Taylor Wimpey plc

Full Year Results 2020

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Introduction, priorities and key areas

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Good morning, everybody. Thank you for that. Thanks for joining us. So we are making some advances, because you can see me this time, but I can't see you. I think that's the worst of both worlds for me. But quite a lot to cover this morning, so I'll get into it.

You have three presenters, as you heard, sort of Chris, Jennie and myself, the bulk of my presentation is upfront. So I'll cover some key underlying issues, the summary pieces, hand over to Jennie on the operational side, Chris will pick up the finance pieces. And then, I will finish just with an overall quick summary on the outlook before we lead into Q&As.

Now I'm already struggling to move on the slides, so Victoria, can we move onto the first of my slides – my proper slides, please? Thank you.

So some overview issues. So I think if I stand back from 2020, we came into the year with some pretty clear priorities and pretty simple: to focus on costs, to get the efficiency of the business where it needed to be, to make things simpler and focus on the balance between sales rates on site and pricing. And you may remember, in those early weeks of the year, we were very focused on making some selling price gains and we started to do so.

Obviously, by the end of the first quarter, that had been rather overtaken by the pandemic. And I think it's just interesting to sort of look back for a second and just remind you. I think our two key priorities for the balance of 2020 evolved during, particularly, April and little bit May, which was about making sure we interacted in the right way with all of our stakeholders, with our employees, with our customers, with government and with investors. But our focus with investors was really our second priority, but for us, we took the view that it was more about making sure the business exited the year, and the pandemic, with as much forward momentum as possible.

And perhaps compared to some of our peers, our focus has always been through, from a performance perspective, on making sure that 2021 and beyond had as much forward momentum rather than pure 2020. I think we managed to achieve both of those goals. It's not perfect, but I think we've made some really good steps on getting the efficiency of the business right and we certainly made some key steps in building relationships and supporting our stakeholders.

So we'll touch briefly on some of those pieces. But I won't repeat too much history so that we've got time for the go-forward piece.

Just – there's quite a lot of data on some of these slides, and we've got a lot to cover, so I will just pick out individual pieces. I do want to pick out the eight-week 'would you recommend' score. That's for the year 2020 as a whole. But it will be a very similar number for the customer care ended in 2020, where the results will be announced shortly. And it was good to see it was getting comfortably back into a five-star status. And if I look at the most recent results, we're slightly above that level, so sitting in a very comfortable five-star place.

And similarly, on the construction quality score, again, seeing progress on an issue that we have seen as key. Can we move on, please, Victoria?

I think if I then stand back and look at the long-term environment, it still remains very favourable. It coloured strongly our decisions on land investment from May onwards and our decision to raise capital. But our belief was that the underlying housing would remain – housing market would remain resilient. I don't think we called how quickly the housing market would recover, but we did call that it wasn't going to go south and that actually as we went into 2021 and beyond, we'd start to see a return to normality and positive normality from a house builders' point of view.

We've seen a lot of changes through the political environments in that period, but it still remains a top priority for the government. We've had good relationships through that COVID-19 crisis in terms of how the industry operates, and I think that strengthened the industry standing within government. We've never seen the end of the stamp duty holiday as a material risk. We talked about that in November. And I think you now see that coming through all of the external data, as we told you at the time.

And we heard obviously over the weekend about a possible 95% guarantee scheme, which would help not just new homebuilders but also the general market. I do see that as a much more sustainable underpin to the market than probably Help to Buy, and therefore, I'm pleased to see that sort of not just coming on the agenda but being mooted for a potentially short-term announcement.

But we are conscious that the industry needs to play its part. Quality is key. We've supported the New Homes Ombudsman and feel very ready to deal with the sorts of challenges that that presents. And I'll touch today on the cladding and fire safety decisions that we've already taken and announced them today. But also an issue that is clearly key to our customers, key to the overall ESG agenda for all businesses and that for a business that actually prides itself on its social consciousness and its approach to all of its stakeholders, we do – we're pleased to see our climate change and environmental strategy out there over the course of the last week.

But I think from a financial investment point of view, that sense of a medium-term housing market that should continue to be supportive because of supply and demand, because of low interest rates, but with a government that is actually supportive of first-time buyers who are the key to the market but the one part of the market that really do struggle with making that first step.

I'm going to skip that land market here because I'll pick it up on some more detailed slides later. Victoria, can we move on, please?

As I look at our priorities today, they still reflect quite a lot of what we would've said, without the pandemic a year ago but have moved on. So our focus is on margin delivery. We still see that 21% to 22% delivery you know, as being reasonable and realistic as an underlying kind of margin delivery over the medium-term. Sort of it's come nearer to term, and we're able to set out to you today a lot of the steps to get there.

And the optimisation of selling prices and really strong view on costs are definitely key steps. Bringing through new land acquisitions that we've made over the course of the last eight or nine months for volume growth in 2023-2024, which I will update you on, customer service and that – the ESG agenda overall but also particularly our environment strategy. Can we move on?

So I've got a couple of slides on land. This first slide tells you things you're already aware of. We make significant new approvals last year, about £1.3 billion of gross land purchases, more weighted towards more small sites. I'm going to point you to one word just because I think it's important as you look at the structure of the land bank and the structure of the business. We've said through the course of the last few months that we expected the short-term land bank to grow by 10,000 plots. I've added the word over. And that's partly because of the mix of sites as we bring in some of our normal strategic sites, but also we've continued to be active and successful in the land market over the last two or three months. And so I think that perspective has continued to grow.

So I would expect the same timeframe but that number to – but that growth to be greater than 10,000 plots. And that's a combination of the money from the capital raise and money we would've invested anyway. But we're really seeing good opportunities. Land market has started to tighten now and get back to normality with pretty much all competitors being active. But we are very pleased with the headway that we've made while it's been much more muted. Can we move on, please?

I think this slide is key, and this takes that land progression that you'd already seen in our year-end trading update forward to the next couple of months. I wouldn't normally show you this level of detail on the first couple of months. It wouldn't normally be relevant. Because there's so much activity and because we've seen momentum from last year kind of continue into January and February, I think it's important to understand it.

As of this weekend, we secured about 30,000 new plots, just over 30,000 new plots since the time of the capital raise, 106 sites. You'll see – and I touched on it a second ago. You'll see that the average site size has risen slightly because some of those sites are more normal strategic land purchases, but most importantly of all – and this was always a risk that sort of we've been watching, and it's good to see that we're through that risk period without it materialising.

We've seen those progress into contract exchanges and sort of very effectively through December, and particularly January and February. So we are now, as you can see, exchanged on about two-thirds of those 30,000 plots, which is a faster rate than normal. And obviously, given the scale of activity and the potential for additional competition, that could've been a slower rate than normal. So that gives a real resilience to that.

Trying to then give you some insight into outlet openings and how those impact on our outlet openings, we opened 89 outlets in 2019. I am pleased that we managed to open 73 last year. I said we focused on where the business would exit 2020 rather than maximising production through the balance of 2020. And so from day one, when we went back on sites, we were pushing our teams to do the necessary work, both planning and infrastructure work to get outlets opened. So our output numbers haven't dipped, and sort of, we had a relatively normal level of openings.

But we have around 330 outlets for potential openings in the next three years. That's not a forecast. We would tend to lose some of those or at least get delays, but that's far higher than we would normally see. And about 30% of those are from the new approvals since the capital raise, and are broadly spread across all three years, with 90% of those post capital raise acquisitions expected to be open by the end of 2023.

