Taylor Wimpey | plc

Trading Update

Thursday, 25 April 2019

Trading Update

Pete Redfern

Chief Executive, Taylor Wimpey plc

Thank you very much and thank you everybody for joining us. Sorry about the slight delay, we just wanted to give everybody a chance to join. If I just give you an overview of what I feel are the key parts of the statement and where 2019 stands, give Chris a chance to add anything that I have missed and then we'll open up for questions.

Very conscious that there's – yeah, some fairly significant elements to this particular statement, particularly around sales performance and cost. So I want to spend, you know, sort of time on the two of those first – the market and sales first and then sort of the cost position and then, you know, sort of relatively quickly run through the broader pieces and probably finish with kind of our view for 2019 as a whole and a broad sense of 2020 and beyond.

Sort of so, starting with sales, I think, you know, sort of we – if you go back three to four months, we would have been extremely pleased with this sales performance, with this sales rate that is 21% ahead year-on-year, and even if we strip out the bulk sale that you were already aware of from our earlier statement, then still an underlying sales rate that is 16% ahead and there's no material, you know, sort of bulk sales or other elements in the sort of balance of the period. So there's nothing new in there that is a clean and comparable sales rate year-on-year. So very pleased with that I think it's a sign of a market which has broadly remained robust despite all of the wider uncertainty but it's also, it won't surprise you to hear me say, a sign of the shift in our underlying strategy from a year ago coming through and I think showing real evidence that we can make a real difference to that sales rate performance.

On price, I think our view is if you take a broad sort of take of the UK, prices remain flat in an underlying way. There are not any big movements. I would say London still remains the toughest area and the upper part of the market generally still remains slower and I would say you've probably got small price pressure, you know, not big movements but small movements to make sales rates happen at the upper end in, you know, whatever region you're in and you've therefore probably got a little bit of price upside on smaller units. But none of those moves outside London are particularly significant and as said, that general sense of price is flat sort of is key.

I think it is worth just touching on because, if I were you, I would be asking if I don't cover it, sort of price versus volume strategy for 2019 on sales. You know, you might argue given the sales rates and particularly given the cost pressure that why wouldn't we stand back from the sales rates slightly and push price harder? It remains our sense that even at a lower sales rate there isn't a lot of price upside out there at the moment with the level of uncertainty that people see. Whilst, you know, sales remain robust, I would say there is still sort of an air of caution in the market and therefore it's our view that, you know, having changed our build plans and therefore our availability and looked differently at how we sell and how we make sure we've got a broad mix of product, that gives us quite a lot of sort of sales rate upside. But converting that into a meaningful and justifiable price sort of upside at the moment will be tough.

I think I am more optimistic about the prospect for price, you know, sort of late on in the year and into next year, obviously subject to where the sort of broader economic and political situation ends up. I think we have now seen two to three years where effectively affordability has been getting better in the background and this year in particular flat prices but with – you know, sensible wage growth has a meaningful impact on affordability. So I think, you know, there is a bit of upside that builds up there over time but I think in the very, very near time we see, you know, sort of it being more advantageous to build a stronger order book to, you know, create the size of business that we want to be this year and don't see that there's a lot of price upside in the short term.

But as I say, you know, sort of feel reasonably optimistic about sort of pricing in terms of future years, certainly compared to sort of three to six months ago. Sort of on the flipside, I think we have been surprised by how tough cost has been in the context of the first quarter of 2019. As you see from the statement, that is particularly weighted towards the materials side. I think, you know, we've sort of seen things flip slightly in the sense that, you know, four or five years ago the biggest pressure was definitely on the labour side. For the last couple of years, it's been pretty balanced. So to a certain extent, I think what we're seeing at the moment is a bit of a catch up, particularly of the impact on the underlying cost base of the supply chain from exchange rates movements post-referendum, which never have felt like they've fully come through, it's still sort of pent up in the supply chain.

There is also – and I don't want to overplay this but I think it's important to understand that it's in there, an element of everybody trying to secure sort of stock lines a bit further into the future with the uncertainty of different kinds of Brexit. So you know, sort of we're not talking about huge stockpiles of bricks on sites but we are talking about generally trying to make sure that we can clearly see the stock in the supply chain and that we have a longer sort of security of supply than we used to and that certainly adds to that cost pressure. I think, you know, sort of you can see from the numbers that our guidance for cost this year has moved from roughly 3% to 4% up to 5% up.

I mean, that's not mathematically a huge shift but in a world where prices are flat and cost pressures have increased, then inevitably that has an impact on margin. And I also wouldn't want to underestimate the impact that a stronger underlying demand has on that cost side. You know, there is clearly a relationship between the industry selling more strongly than it expected and trying to secure more materials than it necessarily thought that it would need three to four months ago. So the two are closely related.

Coming back to overall guidance but, you know, the sort of summary version is that in terms of impact on 2019, the – we see those sort of being basically neutral so our underlying guidance hasn't changed but it is slightly more volume at a slightly higher price point because of mix offset by slightly higher costs and therefore a slightly lower margin.

Coming on to sort of the sort of more general elements and picking up land first of all. We haven't seen any meaningful change in the land market. We've been pleased with how our own plans have progressed. And particularly on outlets, you know, sort of been tracking every single outlet very closely to really make sure that the specific plans we've got are sensibly put together and that we've really got the right pressure in the right places and actually, you know, sort of, pretty much every outlet that we set out to open has opened when we planned to, which is not a normal sort of circumstances and so relative to our internal forecasts, our outlet numbers are slightly ahead at this point in time of where we would have expected to be. That's not a big shift but certainly in a world where we expect outlets will always be slightly behind then that's a pretty good place to be. So we feel pretty positively about that.

