Half Year Results 2018

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Operating Performance, Current Trading and Outlook

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Good morning. Thank you for joining us. If I just – it's a slightly different presentation this time because with the launch of a new strategy back in May, we've been through all of our slides, all of our information. Tried to just make sure we're providing you with things that we think are most relevant in that context. But I hope, and our intention is that we haven't taken away anything that you've come to rely on that gets a lot of usage. And actually, I think even if it's not in the main body of the presentation, every slide that we've ever been asked a question about is at least in the appendix. So, all the information you want should be there. If there is anything we've taken away that you say, actually, that was really useful – you know, sort of like the margin reconciliation slide is still there, for instance, which I know everybody liked. But if there is anything that you did find it really helpful for us to talk about and we just got that slightly wrong, tell us because we'll bring it back. But what we tried to do is make it a bit more relevant to where we are today and so a bit more of a refresh than usual. I think it will probably move on again when we come to the full year because it's a bit of a learning curve of working out what are the right things and where your interest lies and how best to set things out. So, it's a bit of a sort of a test of a few different things that we're using. My presentation is in two parts and the first of those two parts is in two parts.

So, you know, I'm going to talk about operating performance, both financial, and pick out some of the non-financial sort of elements of the first half performance, then I'm going to go on and talk about current trading and outlook altogether in the second half of that first half, and then I'll come back on business improvement, strategy and just a bit of a summary at the end. So, it's a slightly different sort of mix but, as I say, the sort of first half, the first section is very much on the performance over the first six months.

Financial, first of all. I think, you know, sort of should be no surprises there the way we see the first half of the year. You know, we would have liked a little bit more volume, you know, sort of – but as we said to you back in April/May, the weather at the end of the first quarter sort of held that back slightly. That's the only thing that's any different to what we would have expected back in January. And I'll probably say this about three times and I'm sure you'll ask me questions on it anyway. Confidence in our 2018 numbers is strong, and we are in pretty much internally in exactly the same place we started the beginning of the year. So, you know, the impact we saw in weather in February, we probably caught up a little bit more than we expected sort of in terms of functional build, not so much completion numbers because of timing but sort of in where we are, so I think we feel more confident than we did, yeah, and we felt reasonably happy then that the full year was on track.

So, looking at the financial performance, clearly a very strong performance, but clearly we're at a point where, you know, this significant growth in numbers that we've seen over the last seven years or so has slowed but we still finished the year with 0.5 billion in net cash or a bit more, strong cash conversion, an operating profit margin of 20% and a return on capital of 31.

I won't talk about the specific cladding provision. It's not there in those numbers. Chris will pick up on it but either of us are happy to talk – you know, sort of take question on at the end but I'm not going to cover it because I don't think we need to cover it twice.

Then some operating highlights. I'm going to come back to a number of these because what I'm – particularly my main goal from this presentation overall, it's to try and give you some sense of how some of the things we think are very important on some of the non-financial measures actually will link to financial performance over time. Because I think that's maybe what we've not given you as clearly as we could've done in our strategy day. So, a lot of these, I'll come back to you and just give you a sense – so for instance, I will talk in a couple of minutes about the cost of customer care, where it sits and, you know, sort of why we see that as something that we can work on. I think we still think they're the right thing to do but we think we can do a better job of helping you link them to the underlying performance medium to long term.

But picking out some of those highlights on the eight-week survey, which is the one we've tended to focus on, the one that drives the star rating, the first half of the year was back above 90%. And for the first time, and we told you we would do this, we're going to start talking about the nine months survey, which we actually think gives better data in terms of really understanding what customer performance is like and I'll talk about that in a little bit more detail in a second. On the land side, still a very good land environment, and the land cost as a percentage of new approvals still low at 17%, and the revenue in the landbank has continued to grow, even in a set of sort of uncertain economic conditions with a reasonably stable landbank, our view of the selling price and the landbank has improved and we're close to 50 billion of potential revenue and our strategic land bank has gone over 120,000 plots for the first time.

If you look at production – and again, we'll sort of expand on this a little bit during the presentation more than we normally do. Something called the construction quality review, which is an external assessment of sites done by the NHBC, performance has improved from 68 to 74%, that's sites rated good or better. That all gives us a sense that we can show where we're getting the underlying improvement from the work that we're doing, and our number of directly employed trade staff is over 1,500, and about 1,000 of those are true full time trade staff, about 500 are site management staff that we would have had historically. So meaningful growth there.

On the people side, our voluntary turnover rate is still low, at 14.5% and we were – you know, again, we spent again a little bit of time on this and again what I'm trying to do is relate that to current performance to future performance with the glass doors, fifteenth highest rated employer in the UK. Nobody else in our sector was in the top 50. On systems and efficiency, and Chris will talk about this in more detail and I won't spend too much time on it, but just a couple of specific things. My Taylor Wimpey, which is a customer facing website where people actually can get the information they want on their house move direct from the website rather than going through true site offices, pilot is complete and it's being rolled out. Project management, the IP is improvement plan, which I will spend some time on, the roll out is complete, and as Chris will talk about, we've completed stage 1 of our cost and efficiency review.