And I go back to, we said we would see those outlets opening from late 2022, through 2023 and that it would add to volumes in 2023 and 2024. And despite the fact that I would say the planning system is starting to slow down because we've made more headway with the number of acquisitions than we set out at the time of the capital raise, we feel sort of that that strongly underpins that direction. Sort of, I still think there is risk on planning but having more choices and more sites to bring forward gives you the strongest possible defence than you can have against that. Can we move forward, please?

So spending a bit of time on ESG. I think we are seen as, and to a certain extent, we see ourselves as, very good at the social and governance part of ESG. And I've used some examples here through the pandemic, the Pay it Forward scheme, the Care Home Initiative with PPE and support for 50 care homes in May when really others were not really yet seeing that as an issue. The care worker discount, and you'll see in the statement the total cost split over 2020 and 2021 of the care worker discounts, was about £46 million. So it's a significant investment, and that's sort of a real discount.

But also on governance. We have a gender-diverse board and executive team. These are issues that we have focused on over a long time. But I think we've been quiet about our environmental focus. So I've listed a few things here that we've already been doing through 2019 and 2020—sustainability Champions in each of our regional business, 97% of our construction waste recycled. I'm going not going to list them all.

But I think we have been conscious, and we had planned to launch our environmental strategy this time last year. We decided with the pandemic and also with the future home standards still being uncertain that it was right to delay it, but we launched it last week, so I just want to spend a little time on that today, if we can move forward to that slide, please.

So I think people will focus on most is a new science-based carbon reduction target. We've achieved some significant efficiencies, but we're setting out for a reduction in our operational carbon emissions at 36% by 2025. And you know, our sort of scope 3 carbon emission from supply chain and customer homes by 2030. And we do have shorter-term targets for clear improvements.

I think we also have targets on nature and resources, and waste. And we see those three areas for our housebuilder and for our community and customer relations to be the key areas that we need to and should focus on. So we've got both short-term and long-term targets on those issues as well. So if we can move forward?

So I'm just going to wrap up talking about the cladding and fire safety decisions that we have made and the provision that we have made today. You'll recognise this is a very complex area. And I'm not going to go into it in lots of detail. I'm very happy to take questions. I'm very happy if anybody wants to spend some time with myself or Chris who is an absolute expert on this subject, sort of after the call.

But essentially, what we are trying to do today is fill in the gaps around the government scheme. We think now is the right time because we have updated RICS guidance. We have a clear desire from sort of most of the key parties to get their arms around it and understand, you know, sort of what the scope is. We've seen significant increases in scope over the last 18 months.

So the bulk of this provision relates actually to buildings under 18 metres, which I think we now have to consider in the scope. And effectively it enables us to say that we will pay the main cost, the investment cost, to bring those buildings up to EWS1, which is the RICS standard, on fire safety today. We're not prepared to sign a blank cheque, but we do think it is right both morally and reputationally to make sure that our customers sort of have the key large parts of that bill covered, and most importantly that that work happens.

So as I say, we could spend a long time talking about it. We are confident that this is enough to cover the issue unless there was a massive change in scope. We've calculated it quite cautiously to make sure that we can make that commitment to our customers and not have to keep moving.

And I will now hand over to Jennie for the operational review.

2020 UK Operational Overview

Jennie Daly

Group Operations Director, Taylor Wimpey Plc

Thanks, Pete, and good morning, all. So this morning, I'll take you through the UK operational review for 2020 with the summary of market performance, an update on some of our procurement activities, an introduction to our new house type range and a look at operational outcomes for the year.

During 2020, we continued our focus on further embedding and leveraging our strategic objectives of cost discipline and process simplification through all areas of the business. And as I go through the slides, I'll highlight some of that activity for you. Sorry, if we can just go back.

The UK housing market remained resilient despite the shutdown period in the second quarter of 2020 and we continue to prioritise opening the outlets opening 73 in the year. We traded on an average of 240 outlets and entered 2021 with 239 outlets. The net private reservation rate for the year was 0.76 despite constrained build capacity and remote sales.

Average selling prices on private completions increased to £320,000. And the overall average selling price increased to £288,000, driven mostly by change and mix. Cancellation rates for the full year were above normal levels at 20% but did normalise in the final quarter at around 16%. With demand for our homes remaining strong, we ended the year 50% forward-sold for 2021, and as of week commencing the 21st February, we had an order book of just over 11,000 homes.

Our order book includes a healthy profile of sales extending into the second quarter and beyond the stamp duty holiday. And when the next phase of Help to Buy is due to commence. During 2020 approximately 46% of total sales in the UK used the Help to Buy scheme.

The new Help to Buy scheme opened on 16th December for reservations for completions from April 2021. And as at the week commencing the 21st of February, we have taken approximately 1,100 net reservations.

So during 2020, our sales and marketing teams responded well to the challenging lockdown environment, including remote selling and transitioning sales centres to visitors on an appointment-only basis. Our website and the retention throughout lockdown of sales teams with specific development site knowledge ensured we established a solid pipeline of customer interest, which, as sales centres and showrooms reopened, ensure we were well placed as the market recovered strongly in the second half.

The 2021 selling season has started well, reflecting the underlying strength of demand, underpinned by low interest rates and stable mortgage lending. Given this good start and our strong order book, we are mindful of balancing sales rate against sales price. Private net sales for the year-to-date is 0.89.

Overall, website traffic year-to-date continues its strong levels, up on 2020 and 2019. Leads and enquiry levels are also healthy, and our appointment book continues at high levels. So overall, a positive start to the year.

So considerable progress and momentum has already been achieved within our procurement functions in terms of cost and efficiency. And we are well placed to take these forward in our next phase of volume growth and the release of the new house type range. The cost and efficiency programme involves multiple work streams that have introduced automated sourcing and tendering processes, enhanced forecasting tools, workflow system improvements targeting efficiencies, and these actions are already delivering savings with further benefits expected in the year.

During the period of site closure, we communicated transparently with our suppliers and subcontractors on a weekly basis and continued to do so through the various stages of subsequent national and local restrictions. All this have served to strengthen Taylor Wimpey's relationships with its partners and the attractiveness of working with us in the future.

With the divisional hat on, whilst there has been some friction in parts of the supply chain during remobilisation, the investment in those relationships has tangible benefits, including an ease of resolution of supply chain issues and subcontractor loyalty to working on Taylor Wimpey sites.

So throughout 2020, not surprisingly, a significant area of focus was on Brexit planning and mitigation and coordinating material supplies to support site remobilisation. To date, we've seen little direct Brexit-related disruption, although this is, of course, been closely monitored. We took the view fairly early on in the pandemic that the future sustainability of our build programmes were reliant on the sustainability of our partners, particularly the predominantly self-employed subcontract base. And as a result, we processed payments quickly and introduced the Pay it Forward scheme to help support those subcontractors feeling pressure in the initial stages of lockdown.

Our approach to COVID-secure protocols enabled us to accommodate subsequent restrictions without meaningful disruption to production plans and thereby maintain the continuity of work for our subcontractor base.

The team priorities for 2021 continue to be a cost and efficiency focus, aiming to take cost out and further reduce SKU count as we improve standardisation, support technical compliance, quality and production efficiency. This work will also ensure the effective and efficient delivery of our new house type range, which I'll come onto in the next few slides. At this stage, we anticipate overall build cost inflation in 2021 to be in the order of 2% to 3%, marginally lower than in 2020, though subject to production levels on the strength of the housing market.

So Pete's challenged me not to take too long on these slides, but I'm very pleased this morning to be introducing you to our new house type range. The objective was to produce a customer-focused range of houses with great kerb appeal and liveability that provides a business with an efficient tool to buy land and gain planning consent while being simple, cost-effective and safe to build. The range also, of course, contributes to the delivery of our purpose, to build great homes and create thriving communities.

