Full Year Results 2019

Wednesday, 26 February 2020

Introduction

Pete Redfern

Chief Executive, Taylor Wimpey plc

Okay. Good morning, thank you, thank you for joining us and welcome, on the lines, to those who've had an important business trip to the Alps over the course of the last couple of weeks and therefore, have been quarantined by – by their employers and haven't been allowed to with us.

Unfortunately, I was going to start with a – a really nice round up over the nine and a half year career of Kevin Beeston, our Chairman, about what a brilliant Chairman he'd been, what a lovely man he was but he's not very well, so I can be honest. No, it genuinely is a shame because I know you've all met him at the presentations and he has been a phenomenal Chairman over the last nine and a half years, although, generally at presentations like this, very much in the background. So, I would like to record my genuine and honest thanks to him. He ceases to be our Chairman, I think, literally at the close of this particular presentation and Irene, who you'll meet, I think, probably at the half-year presentation, takes over, which we're also very much looking forward to.

A slightly different format for the presentation on this occasion. I will probably talk less, which you will all, I'm sure, be very pleased about. Jennie and Chris, between them, will cover more of the operational detail, both backward-looking, at 2019 and forwards to trading in 2020. And I will then round up with some of the, perhaps, more discursive pieces, bringing together some of those threads and talking about where our current priorities are.

The other thing I'd say before we start is that Chris particularly, and to a certain extent myself, will probably talk in slightly more explicit terms and probably put in black and white in a more explicit way, guidance for this year. We feel, as we look back at last year, that in the first few months, our guidance wasn't as clear as it should have been and could have been. There were things that we were aware of and we knew about that we didn't necessarily put across as clearly as we should, so we're very conscious, at the beginning of this year, to be as explicit as we possibly can about the various different moving parts. And that has its risks because there are one or two things – and I pull out volume on this particular occasion – that we're far more explicit about, things that are actually relatively small movements in the past we wouldn't have particularly mentioned because, we're talking about 1% or 2% movements that, at this point in the year, could easily change either way.

So, I would – if we're being clear, it's because we're trying to be helpful, not because we're particularly concerned about something. So, we'll pick up all the individual elements but I think you will, I think, pick up quite a different take on how we approach guidance and how explicit we are, relative to previous presentations.

So, just one single slide from me, just to introduce. Looking back at last year, I think we're very clear. In many ways, it was quite a difficult year for us, although, if you stand back and look at the performance in any long term context, there are some great numbers in there and some strong records. Clearly, really, sort of, fighting with a balance between no price inflation and meaningful cost inflation, which impacted on margin. But, inevitably I will want to pull out the positives as well. We are really pleased with how our strategy on large sites played out last year. The area you've seen it most clearly in our trading updates has been on sales rates, which I think is well understood but to have sales rates that are 20% ahead of the year before and the year before, we were at the head of the industry, I think is phenomenally strong.

We think – and we'll come back to this as we look at margin in more detail through the course of the presentation – we think that was at the cost of about 0.5% on price. So, actually, that's a pretty reasonable trade-off. Most importantly, we think if we can get that right consistently, and particularly if we can get the margin balance right as we go through this year and next year, of that, that gives us a real strategic advantage on both buying those sites and managing them and quite a different take to the rest of the industry.

A statistic that won't necessarily have jumped out at you quite as strongly is that sales rates were up by 20% – actually build rates were up by 15%. Now, that is a very material shift and at the same time, underlying quality improved significantly. If we can deliver the build to match those sort of sales rates, we can respond. And I'm not just talking about 2020 and 2021; I'm talking over the next ten years, we can respond much more – in a much more fleet-of-foot and responsive way to market demand, because I think large sites are here to stay. We'll come back to our views on smaller sites through the presentation but that, for us, is a key piece moving forward. So, although last year wasn't easy and that was one of the moving parts, actually, what we've learned on that, I think stands us in a very good place.

I think the other things I'd pull out: we still see strategic land as incredibly important. Jennie will talk about it in a lot more detail but again, a further 10% growth in the strategic land pipeline gives us some real choices.

And last of all, our investment in apprentices. We doubled the number of apprentices last year. That will be something we will talk about a lot over the course of the next two years and again, it's about building a longer term competitive advantage. We don't see immediate gains from that; we don't see that suddenly affecting our cost base in this year. But as you look at an industry with a short labour supply, an industry that needs to create more flexibility in the way that it builds, actually having our own employed trade base that we have trained from the grass roots, that have slightly different attitudes, slightly different approaches to customers, different expectations of what they want out of that career, that's very important to us.

So, those were all things that were important to us last year that we invested in but didn't necessarily help short term performance, in fact, if anything, probably hindered it but we don't have, really, any regrets about that.

So, I will now hand over to Jennie.

2019 UK Operational Overview

Jennie Daly

Group Operations Director, Taylor Wimpey plc

Thank you. Good morning everyone. So, I will take you through the 2019 operating overview; I will touch on an update on our KPIs; I'll look at the sector-wide regulatory backdrop; and finish with an overview of current trading.

So, looking at the 2019 market, despite the wider macroeconomic and political uncertainty, the new build housing market remains stable. Customer demand for new homes continued to be robust, underpinned by low interest rates, a wide choice of mortgage products and the government's Help to Buy scheme.

As regards pricing, we saw modest pricing growth in the north, weaknesses in London South East and at higher price points, resulting in an average increase of 1% in overall average selling price on private completions.

The land market was broadly stable in the year, with a reasonable pipeline of opportunities, albeit more subdued in the second half; so, overall a fairly robust 2019.

Total completions, excluding joint ventures, increased by 5% to 15,500, of which 22% were affordable. Average selling price on private completions increased to £305,000, with an overall average selling price of £269,000. As I hope you can see from the table, we continue to benefit from a broad national coverage, with strong sales rates across all divisions, indeed all of them well ahead of 2018 rates, giving that record-breaking sales rate. This reflects several areas of our strategy, in particular, a factories approach to larger sites, by adding multiple build teams to develop those large sites more quickly. The impact of this is particularly visible in the Central and South West division, this division having a greater number of large sites set up this way; and of course, increasing our production capacity to match that sales rate and capitalise on market demand, where it exists.

However, as we go into 2020, we will be tweaking the balance back a little, with more of an emphasis on increasing price over sales and volume growth, though the expectation is still for a strong sales rate, beginning with a nine.

So, looking at our landbank, we continue to reflect good geographical dispersal and adhere to, well established principles within our land quality matrix. We remained acquisitive in 2019, adding 15,300 plots to the short term landbank, this broadly replacement approach resulting in a closing short term landbank of 4.8 years, given the increased volume in the year.

Our best-in-class strategic pipeline, as Pete mentioned, increased to 140,000 plots, having transferred some 8,400 plots to the short term landbank and continues to offer us excellent visibility and business planning benefits. The average cost of land, as a proportion of the average selling price within the short term owned landbank, remains low, at 14.9%, whilst land as a percentage of ASP on 2019 land purchase approvals was 16.2%. So, I think, as you can see from the bubble chart, we continue to buy land at good intake levels.

Our land strategy, whilst optimising large sites, is to maintain a balanced scorecard of site sizes, so during 2019 we actively encouraged our regional teams to increase the flow of smaller sites, to balance those larger sites, particularly those coming from our strategic landbank.

This focus, which will continue into 2020, will benefit overall outlet numbers in future years but it is likely to result in some modest compression in contribution margin to reflect the different mix of sites and the more competitive nature of small sites. That said, our strategic land transfers at good margins will soften that impact.

So, looking at the land market, the market continued to operate well, as I said: a reasonable supply of opportunities, though noticeably a little flatter in that second half. We remained proactive in securing opportunities, though a little less active in London and the South East than the other divisions.

I think it is worth noting that there are less five year housing land supply sites available and we are starting to see some strategic bottlenecks appearing; an example would be Greater Manchester. Land values and margins have been broadly stable for large sites but, as I said, starting to see increasing pressure on smaller sites.

There's been no meaningful change in the London land market during the year, the GLA policies continuing to present challenges to housing viability, limiting opportunity and offering land owners better value in alternative uses. Our strategic land teams continue to focus on identifying opportunities through structured land searches and one-to-one opportunities remains a significant part of our business. Competition in this market remains strong and despite headwinds on land value capture and build costs, we're continuing to see noticeable pressure on minimum price provisions and other costs of entry in strategic land. We continue to make good progress in bringing our sites through the planning process, both in the short term and strategically, with the significant majority of those outcomes negotiated locally.

In May 2019, local government elections were held across England, where nearly 30% of councils saw a change in leadership and the number of councils with no overall control increased from 34% to nearly 80%. I think it's also worthy of note that some 287 of the 408 councils have declared a climate change emergency.

So, moving on to the KPI tables, I'll just flag a few key points for you here. Our position on the eight-week has been well trailed, with a marginal, though disappointing, miss on the five-star, at 89.4%. This drop arose primarily from a poor start to the survey year in October and November 2018. Looking at the detail behind this, we are satisfied that this is not a build quality issue but one of communication and timing of delivery to the customer, notably after poor weather delays in 2018. But we are committed to being a five-start builder and the scores this year, to date, since October 2019, do show us, once again, at five-star. We continue to see the nine-month score also as an important customer measure and are pleased with the year-on-year improvement. We are focused on improving both these measures and have invested throughout 2019 to deliver improvements to our customer service and are pleased to see build quality improving through that year.