So, going back to customers and communities, you know, sort of getting over that 90% is important to us. As you will see on the next slide, we're over 90% in all three of our regions. We've never been over 90% in all three of them. The last time we were at 90% of the company, our South East business was well behind, and so the underlying, you know, sort of performance is much stronger.

I said I would try and relate some of these things to sort of financial performance and all I've done is just given you a view of the cost over the last sort of 18 months, so in six months sort of brackets, and you can see they're starting to slowly come down. Most of our investment in this area was in 2015 and 16 and we always said getting to a point where we get the performance right will cost us some money. We think it's the right thing to do. Actually, we're confident as, you know, as that beds in, that will start to come down. You start to see that trend but it's not huge numbers. I'm not trying to give you a big cost saving target here, but it should hopefully give you confidence that when we look at some of these areas and say it's right for us to invest in these areas but once we get there, then we'll get some of that cost back out that we can actually deliver that. We believe particularly on the remediation side of it, the actual physical costs, what we're doing on the site quality reviews will make a huge difference over the course of the next three to four years. We don't think anybody else is looking at it in the same way. The industry has tended to be very reactive for these things and not get good data across different problems occurring on, you know, sort of sites across the country, those sorts of things. So, we have a far more structured approach. That cost, you know, you're talking about a £60 million per annum cost roughly, that cost could significantly come down and deliver a better service to customers, more certainty, lower risk, faster build times. Getting to all of that in one go is tough. It takes time.

The bottom of the slide, you see just a snapshot sort of the trend on our community investment via planning obligations. Historically, when we've talked about this, you know, in this sort of room it will be that's how much it's going to cost us, you know, sort of have we got the best deal. Actually, we think we kind of need to turn that on its head and just think, yeah, be a bit more prepared to shout about what we are investing over the course of the time you see on that slide, we spent £1.8 billion on community obligations and yet we sit in a place and sector where people don't really see the value we add in the broader sense and I think we just need to be a little bit braver about, you know, sort of calling out that cost, calling out what we do.

If I go back to the days when we had a business in the US, you would drive around sites and there'd be a sign saying, 'this school delivered by such and such housing developer'. We actually hide away from it for some reason. I'm not trying to signal to you that cost is going to inexorably increase. It would depend on the balance of sites we go through. You know, at our senses at the moment, it's reasonably stable. You know, we'll talk a little bit about the political environment in the second section but actually this is part of us talking far more openly and positively about what we contribute to communities and you should see that trend continue.

Last one on customer service and, you know, I said you can see the regional sort of split where all of our businesses are just over that 90%. I'm not going to spend a lot of time on the bottom half, but we will come back to it. That shows you the breakdown of the nine-month scores and there's a number of things on there, like the service performance afterwards, the development score, which is how people rate the environment they live in, which don't really come up on the 28-day survey. Those are the sort of reasons we think that's a better way of assessing how we do. You can see, you know, there's a big performance improvement over the course of the 12-month period that we're looking at. It's always more difficult to use the management tool because of the lag factor but actually it gives a far better level of data and if we're not getting good scores on this then actually we're not really delivering the right service to our customers.

Something you're a little bit more used to, sort of quality of land acquisitions. Same chart that you've seen before showing return on capital on acquisitions in the period set against contribution margin, but we've added scaling onto the size of the chart, so you get a sense of the sort of level of investment. Obviously, the yellow sort of for the first half of the year is only looking for a half year, so it's always going to be smaller. Our sense for the year is, you know, probably more or less in line with, you know, sort of on average of 2016/2017 land bank probably increasing a little because of strategic land additions but not fundamentally different but the main message is additions remain at exceptionally high return on capital and very good strong margins and we're not seeing that being challenged in the land markets at the moment.

And again, more traditional slide on land, just giving you a sense of the overall scale of where our landbanks sits.

I said I'd come back to production and this is a little bit less first half performance related but what I – as I say, I'm trying to do is to give you a sense of how what we're focussed on in terms of business improvement can really add to the bottom line. I touched on, and you see it well down the slide, the construction quality reviews, which tests underlying build quality. You know, our aim is to get those to sort of well into the 80s, which we think, you know, is perfectly reasonable. The level of progression is very significant and most importantly, the worse performing sites are the ones that have stepped up. Just as importantly as the bullet point above, which is more of an internal measure on a consistent quality approach, we are the only national house builder who can say to you this is our national quality standard. Nobody else has a national quality standard that they are holding all of their businesses to. It's actually quite a difficult, surprisingly difficult process and document to pull together because the industry is so used to running regional businesses, you know, sort of on the views of local management on issues like that and it's actually quite a big challenge. If, as we've said on the slide, we move to a housing ombudsman, that goes from a helpful process document that is useful to set a standard for our customers and useful for our own people to an essential tool that you can't manage an independent quality review process if you are not able say this is the quality expectation that we're setting. It just gives you a sense of one of the ways in which we're moving the business on that, in the end, it will be essential in our sector for everybody and at the moment we don't believe anybody else has.

Our focus has tended to be, over the last few years, on getting finish quality right because that has the most direct impact on customer service. Our focus over the last 12 months, and, if you look at the next sort of two years is on underlying build quality efficiency getting the process as slick as possible and that document, that consistency of process naturally is really important. And when Chris comes on to the cost and efficiency review, having that as the sort of start point as to how you – how we do things at the moment is an essential base level.

