, which is keeping land prices reasonably in control.

Pete Redfern: Just conscious of time. I know there are another three questions. If we take those, but if you can keep it to maybe one question each, you know, and then we'll – we'll move on, and there'll be more time to pick up questions.

Andy Murphy (Bank of America Merrill Lynch): Morning. Andy Murphy from Bank of America Merrill Lynch. The question I had was about apartment blocks. You mentioned on one of your slides there perhaps increasing the density or usage of apartment blocks. I was wondering what proportion across the private estate are apartments now, and what you think they might be moving to, what impact that may or may not have on the margin, and whether that is impacted on a regional basis from one region to another?

Jennie Daly: Okay. I think I would be quite careful to say I'm not talking about apartment blocks per se, and I would ensure that it's clear that we're talking about low-rise apartments that are reasonably commonplace in suburban developments. We're not talking about high-rise investment. Our numbers at the moment are about 19% of our overall completions. I can't split that out just now between affordable and private, but I can – I can have a look at it and come back to. I think that without – or leaving London sort of aside, I think that we should be looking to increase that probably to around 25%.

Your point on margin, with Help to Buy operating at the moment, you know, it does have a very unusual effect around apartments, and they – they may not be particularly attractive, but it's more the foresight, it's planning – some of these large sites, we'll plan now, they will be building out well past 2021. So, it's ensuring that we are building in flexibility and the opportunity to bring those online when – when and if market changes dictate. Thank you.

Pete Redfern: We set out 25% as a sort of strategic sense of where we should be apartments back in 2011, and actually it's then continued to trend down, because a combination of availability in the land market and Help to Buy has meant that people buy up. All we're flagging is that as we look forward ten years, that's got to come back to probably where we first thought of, you know, which is kind of somewhere in the low 20s, 25, rather. It's not a massive shift, but directionally, it's got to go that way over time.

We'll take this one and then we'll break for some coffee.

Question: Hi. It's just the picture you're painting obviously is more volume, not necessarily more sites. The delta obviously is back to the sales rate. Could you just discuss a bit about what you feel you're – you know, how you drive that even higher than one of the highest levels in the industry at the moment? And in effect, is it bringing us back full-circle to the other point that was mentioned about, you know, broadening into PRS and things like that? Is that ultimately – is that in effect the, you know, the differentiation between the two things? Or is there something else that is fundamentally – you are expecting your sales rate to be higher?

Jennie Daly: Okay. I think that that's a really excellent question and one that I expect Chris to answer in detail. So if you don't mind, I am going to give him a hospital pass for that.

Glynis Johnson: A very quick one from me. Pete referred to entrepreneurial spirit and trying to culture it. You're talking about reducing the number of housing types. Is this a – you know, a fire burn, that then the number of housing types moves back up again as you give all the different regions their ability to maximise the affordability, or however the phrase was? Is this a low number that will then move back up again?

Jennie Daly: Again, I think it's a fair question, and to an extent we do need to remain, you know, reactive and proactive in the market. So I'm not going to, you know, give a – give a headline or a ceiling on that. I mean, I think the point around entrepreneurialism is that it needn't necessarily be outside certain, you know, good operational dynamics and operational processes. And, as a volume housebuilder with the desire to increase volume but maintain quality, then your maintaining a reasonable bracket around the number of and variation of house types is an important part of that. And the entrepreneurialism can operate in many other different ways within – within that framework. So, our expectation is to bring out a house type range that is well thought through, is responsive to our customer needs, and where we feel that our strategy is going to take us, and to control that then as best we can within good business, you know, dynamics, which means that there is likely to be some – some growth, Glynis, and, you know, a little bit of movement, but to maintain that and control it.

Pete Redfern: It's a good question, but it's a question kind of, I suppose it's a really difficult balancing area. We – we have a really clear, strong rulebook. I've worked in this business when we didn't have a rulebook at all, and we had lots of different brands from lots of different histories, and, you know, the cock-up factor is significantly greater in that environment. We have no particular desire to go back there. But it's finding the balance in each area of how to make that work. And in house types, you know, it's having a small, tight core range is important. And as, you know, Jennie has sort of said, we will go through the cycle again. You know, you can set your clock in five years' time, we'll be saying, right, we've got to cull it back down again.

But it's a bit of a case of saying, well, okay, right, we've got core range, let's focus on that, let's develop, and then on a very specific basis, turning it back and saying, okay, right, now you've got the opportunity to really test, challenge, innovate, change this range, let's do that process really quickly, let's make the changes and then let's all go out and go and do that, rather than we are reinventing the wheel in 24 different businesses consistently. And so it's getting the balance right, you know. I think we'd rather be where we are today than where we were 15 years ago with the range, but actually, it's just sort of opening the box to let people really test it and move it on a bit in some key areas where we think there's value. And that feels like a good place, thank you Jennie, for us to have some coffee.

Customers, Sales Rate, Costs and Cash

Chris Carney

Group Finance Director, Taylor Wimpey Plc

Good afternoon, everyone. I think I have met the vast majority of you at some point over the last 12 years, but just for the few that I haven't met, I thought it would be helpful to just give a little bit of background. I qualified as a chartered accountant with Arthur Andersen in audit and business advisory practice in London, and Sydney in Australia for about ten years working for them. And then for the three years after that, I worked solely on private equity and corporate transactions with Deloitte in London. And that was before I joined Associated

British Foods to lead their transition to IFRS. I joined George Wimpey as a group financial controller in 2006. After the merger, I held the position of UK finance director for three years. And then for the last seven years, I've been in operational roles, firstly as the MD at our South Thames business, and then, more latterly, leading the London and South East division as Pete mentioned earlier.

So, we've got a lot to get through in the next 20 minutes, so I will run at pace, but I'll kick off with how we feel about customer-centricity and what we're doing in that space. I'll try to translate what Pete and Jennie have already told us about site efficiency into sales rates. I'll touch on cost and efficiency that we are just initiating, and then I'll talk about balance sheet, pensions and cash, all in 20 minutes.

Before I took over as MD at our South Thames business, and that was in January 2011, as you can imagine, I took a pretty good look at the financial and operational statistics, and one of the things that stood out was that their customer satisfaction recommendation score was 57%, and that made them a one-star builder. And that was at a time when the group was round about 88 to 89% and very close to – well, right at the top end of the four-star. And I had a conversation with Fergus, who used to run our Northern business, so Daniel's predecessor. I'm sure a lot of you will remember him. And he gave me some sage advice, and told me to go and meet those customers. And I remember vividly meeting the first customers that I met, and I remember feeling deeply uncomfortable as they conveyed their story to me. And I felt uncomfortable not because they were trying to make me feel uncomfortable; I felt uncomfortable because they had placed their trust and their savings in us and we'd badly let them down. And it had had a huge impact on their lives. And, you know, that meeting, and a couple of other meetings around that time, galvanised me into action. And the output of that action was that in the calendar year of 2011, that recommend score rose to 94%. So comfortably five stars.