So the three main drivers to bring forward in the house type range are changing customer needs, the expected pace of change in planning and building regulations, including energy considerations, and of course, our own focus on enhancing business performance and efficiency.

The range comprises a focused group of 28 new house types, and as a result, the range itself will be more efficient to maintain. It's expected that the simplification of designs will decrease cost, increase build efficiency, reduce customer issues and increase build quality.

So it all starts with land and land buying, and therefore land efficiencies were carefully considered. The new range can achieve greater coverage by improved plotting efficiency and early consideration of parking arrangements. From a planning perspective, the range has been designed as a complementary set allowing most houses to be used together to create characterful and harmonious street scenes. There's a greater range of designed-in options including roof form, window styles, DRP features for example, which will allow greater flexibility enabling us to respond to the design agenda for creating places but without losing cost control.

The range will meet our customers' changing needs. We designed in light of detailed customer insight gathered over the last few years, including engagement with our customers about their homes during the pandemic. The brief included the features desired by customers, spaces that flow, a feeling of light and space, and opportunities for inside and outside living.

The importance of suitable spaces to work and study in the home has never been better highlighted than by the pandemic. We have, therefore, identified in all our homes, even the smallest in the range, at least one good quality study space. That does not affect the other functionality of the home, utilising liminal spaces to full advantage and planning in plenty of power sockets.

With the kitchen being the prime living space in many of our homes today, removing laundry from the kitchen enhances its attractiveness and usability as a living space. This has been a feature, of course, of a number of our larger homes for a long time, but the new range extends this principle to all homes no matter how small.

The range has been designed to be cost-effective and efficient to build. It is more concise, less complex and designed-in external options will ensure less need for bespoke non-standard house types.

Supply chain has worked closely with the design team throughout to exploit opportunities for standardisation and to reduce product complexity, as well as ensure that new components are fully sourced to ease the implementation phase. The range applies learning from the construction quality reviews and customer care feedback and will contribute to improved build quality and customer satisfaction.

So by way of example, bathrooms, which are both a design statement important to our customer and an area where we sometimes experience build quality issues, has been a focus. To exploit the first and address the second, we've standardised bathrooms throughout the range.

The range is future-facing. It has been developed to be build-method-agnostic and is also capable of serving our businesses in Scotland and Wales. The simplicity of build, standardisation of details and components, improved production information will help improve build quality and build time. We've designed with the forthcoming changes in building regulations in mind, and we expect it to meet the standards of part L and F, whilst also future-proofing the range based on available information for the future home standards in 2025.

And finally, the electronic working drawing packages have been significantly improved and the use of dynamic blocks mean we will quickly adapt elevations to suit individual site needs whilst working within standard design parameters, bringing resource efficiencies to busy design teams, reducing redrawing and maximising the use of those design components but without increasing design workload.

So moving on then, the challenges of the year sharpened our focus and highlighted additional opportunities for operational improvements by leveraging a range of previous investments, including in IT, training and development. The increased plotting of standard house types enabled increased material standardisation with cost and efficiency benefits. Quality managers which were recruited across the business in 2019 are now working closely with production teams to review performance, address quality issues and ease implementation of new processes.

And during my time in the division, their positive effect is evident in continually improving build quality, build efficiency and increasing customer satisfaction. Previous IT investment enabled the continuing effectiveness of our remote and dispersed workforce and delivered additionality by enabling our office and site teams to engage in training on a range of quality and skills focus topics throughout lockdown and after.

We were able to quickly adapt our sales process, which is now digitised from reservation to completion. And we also launched the TW virtual public consultation platform, which enabled our local teams to continue to fulfil our commitment to community and stakeholder engagement throughout the restrictions and allowed our teams to continue to progress sites through planning and to outlet opening.

Health and safety is our number one priority. And during 2020, we worked in partnership with our subcontractors to develop sustainable COVID protocols. And in accordance with our principles and responsible leadership, we gifted all of our COVID to secure health and safety documentation to SMEs to support their safe remobilisation.

So despite the unusual nature of 2020, we've seen some significant improvements in our operational performance across a range of measures. We continue to lead the volume housebuilders in build quality as measured by the NHBC CQR score. And in 2020, we scored an average of 4.45 from a score of six. This compares to an industry average of 4.32. We also continue to embed further our quality assurance processes at every build stage.

We are, as Pete mentioned earlier, particularly pleased that the customer feedback and recommended scores during and after lockdown continue to be very positive. For the survey year, we achieved 92% for the eight-week, a five-star customer rating, and 78% on the nine-month would you recommend scores.

Our consistent quality approach guidelines, which ensure site managers, subcontractors, production and customer services, all have a consistent understanding of the finishing standards we expect of our home, was rolled out on 4th January this year and a customer-facing format, so it is clear for customers what they can expect from us. This is an important step in our preparations for the imminent launch of the New Homes Ombudsman.

We are pleased that our annual injury incident rate has reduced further to 151, well below the HBF and the HSE averages.

And finally from me this morning, it is very pleasing, particularly given the nature of the year, to have been recognised by our employees via Glassdoor for leadership during the pandemic and once again secured a place in the top 50 places to work—many thanks.

Now I'll pass over to Chris.

Financial Review

Chris Carney

Group Finance Director, Taylor Wimpey Plc

Thanks, Jennie, and good morning, everyone. The 2020 results are in line with expectations with £2.8 billion of revenue, £300 million of operating profit and an operating profit margin of 10.8%. Profit before tax reduced to one-third of what was delivered in 2019, reflecting the financial impact of the lost volume and revenue resulting from the pandemic.

We are, however, very confident in the business' ability to recover quickly, which is evidenced by the improvement in the financial performance in the second half of the year. And we expect that improvement to continue in 2021, and I'll come back to explain what's driving that on some of the later slides.

The increase in tangible net asset value per share is, of course, due to both the equity raise and the profits generated in the period.

Total UK volumes fell by 39% in 2020 as a result of the production delays associated with site closures in the second quarter, increases in both the private and affordable average selling prices, along with a slightly lower mix of affordable units of 20% of the total delivered a 7% increase in overall selling prices. The increase in private selling prices at 6% was principally driven by mix with slightly larger homes, slightly more weighted towards the south and with an improved mix of site quality, so more from the grade A and B locations.

And there was also some underlying price inflation, which you'll see on the next slide. Looking forward, our guidance for 2021 volumes is unchanged at 85% to 90% of 2019 levels, but with affordable making up about 17%.

The reduction in affordable is influenced both by the mix of sites and a revision to the way we contract land sold to housing associations where revenue and profit will now be realised slightly later. There's no change to the overall cash or profit from those contracts, just timing of recognition, and the change means we'll report about 350 fewer affordable completions in 2021 than we otherwise would have done, but the affordable mix from 2022 is expected to return to around 20%.

The output from our joint ventures both in terms of completions and profit was very similar year-on-year, and we expect that to reduce in 2021, before picking up again in 2022.

Now, this is the usual slide we present every six months to show the main elements of the movement in UK operating margin year-on-year. I'm not going to go into the detail of the reconciliation, but I do think an understanding of the movements in 2020 is helpful in appreciating some of the drivers for margin recovery in 2021.

The first coloured box includes costs that won't repeat in 2021, such as the £63 million of COVID cost and the £12 million of restructuring costs. So you should expect to see those reversing on this slide next year. The second box includes the impact of the volume reduction. And as volumes increase in 2021, the efficiency of fixed-cost recovery will improve, and most of those elements will also reverse.