Our overall strategic goal is to deliver faster, to be more responsive, more cost efficient but also maintain quality. You can't do that without changing the process under the surface.

And again, just a snapshot, an external sort of measure, is the Pride in the Job winners over the last four years. You can see, you know, sort of 2015 was a good year, then the pressures on the industry on volume put us under pressure and we've got back for the first time till in 2018 we've got more winners. It's not that we haven't got any seal of excellence or regional winners in 2018, we just haven't announced them yet. So, we will see. But it just gives a snapshot.

I said I would also come back on the people side on the Glassdoor survey. I'm not going to go through every stat on here. We find this survey useful because of the other companies that are rated on it because they are businesses that are progressive and moving forward. The top 20 companies include the ones you would expect. The Googles, the Facebooks, the Apples. But they also include growth companies. They don't include many other relatively traditional businesses. If you go and look at the site in detail, you'll see the slight anomaly, apart from you might argue us, is Anglian Water is on there as well. But as I say, nobody else in our sector is in the top 50.

Going on to the second half of my first half, market and sales. Now I'm going to talk both about our own sales, whereas in the past we've left the sort of forward looking piece to the final section, I'll pick up sort of what's happened in July, you know, sort of alongside the sort of first half performance. I think we do have to acknowledge that consumer confidence has been affected by Brexit uncertainty. We haven't seen that in our numbers at all. You know, I'll show you the usual snapshot I sort of show you of, you know, different forward measures of customer service – you can't really see that in there. You can't see it on our sales numbers, we don't believe. Last year, the first quarter was exceptionally strong and really since the first quarter, we've been tracking more or less in line with last year. But we can't – we shouldn't hide from the fact that consumer confidence is generally not quite where it was. You know, that's not worrying us for 2018 but it would be naïve of us to sit there and say yeah, no, everything's totally fine, there's no risk, it's all wonderful. It is an uncertain backdrop. But new house building sales, build rates remain very positive. We can't get away from the fact that help to buy is a key piece of that and I will come back to that. I have one slide on politics and I will touch on our views, as do continuing low interest rates. But at the same time, a 0.25 rise, as I've said to you before, doesn't deeply worry us. And if I'm honest, underlying confidence is more of a concern to me than a 0.25 or even 0.5 rise in interest rate. So, it's the next 18 months of people not being quite sure what the world holds for them that we have to be careful about. Mortgage availability and affordability remains good and as a couple of you will notice this morning, at the end of the day that's what's going to drive the next two, three, four years but we can't get away from the fact that the next 18 months is a pretty uncertain period.

Against that, performance to date has been very good. As I say, this slide now includes the July numbers sort of which it hasn't tended to do historically. If you look at the last three weeks, two of them have been ahead of last year, one of them has been behind last year, the average is slightly ahead, so overall, you know, sort of certainly nothing if you bring it right up to date that should give us concern. Cancellation rate in line with the second half of last year and actually you would expect the immediate post half year period to be a little bit higher. Sales prices are tracking in line with expectations. We're probably about 1.5% ahead of where we were kind of September/October time but actually today pretty flat, I would say, sort of month on month. But overall, a pretty solid set of sales statistics. So, nothing in the forward measures at the moment that particularly gives us concern, which I'll come back to.

Just briefly touching on central London. Again, you know, a more stable performance. You see that sales rate probably a bit better than you would have expected in our Central London business in the first half and specifically picking up Mount Pleasant, which we bought almost exactly a year ago. We're now started on site in terms of physical construction. We launch from a sales point of view in September and our expectations today in terms of financial performance are the same as they were when we bought it. So certainly nothing that – you know, no regrets sitting there at the moment with that site, which we think over the longer term will be a great site for the business. And you know, cancellation rates which I wouldn't want you to place too much store in but should give you a, you know, sort of a reasonable degree of confidence in the stability of the environment that we see in those sites.

Looking at those usual lead indicators, you can see on most of them that the first sort of quarter of 2018 was perhaps slightly below the sort of – the particularly strong 2017 numbers but not much and actually in line or slightly ahead of the previous two years, which were pretty good years. And you can see as you go through into the second half, actually, you know, we're actually probably slightly ahead of last year on most of those lead indicators. So, nothing that should give you particular concern. One thing, I don't want to make too big a thing of this but one thing which we haven't particularly talked about, we changed our use of national – what's the right terminology overall? – well, Right Move and Zoopla, our usage at the beginning of the year. And actually, we're using very few sites at the moment, which is not particularly a long term strategic piece. We wanted to test our own social media marketing, our own sort of website usage. And you can perhaps see that in the first quarter a little bit but actually now we're still not using them to any great extent and you know, we're actually back to where we were a year ago. So that's part of wanting to interact directly with our customers and not depend on a third-party agency so that we can use them selectively where we think it makes sense on individual developments rather than across the borders we've been historically. But you know, we wondered whether that had an impact but as I say, we're pretty happy with where we sit now that we've sort of worked through that change.