But those uncomfortable conversations continued. And, as you might imagine, the next year, when my focus shifted to other areas of the business, the score dropped, and I had people queueing up to say to me, 'Chris, you know, I told you so, because you can't maintain customer service scores at that level in the south-east because customers are just simply too demanding.' Now, that was rubbish, but what it did make me realise was that the changes that I'd put in place were flawed. They weren't driving permanent change, and, you know, I realised that we needed a wholesale cultural change in that particular business unit. And when I – before we started that engagement, I think it would be fair to say that I thought it was going to be very tough. But once we'd started the engagement, I realised that pretty much everybody I was working with felt exactly the same as I did, and that not only that, they were tuned into the frequency of the customers, they were listening to the customers, they knew what the problems were, and they also knew how to fix them. And together, we fixed that situation, and for the last seven years, that business has not recorded a recommend score of less than 85%. For the last three or four years, it's punched well above 90%. And in preparation for today, yesterday I had a look at their year-to-date score, and they are running at 99% off a not insignificantly statistic basis of 95 return surveys. So, I think that's probably a good place to start the discussion on customer-centricity.

So, over the past three years, the group's strategy has embraced the need to be more customer-centric. We've looked at the experience that we deliver to our customers across the customer-facing processes, so, marketing, sales, production and customer service, and we pulled that altogether, so we have one view and a much more aligned approach. More recently, we've also undertaken a lot of extensive, detailed market research, and we've been very clear in doing that to not just restrict ourselves to customers who are our typical customers; we've gone to renters as well, and also people who say that they would never buy new build.

The clear and insightful output from that research is that, no matter the profile of the person, they all have three essential emotional needs. They want to be reassured that they are making the right decision. They want to be treated with respect. And, they want to have pride in their home and in the community in which they live. Now, these needs and in particular our detailed understanding of those needs are helping us redefine what it means to be a truly customer-centric company. And they will help us, or they are helping us, to look with a different lens at what we do on a day-to-day basis, and they will definitely shape what we do in the future, and how we do it.

So, these are some examples of that in practice. So, you know, these are examples where, you know, those needs are already shaping what we are thinking and what we're doing. So, we heard from the customers that they want reassurance. They almost want to feel like what it is to live in the house before it's built. And, you know, one of the very simple ideas that we had in this regard is to perhaps offer them a slot. They can book a slot in our show homes, they could take their families, uninterrupted by other customers and by sales execs, and just perhaps have a meal or watch a TV programme, but get a feeling for what it's like to live in that particular house type. We heard from the customers that they want respect, and they want to trust that the company that they are giving their money to is going to give them, you know, the right advice and the right service. So, we launched an academy of customer excellence, and that will seek to train all of our customer facing operatives so that we deliver a consistency of service across all of our customers.

And then lastly, we heard that the customers want to feel pride in their home and in the community in which they live, and one of the things that we are looking at there is developing a community hub app, so something that brings neighbours together. It might, you know, share news, it might be a way of arranging community events.

So, none of those changes are particularly earth-shattering. You know, and there is a long list of them, but we believe that, you know, the combined incremental change from lots of these changes is much greater than the sum of the parts.

But now, let's move on and talk about a more aspirational, customer centric solution to a very real problem. So, one of the target markets that we've been looking at is the nearly buyer, and these are people who want to buy, and they are probably earning a wage that would allow them to service a mortgage, but they just don't quite have the deposit that they require. So, the two thirds of nearly buyers who are private renters, their three main issues are, well firstly, saving that deposit while they are paying a rent, not feeling entirely secure in their property, simply because, you know, the length of the tenancy and the prospect of the landlord serving notice, and any other restrictions that the landlord might place on them. And then lastly, a feeling of just being overwhelmed by the complexity of the house buying process.

So, meet our very own nearly buyers, imaginatively named Mr and Mrs Smith. You know, they have a combined income of £55,000. They want to buy a property of £250,000. They have no savings to put towards a deposit, and they have a surplus monthly income of £625. So, to get a 5% deposit, that would be £12,500 in this case, and they would have 20 very frugal months of putting all of their surplus income into getting that deposit. If they can access Help to Buy, it doesn't do them any good, because they still need the deposit, as they would if they went for a 95% mortgage. So, it is a real problem.

Springboard is a rent-to-buy product that will allow prequalified nearly buyers like Mr and Mrs Smith to rent a new home from us, save more quickly than they would do if they were renting elsewhere, and ultimately buy that home. Why do we think this works for nearly buyers? Well, you know, their rental is no longer just dead money. Some of it is being put aside to be able to contribute to their deposit. For them, it feels much more like owning from day one, which is really important to them, and undoubtedly, the process is pretty simple and clear. For us, why might it work for us? Well, you know, this would recycle the capital much more quickly than PRS would. It can be rolled out on any site very quickly. And, and probably more importantly than anything else, it serves a segment that we don't currently serve.

So, that is just one product from a whole heap that we have been working on by listening to customers. We have a number of other products that are going through a similar sort of process. Some of them will gain some momentum and be piloted, and some of them will just fall by the wayside, but what is absolutely clear is that we will continue to listen to what customers tell us, and we will try to develop products that address their needs and wants and then bring them to market, and ultimately, we think that that's going to make is a more valuable and sustainable business in the future.

So, having a look forward, I think it probably makes sense for me to just take a brief look back. Two years ago at our Capital Markets Day in Oxfordshire, I talked about how important customer service was to us and how we saw it as a measure of the quality and the sustainability of the business. I talked about the investment that we are – we were making in our customer service people. I talked about the improvements that we were making to - all the changes that we were making to improve our customer journey, and to improve our build quality. Since then, we've introduced the Academy of Customer Excellence, which I mentioned a little bit earlier, but also, we now have a customer portal, and this provides accurate and immediate information about a customer's home all the way from the point of reservation to after they've moved into their home. And quite importantly, it also allows them to log any issues that they have with their home and see in real time what we are doing to address them. Now that portal was developed, again, by listening to customers, and the feedback that we've had initially has been very, very positive. So, lots of things that we've been doing over the last couple of years impacting on customers, and the next slide tells us whether that's had – really had any impact.

So, this chart shows the monthly satisfaction score since October 2015 for four questions that are asked of customers prior – sorry, eight weeks after they have moved into their homes. And I could spend half an hour easily on this slide, because there is so much to talk about, but we don't have that time. So, in a nutshell, it is demonstrating pretty clearly that the focus that we've placed in this area is driving better outcomes for our customers. If I was to pick one thing out it would be the bottom line which is the percentage of customers who are recording less than 11 snags, and that has shown, you know, great progress over that period, and it also happens to be one area where we are putting clear distance between ourselves and our competition.

Right, so as Pete and Jennie have already mentioned we've reviewed the operational capability and we are confident that we can deliver more volume from our larger sites. And the table at the bottom of this slide illustrates what impact that might have on private net sales rates. So some important points to note as you process the figures. Firstly, the indicative profile of sites and volume is illustrative of a typical business unit in, say, Daniel's Northern business or Nigel's Central & South West business. A bit different in London and the South East with more complicated product. The volumes that are quoted there are total volumes, and we've assumed a 75/25 split in terms of private to affordable. And lastly, it's worth noting that during 2017 there were six sites across the business where we delivered more than 130 legal completions. So that gives us a great deal of confidence that this strategy is not based on theory. It is based on what we have already achieved in practice, just not uniformly across all of our business.

And as you might expect, I took a look over the course of the last week at the customer service scores across those six sites, and happily the average of those was well in excess of 90%. So it proves that, you know, you can deliver the volume and it doesn't come at the expense of service or quality.