I've covered landbank metrics earlier but we'll just quickly reference the continuing excellent performance of our strategic land completions, at 56%, well above our target of 40%.

We have spoken previously about the importance of a strong order book and particularly in uncertain markets, such as we saw last year. I think we're happy with the current levels, though part of that is a balance of ensuring that we don't sell too far ahead, so we can meet our customer expectations in terms of timing and delivery. With an average of just over 48 legal completions per site, you can see the delivery on our investments around build capacity whilst continuing to progress quality. Employee turnover is one of the lowest in the industry, reinforcing our message that we're a good place to work and you can see the directly employed trades' numbers continuing to rise in line with our strategy to meet the skills challenge that faces the whole sector.

Health and safety continues to be a priority for us all at Taylor Wimpey. The benefits of investment in items such as scaffold stairs and offsite manufacturing have helped to deliver a very low injury rate, despite increased activity and completions per outlet.

So, on this slide, I'm just trying to capture on where we've focused some of our investment across the production arena in 2019, contributing to the improved build quality outcomes and cost and efficiency benefits anticipated going forward.

In 2019, we inducted 21 Quality Managers. We see this as a key production role, operating at business unit level, assisting in identifying areas of build quality focus, providing skills support to our Site Managers, direct labour and subcontractors, and promoting the sharing of best practice. And we can see some positive benefits coming from these appointments already.

I'd also like to draw your attention to the increased level of activity around supplier and contractor engagement. Working collaboratively across the supply chain during 2019, we progressed a number of improvement initiatives with subcontractors and suppliers, including technical enhancements on a number of key build areas. This collaboration has continued to evolve, with direct supplier training on effective use of products and completion of site audits, working together with the supply chain to achieve that right first time.

So, since 2017, you'll know that we've been using the NHBC-led process of Construction Quality Reviews on all of our sites. The assessments provide a root-cause analysis, identifying common areas needing improvements and allow our central teams to focus on these areas in training and product improvements. Since 2017, we have consistently improve our CQR score from 3.74 – that's out of six – to 4.13 in 2019. This isn't just about improving the headline number, although I'm pleased that we have, it's about driving consistency across the whole business. It's therefore very pleasing to see, as illustrated on the graph on the left, that we have made meaningful improvements across every one of our divisional managing director areas in that period. The graph on the right shows an anonymised comparison of Taylor Wimpey against our large builder benchmark group in the NHBC and shows us leading that category. We believe that this independently assessed measure is an increasingly important component of our customer offer, given the continuing concerns around build quality across the wider sector.

So, I'll move on to look at areas of sectoral risk, first have a look at Help to Buy and then a number of the emerging regulatory changes on the horizon. During 2019, approximately 34% of our total sales used the Help to Buy scheme, of which around 76% were first-time buyers. The unwind of Help to Buy, starting with the introduction of caps and the limitation to first-time buyers from April 2021 represents risk but, with preparation, a manageable risk.

I'll just take a minute to take you through some of the things that we're doing to prepare for that unwind. The operational businesses have considered their site locations and specific mixes that might cause some concern during the 2021–2023 scheme and beyond, including assessing our existing landbank against the regional caps. So, for example, in 2019, 79% of our first-time buyers using Help to Buy would have been within the proposed regional caps. Our teams have considered pressure points, or cliff edges, that might result from regional boundaries or specific price points and have been reviewing all new land acquisitions and their assumed selling strategies on a without-Help-to-Buy basis for some time. A range of strategies are available, dependent upon the site specifics and local market characteristics, some of which I've dropped on the slide for you.

Having considered the unwind timing, any issues arising, the local teams will review the necessity for re-plans, potential changes in production routes, timing and consider all the routes to market. We might expect increased competition from the second-hand market as the scheme winds down and therefore site location, placemaking, our house type range and build quality will be very important. And our marketing strategy will therefore increase the emphasis on positive differentials to buying a new home from Taylor Wimpey.

In addition to these self-help strategies, we're also of course active with the wider sector with engagement in and with UK finance and considering other financial products to dovetail with the unwind timetables.

The elections obviously delivered a more stable political environment, certainly than we've seen for some time. However, with that stability, we can now anticipate activity. As a future-looking and sustainable business, we have been preparing for a number of these changes for some time. And in respect of changes such as the new homes ombudsman and the design agenda, we feel very well prepared. Others, such as first homes consultation, the environment bill and proposed planning changes are likely to cause some interim friction, particularly within the planning process but are unlikely to adversely affect the business thereafter.

The one item, however, which does concern us is the future homes consultation which closed recently. This consultation signals the government's intention to move towards net zero emissions by 2050, consulting on two options as a stepping stone to the 2025 target of 70-85% CO_2 reduction in homes.

Option one is to reduce carbon emissions in new homes by 20%, whereas option two is to reduce by 31%. Whilst supportive in principle, both – to varying degrees, both these options represent challenges in terms of cost and the speed of change. In the case of option two, in new technologies and supply chain in particular.

So, our technical and procurement and R&D teams have been working through these challenges. We have an understanding of the potential costs, are reviewing our existing and emerging house-type range for compliance, risks and working with our supply chain in anticipation. Either option of the proposals, if adopted, will alter build cost assumptions in the relative near-term, though much will be dependent on the consultation conclusion and on the transitional arrangements in particular.

So, just looking forward now, looking at our usual forward indicator graphs, we can see that organic website visits are at a very similar level to the previous three years despite reduction in outlet numbers. The number of inbound calls at the start of 2020 has started strongly when compared to 2019, and encouragingly, January and February have given us record levels of appointment bookings. You'll note though that the brochure requests are down, and these have been on a declining trend for the last few years, decoupling itself effectively from the other indicators. This reduction is part of a wider trend that we're seeing, brochures effectively becoming redundant as websites now deliver better content in a much more accessible way for our customers. So, it's time to say goodbye to brochure requests as a forward indicator given that dwindling relevance, and we won't be presenting it going forward.

So, last slide from me looking at market performance. We made a positive start to 2020, coming into the year with improved consumer confidence. Net private sales rate year-to-date is 0.97 and to date, we have achieved a selling price growth of around 1.5% against budget. As at the 23 February we were 49% forward sold for private completions for 2020 with Central London around 84% forward sold on the same basis, together delivering a total order book value of £2.6 billion, excluding joint ventures.

Thank you, and I'll pass over to Chris now.

Financial review, cost leavers and cash generation

Chris Carney

Group Finance Director, Taylor Wimpey plc

Thanks, Jennie. Good morning everyone. So, despite an uncertain environment, we delivered another good financial performance in 2019, generating the second-best profit in the Group's history. Group revenues, which of course include our Spanish operations, are up 6% off the back of a 4% growth in wholly owned completions and 2% increase in blended selling prices. Gross profit margins fell by 2.2% percentage points, mainly due to higher level of build cost inflation and lower levels of house-price inflation. Improvements in cost efficiency offset some of that inflationary impact, resulting in an operating margin of 19.6%, two percentage points below 2018.

PBT at £821.6 million reflects slightly higher non-cash interest charges relating to pensions and land creditors. Earnings per share amounted to 20.3 pence, one penny less than last year; however, EPS still provided sufficient cover for the increased dividends at 18.3 pence per share to generate a net increase in tangible net asset value per share of 2.2% over the year.

The return on net operating assets remains very healthy at 31.4%, assisted by an improvement in asset turn and despite the reduction in margin.

In the UK, private volumes increased by 5.4% and this reflects the success of the strategy in delivering that record sector-leading sales rate at the same time as increasing our build capacity in a sustainable way that allowed us to also continue improving our build quality. That combination of volume growth and quality improvement is not easily achieved and we're really very pleased with that.

Pricing was very flat in 2019 and the small increases that you see on this slide are mix-related with the average unit size up just over 1% on 2018. There was a small increase in the contribution from JVs in 2019 and we expect that level of contribution to be maintained in the next few years. The relative improvement between the UK gross and operating margin variances year-on-year is due to an increased efficiency in overheads and direct selling expenses where we have taken out costs in 2019.

On an underlying basis, that improvement in overhead efficiency will continue in 2020, but increased depreciation from IT investment and the full impact of the production quality manager, as mentioned by Jennie, will mean that overall administrative expenses will rise in 2020 by around 4%.

We introduced this slide a number of years ago to provide visibility on the moving parts impacting operating margin, and we think that the transparency that it provides is really important in understanding performance. This year, I have picked out some investments we made in sustainability during 2019 that impacted margin in the short term, and I'll come back to those. The top part of this slide shows the market impact on margin which in total was a reduction of 210 basis points. As with any sort of similar type of margin analysis, there are lots of ways of approaching it. The Nationwide regional data we've used suggests price inflation had a positive impact on margin of 70 basis points. We actually experienced pricing that was flatter than that and so the savings you see on the bottom part of the reconciliation will, in reality, have been slightly greater to compensate for that.

Higher build cost inflation at 4.5% was mainly driven by pressure on materials pricing early in 2019 and since then, we have seen a softening of that pressure and are expecting underlying build cost inflation of around 3% in 2020 based on current market conditions.

The bottom part of the slide presents the margin impact on factors that we have more influence over and in total, they contribute a net improvement to margin of 10 basis points. Within that, the investments in sustainability collectively amount to a 90 basis point margin reduction. All four of those investments were choices; either in areas that are clear priorities for our customers today such as quality; or areas that will make us a stronger, more sustainable business in the future, like the continued investment in apprentices and direct trades. Either way, they are all entirely consistent with our strategy. We are confident that those investments will pay off in the future, but they are depressing margin in the short term and that's why we thought it was important to give you full visibility of that.