I'm not spending a lot of time in this presentation going back to the core part of the strategy about sales rates on large sites and large site strategies[?]. We haven't changed our views. We'll talk to you a lot about it, I suspect, when we come to February. It's just too soon after May to give you lots of brand new data. But I did think one snapshot, which gave you for the first half a sense of our sales rates set out as we set out in that strategy. So, you can see the variation and you can see that we're already achieving, you know, sales rates of 1.5 on those larger sites. Just to give you some confidence that we're, you know, sort of not completely making it up and that you can actually see that we can see in the business actually how realistic, you know, sort of getting additional volume out of those larger sites over time is. As I say, just a snapshot so you get a sense of where we are. We will come back and spend more time over that over the next couple of years but it just sort of is a bit of an update.

And I also thought this would be, you know, sort of useful and interesting. Our price mix and our position in the market has moved steadily over the course of the last six or seven years.

Obviously, the market has moved, so the average selling price has moved up, but Taylor Wimpey's position in that market has moved up. In doing that, we wanted, in the same way we want to geographically, to retain a very broad strong base. We're not trying to drive sales prices up by a huge dominance in the upper end of the market. And this just gives you a sense of the breadth of the market that we cover and actually the breadth of the market where we have significant presence in terms of sales rates. We're not particularly dependent on any one sort of positioning sales price wise. Again, we'll probably spend more time over the next few presentations on customer segmentation, where we sit, how – which customer groups we see as being, you know, sort of most positive medium to long term that's just starting to start that conversation.

And then just summing up, yeah, if I take a medium-term view, employment prospects, mortgage availability, affordability, all generally good. Help to buy is key, which I will come back to. Our base case still remains low price growth overall. Interest rates are important but in the short term, you know, sort of the thing I just think we need to keep a watch on is consumer confidence. We're not changing our guidance on build pressures. I think, you know, in an environment where we do have uncertainty, actually the risk is on the upside for us that build costs inflations' slightly more likely to be lower over the course of the next 12 months than over the last three or four years but you know, it's – I'm saying that because it feels instinctively right rather than we can see evidence of it today and we're certainly not seeing strong upward pressure. Land market remains good with reduced competition and we feel certainly in a very good place for the balance of 2018. And I think more importantly from our point of view that we're managing the right things and adding the right value for longer term. Chris.

Financial Performance

Chris Carney

Group Finance Director, Taylor Wimpey Plc

Thanks Pete. Good morning everyone. Before we launch straight into the numbers, just a reminder that the Group results shown on this slide incorporate our Spanish business, which has had a very strong first half, nearly doubling the completions and more than tripling the operating profit to just shy of £10 million. Pardon me. We expect to see further progress from Spain in the second half and you can access more information on that business in the appendices to this presentation.

Overall, the group results for the first half are very comparable to what was a record first half in 2017 and in the context of that and the poor weather conditions in March, we consider these results represent strong performance. As noted in the trading update in April, we expect volumes to be more second half weighted than normal and we remain on track to deliver 2018 in line with expectations.

Revenue for the half is pretty much flat with volume reductions offset by price improvement. Both gross profit and margin showing slight improvements year on year whereas operating profit and operating margin are showing small reductions reflecting a reduced performance from our joint ventures, which you'll see on the next slide. Net interest costs at 13.3 million are slightly reduced compared to the same period last year, resulting in a profit before tax and exceptionals of £331 million, which is just £4 million shy of last years' record mark. The effective tax rate for the group at 18.7% is broadly in line with a statutory rate with a slight benefit from the recognition of additional deferred tax assets in Spain but we expect the future tax rate to stay pretty similar to that statutory rate. Tangible net assets per share is up 6.7% to just in excess of a pound and that reflects our continuing investment in the business and of course the reduction in the pension deficit.

Turning to UK performance, volumes were 3.2% down on the same period last year, reflecting the greater second half weighting. It's worth noting that build is well progressed on those second half legal completions and at 22 July, we were 87% forward sold, so a strong position to be in. Affordable housing represented a greater proportion of the total completions in the first half and we'd expect that to drop back to a more normal share by the end of the year. Both private and affordable pricing were up year on year. Affordable pricing showed strong growth across all three of the divisions with the increase in average unit size only contributing 1.4% of that total 9.8% increase. And as you can see, our JVs didn't contribute many legal completions in the first half, which was purely timing and entirely expected. The reduction in UK operating margin is driven primarily by that JV performance year on year and that will pick up again in the second half.

This indicative analysis of the movements in the UK operating profit margin is a slide you've seen many times before. And as a reminder, the slide aims to consider how the market has performed and then how we've performed relative to that. In our update in April, we talked about the market impact on margin from both house price and build cost inflation begin pretty neutral for us and that's exactly what this slide shows. In our – we also see, when you look at the land bank evolution, that that's a pretty modest impact as we trade out of those sites we acquired prior to 2013, which have the benefit of cumulative inflation and we replaced them with new land where the margin on acquisition has shown incremental improvement over recent years. We've talked in the last few years about the investment in the customer journey and that 0.1% impact you see here compared to the first half of last year is really indicative of that investment now being complete.

Overall, you can see that absent the JV performance that I mentioned earlier – pardon me – the UK operating profit margin would be very close to flat year on year even taking into account those reduced volumes.