In addition to the reversal of 2020 costs and the increase in volumes, there are other factors supporting the margin improvement in 2021, and they include the £16 million of savings from the restructuring we undertook at the end of last year, together with our increased focus in 2020 on the balance between price and sales rate, which will unwind from the order book into the income statement in 2021.

Now, I'd expect you to be even more interested in the medium-term outlook for margin, which is on the next slide. So, as you have heard very consistently in all of our recent updates, Pete, Jennie, and I are all confident in the business' ability to achieve our medium-term operating margin target of 21-22%, assuming market conditions remain stable.

And this slide is intended to provide clarity on where our collective confidence comes from. And to aid comparison from the previous iteration of the slide and to reflect our normal volume delivery, I've started from the 2019 operating margin of 19.6%. You may recall that Pete first presented this slide 12 months ago when the range of outcomes was 21-22.5%. So what's changed since then? Well, as we all know, quite a lot.

We've undertaken the equity raise, which means our medium-term volume growth expectations are higher. We've also undertaken a more significant cost restructuring exercise than we would have anticipated, removing one tier of operational management, rationalising our London structure, and a series of other overhead reductions across the business. So the higher volumes and the efficiency savings have shifted the potential range a bit higher and support our confidence in achieving the medium-term 21-22% target.

But we're also a fairly cautious bunch. And although we've been buying land within the 21-22% range and making allowances for the latest changes to part L and F of the building regs, we've adjusted the land bank evolution target down very slightly to reflect the risks associated with those changes.

Jennie has already covered the new house type range and procurement opportunities it brings, and I'll cover the benefits of our new CRM system on the next slide. But one very important point to note, however, before I leave this slide, is that this bridge does not yet reflect the impact of the Government's Gateway 2 Levy or its UK residential property development tax. We're expecting more details on both of those at tomorrow's budget. And the outcome of that, of course, may require us to make adjustments to these numbers.

Now, as you know, we've been investing in the business over recent years, and now volumes are recovering, we're starting to see some return from that investment. And one example is our new customer relationship management system that we are currently rolling out throughout the business. The system spans the whole of the customer journey from the initial marketing and contact through sales and legal processes, all the way through to aftercare. And I'll quickly touch on three of the areas where we think the system can drive value for us.

Firstly, the system gives us much better visibility of exactly which media channels deliver the leads that convert to sales. And as a consequence, we can optimise our media mix by using the most effective channels and reducing spend in the others. For example, in the year-to-date, our web traffic is up 9% on 20% less media spend.

The system also registers customer interactions, whether that is their use of the website, a call, a visit, when they open one of our emails, or when they download a brochure. And not only does that mean we have a very good idea of what they're looking for before they call or visit us, but it also allows us to prioritise those customers who are closer to market. And lastly, the data allows our Sales Executives to filter customers interested in a particular development by the number of bedrooms they're looking for, the price they can afford, and their financial status, such as if they already have a mortgage approved in principle. And that very quickly creates a prospect field of customers that each individual plot which can be prioritised on their financial position. For example, a cash buyer who doesn't need an incentive or a discount would typically be the most profitable type of lead and the quickest to progress to completion.

So, in summary, the investment in this system brings significant improvements to our processes in these areas. It will allow us to be more efficient in how we work, reduce complexity in cost, and also help us to maximise our sales both in terms of volume and price. And all of that will support the margin as we go forward.

You can see that across land, WIP and land creditors, there's been a net investment of £392 million over the course of 2020. That is a mixture of new land investment coming on to the balance sheet following the equity raise, continuing investment in opening new outlets, as Pete mentioned, and the delay of Q4 completions into 2021.

The provision we announced today to help resolve fire safety risks for leaseholders in our apartment buildings that aren't covered by the government fund will be booked in 2021, so it is not included in this balance sheet. I anticipate the cash spend from that provision to be spread over a number of years because of the complexity of the technical assessments that need to be undertaken on a building-by-building basis. As such, we don't expect it to have any impact on the ordinary dividend or a material impact on any excess capital returns. We certainly won't be dragging our feet on this, but the reality is that there just aren't sufficient chartered fire engineers with professional indemnity insurance to contend with the number of assessments that are required.

Now, even when taking that 2021 provision into account, you can see that we have a strong balance sheet that is primed for further investment in land as the deals that we've agreed since the equity raise continue to work their way through into the numbers.

Again, on the cash flow, you can see that net investment in land and WIP was evident in the balance sheet. The other significant outflow in the period is tax, where due to the change in the corporation tax regime, we made six payments in 2020 – two final instalment payments relating to 2019 and four payments in 2020, representing all of 2020's tax liability.

Now, today, as expected, we have announced the resumption of our ordinary dividend in line with our existing ordinary dividend policy of paying approximately 7.5% of net assets. And this will commence with the final dividend for 2020 of £151 million or 4.14 pence per share, which will be paid in May subject to the approval at AGM. As previously communicated, we are not proposing to return excess capital in 2021. We expect to review the excess capital generated in 2021 at the time of the 2021 full year results in February 2022 for payment in July 2022. And the method of returning that capital, either by way of special dividend or share buy-back, will be kept under regular review. Our previous practice has been to announce special dividends at the half-year results one year in advance of their payment the following July. This change to announcing excess capital returns in February fits better into the communication timeline and shouldn't change the timing or quantum of any potential return.

And then looking forward to 2021, as I said earlier, our UK volume guidance is unchanged at between 85-90% of 2019 volumes. We expect the affordable mix to be lower at 17%, getting back up to around 20% in 2022. And based on current market conditions, continuing for the balance of the year, we're expecting to deliver an operating margin in 2021 of between 18.5% and 19%. The main factors contributing to that margin growth year-on-year are the absence of COVID and restructuring costs, the increase in volumes, the benefits of cost efficiencies, and a greater focus on price over sales rate.

At this stage, forecasting year end net cash is quite tricky due to the variability and timing of land spend, and obviously, that's going to be a bigger number than normal this year due to the deals we've approved and contracted over recent months. So the £500 million guidance is provided in that context and obviously, we'll give you an update on that when we get to the half-year.

So, in summary, you know, we started the year with a strong order book and WIP position. The completions that were delayed from Q4 last year are flowing through nicely, meaning that we're tracking ahead of where we were this time last year. The margin is recovering well, and we have secured a lot of high-quality land over the course of the last eight months, which will drive our growth in 2023 and underpin our ability to get back to that 21-22% operating margin target.

And I'll hand over to Pete.

Outlook

Pete Redfern

Chief Executive, Taylor Wimpey Plc

Thanks, Chris. I finally worked out how to move my slides on now, which with one slide to go, isn't particularly useful. I promise we're nearly done, and then we can open up for questions.

I'm not going to repeat what Chris said. You know, it's a positive environment, we've got confidence about 2021. I do think that selling price movement, which isn't about 2021 results predominantly, because of how far ahead we are sold but it's good to see that sort of, come through. We could see underlying prices moving last year. But, you know, we've seen a meaningful step-up January and February. And good that inflation remains more benign.

As I said, sort of, in our previous call, I think, you know, on a relative basis, we feel probably in a stronger place, having had a challenging 2019 on cost. And a lot of the work that Jennie and Chris have highlighted we've been working on just gives us, you know, sort of, more sense of our control over those overall dynamics.

I think the land dynamics, as I touched on, are definitely returning to normal. We are slightly concerned about the activity of planning, sort of, offices and the local authorities through the lockdown who are just not able to sustain the same activity of – that we would expect to see. But we have a lot more choices of outlets coming through than, you know, we have had over recent years than we think the sector generally has.