Net land cost per unit and as a percentage of average selling price were both a little bit higher than 2018, which reflects the slightly low proportion of affordable homes in the mix. Overall build cost per unit increased by 6.2%, 1.7% more than the build cost inflation that you saw on the previous slide. The other factors influencing the growth of build costs were an increase in the average size of our units by 1.3%, along with the incremental investments in build quality, build capacity and apprentices which you also saw on the last slide. These increases were partly offset by savings that we achieved in the year, largely from two areas; firstly, increasing the proportion of completions from our standard house-type range which are quicker and more cost-effective to build; and secondly, from procurement savings associated with SKU reductions and price harmonisation.

The sole purpose of this slide is to give you better visibility on the levers we have in the business to offset the impact of build cost inflation, and it's not a slide that I intend to sort of return to every six months. You'll appreciate there are lots of moving parts to consider, so I focus on the areas that I believe present the most opportunity. It's fair to say that this is more of an art than a science and what you see are my estimates of the range of outcomes in each of those areas relative to, say, 3% cost inflation.

It's also important to be clear that whilst we took action on these areas in 2019, we didn't enter 2020 anywhere near a full run rate on the potential savings. So, whilst I'm pretty confident of reaching a full run rate in most of the areas in 2020, that means the savings will be heavily weighted towards the second half and the full effect will only be seen in later years.

Now, before I take a deeper dive into a couple of target areas, I should reiterate that none of our plans involve any reduction in specification because we know that's not what our customers want or expect, and it would be totally inconsistent with our direction on both quality and service.

So, starting with variations, you know, these are changes to contracted works usually after the works have started. They take many forms but mostly come from design or scope changes. We already had processes and controls in place that – you know, around the approval of variations, but we further tightened those to ensure that there's even greater transparency, challenge and ownership, especially for groundworks.

Day works are payments to subcontractors for works outside of their measured works. They're charged on a time and materials basis where the rates incorporate an allowance for overheads and profit. And anyone who's spent time on site will know that the day works are pretty much inevitable because the bill of quantities can't cover every eventuality. And in recent years day works have been running at higher levels that we're historically used to, and so we've increased the focus and the accountability to ensure that we squeeze those down back to a more normal level.

Last year we launched a new and more integrated Bill of Quantities system, principally to free-up our surveyors to allow them to spend more time onsite supporting our production teams. That new BOQ system also provides better access to detail build cost data and allows us to compare and benchmark costs at all levels much more easily. And that data suggests there are opportunities for savings, and the divisional finance and commercial teams are working on accessing those.

As you can see from the slide, you know, the range of outcomes across all of the categories is reasonably wide. That's not just because of timing and run rates and a degree of judgement applied, it's also because our ability to drive out costs depends, to some extent, on the market conditions that we're up against. You know, if the market is stronger, then it may well be harder; and if the market is weaker and the house-price inflation remains low, then it might become slightly easier to pull some of these levers. Pardon me.

So, standing back, what does all of this mean for our 21-22% operating margin target? Well, we've reviewed the target. We believe it's the right target and it remains achievable in the medium-term assuming price rises are sufficient to offset build cost inflation. And these build cost levers are one element of the bridge to get us there, and Pete's going to talk to you – talk you through the margin bridge as a whole in a few minutes.

As you can see, we've maintained a very strong balance sheet. We adopted a cautious approach to land investment in the year, with both land and land creditors at very similar levels to the previous year-end. Within that, we actually increased our short term owned landbank by a couple of percent to over 54,000 plots and that amounts to 3.5 years of supply. Pardon me. We've been disciplined with our WIP investment and the balance there increased by 2%, which is less than half the rate at which our volumes increased. Other creditors, including trade creditors, reduced in the period and this reflects a second-half build profile which is slightly ahead of the second half of 2018, meaning that payments fell due slightly earlier. The pension deficit reduced, largely a result of the £47 million of payments to the scheme during the year and the reduction in provisions reflects the £36 million of payments made in respect of the leasehold and cladding exceptional provisions.

We ended the year with a net cash balance of £546 million, which I am pleased to report was ahead of our guidance, and this meant that we maintained a very low level of adjusted gearing at 5.5%.

You can see from this slide that we were successful again in 2019 at converting a high percentage of our profitability into cash, achieving a cash conversion rate at 82.6%. We spent about £100 million more on net land in 2019 than we did in 2018, but broadly in-step with land recoveries in the income statement. Despite that extra land spend, we generated just over £700 million of cash from operations, which was a strong performance, especially in the context of the increased pension contributions.

So, this slide compares the trend in operating cash flow margin over the last five years to the trend in operating profit margin and the trend in land costs, which are also presented as a percentage of revenue. Unsurprisingly, you can see that operating profit margin has a pretty high correlation with operating cash flow margin, and both have an inverse relationship with land costs, which again isn't a massive surprise. So, it would suggest that looking forward, if margins can be maintained over the medium-term in the same sort of range and land costs also remain low, then operating cash generation will continue to be very strong.

As I mentioned, you know, Pete will cover margin expectations in the medium-term, but in terms of land costs, I mean, nothing in the existing land position or in what Jennie has just told us about the current land market suggests underlying land costs are going to be significantly more expensive in the near future. We don't see ourselves as needing – meaningful new land investment over and above the replacement approach that we're currently operating, so that should give you confidence that we can continue to churn out a very healthy level of cash, subject of course to the market remaining stable.

Just to be really clear, I'm not expecting, you know, huge growth in operating cash generation. It's just I don't think there's going to be a huge reduction either and in this context, it's worth bearing in mind that over the last three years, at the same time as growing volumes by 8%, we generated £2.3 billion of cash from operations.

So, the slide you've all been waiting for. I've pulled together the various elements of guidance that we provided. I won't go through each line as they're pretty self-explanatory, but I will cover 2020 volume and margins as Pete's comments on margin will look further out than that. So, as you know, we are targeting slightly lower sales rates in 2020 to place slightly more emphasis on value over volume and as a consequence, we are expecting slightly lower volumes. Overall for 2020, we're aiming to maintain an operating margin broadly in line with 2019. Build cost inflation at around 3% provides a challenge but landbank evolution and some build cost reductions later in the year will both help us offset that. In half one, we will see a step down in margin because of the ongoing drag from build cost inflation, flat pricing unwinding from the order book and the full run-rate of those long term investments made in 2019.

In half two, we expect the margins to improve as our focus on costs start to pay back, maybe a better price coming through, and we increase the proportion of completions from younger land at higher input margins.

Hopefully, by now, you'll have realised that my focus in 2020 is all on cost and margin and what gives me confidence is the knowledge that everyone in the team – and I don't just mean Pete and Jennie and the rest of the senior management team, I mean, everyone in the company is very engaged on cost. And importantly, we now have some of the tools that will help us turn that engagement into results.

And lastly, if there's, you know, a message I'd like to leave you with today, I suppose it would be 'steady as she goes'. And on its own I wouldn't expect it to get your heart pumping but, you know, when you consider, you know, the cash that we've generated over recent years, the quality of the landbank that we currently have and the strength of the balance sheet, I think that's more than enough to get a bit excited about. Thanks.

Strategy and priorities

Pete Redfern

Chief Executive, Taylor Wimpey plc

Thank you Chris and thank you Jennie. As I said up front, I think, slightly more than usual, most of what I will cover will be a bit more discursive, not loads of numbers. Although, on customers, actually, I will set out on one of the upcoming slides, what we see as a more rounded basket of things that we think make for a way of measuring great customer service, which we haven't done before. So, there are some things that I don't think will surprise you but we've never been explicit about before.

But first of all, I touched right at the beginning, and Jennie and Chris have both touched on several of these areas, things that we have been doing that we think are really key for building a meaningful and sustainable advantage. And I have talked about the strategy for large sites but there is something else that I want to say. I won't go back over apprentices because we've touched on that, but we do think in the long term, there's lots of value there that's not yet released. And I will touch on the other areas. I think build quality in some ways for us, as we look back at last year, was the clearest green; Jennie has gone through the detail. We do think in the long term it is going to be more and more important.

I think the short term customer surveys are important and we're not for a second pretending that, we don't care about being four-star or five-star, we do. But actually, the bits of quality that customers don't see are the bits that actually in the long term are most painful both for customers and ourselves. And if we can't get to a point where we are delivering consistent strong underlying build quality across all of our sites and all of our businesses, then I think in the long term we will have a problem. So, that is why we have invested in that and that is why we are so pleased about the underlying performance of that, as we have said, in an environment where we were stepping up the build production on each of our sites.

But I will go back to customers and the first of these gridlocks. Of course, with having the sort of slippage in that highly visible, shall we say, five-star to four-star band around 90%. That in itself is disappointing. But actually, if we look at every other measure and if we look at the attitude of our own teams internally to customer service, 2019 was a really good year. And actually, if you looked at it as a year in isolation and certainly if you looked at it – as Jennie touched on – the early start to this current customer care year, we're comfortably in a five-star bracket.

But actually, we've been looking at a broader range of customer measures. We've been looking at community engagement, with a new community engagement plan, which is what our customers told us they wanted from us. They didn't want us to get too fancy, they wanted us to help them with the early stages of developing a community.

We've been looking at placemaking. Now, if you look at the more recent Government announcements on placemaking and design, we feel very well prepared for that because we've been investing a lot of time and energy in both working out how we want to approach it, but also getting our people set up. So, we think we had a very good year in a sense of our engagement with our customers. Things to improve on, not perfect, but actually I think directionally very good.

