Trading Update

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Taylor Wimpey Trading Update

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Good morning, everyone, and I think it is still acceptable to say Happy New Year. Thank you for joining Chris and I this morning.

So you will have already seen our trading statement, so I will take you through the headlines and then update you on what we saw in the market at the back end of 2022 before opening up for questions.

I am pleased to say that in a more uncertain and challenging market, the business performed well and we expect to report an operating profit in line with consensus and a strong margin performance, benefiting from our focus on driving price in the year and our commitment to improve cost discipline across the business.

As you will recall, in November, we guided to Group completions broadly in line with 2021, which we have delivered. It is worth reiterating that this incorporates slightly lower UK private completions and a bit more from Spain and JVs. However, given the market backdrop, we are very pleased with this.

As you know, by the second half, we were very cautious on the land market, both reflecting the strength of our land positions and what we saw as unattractive pricing given market conditions. This has resulted in significantly reduced land commitments in recent months, and we ended the year with a similar number of land approvals to the half year and a landbank that has reduced slightly to 83,000.

This is clearly a choice which we made but one we think is right given the market conditions. And as you will have seen from the statement, this has supported our year-end cash position, but will of course have some impact on outlet openings in 2023.

One of our key strengths is our landbank, and I am more focused than ever on ensuring we drive value from this strong position. Despite the challenging planning environment, I am delighted that we have delivered an increase in outlets as guided. We see these additional outlets offering more locations and customer choice as an important benefit coming into the year with lower sales rates.

It is fair to say there was a lot happening around planning in those final weeks of 2022. I am not going to repeat it here, but you will see our thoughts and concerns arising from the current planning changes in this morning's statement.

So just taking you back to May, in my first update, I talked about having a very clear focus on operational excellence and efficiency. This focus has positioned us well as we face into a more uncertain environment. We have acted quickly to mitigate risk using all available levers, including a freeze on recruitment, significantly reduced land spend and increased management controls around spend and investments, including WIP releases.

We have announced today as part of this operational focus and in light of market environment that we have entered into consultation with a number of our employees on a series of proposed changes. This includes proposed changes identified as part of our ongoing drive to increase operational efficiency as well as others, which, if implemented, would reduce our overheads to reflect market conditions.

I think importantly, none of these proposed changes would affect our existing market coverage, our ability to deliver volumes from our landbank or strategic pipeline, or, importantly, to deliver a high-quality product and service to our customers. But they would ensure that we are leaner, fitter, more efficient and a more resilient business. Should the proposed changes go ahead post consultation, these would be expected to generate annualised savings in the region of £20 million with costs to achieve c.£8 million.

So now turning to current trading. In terms of the market, since we last spoke with you on 9 November, there has been little underlying change, which probably would not come as too much of a surprise, having obviously been a quiet period in the run up to Christmas, which is a trend seen every year and we are just a couple of weeks into January, but I thought that it would be helpful to give you some additional data points on net sales rates and cancellations.

So as we updated you at the half year, sales for the first four weeks of the second half were 0.57, with a cancellation rate of 19%. Sales for the next eight weeks up to the mini budget of 23 September were 0.55 with a cancellation rate of 23%. Our net sales for the six weeks post the mini budget up to our update on 9 November were 0.43 with a cancellation rate of 29%. And for the eight weeks from the trading update to the end of the year, sales were 0.40 with a cancellation rate of 21%.

We know that many of our customers are still keen and have a desire to move. We kicked off our new campaign, "let us take care of it" on Boxing Day, which you can see on our website.

Whilst it is a relatively short period, just to give you a bit of a flavour. While appointments booked via our website over Christmas were down year-on-year, total appointments were up overall. This was really the result of the very proactive efforts of our sales teams who directly booked more than twice as many appointments than last Christmas. We also saw an increase in walk-ins over Christmas as we stepped up our marketing efforts.

Overall, though, you would not be surprised to hear me say that conversion, that interest is taking much longer.

Looking at other lead indicators, website sessions are currently running pretty similar to this time last year. And within that, organic traffic is down by about a third, but we have driven an increase in paid media to make up the difference.

Our customers are telling us unsurprisingly that the key factor in their decision-making continues to be the well-publicised cost of living challenges, mortgage rate rises and general economic outlook, all weighing on sentiment and feeding into increased caution from customers regarding ultimate commitment. We remain very confident in the quality of our locations and our product.

So what is critical now is for us to stay laser-focused on sales and to keep very close to our customers at all stages of the order book. As you know, we refreshed our sales training last year for selling in a more difficult market, and our teams remain focused on maximising our leads and providing the best possible customer service.

With the important spring selling season approaching, I believe our teams across the business are very well prepared. Now we are employing targeted incentives, and this has become a bigger feature across the market in the final quarter. But incentives, as I have said previously, are not a silver bullet. So we need to constantly assess the effective application of incentives and tightly control them so we are not giving away margin without the sales benefit.

