This announcement contains inside information.

9 November 2020

Taylor Wimpey plc

Trading statement

Overview

Pete Redfern, Chief Executive, commented:

"The safety of our colleagues, customers, suppliers and subcontractors remains our priority and I am extremely proud of the resilience and commitment shown by our teams. We are now safely operating at close to normal capacity with a product profile well positioned to meet customer demand. Our excellent customer and construction quality scores reflect our drive to deliver a high quality product and service to customers, in a responsible manner.

The trading backdrop remains resilient and the quick recovery of the housing market is testament to the underlying strength of demand and supportive lending backdrop.

We have made good progress in the second half of the year to date, maintaining a robust sales rate and building a strong forward order book. Looking ahead, we are on track to deliver full year 2020 results towards the upper end of market expectations and with strong operational momentum and positive forward indicators, our confidence in 2021 has increased. As a result, assuming the market remains broadly stable, we expect to deliver 2021 operating profit materially above the top end of the current consensus range."

UK market backdrop and trading performance

The housing market has recovered well since reopening after the second quarter shutdown and, despite the wider uncertainty, underlying demand continues to be resilient, supported by very low interest rates. Customers have benefited from the short term extension to the current phase of the Government's Help to Buy scheme and the Stamp Duty Land Tax holiday.

We have continued to operate through a pre-booked appointments model and have achieved a good sales rate of 0.76 homes per outlet per week in the second half of the year to date (2019: 0.93) and 0.73 homes per outlet per week for the year to date (2019: 0.97). On many sites, we are selling today for completions in Q2 2021 and beyond, and as construction catches up with sales over the next few months, we expect rates to improve further.

Cancellation rates for the year to date have continued to reduce but still remain slightly above normal levels at around 20% over recent weeks (2019: 15%). We operated on an average of 239 outlets (2019: 252) and have opened 56 outlets in the year to date.

Customer forward indicators and sales have remained strong. Our current total order book, excluding joint ventures, represents 11,530 homes (2019: 10,486) as at 1 November 2020, giving us ongoing confidence in our ability to manage short term market uncertainty and price. The order book stands at c.£3.0 billion (2019: c.£2.7 billion), an increase of 11%, with private average selling price in the order book ahead of 2019 levels. We are working to transition to the next phase of Help to Buy with Homes England and therefore the order book and sales rate do not include reservations against this scheme.

Operating backdrop

The UK Government has confirmed that the housing market should remain open for business, during the period of new restrictions in England, operating in a COVID-secure way, and construction is encouraged to continue. This has enabled us to keep our construction sites fully open, continue to hold customer appointments in our sales centres and show homes, and progress customer service work in customers' homes, in a responsible manner. The early signs suggest that customers wish to continue to progress purchases, with forward sales indicators at healthy levels, whilst our outlet and product profile is well positioned to meet increased customer demand for well designed homes in quality locations with good community amenities.

All sites continue to operate within COVID-secure guidelines, and through the second half, we have focused on removing bottlenecks to increase construction pace without compromising on safety or quality. At present, the majority of our sites are operating at or near normal construction pace and we do not expect this to be adversely affected by the new restrictions.

In the last few years, we have focused on strengthening our business for the long term by enhancing build quality, increasing our production capacity and improving customer service. We are pleased to see the ongoing results of this in a Construction Quality Review** score of 4.37 for the year to date (FY 2019: 4.13). We are confident of returning to a 5 star rating in the current customer care year, and are particularly pleased that customer feedback and scores since the lockdown have been very positive.

We are pleased to have been recognised by our employees via Glassdoor for our leadership during the pandemic. Our approach has enabled us to accommodate recent restrictions, both local and national, without meaningful disruption to production plans and with the support of our employee and subcontractor base.

Increased land buying at attractive returns

As a result of the equity raise in June, we were able to confidently and assertively re-enter the land market at the end of Q2 and take advantage of increased opportunities. Since then, we have agreed terms on and authorised c.£826 million of gross land purchases, comprising 70 sites and c.14,500 plots. This is significantly ahead of our normal rate of acquisition. These sites have been secured at attractive returns in line with our medium term operating margin[*†] target of 21-22% and with an average return on capital employed[*††] of c.34%. Combined with the strength of our underlying landbank, these sites give us increased confidence of delivering our medium term operating margin target and will enable us to accelerate our volume growth from 2023 onwards.

These sites have a broad geographic coverage and range of sizes (with an average of 207 plots per site) and include an increased number of smaller sites compared to purchases in recent years. This will enable us to continue to increase our outlet numbers with a better balance of both large and small sites, in line with our strategy outlined at our 2019 full year results.

We expect to invest significantly in additional land through the next 12 months which, together with the land spend already committed, will lead to outlet growth during late 2022 and 2023. This growth will be achieved within the existing business footprint and without the need to open new regional offices.