I think I would still say, and you will have heard me say this before, I personally feel this is a difficult environment in which to take the bigger strategic land decisions and I don't mean strategic in the sense of, you know, sort of land without planning, I mean the broad land strategy, you know, sort of with the wider economic uncertainty but with very sort of good terms on land available, it's quite hard to work out where the balance is. So I think we're in a relatively neutral replacement position still but still looking at where there are great opportunities sort of in a more uncertain market to get particularly strong deals. If you looked at the sort of financial performance on the land that we've secured in the first quarter, it's, you know, very much in line with the high returns that we secured last year. If anything, slightly above. So no shift. But it's certainly an environment where, because the opportunities are so great, that the uncertainty is high and it's difficult to work out what the right balance is overall.

So I mean, those are, I think, the key elements. As I say, on guidance, you know, sort of our guidance for the year remains unchanged but with a slightly different make up. I think we do have more volume upside this year. The sales rates, you know, sort of mean that the limiting factor is about build and getting build right and, you know, sort of that has stepped up through the first quarter. We do think some of that will come through in completions this year but we're not talking huge numbers but in a year which we expect it to be flat, it will be pleasing to see some volume growth and, you know, gives us confidence in the strategy for sort of volume growth into 2020 and 2021. But as I say, offset by those higher cost pressures.

Chris, have I – have I missed anything?

Chris Carney

Group Finance Director, Taylor Wimpey plc

I'd just add one thing. I think it's worth noting that we recently formally regained our five-star status in the NHBC customer satisfaction ratings. Pardon me. We've worked hard over recent years to improve our approach to customers. Doesn't happen overnight but our customers have been telling us for a while now that the improvements we've made are working and that gives us really good momentum to continue to improve.

Pete Redfern: Thank you. Can we open up for questions then please?

Q&A

Operator: Thank you, ladies and gentlemen, we'll now begin question and answer session. If you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. You can cancel your request by pressing the hash key. And your first question's coming from the line of Aynsley Lammin from Canaccord. Please go ahead.

Aynsley Lammin (Canaccord Genuity): Hi. Morning.

Pete Redfern: Hi.

Aynsley Lammin: Just three from me, actually. Firstly just on the margins going back to that. Obviously, you've given a very clear overview there. Just wanted to confirm that the margin pressure, the incremental pressure you're seeing is just the cost inflation, doesn't relate to any kind of site or infrastructure issues or maybe more money being spent on customer care.

Secondly, just interested to hear a bit more on regional differences in terms of sales rates particularly, you know, London and South East versus Midlands and the North.

And then just on the H1-H2 split, I think you've kind of very recently had about 40-60% H1-H2. Does it go as much down as kind of around a third, two-thirds? Is that what we should expect for '19? Thanks.

Pete Redfern: Thanks. I think on the cost side, Aynsley, you know, I certainly don't think there is anything material in there on customer care. You know, sort of – you know, it is part of our underlying cost base, the changes that we've made sort of now, you know, kind of two or three years ago. We've not, you know, sort of committed anything new, you know, sort of I think there's still sort of the view that in the next two to three years that cost would probably come down slightly, you know, sort of – but in terms of relative kind of where we are compared to where we expected to be four months ago, no, I don't think that's changed. And similarly sort of at an individual site level, it's not – it is that general underlying pressure, I think. There's always site-specific issues but there were site specific issues a year ago, two years ago and five years ago. So that's just the general mix.

In terms of half one, half two split, I think, you know, sort of inevitably because we've got slightly more of this year's business coming from sales that we're now building up production for, you know, sort of we will remain, you know, sort of more weighted towards the second half. But I don't think we're talking about kind of a two-thirds, one-third split. Certainly not at a volume level. You know, we're still in the, you know, sort of low 40 to 60 not starting with this rate.

And I think there was a question in the middle but I was still noting down the first one and I missed that one, apologies.

Aynsley Lammin: Just any more colour on kind of regional differences on sales rates near London, South East versus Midlands, North.

Pete Redfern: Yeah. I think – you know, and it sort of goes back a little bit to the comments on price and you could say the same on sales rates. There's no doubt London, you know, sort of with, you know, all the dynamics that we've seen over the last two or three years, and probably still much more effected sentiment-wise by Brexit is, you know, definitely sort of at the slower end. I think aside from that, the regional variations are, you know, very patchy. You know, sort of and its more local sites and the kind of buyer and the kind of price point than it is a difference between North and South. You know, I'd say there is probably a general trend that commuter markets you know sort of into London are generally softer, which probably isn't a great surprise but they're also the high price point markets. So you know, sort of – you know, but the – there isn't a north of the business doing, you know, sort of, extremely well and the South-West not or anything like that. Apart from that London dynamic, there's no big – you know, big sort of shifts.

Aynsley Lammin: Great, thank you very much.

Pete Redfern: No problem.

Operator: Thank you. You're next question coming from the line of Will Jones from Redburn. Please go ahead.

William Jones (Redburn): Thanks. Good morning guys. Three as well, if I could please. The first is coming back to the issue around materials cost. Could you just remind us typically how long are the contracts that you enter into on materials just so we can appreciate the ones that have rolled off and are being renewed, are they from six months ago, one year, two year? Just some help on understanding that please. And I guess just to double check how confident are you that this is not in any way linked to the strategy obviously of stepping up on sales rates in the near term and volumes in the medium term or do you think – we haven't really heard this being raised to the same extent by others as yet? So just wanted to know if you think it is slightly company specific or it's actually an industry thing.