Another critical element, of course, is the mortgage market, where we continue to see a good appetite to lend, with the banks in good financial health. As you know, rates went up substantially in the third quarter, but with lenders having already factored in above peak base rate expectations, we continue to see mortgage rates reduce. So for example, the Halifax's 75% LTV two-year fixed is now at 4.95 and its five-year fixed at 4.55 on the same basis.

Moving on, we will, of course, update you on the Board's decision on dividend at the full year results on 2 March. But it is worth reiterating our ordinary dividend policy here, which is to pay out 7.5% of net assets or at least £250 million. This is deliberately designed to provide investors with visibility of a reliable dividend throughout the cycle. And as you know, our dividend policy has been stress tested to withstand conditions beyond what we would consider a normal downturn.

Despite the economic backdrop, long-term sustainability and value-add to the business remains a top priority for all of us at Taylor Wimpey. We have made excellent progress on our net zero transition plan and we have now submitted our net zero targets to the Science Based Target initiative for independent assessment.

So to conclude, whilst current conditions are uncertain, we face into 2023 in a strong position with a very strong balance sheet, excellent landbank, an increased number of sites in high-quality locations and tight operational discipline throughout the business. We remain completely focused on this, ready and able to deal with whatever the market conditions we see, whilst remaining agile and alive to opportunities, should they emerge. So hopefully, that has been helpful.

And Chris and I are now happy to take your questions.

Q&A

Ami Galla (Citigroup): I have a couple of questions. The first one, can you give us some colour on the profile of buyers that you have seen in Q4, the sort of LTVs that you are using? And also some regional differences that you have seen in the market over the Q4. And the last one I had was just in terms of the price points that you are seeing the most difficult market conditions, if you could give us some more flavour around that.

Jennie Daly: Morning, Ami. Yes, quite a bit in there. I mean from a buyer profile perspective, it is really hard for us to segment over that short period. I mean we have had probably about 35% of our completions over 2022 were to first-time buyers, about 40% to second time buyers and a very low number to investors. So we have not really seen that move significantly.

And regional differences. I think in November, I said on a relative basis, the various regions were performing in terms of what you would expect. I think probably in some areas where there is a heavy reliance on first time buyers and there was more significant Help to Buy, a little bit more, but nothing that I would really want to call out there.

And again, price point, really hard for me to unpick that at the moment. But clearly, the availability of high loan to values are affecting first-time buyers coming into the final quarter. And I don't think that is a surprise for you.

Aynsley Lammin (Investec): I think I got three actually. I wondered if, firstly – I may have missed this – but if you could give the private order book, what that was at the end of the year and what it was down year-on-year?

Secondly, just interested on any comments on building materials, labour cost inflation, trends you are seeing there, what you expect for this year?

And then thirdly, just on site numbers. Obviously, 232 average last year. What is your view and tactics around sites looking at if the sales rate stays at 0.4 or 0.5, will you still be bringing on more sites to support volume? Or will you be more cautious, given the kind of cash implication? Just interested to hear your thoughts around how you are managing that.

Jennie Daly: Yes. Okay. Could, Aynsley, you just repeat your second question for me, please?

Aynsley Lammin: The second one is just on build costs for the building materials and labour, what you are seeing, trends you expect. Is there a bit more tension on negotiations? Are you pushing back a bit more on building materials, etc.? Just interested to hear your thoughts there.

Jennie Daly: Yes. Okay. Well, look, I will cover the order book and I will pass to Chris on the build costs.

So on private order book, let me just find it. Yes, 2,943 private order book. So that is 45% down, Aynsley. Of that, 53% is exchanged, so a decent exchange level.

On outlets, we were not going to guide into 2023 on outlets. But in terms of bringing sites forward, there are very few instances where I would think it is a good decision not to bring a site forward. We are managing WIP really closely and we have got good management controls in place.

Clearly, the opening infrastructure cost is something for us to look at. For the vast majority, we would continue to open sites even if sales rates were low. So Chris, on build cost?

Chris Carney (Group Finance Director, Taylor Wimpey plc): Yes. Morning, Aynsley. When we reported the half year results in August, I said that the prevailing annualised rate of build cost inflation had increased to 9-10%. And if I look back 12 months from today, that 9-10% range remains pretty accurate. Where build cost inflation goes from here, is a lot harder to pin down.

Some of the unknown factors include the impact on Scandinavian timber pricing due to the absence of supply from Russia and Belarus. You have also got what happens to UK energy cost with the end of Government support and how we unpick that given some generally opaque supplier hedging policies, although, obviously, gas pricing is significantly down on the highs of last year.

And then you have got wider wage inflation, which I think is still to fully flow through for some materials. But clearly, we should see some easing in subcontractor wage inflation, subcontractor availability increases. And currently, there are anecdotal localised examples of that but nothing that statistically consistent across the business that I would want to point to. And obviously, we will expect to update you further on that when we get to March.

Marcus Cole (UBS): I have got three questions as well. I was just wondering if you could give the fixed cost of the business as we think about operational leverage?