Moving on then, you know, increases in volumes, increases in house prices and certainly the increase in the supply of consented land have all combined since we set out the original strategy in 2011 to provide a sort of a stellar improvement in our financial performance. So it wouldn't be crazy to imagine that a little bit of inefficiency might have sneaked in somewhere along the way. But more importantly today, as we stand here setting out a new strategy, I think, you know, we have a much keener understanding of what differentiates us. And, in particular, that gives us clarity on what costs and activities are aligned with the strategy and which costs and activities are less obviously aligned with the strategy.

So I think for that reason, you know, the timing of this cost and efficiency review is particularly good. If you looked at the P&L in 2017 you'd see that there were £3.1 billion of operating costs flushed through the P&L and if you extracted the land cost from that, which was £700 million, then obviously that gets you to £2.4 billion. And hopefully the chart on the right, the 2017 column, should add up to that £2.4 billion. And, you know, all of those costs are to varying extents within the scope of this review.

So just picking out a couple, I think it's fair to say that much of our historic strategic procurement efforts have been directed at the build cost superstructure materials. But if you consider that our two top material segments, which together, you know, attract a spend of round about £50 million, they are supplied by in excess of 40 suppliers, which gives you a feel as to how much more efficiency there might be in that area. And also moving on to groundworks, if you look at that number it's a pretty significant figure. That number has grown considerably since 2010 simply because we are delivering, as Jennie has already said, many more units from strategic sites. Those strategic sites require more infrastructure and therefore more cost in the ground. Our procurement of groundworkers is largely localised and quite fragmented. We've got about 140 different groundworkers across our sites. And we think that there are some opportunities in bringing perhaps some consistency and some best practice to our approach in that area.

I think it would be remiss of me not to talk about admin and other costs before I leave the slide. So, you know, it's important to note that since 2010 really our business unit structure has not changed. So the increase that you see there is largely people-related. But, as you've heard today, we have made structured investments in both skills and customer service that will account for part of that increase. So overall, I don't want to leave you with a feeling that there's lots of easy stuff to go at because if it was easy we would have already implemented it. But we do think there are opportunities and I will provide you with an update on where we are with that in July.

One thing that definitely isn't changing in this strategy is our belief that the housing market is cyclical and that maintaining a strong balance sheet will continue to give us the resilience and agility that we – that we desire. Obviously, you know, we want that resilience to withstand anything that the market can throw at us but, more importantly, the agility to take advantage of those conditions as they appear. Now the chart on the right quite simply just illustrates that equity after deducting the dividends that were approved at the recent AGM, that equity is financing our land bank, which means that the working capital is being financed by short-term borrowings which is entirely normal and expected.

Those of you that are familiar with page 127 of the Annual Report and Accounts will know that the last triennial valuation of our defined benefit pension scheme was at 31 December 2016 and that yielded a deficit of £222 million. Strong investment returns since then have reduced that deficit to £23 million as at the end of March, which presented us with an opportunity to make a bullet payment of £23 million and fully fund that deficit. So we took that opportunity that the scheme is now fully funded and the contributions to the scheme have been suspended. And those contributions will only resume if the – if the scheme funding drops below 96%. And because, I suppose, the interest rate and inflation risk is pretty well hedged in the scheme then the main influencer on the funding level are growth assets. And those growth assets would need to drop in value by more than 6.5% in order to breach that 96% funding level. And there are some numbers on the slide that give you our expectations in terms of contributions going forward.

So last slide but certainly not least in terms of importance. The business has had a very strong track record of cash generation in the years since the 2011 strategy was set out. The new strategy will drive – well, I suppose in generating increased volumes and reducing the scale of the land bank, will drive more profit and more cash than we would have generated had we stuck with the original strategy. And as Pete noted earlier, you know, we are looking at other ways to – or other routes to market that will involve us spending around about £100 million over the next few years in broadening our products.

Overall the effect of this new strategy is to enhance the minimum annual return for our shareholders via the enhanced ordinary dividend which will be paid throughout the cycle and including in the event of a normal downturn. And we would absolutely expect if market conditions stay stable that we would continue to pay a substantial special dividend, as Pete mentioned earlier, at least in the order of that that's already been announced for 2019. I think that's it, so questions?

Q&A

Pete Redfern: Just in the interests of time if we perhaps take the first three or four questions and then we'll make sure that if there's any that are missed if they don't get answered over lunch that there's a – there's a chance to ask Chris questions at the end of the day as well.

<u>Question</u>: Afternoon. Mine are just around the direct labour and the cost efficiencies. Can you give us some examples of the kind of the loyalty, I guess, of the direct labour that you've kind of got in house already? And kind of the cost versus the subcontract labour as well and were there any regional variations?

Chris Carney: Yes, I mean, that will be obviously part of what we do as part of the cost and efficiency review, so I don't want to give you too much direction on that. But, you know, the direct labour that we have has been very much based historically in the Northern businesses. And it's certainly interesting that when you look at perhaps some of the build times in businesses that have direct labour versus the businesses that don't. So what I'm trying to say is that cost analysis is not just as simple as comparing, you know, what we pay to our direct labour people versus what we pay to subcontractors. There are a whole heap of other benefits and disadvantages around that that all need to be priced in.

I think certainly in the South East, you know, there was a prevailing wisdom that it was pretty much impossible to get a direct labour force because of the transitory nature of that workforce. And we have made some strides actually recently, heavy investment in and partnership with some colleges, technical colleges. And we're really quite excited by the – pardon me – the number of apprentices that we are taking on and the retention statistics that we're managing. So it's something that is very much in flux and very hard to give you a direct answer on.

Peter Redfern: I mean, I – I mean, historically retention has been very strong, actually better than sort of normal salaried staff. And costs have been less. But historically there's an awful lot of history in those regions. I remember giving a sort of long service award to a scaffolder who'd done 49 years of service and was our longest employee by about five years at the time, you know. And that wouldn't have been massively unusual. But as Chris is kind of saying, as you're taken into new area you're starting from scratch and what you're really need and, you know, Chris has seen this in the South West Thames business, is somebody really passionate internally at a local level who really sets the scene and then you feel you can create that momentum. But, yes, that transition is probably marginally more expensive to bring people in house. In the end, you know, sort of you've got a lot less volatility and the costs tend to come down.

Chris Carney: I mean, one very sort of simple example of that is, you know, if it starts raining we don't pay the subcontractor because they're not laying bricks. But if we've got direct labour we're paying them so, you know, it's a – it's a pretty complicated equation that…

Question: I've got a follow up on the dividend and the normal market downturn.

Chris Carney: Yes.

Question: Can you give us a reminder, obviously the benign land market we've had and I guess house price inflation over the last few years, how much of a buffer have you got given that ordinary dividends cut around net assets?

Chris Carney: Yes.

Question: I know the house price deflation before you cut into net assets effectively.

Chris Carney: Yes, if I answer it in a slightly different way? And I think we're being pretty clear in the statement that we have stress tested that, you know, what we consider a pretty full-on downturn to be 20% drop in price and a 30% drop in volume. And we're – we're happy with that position.

Question: Okay, thank you.

Question: I just have a question in terms of your routes to market and, I guess, the rent-to-buy it looks like you're using 4.9% as the yield. Are you talking about charging the customer less than that so they can save elsewhere? Are you talking about charging more than that so you get more income coming in? How do you make sure they buy the home at the end and don't have parties and whatever else? I'm very concerned.

Chris Carney: So –

Question: But also – if I ask all the bits and then you – because probably you'll tie it all in one answer I think.

Chris Carney: Yes.