Now, most companies when they embark on a cost and efficiency programme have a burning platform which drives the change and we clearly aren't in that position, but we believe that taking a proactive approach on this now will underpin the achievement of the financial targets that we set out on the capital markets day, in particular maintaining that operating margin between 21 and 22%. Part of the programme involves getting more out of our IT systems – pardon me – and you know, we have an ERP system that captures significant quantities of financial and operational data but we're not really fully exploiting that data at the moment. Other elements of the programme involve harnessing technology to strip inefficiencies out of the back office process and in so doing drive productivity. And I'm going to touch on some examples of those in the next slide but it's – I think it's important to note that the anticipated level of investment in the programme as a whole is quite low compared to the anticipated benefits simply because we've already got our core IT systems in place and very few of those benefits are related to people or redundancies. I'm happy to say that overall the programme is progressing in line with my expectations – pardon me, have a drink – with some work streams, you know, already underway and others that are in the process of being validated and the timing of the capture of the benefits from the programme is varied simply because the nature of the different opportunities are quite varied. At the Capital Markets Day, Jennie talked about the rationalisation and consolidation of our standard house type range and the impact of that, obviously, we'll only start to see in the P&L once we've worked that through the planning and we start to deliver that on site. And obviously, that takes some time.

So, this list of opportunities is a high-level selection of some of the opportunities that have been identified. I think they're pretty self-explanatory, so I won't run through each one of them, but I thought it might be helpful to give you a bit of a steer on the first two that we're underway with.

Delivery excellence will transform the working lives of our site managers and I can say that with a degree of confidence because that's exactly what it did for those who took part in the pilot. You know, the feedback was great. Being able to refer to drawings and update build progress direct into a handheld device rather than having to, you know, go all the way back to the office and, you know, note things down on pieces of paper and then input them into the systems, that is a huge saving in time. Also, it makes the site manager much more responsive. They can spend much more time out on site, which is where we want them, rather than in the site office.

Commercial excellence incorporates 22 separate proposals in that one work stream. One example in commercial is the forecasting of WIP spend, which can be quite time consuming for our commercial teams, and the solution involves that WIP forecast being, you know, generated directly from the information in our ERP system at the press of a button. And – and clearly that means we can deploy those commercial resources into more value-added areas.

One element in Finance of the commercial programme would be electronic data interchange, and this involves supplier invoices being sucked directly into our systems and removes the need for any manual input at all. And – and these days that sort of technology isn't, you know, sort of cutting edge, but it doesn't need to be in order to deliver, you know, good efficiencies for us.

The average contribution for each of our homes increased by £1,100 compared to the first-half of last year. Contribution margins remain constant at 25.9%, with increased build costs being offset by lower land costs and selling efficiencies. It's probably worth noting that the increased mix of affordable units in the first-half tends to increase the – the build cost as a percentage of selling price but reduce the land cost as a percentage of selling price. So, you should expect those movements to reverse in the second-half as we – well, as the mix moves back towards what you've seen in previous years.

Following – following the tragic fire at Grenfell Tower last year we undertook a detailed review of all of our buildings to identify those with Aluminium Composite Material in their facades. And where we identified buildings with ACM, we worked with building owners, with management companies and with the Fire Service to implement the government's interim mitigation measures. And we also sought professional advice from experts on each individual building as to what, if any, the next steps should be.

We have taken the decision to replace the ACM cladding on a small number of legacy sites where we believe it is the right thing to do in the circumstances that are specific to those sites. And as a result we've set aside a provision, an exceptional provision of £30 million to cover those costs and that provision is based on our own internal cost estimates but also an independent assessment by an external specialist PQS.

The majority of that £30 million provision relates to our Glasgow Harbour development which was constructed between 2003 and 2006. And whilst the cladding at Glasgow Harbour met the technical standards that were relevant at the time of the building warrant applications, those standards were updated after the construction of the development started and this ultimately left those customers facing a very significant and unexpected cost. So, we stepped in because we believe in the specific circumstances that it's the right thing to do for those customers.

Turning to the balance sheet, the increase in long-term assets reflects the adoption of IFRS 16 leases which has required the recognition of just under £30 million of assets in respect of our company car fleet and our leasehold buildings. There is a corresponding credit in other creditors. In total, we've adopted three new accounting standards in the period, and there is more detail in the appendices for – for those of you who are particularly interested. But their impact for us is pretty – pretty minimal. The land WIP balances at the end June are higher, reflecting the weighting of volumes into the second-half. And I'll touch on cash and pensions in a minute, but clearly the provisions balance is higher simply because of that exceptional ACM cladding provision.

I mentioned at the Capital Markets Day that our basic approach to capital structure involves the landbank being financed by equity and the working capital being financed by short-term facilities. And clearly, we have a slightly more conservative position at the moment with £525 million of cash on the balance sheet at the end of June. But obviously don't forget that there was a £340 million special dividend payment in July. I'm pretty comfortable with the flexibility that our current cash position provides, on the basis that dividend payments in 2019 are set to increase and we're also likely to consume a little bit of extra WIP as we move to implement the growth in the strategy that we've set out.

As you know, we made a payment of £23 million in April to fully repair the pension scheme deficit and contributions have ceased as a result. Those contributions will only resume if the scheme drops below a 96% funding level on a technical provisions basis. And at the end of June we were sitting at 99% funded.