Going to our strategy for large sites. I'm not going to repeat what we're pleased about for last year, I'm going to focus on the areas we think we can improve. And Chris particularly touched on this. We came into this year clear that whilst we were very pleased with the step-ups in sales rate and build rate, we were not pleased with quite the balance on margin, both on cost and on selling price. As I said, we think we gave up maybe 0.5% on price.

But I think what concerned me was that we weren't really able to finely quantify that as we went through the year. So, actually, you can only really look at it retrospectively. And I think it's why we came into this year more focused on making clear price gains because we felt there's a better catch-up as well as a more fertile market environment to do that, and it's why we're being very explicit with you about the price gain in the first sort of eight weeks.

And just to be clear, that price gain in the first eight weeks is a kind of overnight gain from the 31 December to 1 January; it's not a gradual accumulation. Anybody who wants to take that 1.5% gain over two months, multiply it by 6 and get to 9%, you're on your own. You're very welcome to it but it's not how we see it.

But I do think in the environment that we see – and I'm not obviously absenting any major impact of coronavirus or any sort of totally new news. We don't see any impact at the moment but, you can't totally rule that out. But in the conditions we see at the moment, yeah, my instinct is that takes you to a 3-3.5% price inflation for the year. It's from here, I don't think it's particularly gradual, it tends to go in phases, so we will be looking again closely at prices, probably, in April and May and then probably again in September and October.

But one of the reasons we're being slightly cautious on volume is part of my job is to give the business some options, and some choices and we have said we want to just rebalance slightly more towards margin. I can't do that if I'm actually beating the whip over our business units and every site on maximising their volume. And the 5% growth that we had last year was at the top end of what we expected, so I have to give them a bit of space if I want for them to focus on something different on both price and cost.

Chris has talked a lot about cost. It's really hard for us to say the cost of stepping up volume production was X because we were doing so many other things around quality improvements and other things. But undoubtedly there was a cost, there is a cost to making that change; a 15% improvement in build per site is a radical shift. Actually, to do that without any cost impact is always going to be impossible. So, a little bit of pulling that back and actually, as we work through this year, working out how we get a bit of that efficiency back, I think, is key to us.

Probably the most important piece on this slide, though, is the last piece around mix of sites. And Jennie touched on it but I'll look at it from a slightly different perspective. You all know that our outlet numbers have gradually come under pressure through the last three to four years. It's not where we would ideally want to be. The large site approach gives us an important lever on those individual sites and an important lever overall, but we have said consistently for the last two years that we would rather have more small sites. We've been saying that to our businesses and in our land acquisition.

The slide 9, the one with all the coloured balls gradually moving up towards the top right-hand corner is a problem in that, however. If we continually drive for the highest possible margin, we will also continually drive towards large sites. And actually, over the last two years – and I don't apologise for this, Jennie and I have had the conversation many, many times, and both of us have felt loathe to give any ground on margin for –for our business units, given the overall level of political risk and economic uncertainty that we've seen. So, we've been saying we want small sites but we haven't really been giving our businesses the freedom to be a little bit more lenient on margin on those small sites to grow them.

We don't regret that because that was the environment we were in but – and I will come on and talk about the environment. As we look at the next 12 and next 24 months, we do feel that's an adjustment that we need to make, we do feel that means we need on those sites to look at slightly lower margins. It doesn't change our guidance. Actually, if you look at, our site acquisitions, it should take us to a margin of 23-24%, not 21-22%. And actually having the space to acquire more smaller sites so we can give the business some choices and blend, where we go for volume, where we don't go for volume over the course of the next four or five years is important.

So, we are committed to making that shift this year and next. It won't happen overnight but making sure that we get the right blend. We're very happy with the larger sites we've got, we're very happy with the strategic land that we have but we need a mix. And so making sure we make that shift is important because otherwise, we'll back ourselves into a slight corner over time.

Standing back and looking at the environment – and I think this is really important, we're a fairly cautious bunch. Jennie and Chris never believe this but I'm probably fairly cautious as Chief Executives go. And actually, we tend to see the downsides and not the upsides. I do feel and I think we collectively feel that we are in a different world at the beginning of 2020 to where we expected to be and to where we've been through the last two or three years. That colours my views of the strength, I would say, on short term smaller sites and how we look at margins on those sites.

But actually, there is a different feel in the market. It's not that everything is rosy, everything is wonderful; of course there are risks, but actually it does not feel that we are a particularly late cycle. It certainly does not feel that we have had the normal boom-type scenario in prices and in transactions and everything else and it feels like interest rates are likely to be low for the longer term. And we'll come onto some specific risks but our sense of the road ahead is that it is longer than we thought and therefore the investments we've been making we think are right because they are for the longer term, but also there are some things we can then look at in the shorter term about how we run the business that I think give upsides in the nearer term.

And I think if you look at the political environment, whilst there are regulatory concerns, a lot of which Jennie has flagged, having a more certain majority government of any stripe, yeah, is fundamentally important to us. And what we see outside London and the South East is that customers have moved totally beyond Brexit. I still think there is upside in London and the South East actually as we go through that process and people distance themselves from those concerns. I still think it's an overhang in jobs that are more financially linked. But outside of London and the South East we've already seen that cloud lift.

I think on the risks, we feel very well placed on Help to Buy, we feel very well placed on some elements of the new regulations like starter homes and on design standards and placemaking. We feel very well placed on skills shortages; the investments in apprentices we think is right. It doesn't pay off over night but actually it puts us in a strong place. And I think we are in a strong place with our subcontractors as well. I think as Jennie touched on, the regulation around environment and sustainability – and I will come back to our strategy on that in a second – we feel well placed but that it's very uncertain at the moment because we're going through consultation and particularly we're not quite sure what the transition rules will be, which will be the key piece. But actually those risks, I think we are in a better place than most to manage.

What are the areas we want to improve? And the middle of these margin and cost focus I've just talked about, so I won't repeat. I did say I'd set up a little bit of a basket of customer measures and none of these will surprise you but we have never said we want to be a five-star builder, so, let's not pretend. We want to be a five-star builder every year. We want every one of our businesses to be a five-star builder every year. In the ideal world, we want every one of our sites to be. But it's as much about consistency and quality overall as it is about, the overall national score for us as a business.

We also want to improve our nine months customer satisfaction survey, so we are setting out a target of 80%. And just to be clear, that 80% target is for the whole basket, not just the 'Would you recommend?' score because we think it's a better measure. We don't really have the choice to use that whole basket for the eight weeks' survey because there's so much focus on the star rating but we think it's a better measure to use the whole basket.

And lastly, maintaining a score of at least four on the CQR. Then you are looking at every facet of customer service. Possibly not the really long term things but you look at build quality, you look at what people feel about the development nine months after they move in and you're looking at their short term service. So, that's what we would see as rounded, great customer service.

And I think on land strategy, I've already touched on some balance of smaller and larger sites, but I don't want to miss the importance and the value in strategic land. As the overall land market has got easier, it's been easier to manage without strategic land. And actually, arguably the margin gap has shrunk; as margin on short term land has gone up, then strategic land hasn't necessarily increased as much. But still, the ability to control land supply, to have upsides on price and particularly, as we go through regulatory and political change, and Jennie mentioned some of the climate change emergencies announced at a local level, that will delay, short term pricing selling of sites. It's those sorts of environments where that long strategic landbank, like a long order book on sales, give us protection that not everybody has.

Just pausing briefly and talking about one specific area that we think will be a key focus for us in 2020 and our environment strategy and how that impacts from a regulatory point of view. This first slide just looks at some of our historic performance. Yeah, and we don't think that we're very good at selling this and explaining what we've done. We have already reduced our emissions intensity by 43% over the last five or six years. What we want to do is set out a target for the next five or ten years and we just want to tie that into the new regulatory environment. We have been looking particular closely over the course of the last 18 months at our supply chain. So what for us is a new measure on the CDP approach to supply chain, we're really pleased to get a high supplier engagement score and I think a rating of A. There are a number of things going on in the business around biodiversity and looking at how we set a meaningful target for increasing biodiversity at a site-by-site level at the moment.

So, lots of really positive existing measures but what we really want to do later on this year is set out a clearer strategy for the next five to ten years. That has to tie into the regulatory environment. We really struggled in the early years of this century with a set of regulations that weren't really defined, and so we were always second-guessing what next. We hope we see over the next few months real clarity on particularly carbon efficiency in new homes, how that target is set. Jennie gave you some of the examples that are being talked about but that is very important to us because we want a target that ties into those. Might go further, might go a little bit quicker but certainly doesn't ignore the regulatory environment that we operate in.

Clicker's not working.

Chris said I would go back to the medium-term targets and particularly margin. And yeah, there will be a separate slide on margin that I will follow up with, we will talk about the margin bridge between where we are now and the medium target of 21-22%. We're not changing these targets but we did think it was a good time to stand back and look at them. I think on the cash conversion and the return on net operating margin, there's not a lot to say. We still think they are reasonable targets. Given my views of the environment and that I felt we have a longer road, we would be happy to extend the time period over which we think they are reasonable targets. And I don't mean push out the point when we'll get there. I mean extend the period over which we'd say that's a reasonable place for us to operate in but at this point we're not changing them.