Question: Why is that better at recycling capital under PRS when PRS quite often at the moment is done with outside equity? And you talked – you didn't talk about shared ownership, you know, with house – housing associations maybe as the other side of that ownership. So wonder if you can just tie together how we should think about those routes to market. What are the best? How do you make sure that you do get the best value?

Chris Carney: Okay. So firstly, you know, in terms – to be really clear what we're not asking in that product is anything other than for that customer to pay what the market value is for that rental. So, you know, they are not paying any more than they would if they were in exactly the same house and it was, you know, really was privately rented. All we're saying is that we are going to take part of that rental and put it aside for over a two/three-year period as they save themselves and then when they come to buy that property that – that cash that we have effectively set aside for them we will release to them. Hopefully that – that answers part of your question.

In terms of the – you know, returning the capital more quickly if you think about the PRS – this is – so if we were selling units into a PRS provider absolutely take your point. That would return capital pretty much – well, depending on what their payment profile is, very quickly. And we do do that and in fact I think I was talking with somebody earlier about a scheme in Walthamstow that – that we have done that on and we've got another few coming up. What I'm talking about is if we were holding PRS. You know, if you were – if you were the investor then clearly this turns your capital a hell of a lot more quickly than if you're holding the capital on your balance sheet.

And then shared ownership you mentioned, and I was, you know, at pains to stress that that is just one product. We have another, funnily enough I think it's called Step Ladder that is a shared ownership product that is going through exactly the same sort of process. And, as I said, some of them will gain some momentum. Some of them will fall by the wayside. That was just an illustration that, you know, you shouldn't take that we're going to pile lots of time and energy and resources just into this one product. This was an illustration to give you, you know, insight into the thought processes and the outputs of the process that we'll – that we've been going through.

Question: [Inaudible] is you're willing to keep more capital in the homes for longer rather than take a lower selling price in these scenarios?

Chris Carney: Yes, I – I –

Pete Redfern: I think –

Chris Carney: I think inherently by what I've said the answer to that is yes but all we're talking about with this and it's really clear, is that this is just a pilot, you know. This isn't something that we're going to be rolling out on every site in the short-term. But clearly, you know, if Help to Buy was dropped tomorrow it is just – it will become one tool that – out of many that we could deploy.

Pete Redfern: I think – I think that's right, and I think, you know, the – the key point, what we're trying to do is give you a sense of some of the thought processes and the conversations. But we – we've got two objectives from – from this pilot. One is to try and test and understand what is our instinct is that a product like that is very attractive from a customer point of view. And really understand that and what the limitations are and what the structures would – would be like and how it impacts on sales rates and how quickly, you know, sort of, that sort of product would move.

The second is to really understand in – in a world where the environment does change, if affordability becomes more constrained, you know, because we have enough buyers at the moment. But we're trying to look ahead through this process and say there will be times over the next ten years where we don't have enough buyers. How do we make sure that we broaden, you know, sort of our base of attractiveness to those nearly buyers. And we may not have the choices on the short-term in terms of PRS at that point that we have today. So a lot of this is about really understanding what's driving the customer, how we can make it easier for them, sort of what that process would look like. So we've got good – good choices. We don't know if we'll find something through that that works in this environment or all we find is a defensive set of measures that we can then implement quickly in more challenging times. Both of those have value to us so, you know, if you said, 'How much of – how much volume of this product do you think you'll do?' The answer is, you know, you shouldn't assume anything till we've worked really through that – that mass. It's a learning process. Okay.

Chris Carney: Alright – where's – where's the – I'm not sure where the microphones are. Sorry. There they are.

<u>Question</u>: I've got the mic so am I in control?

Chris Carney: Yes.

Question: And this is really back of a fag packet stuff but if your net spend on land under the new strategy doesn't really change much but you work the asset harder, there's more volume, that volume converts at the margins you've said and equally then converts 80% into cash, as far as I can see so far you've only committed whatever, £50 million odd to the additional ordinary dividend cost per annum. But, I mean, as I said, you know, it's back of the envelope and I'm maybe wrong in the maths completely, you're going to generate £100-150 million at least, I would have thought, of additional cash every year.

Chris Carney: Yes.

Question: So what's – what's the missing bit?

Chris Carney: Okay.

Question: You know, is that being spent on something else or is that simply going to make the balance sheet even stronger in the next few years?

Chris Carney: Okay, well the first thing is, you know, that ordinary dividend is increasing by £100 million each year so that takes some of the difference. But to – you know, we will be spending more on land because if what we're saying is that our short – short-term land bank is remaining, you know, around about the same level and our volume is increasing then by default, you know, the run rate of land purchase increases. But, yes, I mean, undoubtedly, you know, we would expect that, you know, we will create some headroom. And that's – you know, part of that headroom is why we're – we're taking - and, you know, the investment of £100 million over the next couple of years into other routes to market. That's partly what that's – that's going on.

<u>Question</u>: Sorry, can you just sort of – I'm not sure what that in practice actually means. £100 million is what? You're saying some of that will go into you investing in a PRS-type vehicle or…?

Chris Carney: Yes, absolutely.

Question: So literally £100 million is – is put aside for [inaudible]?

Chris Carney: Yes. So that £100 million – and it might be – might be JVs, it might be direct investment. I certainly would expect that some of it will be PRS but not all of it. And it's – it's really about, you know, a very small amount may well be in piloting the – the Springboard, you know, product that we just discussed. And it may well – you know, other small chunks allowing us to pilot other products that give us that flexibility and increased understanding for when affordability constraints in the future become tougher.

Question: Can I just – sorry, one final bit to that. What has your broad assumption been on the reduction of the year's land supply rather than the physical land – plots of land? Are you assuming you go from five to four in five years? Or longer than five years? Or shorter than five years?

Chris Carney: Yes. I mean, I don't think it will be, you know, an average – you know, a glide path where we go uniformly down from where we are to where we're heading to get to. But yes, I think – absolutely. Five years we would – that's where we would expect to be getting down to that 4.25-ish level.

Question: Thank you.

Pete Redfern: We can take one more question, then we'll have some lunch.

Chris Carney: Sorry. At the front.

<u>Question</u>: Thanks. It was just coming back to the slide 13 where you've categorised the sites by size and the intended uplift in sales rates. And I guess it's more an observation than anything else but the change in categories is kind of 2-4 are enormous really to – unless I'm reading it wrong. But to think that sites of 250 go from 0.8 to 1 per site. Is that right? Is it 25% uplift in the sales rate?

Chris Carney: Yes.

Question: The next two buckets are 80% uplifts in sales rates. I mean, I don't know quite what the question is but they seem huge kind of leaps of faith for us to go away and plug in, if you like. And are you saying that demand's always been above the sales rate and you haven't been able to build to it?

Chris Carney: Yes. Yes, inherent –

Question: Or is it the PRS and buy-to-rent bridge the gap or any extra, I guess, scope there.