The second, I guess just coming back on London. In the past, you've sometimes drawn out what you need to achieve on sales rate or how much it might contribute within the full year P&L. Is there anything numbers-wise you can put on, you know, what's needed from London this year or – and to what extent are you on track for that.

And the last one, I guess, since you last reported we've seen Persimmon come out with their intention to introduce a retention policy on completion for certain elements of the ASP. Is that something you've given any consideration to either recently or in the past or is it just an issue for them? Obviously, you're up at five star, so from a different position. But is that – I guess, is that something that everyone's going to migrate to over time, I suppose. Thanks.

Pete Redfern: No problem Will. I think I've got all of those but feel free to remind me at the end if we've missed any. So on materials and contracts, you know, most of our materials do not have a firm fixed contract price. So we have an agreed price that generally runs for either a year or two years. Two years is probably the most normal. So you have then to have two years in place at any one point in time. It varies.

So some of the bigger commodities, you know, bricks and blocks, generally are one year. They are normally, sort of, fixed on a calendar year, so the first quarter is when the negotiations tend to happen and they – you know, those changes then impact on that year as a whole.

So some things, you know, sort of, we do not renegotiate on an annual basis; they will roll round again next year and then we'll have, effectively, a two-year negotiation at that time. We have not, as a general rule, you know, no more than I would normally expect, seen people, effectively, renege on those price agreements over time. You know, we are talking about a normal negotiating process, but what we have seen, it's the negotiations that we would normally have in that – in this first quarter which have, you know, sort of – which would normally have come up, have tended to be harder and start at a higher price point and be harder to find the supplies that we need. And if you go back to the dynamic of more demand than the industry expected, a desire for more security from everybody in the supply chain, and not in new build but amongst merchants and, you know, sort of, the RMI market as well, then you can understand, you know, sort of, what's – broadly what's happening there.

So, you know, it is a bit of a first-quarter thing; it's not that, you know, we expect people to be coming back for renegotiations every quarter, it's, you know, we can, kind of – at this point in the year we can pin it down. I just think, in the context of a stronger market, with the last three months of bunfights over Brexits and no deal, and a sense for the industry, no, we need some security here, you've got a slightly unusual dynamic. And that's why I'd say, you know, it's not that I think cost pressure, you know, sort of, won't be there in a year's time, but I do think there's a, sort of, slightly unusual set of circumstances in 2019 with the stronger than expected demand and that uncertainty.

To what extent is it strategy-linked and company-specific? And whilst, obviously, the questions are linked, I don't think they're, sort of, totally, sort of, the same question. I don't think it's meaningfully strategy-linked, although, undoubtedly, it's linked to stronger sales rates generally in the industry as a whole, but I don't think we're having to give more on price because, you know, sort of, our volume expectations at an individual site level, sort of, are higher. I think from a suppliers' point of view, particularly on materials, you know, sort of, it's academic to them whether that's, you know, sort of, on more volume across, you know, sort of, our sites, so, you know, I don't think that has a direct impact at all. If it had an impact, I mean, obviously, that would be more likely to be on the labour side –

William Jones: Yep.

Pete Redfern: Where actually, you know, sort of, subcontract-based tend to think about it at a site level in a way that the material suppliers do not. So I don't think it's linked to strategy.

If I completely honest with you, we will know, you know, sort of, as we look back, probably not until the end of 2019, to what extent that's totally across the industry and what we're seeing is completely normal, and to what extent it's, you know, sort of, specific. I think it is a broad, industry-based thing. You know, you know what it's like when you're in a price negotiation, you are always looking for confidence that you're getting the best deal that you can and you're getting a fair deal compared to everybody else; you get some degree of assurance of that, but you can never be 100% certain. You know, you know we tend to be pretty upfront with you when there's good news and when there's bad news, and so I don't place any great, sort of, surprise in the fact that we're the first to be saying actually, no, costs are tougher than we would have expected at this point, but I can't promise you that everybody will come up with same number in the course of the next three weeks, if you see what I mean, it will –

William Jones: Yeah.

Pete Redfern: – You know, you will see and we will see.

William Jones: Yeah.

Pete Redfern: I don't think it's company-specific. You know, sort of, inevitably there's bits of geography and there's bits of people at different, you know, sort of, points in the development of their business, so pressures are always going to be slightly different, but I think it is likely to be a general trend, even if the trend impacts different people differently.

William Jones: Yeah, thank you.

Pete Redfern: Going on to the question on London, I think our dependence on Central London this year, and we've touched on this before but I'd reiterate it, is very small from a – you know, it's one of the things that kind of, you know, holds back our year-on-year progression in 2018 and 2019 is that we had a decent contribution in 2016 and 2017 that we don't have. And so, actually, you know, the impact on our expectations for this year of what we're talking about in London is very small, and we still see a uptick from that, sort of, input in 2020 and 2021, so it doesn't change any of that. You know, I haven't got the numbers in front of me but I can assure you that they're not particularly material for this year, it's not – you know, we're giving you a sense of where we think the market is rather than trying to flag a specific concern.

William Jones: Sure.

