Trading Update

Tuesday, 13 November 2018

Opening remarks

Pete Redfern

Chief Executive, Taylor Wimpey

Thank you. Good morning, everybody, and thank you for joining us. As usual, just a – sort of few opening comments to give you a flavour of what I think are the main elements of the statement and then we'll – we'll open up for questions.

Just so you know, Chris and I are in different venues, so we'll have to sort of be clear over the phone who's taking which bits of which questions.

Overall, I think, you know, if I spend the most time on the market, which is probably where people are most interested in terms of the short term, in 2018 you can see a very stable environment still. I'm sure a number that you will have picked out most is the sales rate in the second half of 2018, which is about 8.5% ahead of 2017. That shows you that the market is fine. I think it shows you that we have the right sites in the right places and we've been working hard to make sure product and positioning and pricing and everything else is in the right place, which I think we are very pleased with that performance in the context of the wider market which is more flat.

I think you can see from our statements, and it won't surprise you from others' comments, south-east generally quieter, but not massively different. You know, I think generally overall a pretty stable market. And overall, pricing in that market roughly flat with April/May, and that the pricing in the orderbook, you know, flat, probably up marginally from April/May, just because of the follow-through of previous increases, but in the market today, you know, sort of very little movement either way. And those sort of sales rates have not been, you know, achieved with material incentives or anything like that. You know, sort of I'm talking about net pricing with all incentives in view.

Obviously, 2019, you know, is reasonably hard to call. We are not looking at it deeply worried, but it's felt and we've said this before that, you know, you should be sensibly cautious with all the wider uncertainty. I think, you know, going into 2019 with as strong an order book as possible has probably been our most important target for 2018, and those strong sales rates are sort of testimony to that. I think we've always felt that, you know, sort of in – in more uncertain markets, that's when a longer orderbook really pays off, and making sure that, you know, sort of we've kept the focus on that has been sort of at the forefront of our minds.

And probably the slight disappointment in the numbers is the outlooks are slightly down. The single biggest reason for that is planning. It felt cheap to me just to put planning down there, because as ever with these things, there is always, you know, sort of a long list of things, and so it's always easy to turn around and blame just planning. This is the more general sort of issue. But if you look at those higher sales rates, inevitably higher sales rates, tends to be you close out with slightly quicker, and that's also a factor. And I – and I think just generally, once you have planning, as we've said many times, getting sites open through re-commencement conditions in the early states of infrastructure takes longer than you would like. We do expect outlets to increase during 2019, but I would say, you know, and it goes back to our strategy conversations in April/May, there is undoubtedly some elements of our sales rates outperformance that is down to that strategy, and we do see that as being a balancing position with the outlet numbers. So, whilst we see growth, we also see the potential for us to manage sales rates in a different way to historically and maybe how we would view it that gives us as a balance. So, I still would not want you to be too focused on outlet numbers being the only driver of – of volumes in the market.

The land environment has remained benign. I would say, actually, and, you know, we haven't put it in – here in sort of black and white terms in the statement, because it is sort of anecdotal, but I would say generally the land environment is even easier than we have seen over the last couple of years. I think we see – definitely see less competition from land promoters and some sales from land promoters sort of existing stocks, you know, sort of competing in the – in the strategic land environment. We have pushed up our returns and our hurdle rates, just kind of with a view of the overall environment, and because of the land that is available. And as we look ahead at the next 18 months to two years, we see a very good supply of large sites coming through our strategic landbank that give us quite a lot of choices. So, you know, sort of a combination of those two things has led us to push hurdle rates up a little more.

I'll come back to the sort of outlook and – and margins and impact of – of that and timing towards the end.

I think, you know, just touching briefly on politics and, you know, first of all, obviously the Help to Buy position, you know whilst, you know, we are all nervous about the withdrawal of Help to Buy on some levels, our view is four-and-a-half-year-view of how long the incentive will last gives us the opportunities to form our own plans for to a certain extent the mortgage market to adjust, and probably most importantly chance for us to factor in to our planning decisions and our land acquisitions. And that has been one factor in our view of pushing up, you know, sort of longer-term hurdle rates. I think more broadly on politics, you know sort of the focus for the last few weeks and inevitably the next few months is likely to go away from, you know, sort of specific sectoral policy, you know, sort of which is probably from our sector's point of view not such a bad thing. I think, you know, the land environment continues to improve, the planning changes continue to – to be positive, and you know, that gives us a good environment in which to pursue – pursue our strategy overall.