Chris Carney: Yes, I think the – the first of those really. I mean, you will have heard and certainly I've heard Pete in – in recent years. You know when we've talked about last year having a very strong sales rate in the first half and Pete guided you to a much slower sales rate in the second half because of availability, you know. And I mentioned those six sites that we have delivered more than 130 homes from, you know, those delivered the sales because they're in good quality locations. You know, Jennie put up a slide that shows, you know, where our land bank is based. And I'm not saying that every single site can take a lot more absorption because that would clearly not be true. But what we think we can do a lot more effectively is to plan sites so that we don't have periods where there is a lack of differentiation in product. So if we plan these larger sites – and clearly with a larger site you have more ability to plan and plan it in detail so that you have the full spectrum of products available pretty much all the time, then that can certainly increase your sales rate without any real impact on the market conditions. So yes I can see that you would look at this and think, 'Wow.' A lot of it is about having that product available. And I suppose if you look at the site in Oxfordshire that, you know, Jennie put up that a lot of you would have visited two years ago, you know, last year that site I think sort of looking in Nigel's direction, I can't find him, did over 300 units from two outlets. And we'll have had a sales rate in excess of two, you know, so four if you combine the two outlets but over two on each of those outlets. So it's not impossible but it – you have to take each location differently.

Pete Redfern: If – if you just stand back and sort of almost I summarise well because there's a number of things from the different presentations that kind of all tend to lead to that same point. We have been and continue to, and as Jennie said, expect even more to buy – buy more large sites. We as a business have not been partnering with our competitors at the earlier stage on many of those sites in the way that we would have done. So we have taken a view, as Jennie laid out, that actually we were doing the work, spending the money, making the effort but actually to a large extent others were often piggy backing off that. And a lot of our reason was risk but if you really stand back and look at it on any meaningful measure none of these sites individually give us any, you know, sort of largescale, systemic risk. And so that's been our – our approach to large, strategic land sites for a long period of time now. We don't have two brands and we tended to see double-heading outlets as something that we will only do if there's really clear circumstances.

That effectively all taken together leaves us with a – a set of – you know, a pent-up demand on a lot of those sites. We have some where we've then pushed them and put the operational capacity behind it with production and we can see – and it will – the absolute number will depend on the market, but we can see the number is very different given all of that backdrop to exactly the same site 15 years ago with three sort of major competitors right at the beginning and then parcelling off pieces and everybody having two flags. You know, there's an awful lot of potential there that we're not tapping into or we're only tapping into on a proportion of our sites. And so, you know, that – that's why that movement is so large. And it's not just that we can see it on six sites. We can see lots on the – you know, we see a huge gradation. And there are a few big sites where you kind of think we know that that location is very rural, it's not got the absorption, we wouldn't contemplate, you know, setting up that level of production. But there's more where that kind of model we believe works.

Oxford – you know, Didcot's extreme. You know, it's got a, you know, express line into London. It's – but that's a number that's a step above any of the numbers that – it's above the range by a long way that Chris has put on the slide, you know. We're talking about much more bread and butter locations than that generally. And with that we should have lunch.

Chris Carney: Okay.

[END OF TRANSCRIPT]

Major Developments

Lee Bishop

Major Developments Director, Taylor Wimpey Plc

Everyone in? Okay, good afternoon, Lee Bishop. Welcome to the Future Skills Centre and welcome to Whitehill and Bordon and Prince Philip Barracks. The Future Skills Centre here – and we've talked about the lack of skills and everything else in the industry – this is a £3.8 million investment by Hampshire County Council in a facility to actually start to bring kids through, qualify them with carpentry, bricklaying and they're starting to extend out. Interestingly today they're practising for their GCSE English because it isn't just about building, they still need all of the other skills around English and maths to make sure that they can read the drawings and the bits that go with the parcels that we've got.

So, agenda for today, I've got a short period with you, and I'm well aware it's warm and you're running a bit late. So I'm going to talk through what is Major Developments? What are the two projects that we've actually got underway? And more importantly, where our strategy goes for the future and how that ties in with some of the discussions that you've already had this morning.

So, Major Developments: we talked about the planning process and Jennie highlighted for you that planning is starting to bring forward larger and more substantial sites; that puts slightly different pressures on some of the businesses that we have. We operate with short-term land teams that are designed to feed the business unit on some of those smaller sites and the bigger they become, the more complex they are and the nature with which we invest can become different. Those – the sites that we tend to look at are those that start to tip towards 1,000 units or more and if we go back in time, there never used to be that many of those kinds of sites, planning is bringing them forward on a more regular basis, almost with every authority in the UK, trying to centralise their allocations on the sites where they can actually park them as one political vehicle. That involves a lot longer-term delivery and what we get and we seek is control without commitment. So some of these schemes of 1,000 units are 12–20 years in length and what we look at is how we tie ourselves in in that process to get to a point where we de-risk for ourselves, the company and also for the landowner who is often staying in the deal with us as a joint venture partner, or we are acting with them.

Yeah, so Major Developments works with our business units to actually make sure that we can bring those bigger and more complex sites through, most of those having already been identified and don't have a planning challenge, so there's a planning provenance there that brings those sites through and it's known about, otherwise it fits into our strategic land.

So, government – and this is one of those processes – a government procurement by OJEU. They bring these sites forward in a process that can take anything from 12-18 months; there are various stage gates as we go through, from a pre-qualifying questionnaire – and they like to change those in the way that we actually do it – we qualify on a lot of those because of the strength of Taylor Wimpey, our financial strength, our ability to show we can deliver and that is really important with some of these bigger sites. With the discussions we've had around Letwin and other things, it will become more a factor in the selection and the choice of the people that we do. Take you through ISOS and actually what they're doing is they're shaping your proposal through dialogue with you, through a 12-18-month period to make sure that at the end of that period the answer that you have is something that they will find acceptable and that will be both with a vendor but also with a local authority.

So, that 12–18-month period means that myself and my team sit in front of those stakeholders and we make an awful lot of promises about what we can do, how we will shape a market, when we will start to build homes, what the place will look like, how we will add value to the bits that they do. And when successful and chosen, we don't just move on to another team because if we move into another team, we lose all of the good work that we've done in that 12–18-month period. So we stay with that project, making sure that we maintain that relationship through the period. So a number of my staff have moved on with DIO on the site that we're on here today and have remained in the management of that process for the three years that we've been here. So we are there at the moment delivering that promise that we previously made in 2014, yeah? So we're there running the site with the team and we gradually transition that into a business unit. So the business unit that is on here and is delivering the first part of the site is actually our South Thames business, which Ingrid – is one of Ingrid's companies. They are here, and they will deliver from their scheme probably about 40 units this year because it's not going to be a full year for us, but we'll actually deliver more as we go through.

So, what is the real benefit to Taylor Wimpey of a scheme that actually goes through this process? The real delivery for us is actually that shared risk and reward, and in that process, the shared risk and reward, there is effectively an open land value and the market will determine what goes through in that process. So in this particular one – and that is the big graph that we submitted for the site that we're on – to give you an idea, we would normally be – and I know that might be a bit small for you there but in your packs – if we'd actually bought that site, we would probably be something like £70 million in the red from the day we start. We've not bought that site, we're acting as their agent, we're actually only in to the tune of about £10 million as we've invested in certain bits and pieces as the commitment over two years, yeah? So that enhanced stakeholder relationship has enabled us to drive the delivery and the place-making. And for those of you that get on the bus, you'll see that we've actually – there's a £30 million road sponsored by Hampshire County Council; there's a £33 million school, sponsored by the LEP and Hampshire County Council, which is in construction at the moment and will open in September 2019, yeah, so a lot earlier than we would normally do. The HCA have given us a loan for £25 million to start the place-making, so we've laid out 52 hectares of space as we go and what that does is it drives cash flow, it drives improved return on capital for us because effectively we're leveraging other people's money in this process, as well as putting some of our own in but the big driver here is that we're putting our skillsets in to create the place and we'll touch on some of the other things that we do with that as we – but what it gives us as a company is long-term control of an outlet – and I'll use the word 'outlet' – dependent upon how many factories we have on here, yeah?