Pete Redfern: And then, sort of, going on to retention policy, my – you know, we are looking across the board at where we think, you know, we can make the experience, the process, the product, the service, the trust and assurance for our customers as good as it possibly can be, and we're trying to do that in a creative but also in an honest way and work out what customers actually really worry about and what will provide a good, long-term solution. In that, we do not think that retentions are the best way to do that. You know, I've, at different points in my career, operated on the fringes as a customer and as a supplier in the construction industry, certainly, you know, separate to house building, and I see retentions as an enormous negative from not just the person providing the retention but from a customer point as well – point of view as well. They're a point of contention; you know, to me they're an anachronism form the construction industry that the construction industry has tried to get rid of and that, you know, I do not see as wanting to implement, and we're not seeing any pressure from government or, you know, customers to do so.

But there are other things that we can do that I do think, you know, sort of, can offer our customers more assurance, you know, sort of, of the product quality and around the process that I don't think are, you know, sort of, huge cost issues, but are more about making sure, philosophically, we think through what the process looks and feels like from a customer's point of view. Short answer, I think there are better ways of doing it.

William Jones: Great, really clear. Thank you.

Pete Redfern: Thank you.

Operator: Thank you. Your next question's coming from the line of Gregor Kuglitsch from UBS. Please go ahead.

Gregor Kuglitsch (UBS): Hi. So a couple, or maybe three, questions actually. So just coming back on the margins, I think if I, kind of, put everything together I think, kind of, late last year you were talking down 50 basis points, now it looks like, maybe, that's doubled to something like 100 basis points in terms of year-over-year decline, I just want to get a sense if that's, kind of, the ballpark? And I suppose the question is slightly longer term, do you think the direction of travel continues to, sort of, be down also into next year, perhaps because this cost issue doesn't go away, unless, of course, house prices pick up. And, in that context, what do you, kind of, think is the realistic range we should be talking about as we think about the next couple of years?

And then, perhaps on the flipside, I think you've been quite clear on volumes; you've always said you expect a volume pick up next year with the new strategy kicking in. Is this now just being, kind of, front-end loaded into 2019 or do you still think you can have a meaningful pick up in the rate of growth next year? And 2021 I'm not quite sure what you're thinking because obviously that's when Help to Buy switches over, but perhaps it's too far away anyway, but for 2020.

And then, finally, you've given us a spot site number, but in terms of average-on-average, so to, sort of, put the 21% increase in sales rate into context if you could just give us, kind of, the absolute – well, I guess, the average site reduction year-over-year so we can get a sense of the actual volumes sold are? Thanks.

Pete Redfern: Thanks. I'm conscious, as ever, I've hogged all the questions so far, so I'm going to hand the first two over to Chris and, just quickly, add up what the answer to the third one is while he's working on the first two.

Chris Carney: Okay. So I think the first question, Gregor, was on margin and, you know, you mentioned the 50 BPS from back in November and was it going to be more like 100 BPS now? Well, we – obviously, we've guided to slightly lower in the statement. Is that about 1%? Yeah, it's probably about that in the context of, you know, of current consensus, so I don't think that's an unreasonable assessment of the statement. Longer term, in terms of the direction of travel, you know, assuming the market remains stable we are confident of seeing an improvement of the margin in 2020, and that confidence is, sort of, more mechanical than anything else to some extent, you know – Central London and the drag on margin that has in, sort of, 2019 is, sort of, 50 to 60 basis points, that reduces to about 10 basis points in 2020.

Secondly, you know, we've got more completions from land that we've bought more recently at higher hurdle rates, and then, yes, we would also expect to see some volume growth in 2020 as well, which will help the operating efficiency of the overhead. So I think that's certainly the direction of travel, and I suppose, going back to, you know, the point on build cost – it's just reiterating, I think, what – something Pete said earlier – you know, we don't necessarily see this level of pressure on material costs being maintained, but there's, you know, there's lots of moving dynamics in between now and next year. And I think that was the first two.

Pete Redfern: Yep, yeah. And the mathematical answer to the last one, Gregor. So, as you see, the spot number's down just over 5% and the year-to-date average is down 8%.

Gregor Kuglitsch: Okay, thank you. Thank you, very helpful.

Operator: Thank you. Your next question's coming from the line of Brijesh Siya from HSBC. Please go ahead.

Brijesh Siya (HSBC): Thank you. I have two questions. One is related to your sales rate and the large sites. Now these large sites are delivering much stronger sales rates. Can you quantify what kind of efficiency gain you could expect from these large sites compared to small and medium sites? That's first one. And the second one is – again, relates to that large and small. So, in 2018, the average outlets were, kind of, 48% skewed towards small and 55% towards medium and large sites. Can you tell us what's there in the landbank and what you are currently selling at; is it more like a 30/70 ratio or 35/65, if you can give a broad idea about it? Thank you.

Pete Redfern: Okay. Both of those are quite hard questions to answer in the – you know, without, sort of, data in front of us, you know, that we can show you showing the make-up and the split, and in the context of, sort of, an AGM update. So I can give you a very broad answer, but it's probably one to come back with, you know, at the half year. I think, picking up the second one, there is a slightly bigger proportion of large sites in our landbank than there is, you know, sort of, trading. I don't think it's quite as big as the, sort of, 30/70 split that you talked about, but it's, sort of, slightly more weighted that way, so it's the 35/65, it's probably something like that. I don't think there's a materially different mix of sites in our current trading pattern; you know, it – there might be a slight trend, but you might be talking about a 1% shift, not a 5% or 10% shift.