I think on operating margin, we have – and Chris and I particularly have spent a lot of time over the last two months really looking in the mirror, going through it after last year and saying 'Is this really realistic? What are we saying about the environment that we need to see? Do we need price upside for this to be real?' And I think we're both strongly of the view that we don't.

If you go back to slide nine, to that chart with the land acquisition margins on it, all we need to do to get to that level is have a stable environment where price and cost are more or less offsetting each other. And just to be clear, that means that price gains are about half of cost – of cost inflation on a percentage basis, and to deliver the margins that we're buying land at, at the moment. And so I'll take you through the bridge from where we are now to there. And it's not absolutely mathematical, it will be this number and this number and this number, but it gives you a sense of where we see those changes.

I think the one I'd just spend a couple of minutes on, though, here is landbank length. We set out a target landbank length of 4-4.5 years and that was owned and controlled short term land. I think all I would say is we have seen, as we expected to, a reduction towards that. We saw a reduction in 2019 as volumes grew from 5.1 years to 4.8 years so we're not too far away from the top band. I think I would steer you towards expecting us to be at the top or just above the top of that band because as we look at that mix of strategic land and adding in some smaller sites as we go through the next couple of years, the combination of those as we go through it, with probably a slightly more positive view of volume growth over years three, four, five, we're likely to be slightly above it rather than right in that band. But that's against a backdrop where we've reduced from nearly six down to where we are now. So, directionally right but probably particularly with controlled – therefore not particularly paid for in cash – strategic land sitting in that number that we'll probably be at the top end of it.

So, coming back to margin, I'm well aware that the right-hand side of this takes you to a range not of 21-22% but of 21-22.5% and actually, you can imagine in the real world the range is wider than that. If we absolutely consistently nailed every land acquisition that had large sites at the proportion we have at the moment, you'd be closer to 23%. But it gives you a sense of what the main moving parts are. So, I will talk through certainly the first two bigger ones and then more generally the other three.

The first and most significant movement is what we loosely call landbank evolution. Now, that in this context has two main elements. The first is what Chris referred to as younger land. If you go back and look at our margins at acquisition over the course of the last three years, they have been gradually growing. And there is a simple mathematical piece, as those completions come through, then we will tend to see a boost to the margin as they happen. And actually whilst we want more – want more small sites, actually the large sites that we have coming through in the pipeline are generally at higher margins, so that has a natural impact.

The second is the unwind of margin pressure on, particularly, London and the South East. It's not huge but we have had a headwind of roughly 0.5-0.75% from sites particularly in Central London but actually increasingly in the wider London market that actually operate because of selling price reductions below their acquisition margins. And so, as that naturally unwinds in a flatter environment, you get a natural boost to the underlying margin. If you look at it slightly differently, in 2019 the input from Central London will be very low but actually it's been a relative drag on the average margin over the last couple of years.

So, those two elements are the biggest components. The first is the bigger of the two but those two elements are the biggest components of the landbank – of landbank evolution. It's probably the hardest to understand but it's actually for us the most mathematically easy to quantify and see.

The second is the build cost efficiencies that Chris has talked about and on top of the actual cost savings, there's also the fact that in 2019 we put in costs that weren't in our original budgets. So, we put in costs on quality and customer service that weren't in the original acquisition budgets. We don't expect to do that again. We're at an almost a full run rate in 2019 and we certainly at a full run rate by the middle of 2020. So, because we haven't got that same headwind as we go into future years, then that's a natural unwind – plus, as I say, the cost savings that Chris has talked about.

I think the others are reasonably self-explanatory. We've talked about the focus on price. Actually that's less than we've already achieved but you've got to strip out what you think is the normal underlying market improvement. And on things like selling overhead efficiency and customer service efficiency where we've put in new plans and new people, actually as we optimise those, we don't need quite as much resource to achieve the same result over time. And the light blue bands give you our low-end expectation of what those differences make, the dark blue the high-end. There's lots of different ways we can look at it but all of them point to that being a reasonable guidance over – on margin.

And the inevitable question which I'll try and answer before it's asked, is, 'Okay, that's fine but when?' You know, is – in a balanced stable market 2022 with – you know, Chris has talked about 2020 movements first-half/second-half, seeing meaningful improvement then in 2021, and feeling that that band is reasonable in 2022. And actually, the exact path there will depend very much on the market and how effective we are in driving those things through and what the underlying conditions are.

Sorry, gone backwards. So, final slide and just to wrap up what are we focused on at the moment? We do want to nail a five-star customer service score. It's where we are at the moment but we can't be complacent. We do want to see an improvement in the nine months score in 2020, although what I'm most interested in is a real focus on it as people move on from the shorter-term measures and a real focus on it so that actually the final quarters of plots in 2020 are really showing a meaningful improvement as we look at those scores nine months later. That's really what I want to see.

Building on that strategy on large sites to get – to maximise price during the year and just squeeze out that little bit of cost efficiency. And cost reduction and efficiency overall, it's been far more action-orientated over the last three months and a little bit less jam tomorrow.

Cash generation, which Chris touched on but I also think we need to look at this year, and it's not about flagging what this year's numbers will look like, it's where our work will be this year building into next year, looking at WIP efficiency. We've changed how much we invest upfront in sites to make sure that we provide the right environment for customers. We don't want to go back from that but as with anything else you change, we now need to look at that and work out how we make it as efficient as it possibly can be.

And on people and more broadly the environment, setting out our sustainability and carbon strategy quite clearly this year. Really making that apprentice programme fly and particularly the first tranche of apprentices from that new programme as they transition into direct labour and actual adding value, making sure we have the right structures for them in place. And for our people, keeping things safe and probably really importantly just keeping things as simple as possible because we have been slightly guilty of overcomplicating things as I look back.

Thank you. We can open up for questions. If we start here and then we'll work across.

Q&A

Gregor Kuglitsch (UBS): Thank you. Is this on? Gregor Kuglitsch from UBS. Can I come back to the sort of carbon-neutral home? I think this was something that we saw in the past. Just remind us sort of maybe – I think you were talking about 20-30% reduction in the sort of short term and then to go to zero. In your own assessment, what's the sort of incremental build cost, £1,000 per home or something like that, to say go to 20-30% and I suppose ultimately 100%. And I think obviously the curve kind of steepens.

And the reason why I asked that is because obviously your margin bridge doesn't kind of account for that. I appreciate it may be a little bit of a longer term point but obviously there's that headwind that we may have to consider and the second-hand home market obviously doesn't have to comply with that. So, that's point one.

Point two is on Help to Buy. I think if we multiply out the sort of numbers you give on first-time buyers and the price caps, I think we're talking kind of something like 40% of Help to Buy is sort of at risk, if you want to come next year. How much of that do you think you'll kind of lose or put it differently, how much price discount or incentive or whatever else it may be do you have to put in to kind of keep that stable? And how's that accounted for in your – in your margin outlook?

Pete Redfern: Okay. So, if I deal with the Help to Buy question and just give kind of a little bit of an overall sense because I think timing is key on the carbon neutral homes question. But then let – let Jennie give you a more detailed answer on that. On Help to Buy I think your maths is about right but we don't really think 40% is at risk because actually, almost inevitably because they're not first-time buyers generally and because they're buying at a higher price point, then, they are the most capable customers of not using Help to Buy, potentially in some instances buying a slightly smaller home and we've talked about that many times before. There is a trend with Help to Buy of people buying a larger home and when we look at making sure our segmentation is right, that's one of the things that we're looking at is how we make sure that, there has been a drift that has followed Help to Buy from two-bed homes to three-bed homes and making sure that our mix kind of reflects an adjustment back of that.

So, I think our assessment on the price caps is the level that's genuinely at risk is actually quite low. It's hard to put an absolute percentage on it but it's – that's why we see it as a manageable risk overall. And actually that includes that it's at relatively low in terms of having a meaningful price impact. If the conditions and the level of confidence that we see are as they are at the moment, I think, you know, our level of confidence in that is pretty good. Because it – and we've always said, it depends what the environment is like when it happens. If – you know, at the moment we probably have more customers still than we can generally satisfy, so actually that gives us capacity. If the confidence we see at the moment continues to grow through that price gap period, I don't think we have a lot of residual risk and worry there.

I think it's harder to be as confident in 2023 when it's withdrawn and that will massively depend on what the mortgage lending environment is at that stage. But through the price gap period, I think it's one of those friction issues that we manage all the time and that we could get, as Jennie detailed, we've got a lot of mitigation in place. We're doing everything that we can. I think you add it all together and that actually it's manageable.

I think the carbon-neutral homes one, in all honesty, and it's why we are mentioning it, is a more difficult one. Our concern is not so much 2030 and what the level of cost is, and I'll let Jennie answer the specific question in a moment, because I think by 2030 most of that is priced into the way that we buy land. You know, one of our concerns through sort of the 2005-2008 period was we had unclear regulation that had an implementation date that had been set but no way of actually being able to price or judge it.

Now, the discussion and the debate has moved on and it is more clear than that but it's still not quite clear today. And what does concern us a little is that if the transition timings are much quicker, then actually it's harder for us to just adjust, get the supply chain right and then build it into valuations as well. So, it's more about – it's why it's more about timing in many ways than it is the particularly concern than it is about necessarily quite what the impacts are.

I mean, I'll let Jennie answer the specific question on what we think the costs are.

Jennie Daly: Yeah, I mean, in terms of the overall net zero carbon by 2050, we'll take it in steps so the consultation that recently closed on future homes standards talked about two options to get us to 2025, with those coming in as part of the building regulation requirements effective from October this year onwards. Of the two options, the 20% and 31%, clearly there will be a doubling of that and more by the time we were hitting 2025.