So the projects that we've got underway, the first one is Prince Philip Park, which you've driven into today. The first line on the slide is effectively the bid proposal that there would be 100 units coming out of here a year. That 100 units actually includes the Barratt and the David Wilson part that you've just driven part as well and the expectation on us this year is that we'll deliver 40 units and we will actually open for sales this Friday, having been slightly delayed by Carillion, who were building our road, yeah? So Skanska, bless them, have finished it for us and the road actually officially opens on Thursday. So our joint venture will pull through 20 units this year, which will be our first output as Major Developments.

The site itself – and you've – we've given you a brochure on each of your chairs – basically the involvement that we've put in about the place-making and the start is investment not only for our new customers but also for the local community. This is a site where there were 2,000 squaddies, so the high street consisted of three tattoo parlours and a couple of betting shops and pretty much not anything else. Two of the tattoo parlours have now closed because the squaddies have moved off; we now have a completely vacant site and one of the big things that we have to contribute is the top right-hand picture – is actually the new town centre. That new town centre planning application is in, it's an £80 million investment and we're looking at selling that. We've gone out to the first key anchors about that and we've got 39 shops to place in the market, which we've talked about retail, that being a relative challenge. The local authority are working with us and they've allowed us to put residential above, which will balance the investment for us as we go through. And that's the key thing with this site is the engagement with those key stakeholders and the delivery board, that meets on a monthly basis, helps this site drive it forward for the delivery on a regular basis.

In the bottom-right you've got the picture, the artist's impression of our show units and for those of you on the bus, it won't quite look like that yet because the first block of flats are not up but the show homes are there, as I say, they open Friday. And the 52 hectares of suitable, alternative, natural green space, which is the second-largest in Europe, which will be the first-largest when we come out, is actually already provided, already open to the public. We had the opening from the mayor; there is a zip wire for those of you that, if you do stay around later, want to test but we've also put in and opened up a skateboard park and the skateboard park we do worry a little bit because we do still see some kids there when we know they should be in school. It is very, very well used, in the top picture.

So it's an 18-year development, we've got 2,500 homes, 2,400; we are already in discussions to make that 2,700 through discussions with the local authority and they're encouraging it. They've asked for a call for sites and they've asked us if we can have some more and I've said I don't want more if it's just more in density terms, so they're looking at allocating another part of the site for another 1,000 units and that's the process that we do for DIO, where we act as their development manager. There's the town centre with 250,000 square feet and I've touched on the other parcels, but one of the big deliveries that's here is employment. The town centre itself, when up and functioning, will replace a lot of the jobs that locally went off of the back of the base and the base that was run here. So our challenge is also to find 3,000 jobs, which, as we talked through – and we'll talk through, for those of you that stay, some of those schemes we'll drive past are starting to create those jobs in the next few years.

Our entitlement under the agreement is effectively for 35%, so 35% of all of the private housing on the site. We can also have 100% of the affordable housing, should we choose to deliver it, on our own or with a partner. We have the ability for all of the PRS, or build-to-rent, or elderly care if they were market sectors we wanted to go to, so we get choices here that don't necessarily fit our normal market, and I've got a joint venture partner in Dorchester Living that we can start to look at stretching those boundaries and the returns that we get. And also, there's one clause in there which is 100% of military housing, which we didn't expect to get any, but apparently they might want 150–200 homes out of us out of the total. So you'll see my 35% is very liable to start creeping up to 50% and half of the site. The balance with what I do with the rest is effectively we have sold a parcel to ZeroC as an SME, so we start to enable some of those facilities that go through. We are looking at some custom build and we're looking at some self build, so here we're using the full agenda of what the government are looking at to say, actually, we can drive delivery – which would be where Letwin would go in his housing numbers, not really caring what the outcome of the mix and the tenure would be – this is one of those sites that can help to drive those numbers through.

We are entitled to take the town centre and the employment opportunities that are there. We are looking at a pre-sale and we're already in negotiations on that pre-sale as we talk. For the kindness of what we do, we are entitled to some recompense; we get a gain share. That's if – not a discount from land value but what that means is I work this for 18 years, the more it is worth and the more it becomes worth with the defence estate, I get a percentage of the share that comes from that. Coupled with that, I also get a management charge for all of the staff that are here driving the scheme and the development.

The bit that's actually quite interesting is actually the day we signed that deal there was one clause in the deal which was a red spot and 30 miles around that red spot, which is this site, the DIO can put upon us, if we are good at what we do, to take another site from them. We've got that first site, the interesting part is it starts as being a full employment provider and it's down on the A3, but we feel it will come good a little later to provide some more residential and that relationship through the stakeholder group and the M3 LEP and the County Council, they were pushing for us to take the site. So it's about relationships that count.

Our other project is Winstanley and York Road. This one is a little easier for me and the team, in that we've passed this one to Ingrid and her team in our Central London business. This has our first delivery down for 2019; that might be tight for us now because our joint venture partner, which is Wandsworth, asked us to push back the application for political reasons, as in it was time to – time to – we would be actually submitting it right in the middle of the elections. So the delivery here is 2,775 homes across 12 years; we also have an option for a further 500 units which sits on top of the Crossrail station at Clapham Junction. We will rehouse 608 existing residents and we will decamp them into new properties that we build for them. We will also give the opportunity to 132 leaseholders to take either a property from us or to take the CPO offer, which we are backing for Wandsworth Council. And coupled with this we are providing a six-lane leisure centre pool, library, spa, doctors' surgeries, all of the bits that will make that a community, as well as laying out a new London park which we wrap the whole scheme around. There's a GDV in there at about £1.1 billion and the big part of that scheme is also the delivery of 311 PRS units. 300 was the requirement of the bid; we've added an extra 11 so that we can actually contribute to a legacy fund from the rental of those 11 units to make sure that the place that we create is maintained in perpetuity and that we've agreed with our deal with Legal & General, that 11 of those units will contribute to the duration.

I've talked about the extensions. The other part of what we do is around – as well as the place-making, it's about the training. Here we're starting to see that we've already signed up to the Skills Centre. We are taking – of the first 25, we are taking ten of the first bricklayers that come out of here and we will place those skills and the trades that come out of here with the developers of the site, so we've obligated ZeroC to take a number of the apprentices that qualify through this and that, if you like, is the policy of actually making sure that the site drives the delivery for the whole community, not just the benefit of the new people that we move in.

And we look at meanwhile uses, so if you saw the boards outside, we've run 80 events on here to keep the community going, everything from using the parade square for a drive-in cinema to haunted walks through the SANG late at night on Halloween, so we're there.

We actively engage with our communities in what we do and we have a Community Development Officer that has – and you say, 'Is there a sustainable market for what we're doing?' The reality is we see them in three tranches. The part of what we've got around garden villages and strategic releases – there are authorities that are actually starting to engage with us and talk to us about, 'Will you come and look at the site that we've got? Will you come and talk to us?' because it's the delivery on some of our schemes that are starting to talk for us. You've got other estate regenerations that are on the blocks as plans but some of the engagement with the tenants, where the rules have started to change, may slow some of those down, where effectively the Mayor of London is basically insisting that at least 60% of people vote for the fact that they are going to be regenerated. And then you've got our partnerships where part of the process with my team was to put together those partner panels and we're on Transport for London, we're obviously on DIO's radar now for a number of sites that they're starting to bring to the market as well as talking to other bodies, like DEFRA, about some of the sites that they may bring forward to fund some of the larger infrastructure projects that they've got.