So that puts us, I think, in a good place and strengthens our position. I think, you know, we are conscious that, you know, there's been a lot of change over the last couple of years, and so, we do expect later in the year to bring together all the different threads of strategy; not a relaunch of strategy, but kind of setting it out for you very clearly. But just to be clear, we don't expect that to change our views on operating margin targets, you know, sort of, growth related to the capital raise, or ordinary or special dividends. But it's good to announce the return to ordinary dividends and to, sort of, be looking forward to special dividends next year.

So, if we can open up for questions, please?

Q&A

Operator: Yes, sir. Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. And as a reminder, if you wish to ask a question over the phone, just press star and one on your telephone keypad. And we have a couple of questions that came through. Your first question comes from the line of Aynsley Lammin. Your line is now open. Please go ahead.

Aynsley Lammin (Canaccord Genuity): Thanks. Morning, just two for me, actually. First of all, just wondered if you could remind us of your definition of excess capital when we start to think about what the special dividend might be. Obviously, the ordinary you've reverted back to what it was before. And just a bit more information on the special.

And then secondly, just on the kind of, you know, I guess a bit more colour on the level of friction you're still seeing or not seeing on-site in terms of materials availability, labour availability, the build rate to get to 85-90%. Is it just the site numbers that are the kind of constraint rather than any friction on-site due to the pandemic or potential material shortages in certain areas? Any colour on that would be great. Thanks.

Pete Redfern: Thanks, Aynsley. I think one for Chris on the capital and one for Jennie on the friction on-site.

Chris Carney: Yeah. So, Aynsley, our policy is unchanged. You know, it's return capital in excess of that needed by the Group to fund land investment or working capital, taxation and other cash requirements of the business, and obviously, after the ordinary dividend has been met. Obviously, the significant moving parts in that over the next couple of years is the land comes on to the balance sheet, and we then start to invest into WIP on the new outlets. So yeah, no change at all in the policy.

Pete Redfern: And Jennie, on the friction on –

Jennie Daly: Picking up on that friction point. Hi. Yes, just picking on that point, in terms of materials, we did quite a lot of work through site remobilisation with our supply chain. And whilst there have been some issues, they've been readily managed by both the local and the central procurement teams. Labour availability has remained good. We can see some change in this, particularly in these last weeks now heading to the end of stamp duty and Help to Buy around labour availability. But it hasn't been affecting our build rates, which are now near normal levels.

Pete Redfern: Thanks, Jennie. I'm not going to, you know, sort of, add on lots of bits to the answers. But I do think, you know, that you can see our level of WIP at the end of the year, you know, that we didn't finish the end of the year, sort of, having strained to get every completion over the line. So again, overall, I think our build teams are in a slightly better than usual position rather than a worse one, which obviously impacts on that last piece.

So next question, please.

Aynsley Lammin: Thank you.

Operator: Yes, sir. The next question comes from the line of Will Jones. Your line is now open. Please go ahead.

Will Jones (Redburn): Thank you. Good morning. Three if I could, please. Sorry, there might be a couple of subparts to one or two, but the first is around volumes. If we look at the land bank side at the end of the year, and your comment that the net size should grow by over 10,000 over the next while, and we align that with your land bank length targets of 4-4.5 lengths, clearly, it's very simple maths, but it might imply somewhere around the 20,000 mark or even slightly higher. Is that fair, and I suppose, how would you look at that in the context of your capacity? I think you talked in the past about if you went beyond 18, you'd need to open a new division. So just squaring that circle, as it were.

The second then was just around house price inflation, the 3% number year-to-date also pretty positive, but also quite surprising. I mean, the big picture, do you think that's an industry trend, or do you think you're doing some stuff more specific at Taylor Wimpey around those or any catch-up in there? And I guess would you be drawn on what the average effect might be for the 2021 P&L because, obviously, there are some quite major timing issues going on here.

And then the last was more of a conceptual point, but obviously, the industry is going to be facing quite a significantly high tax burden over the next few years from cladding and the corporation tax in all likelihood. I mean, how do you – land buying in the past has always been done on a pre-tax basis. Do you think it will continue to be done that way? Is there any scope you think for the industry to think about the post-tax basis and try and recoup some of that effect through your land acquisitions? Thanks.

Pete Redfern: Thanks, Will. I was sort of disappointed, I was hoping to farm off most of the questions, but I think I need to have a stab myself at most of those. The volumes related to land bank length, I mean, you know, we said at the point of the capital raise we expected, you know, about 10,000 plots, you know, directly related to that capital and that, sort of, leading to about 2,000 units a year. You know, sort of, getting to a, sort of, full run rate in 2024, but seeing some signs of it in 2023. That hasn't changed, but we are also investing additional capital ourselves.

I think we have to be slightly careful because I touched on a couple of times the fact that, you know, in those 31,000 are a couple of particularly big strategic land sites. You know, they were there in the sort of – they weren't significant in the initial capital raise numbers at the end of the year, but there's one in particular that just brushes those numbers up. And, you know, that doesn't affect the balance sheet because, you know, it's paid for over a long period of time. It does affect the land bank lend, so, you know, you do have to slightly adjust.

So when I said we would, you know, come back later in the year and just sort of wrap things up for you and update you, I think that includes particularly the land bank length piece. We're not saying that we need to hold a lot more paid for land. But that balance of strategic sites – and I've said multiple times – we still like large sites. We still think they have a value. We still think they underpin the business, but we like a mix.

So, you know, the one part of the kind of, you know, target structure we set out in 2018 that we want to really look at and really think about with the changing land environment and that initial investment is that land bank length. I don't think it's going to change massively, but it's probably going to push to the upper end of that, you know, range. And I think particularly as we go through a change in the planning system over the next couple of years if the government push ahead with that, although there may be upside at the end of it, we sort of take a cautious approach on the way through that any change tends to bring disruption. So, we certainly wouldn't want to be cutting it fine.

So it's the only one. You know, so I think we will. You know, we're absolutely committed to the 2,000 additional kind of completions a year. But over and above that, there may be potential. But something we'll update you on as we get further into those land deals and into that planning system.

On the selling price movements, is it an industry change? Really hard to know, isn't it? You know, sort of, we feel we've done well. We always feel – you always feel you've done well, you know, sort of, on things like that. I think we can see a meaningful change. We did set out, as we did last year, with the goal of seeing that. There is a little bit in there that is the reversal of the care worker discount. As I touched on earlier, that was a real discount, and it probably had a 1% impact on the average, you know, sort of, reservation selling price last year. So you can, you know, and that discount on reservations finished at the end of last year, which is what we always planned. It's not completely – you know, it's not completely offset in there. So, you know, but that's probably the one meaningful change. But I do think it's a real movement.

And impact this year, it isn't massive because, as I say, very well forward-sold. You know, sort of, it's right at the back end of the year, and it's embodied in our overall view of guidance. You know, sort of, we've got to absorb, you know, sort of, cost movements as well. We're flagging inflation on the build cost side of 2-3%, more benign, but we've still got to absorb that. So, you know, sort of, it's really hard to split it all out. But, you know, as I say, I think, you know, we see that impact included in our upgraded guidance, but it's a whole mix of small moving parts.

And I will give Jennie a chance to comment on the tax burden, but I would say at this point, it's really hard to know because a lot of it depends on the state of land market as whether its passed back to land and how it's structured – more likely to be structured than if it's not structured as a tax per se, but as a, you know, sort of, a contribution that goes through viability. But even then, it depends on how challenging the land market is. Jennie?