And coming on to full – full guidance, we've been very explicit in the statement that 2019 volumes are expected to be flat. That's not a particularly meaningful change. I don't think we ever expected much growth in 2019 as we came to the end of our sort of previous strategy. You know, we might have expected 1 to 2% growth, but not much more than that. I think as we look at 2020 and 2021, particularly as we see those strategic sites coming through, hopefully, you know, a post-Brexit sort of, you know, kind of bounce in the market. But even without that, we have the potential for growth coming from our landbank that we see coming through. You know, and that's more meaningful growth that we've seen during 2018 and 2019, which were always going to be for us relatively flat in volume terms.

I think looking at, you know, where the balance of cost and price sits, we haven't and we wouldn't normally give you cost guidance into 2019. You know, we've touched on in the statements that 3 to 4% in 2018 as still being – a pretty reliable number. I would say on costs, the risk is probably on the positive side going into 2019, but I'm not going to put a number on it quite yet, but hopefully a little bit better than that 3 to 4%. On selling prices, I think at the moment our kind of base case is pretty flat. I mean, you know, sort of as we come out of the year, and aren't pushing the orderbook quite so hard there is potential, but I think we – the sort of sensible position at the moment is to see pricing as – as overall flat. I think the underlying prices, you know, the mix sort of effective prices for us going into 2019 are probably 1 to 2% up from mix and regional changes, but not very much. So, the margin impacts, you know, sort of pricing flat, sort of the – the impact and underlying average selling price is about 1 to 2%.

I think as we look longer-term, we do see potential for margin improvement from the quality of the land purchases over the last couple of years, but coming in sort of 2020 and particularly 2021, rather than in 2019.

Chris, is there anything you would like to add?

Chris Carney: No. No, nothing to that, Pete.

Pete Redfern: Good, if we can open up for questions, then, please?

Q&A

Aynsley Lammin (Canaccord): Hi and morning. Yeah, just on the, I guess a bit of clarification. You've said a lot, but just on 2019, reading into what you just said, are we right to kind of assume a little bit of margin pressure? So, at this point, when you look at consensus PBT kind of flat at best for 2019, is that – is that what you're saying? And I think consensus PBT for FY2018 is about 860.

And then secondly, just maybe a bit more colour on the, you know, comments around that you've seen a bit more caution, if you've talked regionally, you know, what does that mean in terms of, you know, prices being chipped away out a bit in London, South East, is there a particular price point? Is it 600,000 where you're seeing that caution? Just a bit – a bit more colour there would be helpful. Thanks.

Pete Redfern: Yeah, no, I think on, you know, sort of the first comment, yeah I think that's – that's pretty fair. A little bit of margin pressure, but I really wouldn't overplay it. So obviously, you know, if you've still got some cost inflation, probably a bit less than three to four, and flat selling prices except for the kind of carried-through sort of price inflation. That results in a little bit of pressure. Is it half a percent? It's in that sort of order. And I think, yeah, if you do the maths on what we talked about on costs and selling prices you'd probably say it was a little bit more, but I think we're still then benefitting from the sort of higher margin land purchases of 20 – you know, sort of late 2016 through to 2018 starting to – to give us a boost which gets a bit stronger in 2020, 2021. So that – that offsets sort of the more of a shorter-term pressure, so yes, we have a little bit of margin pressure, but fairly, fairly small.

And then sort of colour on the market, it's – and I'm happy to talk about it. I would, you know, it's quite hard to talk about the – the sort of caution in the marketplace, again, you know, at the sales rate that's 8% off, because actually if you look to most of the statistics, if you looked at cancellation rates, and even if you look at things like conversion times, you know, they all look – they all look fine. So, it's more about the conversations with individual customers, you know, sort of slight changes to the mix of customers, you know. Overall price is flat, but that might be bit of gain somewhere, bit of incentive somewhere else to keep things moving along. So, you know, there isn't one sort of overall pattern.

I would say generally you are seeing, you know, sort of more softness in higher price points and therefore particularly in London and the South East still, not a new trend but, you know, sort of still that same trend. But I wouldn't say it's dramatically different. I think, you know, sort of the sense of, you know, kind of London and the South East is really tough and everywhere else is really easy, completely overstates what we're seeing, you know. We're having to really focus and to get the sales rates that we're getting and, you know, I risk you reading that as they're having to review prices, hence the sort of firmness that, no, prices are flat. We're having to make sure that we've got, you know, our sales people on song, the products and the positioning of each site, you know, really in the right place, you know.