So there's a lot there; anyone got any questions?

Q&A

Glynis Johnson (Deutsche Bank): Thank you. I wonder if I can just try and get the right context for this. Are we talking that this is a partnership with a set return, a set margin, or is this where you share the upside, or is this something where you pay a land price less a discount? What is the actual economics of what you're doing?

Lee Bishop: This particular deal we draw down land at open market value at the time we choose to draw it down, yeah? So we could effectively draw down all of it today and draw a line and say to the DIO, 'We'd like to draw that,' but what we've done is we've worked through the process, we've actually looked at this as a longer-term relationship, both here with the local authority and with DIO. So we are actively pulling down land which gives us about two years' supply, yeah? And we'll start to pull – we're in discussions to pull down the next phase and we're also in discussions with them at the moment to pull forward six years' supply of affordable homes. So we are working with DIO to give them the funds that they need, because they have cash requirements and we fund that through the sale also of the land to ZeroC. The margins are respective of the market value at the time we draw it down, so it de-risks us for it as we don't – if the market were to dip, we don't have to take, yeah, so it has that balance.

Glynis Johnson: So it's about surety of supply rather than any kind of margin uplift?

Lee Bishop: Sorry, I didn't –

Glynis Johnson: It's about surety of supply of land for you –

Lee Bishop: Yes.

Glynis Johnson: – rather than a kind of margin economics?

Lee Bishop: Yeah, if you –

Pete Redfern: So, can I just – so – because it's not simple and you know, the one sort of absolute for Lee in any site before we look at it is that the – not so much the margin but the return on capital has to be some way ahead of what we would consider normal on an ordinary site and that's largely about the level of return compared to the land risk that we take. So it wouldn't be fair to say that we make no commitment but our land commitment on these sites is generally significantly less than the normal. But the – and this site has all of these – the returns to us come in four components and they actually all are slightly different. So, Lee has touched on them: there is a management fee, which is effectively a cost plus, you know, we make a return on our investment and our skills; there is our gain share on the site, where we make partial investment in the infrastructure of the site but don't pay for the land and we get paid, first of all, our capital back and then we get paid on the land value uplift, whether it's sold to us or sold to a third party; then there is our right to buy at open market value land off the site, where we make a normal return and that is a fairly normal set of economics. Then the fourth component, which I think, you know, we've seen already on, you know, sort of the sites we've looked at with Major Developments is the knock-on impact on relationships not just with the DIO but particularly with Hampshire County Council and local partners that we get a lot of other returns.

If you put all the financial parts of the returns together, the margin is ahead of our normal margins; the return on capital is vastly ahead of the normal margin – normal sort of returns. Each site, though, has kind of similar characteristics in that it could have any kind of two or three out of that – those sort of four components. This was – is unusual because it's got all of them and so you can't really break it down and it's not just about security of supply by any means; it wouldn't make sense for the amount of effort, it's about the scale of the returns on the different elements and it's about actually having a stake in the site that you're not having to pay out the whole land value up front or be committed, so it's not just a land credit I think you have to pay out at any future time.

Glynis Johnson: So because the gain share comes after 12 years, 18 years, end of site or do you part-account?

Lee Bishop: At the moment we're in discussion because we've sold the first parcel. In theory, there is a debate that the gain share can start to be drawn against the figures that we put down but we are quite cautious and we've not pushed for that first parcel yet. We are actually ploughing some of that money back into the scheme.

I like it when it's warm, fewer questions.

Pete Redfern: Thank you – just before I sort of open up for Q&A, so I had three bits that I was going to cover. First of all, just talk for a couple of minutes – and I sort of almost touched on in a bit in answering Glynis' question about why we brought you here and why we think Major Developments is worth talking about in the context of the strategy that we've been talking about today. The second is to open up again for Q&A, you know sort of for Chris and for Jennie and for myself with anything from the day that you want to pick up and then I'll just round off with a few sort of closing comments on the strategy and then we'll have the sort of site visit. We brought you here because it gives you – particularly if you do go on the bus tour and get a sense of it, it gives you a scale of, when we say a super-large site, how large and how complex they are. And I think that's important because that sense that we've been trying to get across all day that you can't just take one outlet number and multiply it by one sales rate; there are very, very different areas to this site; there will be very, very different products on this site; there will be very, very different characteristics and this is probably the extreme end but it gives you a sense of the kind of thing we're talking about on some of the large sites that are now sort of normal.

I think, you know, it also gives you a sense of why, three or four years ago, when you see the number of opportunities that come up, our normal businesses can't cope with the procurement process within these sites. They also can't cope very well with the early-stage delivery. The later-stage delivery, phase by phase, is meat and drink to them so actually what we're finding is the level of competition for these kind of sites is very thin and quite different to anything else that we do and that brings quite a few opportunities. And as Lee has touched on and I've sort of reinforced, particularly brings opportunities where we get that right with local authorities and with partners who then see how we work and want to repeat it elsewhere.

The last thing I would say on Major Developments is neither of the sites that we're talking about are in our land bank numbers. We're still sort of working through, sort of, Major Developments so we see this as, you know, sort of upside, sort of, options for the future. Sometimes, you know, if you look at the 35% that we have the right to take, we haven't included that because we don't have – we have the right, we don't have the requirement to take any of it; it gives us choices that we haven't historically had. And what we're seeing is a political climate where pretty much whatever the direction is, more of these large, complex sites with the need to manage, particularly in the South East, a complex set of skills are going to be an important part of the market, so we think it's an important development area for the future.

As I say, I then sort of want to just give you a chance to ask any more questions more generally about the day than necessarily about either Bordon or the strategy but if there aren't any questions, I'm happy to move on to some closing remarks. And I'm sure Chris and Jennie are happy to take any questions as well.

Question: This is a general question around the sort of new strategy that you've laid out to 2023 which is very clear. Will you be updating management incentives around reaching the strategy targets, and how will that look?

Pete Redfern: I think it's highly likely that we will. We're in the early stages of that conversation. We've had a view and a belief that the right thing to do is set out the strategy, you know, sort of test where people kind of buy into that and where you see the drivers and then look at incentives off the back of that rather than saying, you know, sort of the two are embedded. I don't see us changing, in a massive way, quantum; it's more about making sure, particularly on some of the long-term elements, that our incentive structures tie into that. We're always conscious – if you take the customer-facing elements, for instance, we're always conscious of the sensitivity about having too big a proportion weighted that way, you know, but I think people have bought into – you know, by people I mean investors have bought into where we've been over the last two or three years with the level of customer service kind of measurement that we've got and how that's sort of operated. So I guess, you know, it's a slightly unsatisfying answer, we will be back but I don't think you'll be – you'll feel, you know, that what we're proposing is anything particularly difficult; it will just try and tie management to the priorities that we're setting out for investors.

Question: Long-term incentives still very important despite the negative publicity surrounding some of them in the sector?