Jennie Daly: Yeah. I mean, I think that we're seeing that the land market is starting to price in the part L and part F costs now, and that is driving some sites to, sort of, clear viability stream, particularly in the northern businesses. So whilst I think there are some opportunities to look to land, I don't think it's going to be the answer across the market.

Pete Redfern: Yeah. I think, Will, and this is not just about the tax, it's about the part L and part F costs, and margins generally, and selling prices. I don't know if you remember, but the slide that Chris used, a sort of a bridge to forward-looking margins, which as he said, you know, sort of, I first used last year, at the point that I first used it, we specifically commented that the one thing that we really had to, sort of, take under advisement and not specifically account for was the part L and part F costs. We're not saying that today. And by which, I mean, you know, we've, sort of, now we know what regulation is and when it comes in, we've factored that in. Some of it is in land, some of it is not. But that is a cost that we're then offsetting those selling price movements, whereas before, we were flagging it as a future risk rather than something which was kind of factored in.

Will Jones: Understood. Thanks a lot.

Operator: Thank you. And the next question comes from the line of Glynis Johnson. Your line is now open, please go ahead.

Glynis Johnson (Jefferies): Morning, I have, I think, one for you Chris and one for Jennie, so Pete, I think you get let off the hook on this one.

The first one, just in terms of build WIP. I wonder if you can give us some sort of colour on where you see the necessary build WIP that you need in terms of building up units as you go into a year, or relative to forward sales, to fall out [inaudible] investment you need to make through in the year.

The second one in terms of just if you could just about clarity for me the vision on working group pace. How much of the land that has been approved is already on the balance sheet? What will be the cash outs for land this year? And will you be at the tail end as we go into 2022?

And then, just in terms of the housing types, can you just give us a little bit of background. How many housing types did you have before? So, we can put where you're going into, into some sort of perspective. And just, how long have you been planning and have they been tested? Is this an evolution? Just to give a little bit more colour.

Chris Carney: So, if I take – I think – I didn't quite hear a third of those questions, Glynis, but if I have a good crack at the build and the – the build WIP and the land.

So we came into 2021 with £1.66 billion of WIP reflecting sort of continued investment in opening new outlets during 2020 as Pete said, and obviously, the delay of Q4 completions into 2021, and actually expect WIP to be broadly stable in 2021.

Some of the 2020 overhang that I think you're referring to will work its way out, replaced by investment in new outlets. It's not going to go back to sort of the £1.46 billion level you saw at the end of 2019 because we want to grow the volumes, and at the same time, hang on to that smoother profile of completion.

In terms of the land, at the year-end, we had agreed terms on £1.3 billion of land since the equity raise, and that run rate obviously, more than accounts for a level of normal activity plus the incremental investment from the equity rates itself. And if you were roughly breaking that down at the year-end, it was probably about £250 million of that, that was cash spend, about £150 million in land creditors, £300 million that was conditionally exchanged and a balance that was then still to exchange.

And so it's a gradual process, isn't it to see that land come through onto the balance sheet, but you do see it, so. The land balance at the end of 2020 was £2.9 billion, which was up from £2.7 billion at the end of 2019, and by the end of January, it was up to £3 billion.

I think in terms of the question on land spend levels for this year; clearly, that dynamic gives you an idea that the £646 million, which was our cash land spend in 2020, it's going to be considerably more than that. You know, be over a £1 billion in 2021. And I'm sorry, I didn't catch the – my line wasn't that great on the third question.

Jennie Daly: Yeah, I think I've got that one, Chris, if I have heard you correctly, Glynis - interested in the new house type range, how many we've had in the past, how we've tested it through, and I think the evolution and if I've got any of those wrong, catch me.

So we've been taking incremental steps sort of in preparation for the delivery of a new house type range for some time. Back in 2016, we had quite a large house type range. We were achieving about 65% plotting of the standard house type range. We reduced the number in 2018 to what we call the consolidated range of about 47 house types. Those have been plotting really quite well, and the businesses have been moving increasingly to standardisation.

And as you all picked up from my slides, we're at about 86% of houses now being plotted from that standard range. So, this is the next evolutionary step really in tightening up the range even further. And we've been working on it for quite a number of years. Our customer engagement, customer insights have been running annually over a four-year period, and then we stepped that up through last year and particularly engaging with our customers during the pandemic and sort of deliverability of their homes during that time.

So we've got quite a lot of information to support the customer desire points. Costing has been tested quite rigorously through the business. We've utilised some of those new systems that we talked about from our procurement and commercial teams and the BOQ system, and I think we are quite confident now on cost and cost-base. We're running some prototypes, so they are in build at the moment, and we would expect those to be coming up for completion towards the mid-point in the year.

The plans are being released to the business pretty much as we speak, and we expect the first plotting from a planning perspective by mid-year and the first completions to be coming out in the first half of next year. And then unusually, because of the part L and F, we are likely to see a boost in the uptake of the new house type range, so is likely to land in an accelerated format compared to what we would normally see through land bank and evolution. So I'd expect to see some meaningful numbers by the end of 2023.

Pete Redfern: Thanks Glynis.

Operator: Yes, sir. Thank you, and the next question comes from the line of Gavin Jago. Your line is now open. Please go ahead.

Pete Redfern: We can't hear you, Gavin, unless if you think we can?

Operator: I think Gavin has withdrawn the question, sir. So the next one comes from Clyde Lewis. The line is now open. Please go ahead.

Clyde Lewis (Peel Hunt): Good morning all. Apologies, I missed the very start, so I wasn't sure if you made any comments about the possible MIGS product that we might be getting from the government. I was wondering, Pete, what your initial views on that are, and how that, I suppose, might start to sort of change you're thinking a little bit whether it's on, I suppose, product type and sort of affordability issues I suppose around that.

The second one I had was on your planning comments, I suppose. I mean, you flagged again sort of lockdown issues and pressures with regard to council availability on planning, and I'm just wondering whether you've seen anything improve on that front or whether it's still getting worse, and I suppose how you think that might play through for 2021?

And the last one I had was around, I suppose, regional differences. You know, I'm thinking in particular around London. London has clearly been on a very different path to a lot of the other regions around the UK, and I'm just wondering what you've seen over the last six months in particular?

Pete Redfern: Yeah, no. Thanks, and morning Clyde. So I'll pick up the first and the last, and Jennie, I'll leave the planning availability one on to you.

I think we did touch briefly on the Mortgage Guarantee Scheme possibility, but not in lots of detail, Clyde. I think it's positive as I've said many times on these calls that you know, I always worry about the scale of Help to Buy and its sustainability, and so it's why we have never lobbied for it to be grown or massively extended.

And so to me, I see, the main benefit of a Mortgage Guarantee Scheme is that it just helps smooth out that sort of cliff-edge risk in 2023. You know, I mean we were sanguine about the first stage of change to Help to Buy that are kind of now, largely through and I think you know, the current performance would tend to show we were right to be, but I've never been sanguine about, you know, it's complete removal, and if we have, you know, a less deep but broader Mortgage Guarantee Scheme, that isn't just new build, is the second-hand market, I see that as a healthy help to the sector. It's been uncomfortable over the last few years to see the low transaction volumes in the second-hand market.

I'm not at all concerned that any help to the second-hand market makes that job easier. I'm more interested in the overall sustainability, resilience of the market as a whole, and that includes second-hand. So I think, you know, assuming it happens and that it's broadly rational and big enough to cover enough lenders and offer enough standard-enough products to enough home buyers, I think it's a meaningful positive in helping manage that risk, and it probably helps the underlying resilience of the market through the next 12 months or so as well.