So, you know, where we sit today in terms of trading is not that different to where we were six months ago; it's how we're operating those large sites, not that there's suddenly more of them suddenly in the portfolio. But there is a general land trend that – because our buying pattern, because of a combination of availability and margin options, and that shift in strategy, you know, sort of, the landbank is more weighted that way, but that come through steadily over, sort of, two to three years. I think the important thing is that on the large sites that we have in the active trading portfolio we are able to see and show, and not just in the regions that were already operating, to some degree, that way in the early part of 2018, but in almost all of our regions, you know, that we can see that, actually, that way of trading is effective, and, you know, there is a strong sense of belief across our business that that works and is the right thing to do. Whereas if you go back a year people are saying 'Well, I get what we're saying and I can see it's working there, I'm happy to try it, but I'm not sure if it's going to work in my patch.' You know, now we have a much broader sense of consensus that, no, you know, actually if you change things around, think about product mix, think about sales strategy, think about how you staff-up production and sales, you can make that work, and I think there's a much broader sense of confidence within our operating business that that can be done, rather than a big mathematical shift in where the sites themselves actually sit.

Brijesh Siya: Okay. And can you give us any quantification of the efficiency gain you could get from those large sites?

Pete Redfern: Sorry, sorry. Again, it’s a really hard question to answer without, sort of, putting up, you know, some data on a slide in front of you, because I’m struggling to work out how to quantify it because, you know, we obviously save some prelim costs from the efficiency, but we also have some additional prelim costs at an individual site-by-site level that there’s net efficiency gain, but it’s really quite hard to quantify, and we haven’t flagged it as a separate material gain from that strategy. So, if I’m honest, I think it’s probably best for us to think about that, think about – because there is a net positive but it’s not enormous, but we’ll think about how we can best show you what sort of scale that is and where that sits, and maybe pick that up at the half year.

Brijesh Siya: Okay, thank you. And just one more, if I may, on the landbank strategy, I mean, you continue to do it on a replacement basis. Is there any, kind of, target that we slow down some point in time to meet those long-term targets of bringing down the landbank quite close to one year?

Pete Redfern: I think, whilst we see a, you know, a strength in the underlying market, and I don’t just mean in the short term; you know, I actually think one of the most important things to think through right now is the positive shift in affordability that we’ve seen over the last year. You know, sort of, we’re – you know, everybody’s very focused, not unreasonably, on where we are in the cycle, but there’s an awful lot of characteristics of where we are at the moment that do not look anything like any of the late cycles that I have seen, and the fact that affordability is improving is probably one of the most significant ones. You know, and actually interest rate, you know, sort of forecasts in the future, you know, have tended to go increasingly get more benign.

And you look at a combination of general sort of expectation of quite flat selling prices, low interest rates, and continued wage, you know, sort of inflation and wage pressure, and you know, that doesn't all add up. So if you stand back and kind of look at that, I think that's in some ways more important to get our head round.

And then you know sort of so, we actually see the, going back to the land strategy, we actually see, you know, and we always thought it was the most likely route. But, you know, it's always going to be a balance depending on market conditions, that that long-term efficiency of the landbank comes slightly more from these higher sales rates and how we operate them rather than from – in absolute terms, reducing the quantity of land that we have.

You know, if we are effectively building a bigger business off the same landbank then you get the same mathematical answer. And it’s, yeah, when we launched the strategy a year ago, we talked about those were the two different routes, and it will be a bit of both and it would depend and on market conditions, you know, sort of at the moment. You know, sort of with the market conditions we see, you know, it feels like it comes more from those higher sales rates off those sites rather than buying, in an absolute sense, less land.

Brijesh Siya: Got it, thank you.

Operator: Thank you. Your next question is coming from Charlie Campbell from Liberum. Please go ahead.

Charlie Campbell (Liberum Capital): Hi there, yeah, morning everyone. Yes, a couple of questions from me, maybe three actually. I just wonder if you could give us a bit more colour on which materials in particular are moving in price. So is it more so of a light side comment or a heavy side comment, is it more sort of things that are imported?

And then secondly I just wanted to be clear on the use of incentives, just I get the impression that hasn't changed, but just kind of to give us sort of full colour on that really.

And then thirdly you sort of said that if you were us, asking about the price volume trade-off, so we might as well take you up on that. And just wonder if that was something you've tried in a few sites where you've maybe tried to nudge prices up and you know from experience therefore that it doesn't materially impact or it does materially impact sort of selling rates? So I just wondered if you could help us with that?

Pete Redfern: Yeah, happy to do that. Charlie, could you just pick up the second one? I didn't – I was still noting down the materials question.

Charlie Campbell: So that's just on incentives, just whether there's any meaningful change in that year-on-year?

Pete Redfern: Yeah, okay. So on materials, I'm going to be fairly cagey, largely because it's commercially sensitive and when you're negotiating, I don't particularly want, you know, sort of it being held against our guys when they've talked about it. And also because I know part the reason for the question is you want to read it across to the supply chain and what it means for them.

So I wouldn't say it's massively weighted to either light side or heavy side. It's quite specific, which is generally the case. You know, it's not, you know, and I'm always uncomfortable with this sort of, the bricks is always the kind of lead indicator. And bricks isn't by any means the area where we see the most pressure. You know, sort of so it is probably across about 50% of our materials that we see a reasonably significant pressure.

So it's quite broad-based. It's not just one or two. But it massively varies with a combination of what the industry structure on the supply side is, to what extent that's changed, to what extent people has changed, to what extent their impacted by energy costs or exchange rates, and how quickly that flows through their supply chain. So it's very specific case-by-case. You know, sort of the supply base would say all that's happening is they're passing on to us cost inflation that they've seen over the last three years that house builders has held off.