As at the end of October 2020, our short term landbank stood at c.78k plots (28 June 2020: c.77k) and our strategic land pipeline at c.137k potential plots (28 June 2020: c.138k). As incremental acquisitions come onto the balance sheet, we expect to see our land position grow by around 10k plots over the next 12-18 months as we target increased production of homes.

Improving efficiency and returns

Our primary performance focus is on returning the business to 21-22% operating margin and we continue to target a number of areas to achieve this; focused on cost, process simplification and enhancing the core drivers of value for our business. In addition to cost reduction and management programmes already in place, we have also undertaken a detailed review of our organisational and cost structure to ensure that we continue to operate efficiently in a changing market.

Following this review, we have either implemented or are in consultation on a series of proposed changes that would generate annualised savings in the region of £15 million from 2021, with the costs to achieve these of £10 million largely incurred in 2020. These changes include the removal of one tier of operational management, a rationalisation of our London operating structure to focus on affordable price points that meet the affordability needs of Londoners, and a series of reductions in central and business unit overhead levels. These proposed changes would not affect the ability of the business to generate future growth or to deliver a high quality product and service to our customers. Operating through the challenges of the last six months has also highlighted opportunities for ongoing efficiency and performance improvement, as our recent investments in systems and processes have performed well.

Spain trading performance

The Spanish second-home housing market has been inevitably impacted by COVID-19 restrictions on travel in 2020. The order book for our Spanish business stands at 186 homes as at 1 November 2020 (2019: 296 homes). We have continued to build and sell in Spain, albeit at lower rates, and would expect to see the business start to normalise next year as foreign travel resumes, with a return to normal operations in 2022.

Group financial position

We have a strong balance sheet and cashflow. We expect to end 2020 with a net cash*** balance towards the upper end of our guidance of between £550 million and £750 million (31 December 2019: £545.7 million), subject to the timing of conditional land purchases. Land creditors are expected to run above normal levels over the next 24 months as additional capital is committed and gradually paid out.

As previously stated, we expect to recommence ordinary dividend payments in 2021, starting with the payment of the 2020 final dividend. We will review the special dividend in 2021 for payment in 2022.

Outlook

The quick recovery of the housing market in the second half of this year, ahead of expectations, is evidence of the underlying strength of demand and the importance of low interest rates and stable mortgage lending. Whilst our volume expectations for the year remain unchanged, we have made good progress in improving performance whilst operating to COVID-secure guidelines and are on track to deliver full year 2020 results towards the upper end of market expectations****.

Looking ahead, we expect the market to support robust sales rates and for prices of new build homes to remain supportive. We are pleased to note the Government's ongoing support for the housing market, home ownership and, specifically, first time buyers.

Against this backdrop, and recognising the strong operational momentum in the business as we return to normal operations, our confidence in 2021 performance has increased since our July update. With our sites operating at or near to normal capacity and with a strong order book and resilient customer demand we now expect 2021 completions to be between 85-90% of 2019 levels.

In addition to a stronger volume performance we also expect our ongoing focus on cost and efficiency, strong embedded margin in the landbank and supportive market pricing to benefit the Group's 2021 operating margin performance. Assuming the market remains broadly stable, we therefore currently expect to deliver operating profit* in 2021 materially above the top end of the current consensus range[†].

The Group has a robust balance sheet and a growing high-quality landbank, which will enable us to grow the business whilst generating compelling returns. With a renewed focus on costs and efficiency the Board believes the Company is well positioned for strong progress and to deliver enhanced shareholder value in the years ahead.

* Operating profit is defined as profit on ordinary activities before net finance costs, exceptional items and tax, after share of results of joint ventures.

*† Operating margin is defined as operating profit divided by revenue

** The NHBC Construction Quality Review is an average score, out of six, achieved during an in-depth annual review of construction quality on a site-specific basis. The score presented is based on an internal average of the third-party, independent Construction Quality Review scores in the year to date
*†† Return on capital employed is defined as rolling 12 months operating profit or loss divided by the average capital employed calculated on a monthly basis over the period
*** Net cash is defined as total cash less total financing
**** The current company compiled consensus expectation for 2020 is for operating profit of £270 million (range: £242 million to £292 million)
† The current company compiled consensus expectation for 2021 is for operating profit in the range of £359 million to £626 million

Note:
2019 relates to 2019 equivalent trading period, unless stated.

-Ends-

Chief Executive Pete Redfern and Group Finance Director Chris Carney will be hosting a conference call for analysts and investors at 9.00am this morning. The details are as follows:

Dial in: +44 (0) 2071 928338
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A recording of the call will be available on our website later today.

For further information please contact:

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The person responsible for releasing this announcement is Alice Marsden, Group General Counsel and Company Secretary.

Notes to editors:

Taylor Wimpey plc is a customer-focused homebuilder, operating at a local level from 24 regional businesses across the UK. We also have operations in Spain.

For further information please visit the Group's website: www.taylorwimpey.co.uk

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