For option one, which was the 20% reduction – and these are MHCLG figures. The MHCLG consultation period – paper noted a cost of around £2,500 for option one. Now, that's predominantly a thermal mass type approach to energy efficiency with some technologies that we're familiar with, like photovoltaic cells and the like.

Option two, the reduction of 31%, now I mentioned in my presentation that that introduces the need for new technologies and probably more development within supply chain than we see at the moment. That's likely to require technologies like air source heat pumps, MVHR – that's mechanical ventilation heat recovery units – with some consequential changes, and option two would be at the higher end of sort of £4,500.

So, depending which option government went for and they consulted on two, albeit government's preference as indicated in the consultation was for option – for option two and the timing. And one of the points that we are unclear about is the transition; it's the transitional arrangements really and our ability to bake that in then to land acquisition as we – as we go forward.

Pete Redfern: Yeah. And I think what I'd say overall is we think it's material enough to flag and mention and you're right, I haven't built it into reconciliation because it's so hard to quantify at the moment. But I would also say that having been here a long time and seen a lot of things change, that actually whatever the final conclusion is will be quite different to probably both option one and option two, and the various different transition arrangements because that is the way these things tend to work. So, you can get very concerned about something and then actually 12 months later you're thinking, 'Well, that kind of went over without really any fuss whatsoever.' So, we are not saying red lights flashing, we are saying this is probably the one that we're most concerned about at the moment, worth being aware of.

Gregor Kuglitsch: And it would theoretically kick in in October or it's that unclear, or whether it's a gradual shift on a percentage of completions or something like that?

Pete Redfern: Yeah. It would kick in on October but it's unclear what 'it would kick in on October' actually means, and that's one of the main elements of the consultation and the feedback because we just don't think that's workable. You know, forget the cost side of it, there's just not the supply chain to actually make that work, if you see what I mean? And I think that – so I am fairly confident that will change, but that's why the transition kind of concerns us because that's the bit that needs to move the most.

I think, given the choice, having a much longer run-in period but going with option two we'd probably grab, and it's actually a better environmental result in the end as well. So, sometimes doing things better but taking a bit longer is the right result, so it's….

Gregor Kuglitsch: Thank you.

Pete Redfern: Do you want move to the front row and we'll just move along and go back?

Arnaud Lehmann (Bank of America): Thank you very much. Arnaud Lehmann from Bank of America. I have three questions, if I may? The first one, just putting two and two together, on the one hand, you've got these Help to Buy caps that are coming next year; on the other hand you're seeing more house price inflation, and you mentioned the 1.5% and maybe +3%. I mean, is there a limit to your – are you going to be underperforming what the market would accept, let's say, just to stay under the cap? What are you thinking around that? That's my first question.

My second question is on the cash position. I think you're guiding for £200 million reduction year-on-year. Could you give us a bit of colour; is it work in progress or is there taxes issues again?

And, lastly, just a technicality and I apologise if it's a silly question, but the – to benefit from the Help to Buy scheme currently you need to complete at the end of December 2020, but the new scheme starts in April 2021, yes? What happens to completions that are closing in the first quarter of 2021?

Jennie Daly: Yeah. I –

Pete Redfern: Do you want to pick that one off –

Jennie Daly: Yeah.

Pete Redfern: – and then we'll move to Chris on cash and I'll…?

Jennie Daly: The Help to Buy – the Help to Buy scheme on a rolling basis has always required completions for the next year scheme, to be December 2020, by the December of the previous year. It's just that it's obviously more meaningful this year because it's the close of one scheme and the opening of another. Normally, Homes England would announce the provisions that move into the following year just around December. So, our expectation would be that we would see our allocations for 2021 around December 2020 and be able to play those into our forward sales. So, it's just more meaningful because it's the end of a scheme, but it's actually been the way that it's worked historically in any event.

Pete Redfern: Yeah. So, I think the way we see it is we assume the scheme practically comes to end this year but there's a bit of leeway on that, if you see what I mean?

I think, if I deal with the price question on Help to Buy and then Chris, you pick up the cash. So, I don't think there's a particularly strong link between price caps and overall price growth for the business or for the market for the year because the price caps will affect marginal plots around that point. And one of the things we're looking at is how to make sure – if you think of it like a stamp duty shadow that the price – just over the price cap where you really don't want to be selling a home because you know you're going to end up being selling under the price cap; whereas if you're 15% above the price cap then it's not really an issue.

So, I think there's a – there will be some plots around the margin where it puts an effective cap on price, but because you're talking about a broad mix of regions and only certain part – I don't you'll see that as a meaningful break on pricing. I think the bit to be aware of, and whilst I think as I said to the earlier question, I think we feel well placed to mitigate – you can't be 100% sure that there isn't a risk, the bigger question is around overall saleability and confidence around those price caps, rather than it being a mathematical impact on average selling price for the year. And then cash.

Chris Carney: Just looking at cash guidance, I mean, this far out I think it comes with the usual caveats on timing of land spend and, obviously, market conditions, but there are a couple of one-off items that flow through. So, there's the new corporation tax regime and that accounts for around about £70 million of extra outflows in the first half, and then we've also got the unwind of the exceptional provisions and that's in the order of sort of £50 million, we're estimating for this year, and then obviously a little bit more in land spend.

Andy Murphy (Whitman Howard): Morning.

Pete Redfern: Hi.

Andy Murphy: Andy Murphy from Whitman Howard. Just quick one while we're on the subject of Help to Buy. Come 2023, what's your views of any discussion with the government as to what form any extension may or may not take? Will it be more – could it be more focused on affordable housing; will Help to Buy cease to exist completely or any, sort of, post Help to Buy help?

Pete Redfern: Yeah. I think our sense post-election has been there has definitely been discussion around that. It's not yet got to the point where there's been meaningful discussion on that particular issue with the industry, but you can tell there's been a conversation. I think the announcement that they made – was it the day before yesterday? – you know, certainly on the price caps makes it fairly explicit they're not planning to change that, which, if you'd have asked us a month ago, we'd said, yeah, that they were definitely thinking about, and probably makes it less likely that they will look at an extension.

But we do know, and it is very clear, and we are also engaged in what conversations there can be with the lending community on not just normal, kind of flexibility of lending around that period but what other options there are. But it's hard to say, well, because, if you think, you've got an – you've had an election result, you definitely see a government actively focused on a large number of questions having, really, been unfocused on anything genuinely policy related for the previous 12 months. But it's still relatively early days and 2023 probably feels a long way off to them compared to some of the other things they're having to decide on.

Will Jones (Redburn): Thanks. Will Jones from Redburn. Three, please, if I could. The first just coming back to the issue of buying more smaller sites going forward. Is there any way you can help us quantify either a percentage of sites or plots last year; how much was what you might deem smaller sites and what that might move to, I guess, over the next year or two? And then, linked to that, I presume the – what looked like quite a useful jump in the second half land-buying margin, compared to what you showed us at the half year, was probably because it was entirely new site – larger sites, maybe, in the second half of last year. How much lower, I suppose, would a typical smaller site be compared to a larger one, if it was, say non-strategic?

The second one was just around margin, just coming back to the regional data you give us around profitability in your three divisions. A couple of years ago it was the case that the Central and South were usefully more profitable than the North. I think they're pretty much converged now, more or less. When you think to 21% to 22% in a couple of years' time, is – should the South be structurally higher because of capital employed or would they all be in that band? Again, just, I guess, regional thinking around the margin progression.

And then the last one's really around weather. Just with the wet weather in mind of late, is there anything that we need to bear in mind in terms of its impact on your build programmes? And, linked to that, there's been quite a bit of media coverage around house building in areas of high flood risk; I think there's a 20% number flying around in the media that the industry's working off. Is that something you recognise and how do you approach the issue of flood risk when you're buying land?

Pete Redfern: Okay. I'm going to miss some of those, Will, because you were going fast and I think I got most of them. On small sites, I think I can give you – and you have to put square brackets on it and give it as a sense of direction rather than anything else – I can give you a sense on margin. It's a bit harder to give you a sense on forward numbers, and we can very easily give you a number, but I haven't got it in my head at the moment, on small sites last year. But I'd be slightly loathed to give you a sense for what we think that will be in

2020 and 2021 because it's so much dependent on what the land-buying environment is like, so it's quite hard to give you that kind of guidance.

On margin, the number I'll give you is about 2%, and it's not that I think that's the gap between large sites and small sites, I think that's probably a bigger gap, but our large sites tend to be quite above our hurdle rates on an average basis. And what we're saying is, actually, we need to acknowledge that small sites need to go slightly under our hurdle rates. So does that mean there are – so it's – the range is, perhaps, between 18 and 20. I don't think it's as low as 18, I think 19 is probably a fair number, but I really don't want to fix that in stone because it will depend on market conditions; it's just giving you a sense of what that is – but 2%, give or take.

And in the sense of what is a small site? We're not talking about 20 units or 30 units. We might be talking about some that are 70 or 80, but we're particularly, kind of 100, 120, that's going to – I – is that – would you agree with that, Jennie?

Jennie Daly: Yeah. From a number of outlets, small site outlets, last year we had about 102 that we defined as small sites, and my small sites are slightly bigger than Pete's, you know, up to 200. And in particularly London and the South East, and, sort of, in the Home Counties, a small site would be sub-100 quite comfortably; we would be comfortable with that.