And it's been a relatively serious – easy sales environment for quite a number of years and we've been very conscious throughout 2018 in making sure all the old disciplines are in place and people are really sharp, is important. I think for us, you know, if we look internally, we see that as being the biggest change from the first half of 2018 to the second half of 2018, if you see what I mean. It's that actually a lot of the work we were doing early on in the year just to get people really, you know, sort of sharply focused, is paying off. Rather than that, you know, that it reflects the underlying market.

Aynsley Lammin: Great, thanks very much, Pete.

Pete Redfern: Thanks, Aynsley.

Gavin Jago (Peel Hunt): Yes, morning gents, just a couple from me, please. First one is just around kind of the mix within the forward order book, just in terms of private versus affordable. Is there any kind of real change in there? And just if you could give us an update on kind of build – your build catch-up from earlier in the year? Obviously you had some delays. Where are you and how confident are you of – in terms of that catch-up at this stage?

Pete Redfern: Yes, I think on the sort of build catch-up, as we said in September, you know, sort of the weather delays kind of were largely caught up over the summer so, you know, feel reasonably comfortable with where that sits. In terms of mixture in the order book, there is a slight shift towards affordable, which was particularly low at the end of 2018, if you remember. It was sort of a recent year low, but the balance hasn't particularly, you know, sort of shifted in a – in a significant way.

Gavin Jago: Okay, I see so, thank you.

Pete Redfern: I think – I think probably the one – the one note that does affect the average selling price is – and it's been a trend for the last 18 months, so nothing new, but the Central

– you know, our Central London business, you know, is coming to the end of its sort of sites that were bought before the, you know, sort of market started to change and the newer sites that we bought, like Mount Pleasant, are now selling and selling well, but, you know, sort of won't replace the order book. So the mix of Central London on the order book is lower and, you know, the contribution we expect from Central London in 2019 is, you know, sort of less. But that's kind of what we would've expected 6-8 months ago, so it's not new. But that definitely just changes the mix of selling price on the order book slightly.

Gavin Jago: Okay, that's great, thank you.

Gregor Kuglitsch (UBS): Hi, thanks for taking my question. My question is just kind of sort of to push you a little bit on the hurdle rate comment on the land, so if you can kind of give us a sense what you've kind of increased by recently, and I guess specifically you were alluding to the fact that you're kind of integrating the end of Help to Buy. I obviously appreciate that's now, you know, five years or so out, but interested to know how you think about the impact of Help to Buy on the sort of, you know, margins and therefore as a result, how you think about bidding for new land as we sit here today? Thank you.

Pete Redfern: Yeah, I think – I mean, I'm happy to answer both parts of the question, but I'd exercise caution on the first one because, you know, we're seeing, you know, a set of land environment conditions that, you know, sort of where they're – you know, there's probably more caution from the wider land market than we see sort of in sales and customers. So we're making sure that we take the maximum advantage of that and pushing it a bit harder. So, you know, as I have said before, I wouldn't necessarily see, you know, those margins as being, you know, sustainable land purchase margins at the right point in time. And that's probably 1-2% higher than we were looking at 3-4 months ago, so, you know, in the 22+ range.

I think in terms of the impact of Help to Buy, it's sort of, you know, we obviously can see the impact. I'm sure, you know, you've asked others about, you know, what impact we think the regional caps have. I think probably about 15% of our Help to Buy sales would be impacted by those regional caps, but I think we would feel reasonably comfortable that those 15%, more than 15%, they'd be more likely to be able to happen without Help to Buy anyway. So it's more about, at that level and in terms of the two-year extension, I think is more about making sure that you have the right product focused on the right parts of the market if you're, you know, assuming customers are going to use Help to Buy in those two years. I think we feel that two-year extension is a real two-year extension and the impacts of the caps, apart from on, you know, the odd high-value site in, you know, sort of some of the regions with lower caps, where there's other choices that you can take anyway, that the impacts of the sort of price caps is – is very manageable.

I think what – what is interesting is the kind of longer-term piece, the sort of 4.5 years out. You know, we've always argued that Help to Buy shouldn't be around forever so, you know, sort of we can't really complain when it's not around forever. And I think, you know, sort of some of the things we were talking about back in April and May, you know, we've now got time to – to really look at. We've got a sort of a real timescale on the end of Help to Buy and making sure that we adjust our product mix, make sure the sites that we buy that are heavily sort of Help-to-Buy-dependent at the moment that go out past then, that we've reflected that either in product or in pricing. And I think the particular areas where I think we need to be careful are not the least expensive products or the most expensive products. It's the mid-ground where people are tending to be buying further up in the market, a bigger home or a better location than they would otherwise have afforded. I think those are the ones we need to be careful of.