There's a bit of truth in that, but actually the reason they're able to pass it on is because there is more demand, you know, sort of out there at the moment. So you know sort of – and as ever, you know, if somebody has a plant go down suddenly that has an impact on that price dynamic as well. So it's all the usual things. There's just more of them.

In terms of incentives, I don't think there's any big shift. I would say, you know, and as always everything we quote is you know, sort of net of incentives so it's factored into all of our comments. But I would say and it wouldn't surprise you that you know, sort of at the upper end of the market where, you know, sort of sales rates are slower generally, the level of incentives is a bit higher than it was, but you're talking about you know kind of half a percent, a percent either way. You're not talking about, you know, sort of five or ten percent or anything like that, but there's definitely a bit more in those kind of, you know, in bigger plots where there is less movement. And going back to the price valuation trade-off, the easy answer is yes, we have tried on a number of sites because the way we price is an active dynamic, so we are always trying it on a number of sites, if you see what I mean. We're always kind of trying it on all of our sites where, you know, sort of we will push prices, and we will sort of move, you know, sort of prices around to try and get the right balance between price and volume.

So yes, it is based off experimentation and testing rather than you know, just oh, we don't think that will work. It's a very, you know, live dynamic pricing structure you know sort of so, it's inevitably built – testing is built into it.

Charlie Campbell: Yep. Thank you very much. Thank you, it's really clear.

Operator: Thank you. Your next question is coming from Clyde Lewis from Peel Hunt. Please go ahead.

Clyde Lewis (Peel Hunt): Good morning Pete. Morning Chris. Three if I may, one coming back to the build costs and the materials in particular. Do you think there is much in terms of the figure that you're talking about that would be temporary or do you think this is very much sort of structural and it's there, and it's not going to reverse in any shape or form. I'm thinking, you know, again you were talking about the increased stocking levels ahead of sort of Brexit, do you think there's anything in that sort of, you know, sort of higher number for materials, that is going to reverse next year. That was the first one.

The second one was on land pricing I suppose, and partly reflecting your comments on build cost pressures. Given the lack of movement in selling prices are you actually seeing some softness in land price negotiations to reflect the increased build costs?

And the third one was again going back to that first half, second half split, and obviously you've got a lot more pressure on production in the second half of the year. Are you, how twitchy are you, I suppose, about sort of making sure you meet those numbers in terms of completions and you know keeping the five star, you know, we all know one or two examples of the industry, where there's been a huge H2 bias and, you know, getting things finished has led to a bit of a mess in terms of sort of customer satisfaction. Is that keeping you on your toes at the moment?

Pete Redfern: Yeah, so on build costs, I think we feel there is certainly the pressure, the level of pressure we expect to be relatively temporary. As I say, I think, you know, it does a bit of catch-up and a bit of the strength of the market at the moment is in a bit of extra stocking, all of those to some degree are slightly temporary. But it will be I think overconfident for us to then say that, you know, built that, you know, if there's an extra one and a half percent of build cost inflation in there on what we expected suddenly that reverses.

But I don't think we expect to be seeing a 5% level of pressure this time next year if you see what I mean.

Clyde Lewis: Yeah.

Pete Redfern: Sort of so whether that cost, whether now, you know, there are a couple of moving parts that could have that sort of dynamic, particularly, I think exchange rates, you know sort of effectively the exchange rate movement's, you know, post-referendum taken a long time to come through in the cost base. If that moves back structurally over the course of the next 12 to 18 months – that would be a confident statement to say that it would – but if it does, then I think that has a slightly more meaningful impact.

Clyde Lewis: Okay. Okay.

Pete Redfern: So I think the level of pressure I think will reduce, that doesn't mean that I think, you know, sort of cost will, you know sort of go backwards. I think Chris's general point about margins though I would just want it to reinforce. We have some underlying, you know, sort of company structural reasons why we've always felt that, you know, sort of '18 and '19 were particularly, you know, sort of relatively tough years because of where our strategy shifted, and that '20 and '21 have some upside for a whole series of reasons of you know London and geography and land purchase and timing and things. So, you know, sort of that probably gives us a slightly more confident, you know, sort of air around the year as a whole.

On land pricing generally, I would say yes, there is some softness in land pricing. I think, you know, I don't think that's particularly new in the last three months, I think it's been around for the last sort of eight or nine months. I wouldn't want to characterise it as, you know, sort of a huge shift, you know, but it goes back to my comment, it's quite hard to work out what the right strategy for the volume of land we want to buy at the moment is because the deals are good. But there is a reason that the deals are good because everyone is a little bit uncertain about where the world goes.

So, you know, we're certainly not in a fill your boots mode, but we're, you know, but we're in an active buying mode and the deals are pretty good so you know sort of that's very consistent with that. And you know sort of twitchy over the volume and sort of customer service, I would say we are not driving to a specific volume number that we're wedded to and would die in a ditch for at the expense of customer service, we're very clear that we want to hand over, you know, sort of our homes in a good place, and we think we have even though the back end of 2019 was pressurised, actually we are confident in the quality of homes that we handed over.

And actually even, you know, if you go back to a point kind of in 2015-16, when that was most pressurised, we still think we you know sort of were – we were not driven by our financial forecasting to do things that we thought were wrong.

We had one business unit, you know, in one year where we looked at it and thought no, that's not right, and we stopped things from being handed over. So that philosophy still runs through it. I have to say, there is always going to be a balance though. There is more pressure on the second half of the year and we've got to make sure we get it right. But to be honest I am, you know, and you have heard others say this, I'm more concerned from a service point of view that we – that the quality of the home will take priority, sometimes that means you're handing it over less quickly than the customer expected it, and that can impact your scores. But that's a hell of a lot better answer than handing over a home that isn't ready.