So positive; no scheme is perfect; they never are. There'll always be people who don't like them, but to me, it's a far more sustainable potential scheme than Help to Buy necessarily sort of has been.

And on regional differences, I don't think we've seen major regional difference. All the sort of trends that – you know, the broad ones I talked about, the slightly more detailed ones that Jennie talked about, they apply pretty much everywhere. You know, there are – and we've touched on it through the last nine months. There have been some slightly different dynamics in London, perhaps, a slightly sort of bigger weighting of people who are looking outside London, and certainly, the pandemic has helped to get the top – you know, and I mean our top end of the market rather than the top end of the market as a whole you know, moving a bit more fluidly as the second-hand market moved particularly during last year rather than in the last two or three months. And the planning changes are probably more acute in London than elsewhere, but that aside, I think our comments apply to pretty much all of the regions that we operate in, and even in London, albeit maybe to a different level. Jennie, the planning availability question?

Jennie Daly: Yeah, I mean, I think I'll probably take that on two parts and split out the strategic development plan processes versus the development management planning applications running. We have seen a slowdown in local authorities determining planning applications and less around details of reserve matters, condition discharge, you know, tend to be running pretty well, but it's more large scale, and in principle, decisions have undoubtedly been slowed down, and the appeal system is running, you know, considerably slower than it has done in previous years particularly after some improvements in 2019.

I think it's probably very important to recognise that actually there are some authorities that are performing extremely well, and in these circumstances and we had, for example, one of the largest and first virtual planning determinations in our London in business at Coronation Square. So it's a bit of a mixed bag we are seeing some authorities performing extremely well even under some difficult circumstances.

The development plan system is probably more concerning, as Pete mentioned, the White paper. Lots to be positive about within the White paper, but it inherently tends to slow down local authority decision making, and if they are constrained with sources, they tend to divert them elsewhere while they're waiting for those uncertainties to slow down. So we've seen a combination of the White paper and the changes in the standard methodology meaningfully slowing down the development plan process.

And whilst that's not going to have an immediate effect and in a very short-term certainly by the outlook of years two and three, that could have an impact on the amount of approved land coming through the system. Thanks, Pete.

Pete Redfern: Okay, thank you. I mean, I do go back – thanks, Clyde. I do go back to you know when you look at the outcome of that, it doesn't cause us to change any of our kind of comments or guidance and particularly related to the equity raise. It does cause us to be pleased to have not just the equity raise related sites but the higher level of underlying land buying to give us more choices. And it's why I focused on those January, February sort of progress because often bringing land on balance sheet is tied to the planning process, and so we're seeing that still running at pace even with that sort of backdrop is important.

Our focus from May onwards on this was, it felt inevitable that the overall sector outlets would drop, and although, you know, the drop in completions in 2020 is uncomfortable, that's a short-term thing. Once your outlets start to drop, it gets harder and harder to get it back. So having the choices to bring them through. To underpin the next few months, so we have stability. You know, we flagged in January, we probably see the outlets dip slightly. That hasn't happened yet. I'd still flag today; we'd see outlets, you know, sort of drop to a slightly lower point during this year, but not much, and that then they can start to build again. And that, I think, is a far better place than we would have been without that active land buying, you know, sort of process.

Operator: Thank you, and the next question comes from Gregor Kuglitsch. Your line is now open. Please go ahead.

Gregor Kuglitsch (UBS): Hi, good morning. Thanks for taking my questions. A few questions, so just maybe obviously, I guess maybe it's a very short-term question, but your best guess. What you think the levy will be for cladding? Is it, do you think it's essentially going to be 3%-4% of kind of effective corporation tax? I appreciate the accounting is a bit unclear whether it will be in operating profit or in tax, but is that roughly what you're expecting tomorrow?

The second question is on your – I think you've now spelt out specific 2023 targets, and they also include the margin is unchanged, you know, 21-22% you said before, but you're also adding return on net assets. I think 35%, which according to my spreadsheet, at least, would be an all-time high. I don't think you have ever achieved 35%. So, could you just flesh out perhaps your conviction around that side because that's quite a – well, to my mind, that's a very, very bullish statement.

And then maybe one briefly on trading year-to-date. If you could just remind us or maybe give us some colour what's the mix of Help to Buy in the reservations that you're taking or have taken in the last couple of months because I assume – I mean I appreciate there's a technical extension, but in reality, I guess, you're only selling on the new scheme, right? So is it down kind of half to what it used to be? Maybe just some colour would be helpful. Thank you.

Pete Redfern: Yeah, so on the cladding tax, Gregor, I don't think we know anything that you don't know yourself. We haven't particularly engaged with government on it because it didn't seem sort of necessary or particularly helpful. I think we're clear that we're meeting the vast majority of the direct costs, and we would hope that that and the others in the industry have made various different steps as well, and I suspect will continue to.

And we think may end up with, you know, where we are today being the end game for most; we will see, but that may actually affect the final conclusions. But we don't have a number any more than you do, so the speculation that you saw around, you know, sort of, the announcement on, I think the 10th of February, is the best guess that we have as well.

I think on the return on capital it's a very fair question. You know, we have focused in the how we have described our immediate targets and plans very much on the operating margin target. That obviously underpins the return on capital, and it will be something that we'll be reviewing in more detail, but I don't expect it to change by much. You know, our acquisitions and we quoted the return on capital on acquisition over the course of the last nine months.

And you've seen it's about 33%-34%. So, you know, sort of the range might be 30% to 35%. You might be right, but 35% as an absolute target might be ambitious, but it's not fundamentally different from that, and we still believe we can get both back to the 30s, which is where we did peak and stay there, which we think is what's important. Chris, are you comfortable to pick up the mix of Help to Buy question?

Chris Carney: Yeah, of course, and just to add to that, Gregor, remember that in 2018, when our – you know, our margin was 21.6%, the return on net operating assets was 33.4%, I think that's the peak, so it is in that context.

But yeah, in terms of Help to Buy, as we noted in January, we took 650 reservations on the new Help to Buy scheme in December. Since then, we've taken a further 452 sales on that scheme in the first seven weeks of the year, and I think that is just over 30% of year-to-date net sales.

<u>Gregor Kuglitsch:</u> Thank you very much, indeed. Thank you.

Pete Redfern: Thanks Gregor.

Operator: Thank you, and the next one – yes, sir, thank you. The next question comes from Shane Carberry. Your line is now open. Please go ahead.

Shane Carberry (Goodbody): Thank you. Morning all. Look, it's just one left from me if that's okay. Just looking for a little bit more colour around cost, I think Pete, you were saying you know, it's been a bit more of a benign backdrop than you originally expected, which is quite comforting given kind of what other – what some other kind of building materials players have noted in regard to inflation running ahead of expectations, so a little bit more colour on that would be helpful.

And if you wouldn't mind also just kind of touching on maybe the availability of labour as well. And I know Jennie mentioned kind of the word loyalty when talking about the kind of subcontractor base given, you know, the likes of the Pay it Forward scheme etc., which I guess a lot of the smaller players wouldn't have been able to do through COVID. So just how that's kind of impacted on the availability for labour for you would be great.

Pete Redfern: Yeah, I think on material costs, you know, we stand by the sort of 2 to 3%; I think the reason being, you always have to be slightly careful because you always have to be very specific about what time period we're talking about. So we're talking about the – you know, the movement in the average cost of material on the 1st of January through to the average cost of material on the 31st December in any period. You don't always see exactly that number come through the P&L because of lag factors and regulatory changes, but that underlying inflationary cost, we see it 2% to 3%, which is, you know, sort of below where we've been running; we were running at, I think, 4% to 5% in 2019, which was the peak year.