We have pushed up, you know, hurdle rates specifically in those areas and on those sorts of products, but I think over the course of the next sort of few months we'll really be working out what that means for our product positioning strategy four, five years out. I don't think now's the right time to talk about it, but, you know, whether through the prelims or the half-year, probably a bit of both, then happy to give you our views in a bit more detail.

Gregor Kuglitsch: Thank you.

Jon Bell (Barclays): Morning, Pete, morning, Chris, a couple from me.

Pete Redfern: Morning, Jon.

Jon Bell: Firstly I think you – you just hinted that Mount Pleasant sales have been progressing quite well. Just wondering whether you can give us some extra colour around that one. And then, secondly – apologies if I missed this, I was slightly late dialling into the call – but on your 2019 volume guidance being broadly flat, is that the result of the open site numbers that you're – you're currently operating at or are you building in a degree of caution about how the start of the next calendar year takes off?

Pete Redfern: I'd sort of decided before you asked the question, Jon, that if I possibly could, I should get Chris to answer it, because we're sat in different places. So, Chris, are you happy to take the Mount Pleasant one and maybe talk about the 2019 volumes, as well?

Chris Carney: Yes, yes, absolutely. So, you know, we – we started on site, I think back at the end of July for Mount Pleasant and we launched in September. And we've seen really a very pleasing start, both in terms of the volume of sales and also the pricing. I think one of the previous questions touched on, you know, the overall number of sales that we have at different price bands and even with that – that good start at Mount Pleasant the – you know, we're still only talking that 3% of our sales, either in the first-half or in the preceding period, have been round about, you know, 3% or above £600,000. But, yes, in terms of – in terms of Mount Pleasant we're really, really pleased with where we are with that.

In terms of the volumes then, I think, you know, we've approached, you know, the view for next year based on current market conditions. You know, it's pretty difficult to take a view of all the, you know, politics at the moment and what that might bring. So, you know, it's purely based on, you know, the dynamics of both the order book and the outlets and, you know, the sales rate that – that we think we will drive in the current environment.

Jon Bell: Yeah, okay. Thank you.

Ami Galla (Citi): Thank you. Just two questions from me. I mean, one, I just wanted to understand a bit around the underlying run rate on inflation. I mean, to what extent, and I think that is reflective of the overall market, but if you can give a bit more regional colour across your sites of the sort of inflation that you've seen in the sales that you've taken in the autumn selling season? As well as just a – just a follow-up on the inflation aspect is, have you seen lenders push back on pricing over the last two to three months? Has there been more caution in their lending practices that you've experienced? Thank you.

Pete Redfern: Yeah. I think, you know, on selling price inflation, I think, you know, we've been reasonably clear on the overall piece. So over last few months has been, you know, negligible net price inflation. You know, prices are very flat and that reflects, you know, small ups and small downs, not big regional differences, but, you know, there'll always be variations in there, but they're not huge.

I think on lenders, no, I don't think we're seeing any pattern of, you know, sort of either, you know, higher value, you know, greater valuation issues or, you know, sorts of changes in lenders', you know, rates that are on offer or more caution kind of creeping in through – through the back door with lenders. I think lenders are in the same place and I think that's a combination of, you know, sort of lenders wanting and needing, you know, mortgage volumes in a flat second-hand market and new build being, you know, sort of the place where, you know, those mortgage volumes are available.

And I think a genuine view that, you know, sort of lending on UK house, you know, sort of houses is still a good place to be for most lenders. So, you know, and I think that makes it feel reasonably sustainable, that it's – that it's a mix of both of those. So, yeah, flat pricing and, you know, no sort of air of caution particularly from lenders.

Ami Galla: Thank you.

Andy Murphy (Merrill Lynch): Good morning, Peter. Good morning, Chris. Can you just perhaps just give us a bit of a flavour around the sales rates. You've obviously kind of given us your overall sales rates, but can you strip out of that the private sales rates for the year-to-date and Q3, please?

Pete Redfern: Yeah, no, I'm paused entirely because I don't have the split in front of me. I can tell you that that year's sort of overall trend is similar if you look at private sales rates. So then, if you have them to hand, Chris.

Chris Carney: I mean the, you know, the private sales rates for, you know, for the year-to-date across all three divisions are remarkably consistent compared to the same periods last year. I think at the half year, you know, the – the southern two divisions were running slightly behind what were very strong comparables, which means that if the year-to-date is sort of now falling back in line, then that tells you that the period since the half year, you know, those two southern divisions have sort of caught up, which is obviously very pleasing. And you know, Q3 specifically, you know, that's the picture. You know, there's been very solid trading across all three divisions.