Clyde Lewis: Yeah. Yeah, yeah, yeah. Yeah.

Pete Redfern: So that dynamic is there for all of us. You know, sometimes you need to make sure you take a bit longer and get it right. Customer's not then entirely happy, but at least they get a home that's in the right, you know, condition when they take possession.

Clyde Lewis: Okay. Can I come back on the build costs and your comment on FX exchange rates? I mean traditionally, I've always thought house builders by and large don't buy a huge amount from overseas, but obviously, as you flagged the dynamic of imported cost for the manufacturers, that you're then buying from domestically. Have you tried to do some sort of exercises to try and work out how much you are exposed in terms of your materials cost to exchange rates?

Pete Redfern: Yes, but it tends to be – and it makes it hard for me to give you an overall number – it tends to be, we look at it in quite a lot of detail component-by-component you know, sort of, as we're going through price negotiating strategy to understand what the supplier's exposure is rather than as, you know having a – so that the numbers I would quote to you on a sort of across the board national level are quite generalised. Where we really look at in detail is area-by-area.

Clyde Lewis: Okay. Okay. And the last one I had going back to the sort of production thing. I mean could you maybe sort of share with us as to how big Q4 would likely to be in terms of completions? I mean it's not going to be 25%. I mean I think we'd all expect it to be higher than that. But would it be as high as 35% or even 40%? Would it be that biased towards Q4?

Pete Redfern: Yeah, I think, you know kind of, I'd stick to the half two, you know, half one, half two split at this point. You know sort of something like 42%, 58%. I know I don't really want to go into quarter-by-quarter on a phone call. We may welcome back at the half year and feel free to re-ask the question and we you know can sort of take a bit of time and talk you through it. But I don't want to, you know, pick a number out of thin air without giving you a bit of background.

Clyde Lewis: Okay, all right, thanks very much.

Operator: Thank you. Your next question is coming from Ami Galla from Citi. Please go ahead.

Ami Galla (Citi): Thank you, just three from me. The first one is a follow-up on the material cost pressures. Based on what you say, would you then say that the sort of cost pressures that you're seeing in your London business are relatively higher than some of the other regions?

The second one, a clarification, is there any key differences in the strategically sourced plots coming through the completions in 2019 versus 2018 in the numbers?

And the third one just on the sort of sales rates that you have achieved over the first half of this year. I mean is there a plan that these accelerated sales rate would at some stage feed into the sort of land negotiation that you get into?

Pete Redfern: Land negotiation, sorry just remind me what the first one was? I got the strategically sourced plots.

Ami Galla: I mean, is there a difference in the cost pressures in London versus the rest of the business?

Pete Redfern: Yep, got it. No, in fact, if anything I would say in terms of the cost balance in London versus the rest of the country, it's the other way around. You know London is the one place and particularly where you're talking about contractor-led build or, you know, sort of using the same sub-contractors as contractor-led build, you know, because the London market is, you know, sort of, you know, sort of reducing in terms of the level of build, actually it's one area where we see price pressure going the other way, so the price pressures are much more generally around the rest of the country, including the wider South East, but Central London particularly, you know, is the one place where, you know, and you would expect that, it's sort of one of the underlying reasons why you can see it's a market related trend.

In terms of proportion of strategically sourced land, not a big shift – I don't have the number in front of me, but you know, broadly the same as last year, you know sort of we expect to be at more or less the same level through the next sort of two or three years.

And then land prices and whether, you know – and land purchasing and whether, you know, we sort of build in, you know, the view of our new strategy – what we do not want to do and, you know, sort of we've all seen it in the past in, you know, sort of different guises, you know, sort of is particularly building any kind of strategy-led price difference.

I think it changes our land-buying strategy because we are far less likely for instance to do a back-to-back, you know, deal with a competitor of a large site if we have confidence that we can, you know, sort of generate the kind of sales rates that can make that site work for ourselves in isolation. But what we do not want to do is pass any benefit of that, you know, sort of back through the land piece. That has to be retained and how you work that through your own businesses and, you know, sort of is a bit of an art form. But actually, you know, we don't want to see that end up in land pricing and particularly in financing and deal structures, you know. It has to be part of the upside that we retain.

Ami Galla: And just one follow-up on the first question. On the material side is there a difference, is – I mean, I get the point the contractor costs coming down in London but on the material cost inflation in London?

Pete Redfern: No, no, not particularly. I mean, I would say on the more – you know, if you're talking about exactly the same, you know, sort of commodity in London compared to in Stoke then the price pressure's quite similar, you know. Those are – yeah, for us those are generally nationally-priced deals. That's not true across the board but it is generally the case. And even where they're not we're not seeing a material difference between London and the regions, you know. But there's probably slightly – certainly on the, as I say, the contractor-led piece there's definitely more availability. Even on the, you know, sort of subcontractor piece I would say there is a slightly easier level of availability in London, you know, sort of for ordinary build than there is elsewhere.

Ami Galla: Sure, that's helpful, thank you.

Operator: Thank you. Your next question's coming from Kevin Cammack from Cenkos. Please go ahead.

Kevin Cammack (Cenkos Securities): Yeah, good morning gents.

Pete Redfern: Hi Kevin.

Chris Carney: Hello.

Kevin Cammack: Just like to pursue Clyde's last line of questioning regarding the build rate requirement and quality and all those other issues around that. Is it – have you in any sense when you look at that, you know, fantastic sales rate in the opening quarter, have you been releasing earlier or selling further forward? And is it possible, for example, to quantify how much of the order book is for delivery beyond this year to maybe give us a better feel for things in that way?