Turning to dividends, we declared an interim dividend for this year to be paid in November of £80 million or 2.4 pence per share and this, together with the £340 million special dividend paid in July and the 2017 final dividend paid in May, means we will return £500 million to shareholders in 2018. At the Capital Markets Day in May we updated our ordinary dividend to be 7.5% of net assets or at least £250 million. And at the same time we declared the special dividend for 2019, which is to be paid in July 2019, of £350 million, which of course will be subject to shareholder approval at the next year's AGM. So together these generate a total dividend of – for 2019 of approximately £600 million or about 18.3 pence per share, which is a 20% increase year-on-year. Working from yesterday's share price this declared dividend represents very, very attractive, some might call whopping, 10.6% yield.

And then as I emerge from my first 100 days in the role my immediate focus is in three areas. I think we have a great opportunity to harness technology to improve the business. The electronic data interchange example I mentioned earlier is just one example. We've recently introduced for our VAT returns a robotic process automation, an RPA accesses operating systems and applications just like a human would only faster, cheaper and more accurately. And – and we think that technology, you know, has lots of potential uses within the wider organisation.

Clearly I want to get stuck into the cost and efficiency programme. Implementing an ERP system is hard work and the guys that implemented ours five or six years ago did a great job. But the process around that system, as, you know, the commercial excellence programme has identified, can be better in places so there's opportunity there. And lastly, you know, we capture significant quantities of financial and operational data, but we aren't always using that analysis to transform the data into useful, timely information that – that assists better decision making. And I'm not entirely sure as I stand here now what the optimal solution is yet but I definitely know that it's – it's worth some degree of exploration.

So, in summary we continue to make really good progress as a business. We've got a strong balance sheet, quality land bank that drives great cash generation and excellent equity returns. And our new strategy and the growth that – that flows from that strategy positions the Group really well for the future. I'll hand back to Pete.

Business Improvement and Strategic Goals

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Thanks Chris, and serious respect for getting the word whopping into your presentation in a credible way.

Chris Carney: I'd like to say it's a bet but…

Pete Redfern: It would – yes. It wasn't – it wasn't a bet actually. We do sometimes have those bets but that wasn't one of them.

So, the second half, I just want to go back to the – the strategy but talk about it in a slightly more granular way from within the business. And particularly try and set out why we think it's the right approach and what we think the benefits then can be medium-to-long term. You get some sense of it from my first presentation. You get some – definitely get some sense of it from Chris's ending slide. What this slide does is set out the last of my slides from the strategy presentation. Just to reassure you that we haven't changed our minds and – and gone back changed anything.

But what I really want to pick up is just the final bullet point because that sets the scene for what I just want talk about over the next five or ten minutes. Building a sector-leading, customer-centric, highly professional, robust business model that can take advantage of long-term demand and be much better able to flex to meet short-term threats. We do think a lot of what we're talking about doing around customers and other areas is the right thing to do, but we also think there are serious business benefits. We're in a – a very unusual situation. As I started off with my strategy presentation back in May, that we're in a UK market where there is far more demand for our product than the industry can reasonably satisfy. We might have two or three years post-Brexit of uncertainty but that long-term position is what drives the fundamental value of the – the business. And we're not able as an industry to take advantage of it. So, a lot of what we're focused on doing is retooling the business to enable it to respond better in a higher quality, more cost-efficient, but above all responsive way so that actually we can take advantage of the market opportunity that's there before us. So, it's not so much about short-term performance, although there are upsides, but it is about how to make sure we take advantage of what we see as a very positive market opportunity for us in the medium-to-long term.

So, I'm just going to try and give you a little bit of granularity. But just giving it a graphical sense, this first picture I don't think is harsh. It's just a sense of where we were as an industry back in 2008. I think the guy in the middle is probably about to lose at least a hand but if not, you know, sort of his consciousness. I think this is too generous. We have moved on in the last ten years. We as a business have moved on but we're still not a process industry that can actually reliably increase production, change the way we deliver and do it in a high-quality way managing cost. Things move too far out of kilter. We can't resource as quickly and efficiently as we want to. Yes, we have too much of an impact on our underlying costs when we try and grow to respond to the market. We can't manage our quality. We think on the last two we've actually got a lot closer as a business than anybody else in the sector over the last three years. But we were reacting, and we want to make sure that as we look ahead over the next ten years we're not just reacting and actually we set up the business that, yes, we'll have some good times and some bad times but actually we can take the best advantage of the good times and make sure we're as strong as possible in the tougher environment. So, we want to get to a point where actually it really is a production line. That doesn't mean it sits in a factory. This is not about whether we produce on-site. This is about every element of – of the business and how it – how it operates, not just – just about our production.

So, what I'll try and do, and, you know, all this slide does is set out a kind of contents page which we'll use over the next few presentations to talk about the different areas of the business we think are important. What I'm going to try and do in each of these areas, except for systems and efficiency which Chris has already covered, is to just give you a sense of some of the projects that are underway. We did one or two at the Strategy Day. I'm not going to talk about everything that's on the slide. I'm just going to pick out the odd example. But what I'm trying to do is give you a sense of the depth of the retooling process that we're going through. Some of which is complete, some of which is mid-stream, some of which we're just starting. But the sense of progression of what – what we can do in each of those areas.