Pete Redfern: Yeah – and sorry, Andy. And Chris, you know, sort of gave me a chance to think that I didn't give you the obvious answer, because I wanted to check it so I don't give you a view and then feel really stupid. Those are private sales rates in the statement. The 0.81 is private, the private sales rate.

<u>Andy Murphy</u>: Right, okay.

Pete Redfern: So if you look at affordable sales rates, they'd be higher and I think I'd be reasonably confident because I know, you know, sort of the affordable order book was a reasonable low point this time last year and is in a better place now. You know, the affordable rate will be, you know, their difference would be greater.

<u>Andy Murphy</u>: Okay, cool. Thanks very much.

<u>Kevin Cammack (Cenkos Securities)</u>: Good morning, guys. Just – can I just follow up –

Pete Redfern: Hi, Kevin.

<u>Kevin Cammack</u>: Morning. Follow up the sales rate thing – obviously in the statement, you're putting to a 0.77 achieved in the second half, a 9% growth and a, you know, fantastic number really. But essentially, you're selling off pretty much the same sites. You're not really – your branding, if anything, the underlying market backdrop has been sort of similar, maybe a touch tougher in certain areas and you've said today that the average selling price broadly unchanged. And I'm just sort of wondering how you've managed to get that increase in sales rates with the second half and whether that is, you know, whether we should take that as more indicative of what you can achieve through 2019?

Pete Redfern: Kevin, I mean, I think it's a fair question. I've tried to answer it, but I understand that it's sort of, you know, the answer isn't sort of easy and black and white. If you go back to May in our sort of strategy launch, in a sense, this is the meat of what we were saying, that we believe that with the mix of sites that we have coming through, if we really thought about our delivery pipeline from a construction point of view and opened up our own people's eyes to what could be done from a sales point of view rather than people seeing it as tied to some historic norm in a very different environment, with very different quality of sites and locations and with very different levels of local competition, then there was meaningful upside per site on those larger sites on sale sites. And in a sense that's one of the key components that you see here and probably the biggest one in terms of the difference year-on-year.

So we could see at that point already in some of our businesses, you know, sort of in particularly the South West to the Midland regions and we did spend some time really analysing it, trying to work out, you know, sort of whether that was site specific, how replicable it was, what we could assume as being reasonable norms going forward. If we dealt with those historic, you know, limitations on the construction site, I think what you see in the sales rates and what Chris and I have seen over the last sort of week or so in terms of our own business' volume forecast going into 2021 is a growing belief that actually, that can be done not on every site, because some sites have local absorption issues but in a more general sense.

And so, you know, some of it is, you know, sort of very specific work on sales and skills and sales tools. Some of it is making sure that what have been historic build limitations are reduced at least so that we're able to sell to a greater sort of capacity. Yeah, we've said for years that our main limitation on sales rate has been our ability to build on our product. We've not solved all those problems overnight. We wouldn't pretend that we have. But there is a significant component coming through and that allowed – and these sales rates had been our views of particularly 2020 and 2021.

I think 2019 is difficult partly because we're in a transitional year, where we definitely expect sales rate to be higher given what we're doing than we would have done if we'd have been tumbling along with our previous strategy. But exactly where the base level will be is quite difficult to call because of the market. So that makes us a bit more sort of cautious. And I think as we go into 2020 and 2021, there's a potential for outlets to be building and those higher sales rates, you know, sort of that makes it a little bit easier for us to be confident.

So I know that doesn't quite answer your question, but it does relate it very much back to what we were saying in May. You know, the biggest limitation we've seen over the last few years has been how we planned out our sites and how we set things up to be able to access the market that's there. And what you see in this is us changing that and making sure that the sales skills and the sales processes are as on song as they possibly could be, to make the most of the opportunities that are there.

Kevin Cammack: Right. So to be clear from your perspective, there has been no change in the incentives that you've given either to your sales – your own sales people or indeed to the, you know, to the customers?

Pete Redfern: No, that's absolutely true. I think it's absolutely categorically true in every case in terms of our own people. I think with customers, you know, you win some here, you lose some there, but that's always the case. But no overall change.

Kevin Cammack: Yeah, okay. Thanks very much, Pete.

Pete Redfern: No problem. Thank you and thanks, everybody, for the time today. I mean, clearly, an interesting year at the moment, very pleased with 2018 sales performance particularly. And, you know, I think the goal that we set out to go into next year with the best order book we can and with a strong balance sheet and strong land positions we're well on track for. So I look forward to catching up again early on in 2019.

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