And, you know, yes, you see pressure, and you pick that up from, you know, building materials, suppliers on certain commodities. Certainly, you know, we saw pressure back end of last year, very early this year on timber, which I don't think surprises anybody, given, you know, overall, kind of, usage and availability data, but generally, you know, we've had savings in some areas. And I do think a piece of that comes down, as I've said, to, you know, the work that Jennie and Chris and their different teams are looking at different aspects of it: Chris looking at the – you know, the sort of commercial control and the processing of that, and how we manage our costs, and Jennie looking at the supply chain and how we get our materials and how we negotiate, and how we reduce SKU numbers and get those efficiencies, you know? They're not massive numbers, but they make a big difference, you know, sort of on the direction of that, sort of, build cost.

And on labour availability, similar sort of story I think; you know, labour availability in our sector hasn't been easy at any point, apart from through, you know, sort of the major downturn of 2008 and, you know, believe me, we don't want to go back there. You know, sort of, so we're always working at it, you know, so it would be wrong to give you a sense, oh no, we can just click our fingers and fill a site with good quality teams.

But we have good stability; those sort of relationship things like Pay it Forward, but our general attitude to our subcontract base, both through the pandemic and generally do help us. We haven't seen a big exodus of, you know, sort of people who work on our sites who might, you know, originally of, you know, sort of come here through different stages of, you know, boom and bust; we haven't seen a big reduction in those numbers, you know, and it –

so it remains reasonably stable. There is inflation, but it's, you know, manageable inflation. Does that answer your question, Shane?

Shane Carberry: Yeah, perfect. That's really helpful. Thank you very much.

Pete Redfern: No problem. Thank you.

Operator: Thank you. And the next question – yes, sir. The next question comes from Gavin Jago. Your line is now open. Please go ahead.

Gavin Jago (Barclays): Morning all. Can you hear me this time?

Pete Redfern: We can, Gavin.

Chris Carney: Yeah, yeah.

Jennie Daly: Yeah.

Gavin Jago: Excellent. There we go; I've managed to get the technology to work. Okay. Just a few if I could, please? The first one is just on outlet guidance. I don't know if you've got any hard numbers on how you expect those to grow over the next, kind of, two to three years?

I think the second one, Pete, I think back in January, in the trading update, you said that 2022 was when – just the first year when, you know, the – that margin range would be feasible, that 21% to 22%. I guess as we sit here today, how has your thinking on that changed, if at all, or your confidence in that?

And then the final one's just on the nine-month customer service survey. What do you see as, kind of, the main problems coming through, because obviously there's a gap between the eight-week and the nine-months? I know you've got 78% of people saying they'd recommend, but what are the main issues you, kind of, see when people aren't recommending you?

Pete Redfern: Yeah. So if I pick up the last one and, Chris, you know, sort of leave you to comment on the guidance points on volume and margin.

So I think it's important to understand that the ninth-month survey and the, you know, eight-week survey will never be the same number, so, you know, they measure different things and not just at a different point in time. There is part of it, and we, you know, sort of – we've seen the nine-month survey numbers slowly tick up. Today they are, you know, already higher, and the highest they've ever been actually, than, you know, sort of the 77%, 76% I think it was that we saw last year. Some of that is the things that we've done that affect the eight-week survey just take longer to come through into the impact on the nine-month survey results, so some of it is just time. But they ask a different range of questions; the nine-month survey, you know, is more related – and it covers some of the same things, but it's also related to people's sense of satisfaction with the site, with parking, with those sorts of things, so you have to deal with the different range of issues to get the right score.

And, you know, we don't aspire to have – to completely close that gap. We do aspire to see both general improvements in the nine-month survey, to close the gap a bit, but most importantly of all, to make sure that the weakest performance on the nine-month survey, you know, sort of pulls up, which is what we've seen as a trend in the eight-week survey.

I mean on the eight-week survey, you know, we now have, sort of, every one of our five divisions for last year hitting a five-star score, which is a great place to be because the biggest challenge when we really had a bigger challenge, with customer service going back, you know, sort of four years or so, when the industry did, was, you know, the great was great, the good was okay. It was the handful of – you know, the small number of sites or business units, you know, at the bottom were really quite poor. We don't have that anymore, so – and we can see that trend happening on the nine-month survey.

So the short answer is some of it's time, but they'll never be quite the same, and they measure different things, and we shouldn't be expecting the same score because statistically, they're different, they're different measures. Chris?

Gavin Jago: Okay. And just –

Chris Carney: Yeah. So –

Gavin Jago: – just a quick follow-up on that. In terms of where you stack up versus, I guess, others in the sector, is it kind of a similar pattern, kind of a 10% to 15% gap between the eight-week and the nine-month?

Pete Redfern: There is a very similar gap. I'd say, from our most recent survey – I mean we don't get the same level of data because of the industry-wide focus, and, you know, we've, sort of, majored on the nine-month survey more than others and talking about it, because we think it is important.

You know, it's important to understand it's different and you shouldn't expect the same score, but it's also important because I think, in some ways, it gives a better, more rounded view of satisfaction, you know, rather than your immediate, kind of, interaction with the customer after completion. So there is generally a gap. It's a similar sort of level; I couldn't tell you at any one point in time exactly where it sits because we don't get quite the same data, but, as I say, the progress we've made on that nine-month survey over the last, sort of, eight or nine months, you know, actually puts us in a very strong position on that relative to our peers.

Chris Carney: And then on margin guidance, Gavin, our guidance for 2021 operating margin, including joint ventures, has been upgraded today, so, you know, we're saying for 2021 it's 18.5% to 19%. And I think, you know, referring back to what we said in January on margins going further forward than that, you know, we said that in 2022 we'd be getting back to a normalish sort of margin. So what do I mean by normalish? Probably something similar to 2019 levels, which is about 100 bps up on our 2021 guidance.

But, you know, as Pete said at the time, we're targeting at the top end of that range, something to start with the two, and then when you get into 2023, and that additional volume starts coming through, that's when – really, you know, that's the first year when we would expect to be heading back into that 21% to 22% operating margin target range.

Gavin Jago: That's great, thanks. And just on the outlets, I guess, over that time period as well, is there any – sort of, if you're going to be flat this year, where would you need to be driving the outlet numbers to?

Pete Redfern: Yeah. So we wouldn't normally give numerical guidance, Gavin, but I stand by, you know, sort of what I said before, you know, sort of broadly flat at the end of this year and then starting to build, particularly in the second half of next year as the, you know, numerically additional outlets come through in the recent acquisitions, so, you know, sort of late 2022 and 2023 we'll see the outlet numbers start to grow. I'm not going to give you a number. I think, you know, we stand by the completions numbers that we've talked about into 2023 and 2024, but, you know, giving very specific outlet guidance when you depend on the planning system is never particularly comfortable. So, you know, some meaningful growth starting to happen in 2023 and 2024 but starting in the end of 2022.

Gavin Jago: Very clear. Thanks very much, indeed.

Operator: Thank you. That concludes our Q&A session for today. I will now hand over back to Pete Redfern for the closing remarks. Please go ahead, sir.

Pete Redfern: Great, thank you. Thank you, everybody, for joining us today and for your questions. I'd like to think that the next time we do this with the Half Year, we'll all be in the same place and we can see you as well as you seeing us. Take care. Bye-bye.

[END OF TRANSCRIPT]