Pete Redfern: Yeah – no, no, definitely and I think if anything we would like to go longer term, rather than – rather than the other way around. You know, I mean I have a belief –

and the board is no different in this – that good businesses are run for the long term and some of the worst decisions are taken by a pure short-term focus. Just because there's one, you know, sort of extreme example, shall we say, of long-term incentives that only had one measure, which in itself is always going to be a problem doesn't mean that long-term incentives are then a bad thing. So it's about making sure that we can be clear on the measures and getting that balance right between, you know, sort of them being challenging and realistic. The biggest challenge, I think, is working out what's the right performance measure? Whatever the metric, what's the right performance measure if the environment changes, you know? And it's sort of clearly, you know, management should, you know, sort of live and die with investors but it's making sure that you don't end up with a scheme that's either too easy or ridiculous, sort of and the longer-term it is, the harder that is to get right. So something that adjusts to some degree to competitive performance, you know, sort of helps somewhat but I am sure where we get to there will be some components you recognise as fairly traditional and some new things where we think, 'Actually, this is a good way of testing some of the things that we're setting out.' But I think – you know and I hope nobody would disagree with this – I think we've always been pretty good at setting them out and explaining them and we haven't tended to have too much, then, concern when – you know, with things that we want to do.

Any others? Got one from Kevin in the middle at the back.

Kevin Cammack (Cenkos Securities): Just coming back to, sort of, actually on the division, one of the things you said you required to go forward on these projects was actually an element of control over the life of the scheme. If you take the two examples of what you're involved in, to what extent do you – or how do you control, you know, which other developers come in, who the land is sold to, what – you know, do you get a say in all that sort of thing?

Lee Bishop: We have a very honest discussion with the DIO about how we're managing it. We have a very honest discussion about the investment that we have placed in the site on their behalf and we make sure that actually a part of the submission is around the quality and the place of the delivery of the scheme. So ZeroC were challenged to come forward with a scheme, as were 15 others. Not all of them passed muster on that submission, so in essence what we're saying is, 'We want you to maintain our quality and if you don't, you're not suitable for the scheme,' and DIO have accepted that.

Kevin Cammack: Capacity-wise, if the team has to stay with the project for, you know, 3-5 years, how many of these developments will it be possible for the group to be doing in three years' time, say?

Pete Redfern: I think, you know, each – we can set up a new team for each scheme, so to a certain extent it's rolling through Lee's business and as he said, a number of his early team have now kind of transferred full time onto this project and we see that as being, you know, our model for the way that we go forward. So people spend a time on the procurement process, identify with the particular site and over 12-18 months they may be working on two or three sites and then part of that team will then be the initial set up for – to get that team running.

So I think the – it's a combination of what's the level of marketplace opportunity, what's our penetration and then making sure we resource it. We feel, at any one point in time over the next few years, you're talking about six or seven schemes. I think longer term there's more potential than that but it's in that sort of order and the – go on.

Lee Bishop: There – I mean there's one other part to that Kevin. We are – we're bidding for one at the moment with Maidenhead; we're actually bringing the business unit in a lot earlier so that they're seeing the people that will also be involved but we've also brought through Charlie, one of the guys at the back who's leading the bid, who joined my team for a year, may well stay with that project as we go forward. So we – it's – I get, in some respects, people that get to join my team and spend some time with me learn different things but then go back to different parts of our business, if you like, slightly different –

Pete Redfern: Yeah.

Lee Bishop: – for the challenge that a bigger project puts in front of them.

Pete Redfern: Every scheme is slightly different. I mean some are closer to a traditional strategic land sort of type scheme with a few bells and whistles and so it needs a bit of support on the procurement process but less of a full-on involvement. Some are, you know, sort of full, complex schemes that need long-term support from Lee's team. But if you take, you know, just one of the three kind of closing kind of pillars of opportunity that Lee talked about on garden villages, it's long been a frustration that whenever policy changed and you got opportunities, we just – you know, if our local team didn't have – happen to have the skills, we've really got nothing that we can put in to say, 'No, actually, this is an opportunity that as a business, nationally, we should take but our local team don't have the skills and the attitude.' And we tried different things; this feels like it works because we put more resource in up front than the early schemes needed and start to get stretched when you start winning some.

Okay. Do you want to go to the front to Will? Thank you.

William Jones (Redburn): Thanks. Mine was more of a personal question, actually. Just I think I'm right in saying you're the longest –

Pete Redfern: Look, I'm normally dressed like this; this is actually quite smart. I don't appreciate the digs, you know, what can you do?

William Jones: I think I'm right in saying you're the longest-serving Chief Executive in the sector.

Pete Redfern: I think I probably have been for quite a while actually.

William Jones: Yeah, so – but you certainly seem very enthusiastic and committed today but if a shareholder was to ask –

Pete Redfern: Yeah.

William Jones: – as best you can plan the next few years, is it your intention at least to see out the five years to 2023.

Pete Redfern: It is. I mean, you know, we wouldn't be – I wouldn't be stood here setting out this strategy today if I was buggering off in 12 or 18 months' time. I don't have a fixed timeline. You know, it's a conversation the board and I talk about and you know, sort of the changes that we made to bring more operational skills, you know, sort of more background knowledge and skills in the business with Chris and with Jennie onto the board, you know, sort of a couple of weeks ago are about making sure the board's got access to a much broader range of skills so it's not too dependent on one individual. But that's not because, you know, we've started the clock ticking; it just feels like the right thing to do longer term.

So if I'd gone through the last 18 months of planning on this, in all honesty and decided actually what came out the other end of it was doing a bit more of the same, I'd probably say somebody else should be doing that because it's time to sort of move over but as long as I can keep saying, 'Well, I got that right and I got that wrong and I'm prepared to change and challenge the things that I've got wrong,' then I think it's – I've still got some legs, as long as I'm allowed not to wear a tie.

Good. I think that's probably the end of the questions.

Closing Remarks

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Just a couple of closing remarks, not a lot and I'm not going to repeat, you know, sort of all of the messages from this morning. I would just go back to, you know, what we're trying to do, what really matters to us is set out the direction for the business for quite a long time, for the next ten years or so. We're not trying to call the market for the next ten years or so, we're also not deeply worried about what happens in the market in the next couple. We always know that, you know, from an investor point of view and therefore for most in the room the focus is always going to be on what we can put in numbers and the shorter term the better and the closer related it is to dividends the better. I would just ask you to, as we go through the next two or three years of, you know, sort of reporting and presentations to sort of pick up some of the themes that we've talked about today that are perhaps a bit longer-term and may seem a bit softer because I think, as we look back in five years' time, it will be those that have come through rather than necessarily what we announced on dividends today, recognising the sort of short-term world we all live in, that's not what immediately kind of hits the radar screens but it is the thing – you know, what we're talking about with customers, what we're talking about – about building more capacity to do it right in the long term I think makes a big difference in the business. I think, you know, our business is ready for that. I don't think everybody else in the sector is and I think those are the things that we'll look back at and think have made a real difference in a few years' time. But thank you for all of your time today and particularly the depth and the interest in the questions. We do have a bus tour. I think we can accommodate everybody, you know, sort of who wants to but we also have buses that can either go back to the station or to the hotel. If you go on the bus tour, it's coming – it's bringing you back here and then same thing, we can get you to the station. I would recommend that if you can, you take a look around because it does, as I say, just give you a sense of when we say a big site and that they have complex constraints but also a lot of opportunities, you know, seeing it in reality will give you a far better flavour than seeing a fun outlet number on a spreadsheet, and bear in mind that this will look like it's one outlet.

Thanks very much.

[END OF TRANSCRIPT]