Pete Redfern: Yeah. What, I think, we don't want to do, and it will be an easy way of – if we were trying to cosmetically address that balance rather than get under the skin of what it's really about, it's parcelling up large sites, selling off bits of large sites, buying bits from our competitors, which it's not that we don't do at all but we do a lot less of than we ever have done, a lot less than others do. But I just think you end up, it gives you a short term gain. Actually what we want is not a huge number, but a small number of genuinely unique individual sites where we can run our own strategy in terms of price and quality and location. And they are harder to come by; it's easy to divide up big sites but it doesn't necessarily solve any problems.

On weather, thank you for asking the question but no. You know that if there is a risk we'll be the first to mention it to you. Of course, if the current weather conditions continue indefinitely they will, but actually our sense at the moment is we are pretty well-progressed with our build programmes anyway. It's not there's no impact from winds, particularly, on sites, of course there is, but – 2018's the only year where we felt it had a meaningful impact on annual build programmes, and part of that was probably because we were under a bit of pressure at the beginning of it. So, it's not there's no risk, but at the moment we're – there's nothing we will flag and there's nothing that we're particularly concerned about.

And kind of similar sort of answer on flood risk. I think there has been a meaningful step-up in the amount of control, both for us as a business and, from the Environment Agency and from a planning point of view, on locations and mitigation for flood of new homes. It's not that we think it's a non-issue, but we don't think anything has suddenly changed in the last sort of six months on what – on that. If there are issues with build on flood plains over the last sort of 20 years, they're actually front-end weighted rather than back-end weighted because the controls are so much tighter than they were, so nothing we're looking at the moment that is a particular concern.

And margins and regions I think there are two things at play, one's short term conditions and one's longer term dynamics. You're right, the South East has been weaker on margins but that's more to do with short term conditions, and, yes, we do think that should sort of redress to some extent over the next couple of years. Will it get to a point where it's ahead of the other regions? Not quite so sure at the moment because I think it will be – that'd be an optimistic view of the South East market, but that balance should, come back sort of into a more neutral position. And I think I touched on it earlier, I do think there is upside on the London and the South East in the second half of this year and the first half of next year, as those remaining Brexit concerns unwind, because I think it's the one area where it's a still a meaningful headwind in people's minds because people in, you know, dare I say financial services and analysts and the like are more focused on the global nature of their industry and their business than our average customer elsewhere in the UK.

Do you want to just pass it back? Come on.

Chris Millington (Numis Securities): Morning. Chris Millington from Numis. I just wondered, first of all, if you could just comment on the scale of this margin reduction you're expecting for the first half so we can get a feel as to how much you need to bounce back for that flat profile you're guiding to for the full year?

The second one's really about average net cash through 2020. If you do end up with £350 million at the end of the year, Chris, and I understand there's lots of moving parts here, will you still be in an average net cash position, kind of a daily or weekly average net cash position, through the year?

And then the final one's just, really, on the penetration of this new standard product and how much further to go there is?

Pete Redfern: You're going to do the first two, Chris, and let –

Chris Carney: Yeah, yeah.

Pete Redfern: – Jennie pick up the…?

Chris Carney: So, on half one, you know, we signalled in, I think, January that, you know, we would see a step-down in margin and, you know, that's principally because of that ongoing drag from build cost inflation running on from last year. And, you know, the strong order book position that we had at the end of the year and with, you know, the pricing in that that's relatively flat, that means that, you know, that build cost hits in half one, along with those investments in sustainability that you saw on the slide that – where the full run rate then impacts. But I think, you know, we need to also focus on the fact that our guidance for the full year is for, you know, operating margins to be in line with 2019, so, you know, the half-one/half-two split will be more pronounced than it was in terms of margin.

So, volume, we're saying is pretty much in line with 2019 but it'll be more pronounced in terms of margins in 2020, so I'd expect that the gross margin for the first half of 2020 will be lower than the gross – the second half, whereas, actually, in half-one and half-two 2019 there were very similar gross margins.

And then, yeah, the second question, what was it again?

Pete Redfern: Average cash.

Chris Millington: The second question was on your average cash, you end up with £350 million year-end.

Chris Carney: Yeah. So, good question. I think the average cash for 2019 was £160 million, obviously with the timing of those exceptional cash flows, it will reduce. So, I think it will be a lot closer to zero than it has been in the past. But obviously, it massively is dependent on the timing of land payments through the year.

Chris Millington: And would you then expect it to sort of start building thereafter, Chris, because clearly your provisions start reducing a little bit?

Pete Redfern: Yeah.

Chris Millington: And sorry, there was this standard product question as well and just -

Chris Carney: Yeah. No. Sorry, Jennie. Yeah.

Jennie Daly: We've made really good progress on the sort of utilisation of standard product and last year in completions we were around sort of 80% of our completions, were our standard product. There's a number of stages though that we've been implementing, so our standard product a few years ago was actually quite a large range, some 100 or more of house types. We consolidated that and we went through quite an assertive process within the business in 2018 and we collapsed that to a range of about 45 units.

So, we're in the process now of starting to see the benefits of that wider standard house type range starting to narrow in too. And we – if I look at the land acquisition request that came through last year and the adherence to standard product, it stepped up again but on a more consolidated basis. So, we would expect to see benefits on cost and efficiency driving through that. And then the final step is moving into the new house type range we would see a reduction again, so it's constantly effectively tightening down on what that range definition is.

Chris Millington: Thank you.

Pete Redfern: Just keep it moving around.

Sam Cullen (Berenberg): Yeah. Sam Cullen from Berenberg. Just a couple, if possible. First, kind of another dip I guess on Gregor's second question on Help to Buy. Can you elaborate on the level of incentives in Help to Buy sales versus non-Help-to-Buy private market sales and whether they differ at all?

And then, secondly, just on kind of labour availability post the kind of upcoming changes to immigration rules in the UK, the impacts, etc.?

Pete Redfern: Okay. Not too much more that we can say on Help to Buy that hasn't been said. So, I'll give you an answer but a relatively short one. There is a difference, it probably averages about 1%. It's really hard to pin down – and it's certainly not something that we target, but probably about 1% difference.

On labour availability – I mean, our view since the referendum has been, and this has grown increasingly in confidence, that the short term risk to labour availability, almost whatever

Brexit has ended up, was pretty low and that's what we've seen. We have not seen a meaningful exodus from existing kind of originally European workforce, particularly from Central Europe that entered our industry in 2003 to 2008. We have not seen those people leave, we don't expect to see them leave and there's been no measurable shift in that.

We do expect, and always did, that in the end it will lead to – whether because the rules didn't allow people to come in or whether because the environment meant less people chose to come in, that we would see less of an influx of new people into the industry from Europe. I'm not sure that we can quantify that that's true because it wasn't particularly high immediately before the referendum. You know, it was an older dynamic for us anyway.

But most importantly of all, we had already started to look very closely at direct labour and apprentices, and all it has done has made us redouble those efforts and feel something that we were playing around the edges of it we needed to really commit to. So, I think we feel almost ironically better placed for how we manage future skills and labour supply rather than more at risk because as a result of that because we feel that we're taking more active steps that are in our control.

And that programme has a cost. You know, it's not necessarily dead straight forward, but I think one of the thing I do think is worth touching on there has always been – and it's a bit like the large site thing, people have these kind of glass ceilings of you can't break through that that's always been true in this industry and it will never change. And in direct labour, that's been – you can't have a direct labour force and a real apprentice programme in the South East; it's all right in Yorkshire and the Midlands but it's never going to work in the South East.

Our apprentice programme is consistent across the whole country and there is no discernible difference in numbers or retention rates or anything else in the South East. It's not untrue that there are certain other messaging that you need to get right. You need to be able to different, a more diverse group of population. You need to have a different relationship with colleges but it can be done. And I think we have more confidence after two years of real experience in it that we can make it work.

Just pass it back.

Ami Galla (Citi): Ami Galla from Citi. Just two questions from me. The first, I was wondering if you'd give us a more longer term picture of the volume ambition that you have for the business beyond 2020?

And the second, on the directly employed labour point, is there an optimal level that you would want the business to have in terms of the directly employed labour versus subcontracted?

Pete Redfern: Okay. I'll take the second one first just because it flows on. I think it will be a slightly moving feast as we learn, but for me a sense of somewhere around 50% in the end but that's a longer term goal. It's not quite what we're aiming for initially.

But I think there is a strong argument that with a cyclical and geographically flexible industry, we need people to be able to move around sites and sometimes, in certain geographies that means moving quite a long way, than actually having 100% direct labour is both economically high risk for us and actually not particularly desirable for the people themselves. But I don't think you get any of those issues if you get up to about sort of 50%. So if it's working, we've got it right, somewhere around that level feels pretty comfortable.

But I think getting to that level is a fairly long term piece. So, it's – we'll take that in stages. And sorry, the first question was on…

Ami Galla: Longer term volume -

Pete Redfern: Yes. I think I wouldn't use the word ambition because we've always been reticent about volume targets. And I think actually if anything last year we probably over-went for sort of a volume lead. And so we definitely don't want to set ourselves a target that actually then makes the tail wag the dog.

But I do think if you get the large site/small site balance right, if we're right about a longer runway, then getting back into what we set out with a strategy in 2018, of a steady incremental growth of 3-4% a year as we get into 2022, 2023. And we've got to manage through those Hep to Buy risks and that may mean there are bumps along the way. But broadly as a direction, that feels reasonable and manageable. And with that large site strategy, a lot of those historic glass ceilings of you can't do that on that number of outlets or you can't do that with that number of businesses actually we feel give us choices that we didn't have and the others don't I think see.