If I pick out a couple of things: the customer service portal, the fact that our customers can now actually, you know, sort of for the first time go and get all the information they need. It gives us efficiencies, but it gives us consistency. It gives us a record. We've moved away – as people start to use that portal we move away from a place where the only record of the conversation we had with a customer depends on whether our sales exec on site happened to make a handwritten note or not and whether five years later that's actually been kept in a lever-arch folder somewhere in a site office. Getting away from that history of how sales happens on site is a – is a huge step. Being able to provide a service that customers expect in every other way in which they operate, that they can get all their information on how they interact with a particular company online immediately 24/7, you know, sort of is – is long overdue. The level of adoption was immediately extremely quick, and I think it will only – only grow from that. And that's actually out in all of our business units.

A key part of that which was practically more difficult, which is why it's a little bit behind and has only just been trialled, is a proper options online system. To do that properly you need to be offering more or less the same options across all of your 24 businesses. You go back to that consistent quality approach document I talked about before. If you don't have that it's very difficult to do an options online system really effectively. So, there's lots of base work you need to do, but by the end of the year that will be in operation in all of our businesses.

Picking up a couple of others. We – we touched really quickly on sort of house type ranges and I – and I said to you if you remember that actually people sometimes see that as a silver bullet. It's not. You know, the – yes, we're not talking about going back to a range. We already have a range which gives us reasonably good degree of efficiency, pretty good set of standard ranges. What we've already done with that range over the course of the last nine months is slim it down from 112 house types, it tends to grow over time as people add things they think they'd want, back to 47.

But the second piece which I think we find more exciting is the opportunity to then take that base level range and really create some additional value with it to actually add customer value but doing it from an efficient construction perspective. So, we can take it forward. It's not going to totally change our performance but it's a huge opportunity and it's a while since we've really refreshed our house type range.

On the land side we've already made big changes to our strategic land team. One of the reasons you saw such a big step-up in land acquisitions in 2017 and early 2018 on strategic land was because of the investment we'd put into new people. And often actually a new breed of strategic land person that we trained in-house and brought through with a different set of practices, particularly in the South East where historically our desired strategy was held back by the resources that – that we have.

But we're also focused on, and I touched on it earlier, the Project Improvement Plan sort of at the bottom. And actually this is probably the area I want to explore the most in terms of setting out something like that which seems like, 'Well of course you're training your people. Of course you're kind of, you know, sort of trying to – trying to move them on.' It's a bit more than that. It's actually a structural change as much as it is a training change. So, we have – we have redesigned the project management approach in the business. If you think of it, if you're familiar with the area, of some – as a cut-down version of PRINCE2 so that all of our projects can run with the same set of consistent project management skills. You'd be surprised for a project management industry how variable and weak some of the project management sort of, you know, skills across the business are.

And something that we kind of talk about a lot saying that over the years, you know, we've talked about like in terms of the difference between outlet opening time and outlet opening quality and the choice that you make. This – that Project Management Improvement Plan cuts straight to that choice. I've been saying to you for years that I favour quality over pace, that I won't give you an outlook forecast because actually I don't want to put the business under pressure to deliver fast because I want them to deliver right. Because in the end I think that's where the value is. Now I want them to deliver right and I want more pace. If I want that without it being a zero sum choice where effectively all we do is suddenly accelerate outlet production but actually go back to a world where we're compromising on the planning permission not having – then I've got to change something in the machine.

I've got to change that balance between quality and pace and actually that Project Management Improvement Plan, that training which we've been doing for the last two years in terms of developing the process, getting it out there, getting people familiar with it, getting people using it, is about being able to say – and really put people under pressure to deliver both at the same time. And measure what the trade-offs are rather than leaving it to sort of individual decisions sat – sat in the business. We can improve on both but if you just keep pushing and going from one end of the extreme to another depending on what you want in the short-term you'll never improve on both. You'll – we'll go back to compromising on quality just to deliver pace. But actually getting that right makes a huge difference to the business. Getting a balance between the quality and the pace and getting more of both, that has real value.

Similarly, on production and, you know, sort of Chris touched on some elements of production efficiency, some of the technology we can provide to site managers. But that same balance between getting it right and getting it fast is impacting heavily on our build times. It's one of the reasons why we can't respond as quickly as we would like to a market opportunity, is because actually if we try and push too quickly then quality goes backwards. What we're trying to do is create a world where we can have some of both and I think by changing the technology we use, the training that we use, the consistency of people and it's where things like having a low staff turnover rate makes a huge difference. There is a huge impact when we lose, particularly production directors and production managers but site managers as well to getting that quality pace. Not just the balance but the total of the two right. And if we can actually change some of those things, if we can change the pace at which we can get outlets without compromising quality, if we can change the pace at which we build without compromising quality, and we can do the whole thing in an efficient way, then the potential high value growth for the business relative to the sector over the next ten years is huge. And it's those things that actually will make the difference between us and our competitors as we look forward.

I think the last one I just wanted to touch on is – is Project 2020. We talked a lot about it a couple of years ago and we haven't talked about it as much more recently. It was just to give you a sense that we are from the back of that trialling three different production methods on a set of new house types. That's part of our sort of process as we look at our new house type range. How can we do things different and – but make sure that we get it right, right on site. That we're not just sort of asking our people to deliver something that can't be done at the right pace and in the right quality. So, yes, we'll probably talk about those a bit more. It just gives you a snapshot I think of some of the house types that we're trialling.