Pete Redfern: Yeah, so have we been selling further forward? I think the broad answer is no, you know. Sort of we have not been selling further forward, the point of sale, you know, sort of as we, you know, for the delivery of the plots isn't materially different. If anything I'd say it's probably marginally shorter, but very marginally, than a year ago. And, you know, sort of actually given where we were with outlets and where we were with sort of releases I'd say actually, you know, we see a little bit of the sales rate as a catch-up in the order book of where we'd have liked to be at the beginning of the year.

Now that probably – you know, we'd worked through that by late-January/early-February so the sales rates over the last few weeks have been more about, you know, very much more about sort of completions. But that – the line of questioning isn't in any sense an unreasonable one. Of course we've been releasing more but there is a difference between releasing more and we're releasing earlier, you know, sort of. And if you think back to a year ago, you know, sort of we said, you know, sort of one of the reasons this is going to be a longer-term sort of shift that's going to take us, you know, some time to really work through is we need to get all of the, you know, sort of parts of the business and the parts of our supply chain to actually understand, buy into and plan properly for that strategy.

So as we planned our sort of budgets for 2019 most of our businesses were putting into their sales plans sales rates that were not quite at the level we're at but which were more bullish than we'd seen historically as they bought into that strategy. And they were resourcing-up their sites to meet most of that demand. But it's why the comment that actually, you know, across the board the people within the business are starting to think, 'Actually no, this works. We can see it.' 'This works in our patch,' you know, actually then people really follow through with the plan. So that takes a bit of time.

So I would say, you know, sort of the resourcing on the build side to really meet those sales rates has been, and different paces in different regions, gradually working its way into the business over the course of the last 12 months. I'd say it's still not quite there yet but it's definitely, you know, sort of progressed. And that in a sense is why we talk about a bit of volume upside at this point because the sales rates we can see in the evidence but the most important bit is that people, you know, and that includes, as I say, our supply chain, start to have faith that that's real. And so, you know, the materials are called off and the bricklayers are actually physically there on site and building. And it's not just a theoretical plan, it's actually happening. Now that still takes time to go through.

Now that doesn't meant that Clyde's question about, you know, the balance between build pressures and customer service is an unreasonable one, you know. We're – you know, it does keep us awake at night cause we care about it a lot and we're very focused on it and we don't – it's not about the five star rating, you know, we're not worried about the difference between a 90.5% score and a 89% score. It's about the actual quality of the homes that people hand over.

You know, sort of and it's also about the process and the communication and the timing with customers, you know. Sort of so making sure we get that right is really important to us. We don't think we're compromising on it but we're having to make sure that we keep that at the front and centre of everybody's mind as we go through that shift.

Kevin Cammack: And the profile of the order book this year versus next?

Pete Redfern: Sorry, yeah. I haven't got that with – you know, I'm happy to give you a number. I don't know if Chris you can sort of pull it out. It was how much of the order book goes into next year. It was certainly not materially different to last year.

Chris Carney: Yeah, it's no different, Kevin.

Kevin Cammack: Okay. So that volume underlying, ex the bulk, that increase in sales in effect is – a chunk of that will be in this year or into the first half of next year. There's not a longer tail that you've been taking into the order book?

Pete Redfern: No. No, if you look on private sales, Kevin, we're still – you know, I would say as we went through a tougher set of trading conditions in the bank-end of last year and order books shortened a bit and not hugely and, you know, sort of but they did shorten a bit by the end of the year, we probably got to a point where the average site was four months selling ahead from a point where it had been five and a half months, you know, that, you know, it probably wasn't that big a shift but that's what it felt like. We're probably now at five months. Five and a half's a bit long, four's a bit short, you know, sort of we're about where we want to be.

But we don't need to fulfil our expectations for this year, next year and the year after, we don't need sales rates to remain at this level. We're – you know, it is surprising us and I would not say build is at a level that it satisfies consistently these sales rates, you know. It's why we're not flagging, you know, a more significant increase in volume, you know. We've still got to do the work to make sure build is up there. What it does mean, which is why, you know, it's sort of – I've mentioned it a couple of times. It's why I think at least in your mind as you think about what the pressures and the risks and the upsides are, having in mind that if we're ahead on sales and affordability is improving actually – and I didn't think, you know, I'd sort of be talking about this. I do think as we get to the back-end of this year and into next year there's slightly more price upside than I thought there would be.

Kevin Cammack: Okay. So at this stage you're probably, what? 75-80% secured?

Pete Redfern: I haven't – it doesn't – that – lower than that. I haven't got –

Chris Carney: Well, actually, you know, we tend to look at that, Kevin, on a private basis rather than across – you know, including affordable.

Pete Redfern: Yes.

Kevin Cammack: Sorry, yeah.

Chris Carney: So actually that number that you've just quoted is probably not a million miles away when you add in the affordable, which clearly is all already contracted.

Kevin Cammack: Yeah.

Pete Redfern: Yeah, that's fair.

Kevin Cammack: Okay, thanks ever so much.

Pete Redfern: No problem.

Operator: Thank you and there are no further questions on the line. That concludes our Q&A session for today. I will now hand over back to Pete Redfern for his closing remarks.

Pete Redfern: Thank you and thank you for the number and level of questions. I look forward to catching up with you again at the half-year but don't at this point have a lot more to add. Thanks very much.

[END OF TRANSCRIPT]