So that gives us levers to pull, to get the balance right to make sure we've got enough sites to make sure we're not too dependent in any region on a small number but that let's us manage that kind of volume growth. So, it doesn't give you a number and a target but directionally, I think that's a reasonable view.

Aynsley Lammin (Canaccord Genuity): Thanks. Aynsley Lammin from Canaccord. Two questions please. Just on site numbers, just wondered, I think you talked about kind of flat average site numbers around 250 for 2020 versus 2019. Given your slight change and more cautious view on volume, just wondered what your view was on site numbers average for this year?

And then secondly, you obviously talked about a more positive turn about the kind of runway of this cycle and sounds a bit more confident there, but you haven't really mentioned much on the special dividend. So, is that something you're reviewing and we should expect another kind of three-year commitment given your views on where we are in the cycle?

Pete Redfern: Yeah. I think – so on site numbers, probably – it is probably slightly lower but it's marginal, so, it's somewhere in the 240s and 250, still in the limit but obviously starting at the low end of that. Getting there is an average. It's probably less likely but it's not fundamentally different. And as you can see from the number, the number of outlet openings is the same, it's just the sales rate. So, if you look at our December sales rates, still began with a nine, so our closings have continued to be high.

And, you know, it's slightly circular because the higher the sales rate, the lower the outlets; the lower the outlets, the higher the sales rate. So we're not deeply uncomfortable by that, but as I say, you go back to that conversation about small sites, we don't want to see that trend continue to be under pressure, so it's not a short term urgency piece but we would like to see that build.

I think on the dividend, we're not, for this year, thinking of changing the way we communicate it. You know, we will kind of give you a number for 2021 in July, as we have done in previous years. Chris talked about cash and confidence in the underlying level of cash generation in the business and that certainly has not waned but also, in a sense it's suddenly going to rocket. So, my honest guidance is you expect stability with a bit of growth in that dividend over the next three years rather than anything radically different. We're not setting out a new three-year plan. We have talked about it, and it may be over – at some point in the next sort of 12 months or so, we'll do that.

I think just letting the dust settle a little on the political environment first is probably sensible, but it is consistent with that view of the market. So, I would – certainly wouldn't rule it out.

Clyde Lewis (Peel Hunt): Thanks, Clyde Lewis at Peel Hunt. Three if I may please. Going back to sort of I suppose the big step-up in build rates, last year, the 15% that you flagged, did that actually have a positive or a negatively impact on your overall build cost inflation? I mean, I can imagine where you're having to recruit more teams onto sites, but at the same time, you can give them more visibility, so I'm just sort of trying to get an idea of how that sort of played out last year.

The second one that I have was on, I suppose, regional offices and sort of I suppose the product mix as well. You haven't said anything really about sort of structure, you're happy with what you've got there both from a sort of regional setup in terms of number of offices, but also sort of the product mix within each of the regions.

And the last one was on offsite or MMC. Again, you haven't sort of really said anything about that. We've danced around it quite a bit with future home standard, labour availability, quality issues. I mean, a lot of those could obviously be solved by stepping up sort of offsite. I'm just wondering where your current thoughts are on that.

Pete Redfern: So, impact on build cost inflation, I think – and it goes back to our earlier comments that I think in 2019, there was a relatively small, really hard to quantify negative from stepping build rates on build cost inflation. It's not huge, and as I say, we really struggle to pin it down, and – but actually over time, I think we can grind that back out. And actually in the long term, I think there's probably an upside on build cost inflation. It's the adjustment that's expensive rather than that it's inherently more expensive.

And I think one of the things that we'll be looking at over the next 12 months is to a certain extent what we feel happened in 2019 is, we did say to our teams, 'Look, we want you to do this, we want you to step up on build rates. We don't want to see quality slip, so we are going to give you the resources you need to do it, and we're going to front load those resources.' You know, because there is a tendency in any industry to say, 'Right, we want more and by the way, you've got to do it with the same or even less,' if you see what I mean.

So, we put the people in site management and of course, the way our accounting works, those people then go in to our cost base for the rest of the life of that site, and that impacts on our accounting for costs. We necessarily factor in the level of step-up in sales rate, therefore the shortening of the – that preliminary period, and therefore the spreading of those costs. So, I think as that unwinds, there's a little bit of upside to come back because I think to a certain extent, we over-cost that. None of those movements are huge, but I think there's a bit of efficiency as we make that work.

On regional offices, I – we are happy with the regional mix we've got. It goes back to breaking that historic link in people's mind of you can't do that with this. Well, actually already, in many instances, and the amount of volume at the regional office you could do, that mind-set had already been broken.

And we're not – for those if you remember it, going back to the Taylor Woodrow 1,000 unit business, because it's a bit like having a hard volume target that drives you, that in its own right drives you to do the wrong things. But naturally by doing the right things, our most successful offices are getting bigger and are able to deliver levels of volume in a positive way at great margins with large sites that actually would have been seen as unachievable 10 years ago.

I think on product mix, it is likely over the course of the next three or four years, it's not a huge change, that average product mix will reduce slightly and it goes back to that Help to Buy piece. The market has followed what customers can afford, and so I feel it would be natural for us to be doing slightly more apartments, for instance, than we are doing right now.

There has been no real logic to do it whilst the customer who might historically have chosen an apartment could buy a two-bed house and people would step-up. So, if you look at the next five years, it's not that we will end up with 40% apartments; just the general trend will be a slightly down I think. I wouldn't flag that in terms of where we're guiding you on selling price, average product size, next year or the year after, but that will be the longer term trend.

And on offsite and MMC, I think it goes back to my kind of comment on apprentices; actually having a workforce that's flexible and can adapt to changing methods is important. We still feel getting the business used to in all regions, doing both traditional and increasingly different forms of timber-frame construction is a good thing. At the same time, you use some words that made me smile and I wouldn't agree with that you can solve all of those problems by going offsite.

In our experience, and we have done a lot of different construction methodologies over the last 20 years. And if I look at a large number of those, I can directly relate them to the list of legal claims that we have because it is not a silver bullet by any means and there is no – when we look, and we look positively, but we're not anti the direction. You know, we have quite a lot of pilots going on at different things in the business. And if we were building more apartments, it's quite likely that we'd be moving towards some of those apartments being offsite, because it's one area where it does make logical sense. I get it for Berkeley; they're building a different product. But we have not found a meaningful offsite construction method that works on an ordinary low-rise site for our planning system with the amount of variation that you need.

We haven't found something that works that gives us quality, consistency, cost efficiency – if we do, we'll be the first to grab it. But I think we'd be talking about it because it was a box we needed to tick, whereas at the moment we're doing the work, we haven't found an answer that we think, 'Actually this one's worth it.'

I think that was all of them. We'll take the microphone off you and go back to Emily.

Emily Biddulph (Credit Suisse): Good morning guys. Emily Biddulph from Credit Suisse. I've got two questions please and both on margin for this year. Just the first one, on Chris's margin bridge table for 2019, there's 90 basis points of sort of cost investment in quality to come through. Am I right in thinking that's the same for 2020? Is it sort of annualised three from last year so there isn't necessarily sort of incremental investment from here, but as sort of the effect of that annualises, it should be a similar number in the 2020 bridge?

And then secondly, I think Pete, you said that from where we are at the moment of 1.5% price for the years so far that 3% might be a sensible number for the full year. If that's the case, is there upside to that sort of 19.5% margin guidance or is that sort of figure factored in already? Thanks.

Pete Redfern: So, I'm going to answer that first question even though it sounds like it for you Chris, and it's only so I can prove I know what it’s talking about. You've got to remember with that slide, it reconciles 2018 to 2019. So, if you look at reconciling 2020 to 2019, then that won't appear as a difference. But as Chris said, it isn't fully annualised and without – we haven't tried to put an absolute number on it for you but if 90 basis points last year, it is another 10 this year, so it's 110. You're into the right sort of order of magnitude, so there would be a small number in that reconciliation last year, but it's not that the 90% repeats itself.

And over time, and I'm not sure about for 2020, and this is in my margin bridge slide, if you like, over time, those costs get built into the land that we buy. It's the fact that we put those costs in late in the cycle of land buying, and – which we don't normally do, but we felt it was important that makes – that sort of made a difference.

I think on the 1.5% and 3%, I think there is – if price is materially kind of better from here, there is some upside for this year. I think we're not saying that's the best it could ever possibly be. I think, but you have to go back to we are currently about 50% sold on private legals for this year. You know, pricing does go in phases, so that 1.5% isn't then a continuous, you'll be another, you know, 0.5% this month, and another, you know, sort of – on a site-by-site level, it's more continuous than that, but overall it tends to go in stages.

So, because of the way that works, then in terms of back-end loading, the impact on this year is not a dramatic one, if you see what I mean. And the same works in the opposite direction in cost; obviously, we have a reasonably good sense by the end of the first quarter where costs are going to sort of land for the year in terms of their impact on completions. So, there is upside to that from price, but it's heavily weighted to kind of November/December completions and then into 2020/2021.

Emily Biddulph: Thank you.

Pete Redfern: Okay, I think we're there by the look of it. Don't think there are any more questions. Great, thank you for the questions, thank you for the number and the quality, and thank you for getting here this morning, and very much look forward to seeing you again at the half year.

[END OF TRANSCRIPT]