And then lastly on – on people, we've consistently invested more than anybody else in training, development, in recruitment. You see it in retention and the impact on performance is enormous. We currently have about 600 people in apprenticeship programmes, graduate development programmes and management trainee programmes, new people into the business all in the first – first two years. And our ability to scale that up has grown significantly as we're now able to attract people from outside the sector who wouldn't historically have gone for a traditional sector, as they would see it, like housebuilding.

And so why do all of that? To create a long-term growth platform more agile, more responsive. We had three choices as we looked at the strategy. The first one was to do what we'd historically done in the past and see – and said we wouldn't do again, yes. We're looking at a point where the business is performing financially better than it ever has done. To move on from there we could've gone back to go out, buy more land. We had the capital to do it. Go out, buy more land, grow the business but we all know that creates additional cyclical risk and we said we wouldn't do that.

The second choice would've been to do what we're doing at the moment but try and steal a bit more of the value back from everybody else we deal with. Whether it be our suppliers, our customers in terms of quality, communities or anything else. And I think of that as a zero sum gain. Bigger share of the pie for us, you can take it so far. You know, it's right to fight for the share of the pie that's fair for you but actually in the end that sort of old-style Tesco strategy isn't going to take you that far.

The third option is – is slower and longer-term but it's trying to create more value overall. It's trying to be able to grow further when the opportunities arise but to do that we need the business to be more efficient, more flexible, more responsive, more modern, more proactive. And that's what we're trying to do.

I said I'd come back to the political environment. This slide sort of sits slightly outside the others but it felt right given the amount of kind of dialogue over this over the last two or three years. Two main points that I kind of wanted to – to focus on were the Letwin Review and the Planning Policy Framework but I said I'd pick up Help to Buy here. You know, clearly this is an unprecedented time in terms of the focus of government is distracted from things they would otherwise be very focused on and our industry falls into that. I really do feel that things have just not happened at the pace in terms of decision and I think that's delayed the Help to Buy decision. If I'm honest I think that's probably ended up being a positive because I think if that decision had happened 12 months ago then they would probably have curtailed Help to Buy, you know, sort of certainly from 2021, if not even a little bit earlier. I think that's less likely now. If you look at all of the other uncertainties I think, you know, actually as time has gone on probably that's too high risk. So, my base case is it probably sort of gets extended a little without any major change but we will see. We don't know anything specific on that but I – we do get a sense that the decision probably will come reasonably soon but I could probably have said that at any point in the last six months. And given what's going on in, you know, sort of other political questions then – then it's hard to be confident.

On the specific bits I did want to talk about the Letwin Review and the Planning Policy Framework. I think we were reasonably pleased and more or less agreed with Oliver Letwin's kind of predominant conclusions. It's always nice when, you know, sort of yet another review concludes that speculative land banking isn't really something that happens in the – the industry. I don't think it's going to change the question. I expect to be sort of, you know, arguing that case pretty much my entire time in this industry, sort of whether that be, you know, sort of however many years that may be. But it was nice that he actually said it quite clearly because he could've ducked the question more than he did. I think the general sense that we can do more with the larger sites we've got, you know, clearly is embedded in our strategy so it's hard for us to disagree with. I think the slightly sad thing is, you know, sort of it seems to have gone very quickly into sort of the mists and doesn't really seem to be getting much focus either politically or press-wise. So, I'm not sure we're going to see anything particularly substantive out of it but certainly something that started, you know, and I think people would have perceived as a risk has ended up being a mild positive.

I think more positively the new Planning Policy Framework could have had some meaningful negatives in it. I don't think – I think overall we felt it would be neutral but overall I think we now feel it – it's probably a net positive in terms of just generally progressing the planning environment. And we're quite comfortable with the fact the government needed to have a renewed focus on environmental issues. I think our sense is, you know, sort of post – post sort of 2008/2009 the focus went away from it too much. So that – that's actually overdue and, you know, we're kind of ready to – to sort of refocus on it ourselves.

So just in terms of a summary, we think some of the investments we've made are starting to pay off. We can see particularly the process improvements really starting to improve our control of the business. Our focus is on using customer-centric focus as really a catalyst for our – for the people in our business to change everything, to make everything work much more effectively and be far more proactive rather than defensive. The strategic goal is to create a business with a long-term ability to grow but be more agile in – in doing so and we see significant benefits and efficiencies to come longer-term from some of those investments that we've already made and are continuing to make today.

And in terms of short-term trading I'll – I'll restate what I said at the beginning. We're comfortable with where guidance sits for 2018. We expect small, positive steps in all of the main financial metrics, you know. Our own expectation for this year is almost exactly what it was in January. The environment remains good but we should be, you know, sort of aware and have a cautious mind-set about consumer confidence because, you know, it's pretty unprecedented times.

Questions. Shall we start with Will at the front and then move back to Glynis? I think just – just as we get onto questions I'm sure you've all seen this but I think the way the slides are printed has changed the numbers. So, you know, if you can describe – if there's questions specifically relates to a slide if you can describe the slide rather than just sort of – rather than just the number, that would help.