And then the second one, I was just wondering what incentives you are currently doing in terms of percentage of sales.

And then lastly, I was just wondering what the land creditor unwind is this year. I think previously you said £350 million, but I just wanted to double check that.

Jennie Daly: Okay. I will take the incentives question, Marcus, and then I will pass over to Chris on the fixed costs and land creditor unwind. I have said previously that we are very controlled and targeted on incentives and that very much sort of remains our focus.

Incentives use generally has been quite low. I think the average incentive for 2022 was around 2.3%. That was actually lower than our incentives for 2021. So you can see how strongly we were pushing price at the start of the year. They have ticked up towards the end of the year. And we are continuing to really play them on a tactical basis.

Chris Carney: Yes. And Marcus, as this is just a trading update, I am not going to go into any detail, but for very broad-brush purposes, it would not be far wrong to assume about £300 million of fixed costs in total with about a quarter of those sitting in gross margin, which are things like show home depreciation, salespeople, maintenance costs. And the balance then would sit in admin expenses.

In terms of land creditors, they peaked back in June at £844 million. And as expected, due to the reduction in land buying in the second half, there are more than £100 million less than at that peak. And so really, you talk about £720 million to £730 million, and approximately half of that balance will be due within one year.

Will Jones (Redburn): I will try three, if it that is okay as well. First, just coming back to the sales rate I think in Q4, that 0.4 number, which looks somewhat firmer than a couple of peer numbers reported this week. Just checking if anything we need to be aware of there around potential use of bulk sales or is it a fairly clean figure? And would you highlight any great shift through the quarter above and beyond normal seasonality?

The second just exploring the last few weeks and months as well. Thank you for the data around customer leads, appointment and websites. But if you are looking at the year-on-year picture, if you would have been giving us that same shape, if you like, in November and October. Was it different year-on-year at Christmas or is it more or less as you were?

And then the last one, which is a technical one. But when we think about obviously, a big drop in the private volumes in the order book compared to relative stability on affordable, how should we think about the percentage of the volume that is likely in affordable this year? Will it step up or will it actually track the private, do you think?

Jennie Daly: Okay. I mean, first of all, on sales rate, that final reporting period at 0.4, our teams worked really hard for that. Our sites are in really good shape. We have ensured that our development websites and plot details are up-to-date. So I would really stress quite a strong effort right across the business to deliver that.

Looking at bulk sales, I mean, overall in the year, nothing really to call out. Relatively low numbers. It is fair to say, Will, that there will be bulk sales in that final reporting period. And I don't have the number to unpick it, so it is less than 0.4, but it would be more I think than 0.3, if that is helpful.

I mean, again, on customer leads, I do not have the breakdown today for October, November. We have continued to see really strong early leads. We did, and I think I said in November had started to see a drop-off in appointments at our sales centres, through the normal period until late autumn that we would expect to see a tail off, but really reinforce the very pleasing level of activity that we have seen alongside our Christmas and Boxing Day campaign.

Just on private volumes and affordable. Chris, do you want to pick that up for me?

Chris Carney: Yes. So obviously, the affordable mix was 21% in 2022. I mean I would have expected in sort of normal market conditions for it to be around the 21-22% level. I think to some extent the outcome is going to be a function of private sales in 2023. So it might edge up a little bit if private sales are weaker. You might be talking in the range, 22-24%, depending on the strength of those private sales.

But it is not like you can just completely switch to affordable because in the vast majority of cases they are pepper-potted around the sites. So yes, you could see an increase, but it is not going to be a massive increase in mix.

Anthony Manning (Bank of America): Could you just give us a bit more colour around the cost savings plan? When can we expect that to be realised and the phasing of savings over the year?

And if I could, can I just push you a bit more on incentives? You mentioned that the sales teams have doubled meetings this year and you have given them training. What is the messaging you are giving to your sales teams around them to really push sales and what incentives they can do in that targeted nature?

Jennie Daly: Okay. I will pick up on the incentive points. Chris, will you pick up on the cost savings?

Chris Carney: Yes.

Jennie Daly: So look, I think the first thing that I would say, and I mentioned it in my opening remarks, incentives are a tool but they are not a silver bullet. So it is important that they are deployed in a tactical and targeted basis. And so that depends very much on the proceedability of the customer, the stage in build of the plot that has been negotiated and the age and maturity of the development.

We would probably – and I think Chris might have mentioned this in the past – new sites that we are just getting started on, it is not likely that we would deliver significant incentives. But an older sites where we are on final build out, that might be an area that we can be a little bit more innovative and forgiving.

So I want to be really clear that incentives are a tool. They are not an answer in and of themselves.

So how are we priming our sales team exactly around that? It is to understand each individual customer's preferences. What are the blockers, if any? What are their concerns? And to ensure that we are delivering incentives that then meet those specific issues. So very much bespoke customer-facing approach to those. But we would continue to focus on the really just strong basics of delivering good site presentation and clear and navigable website and informed sales teams.

Chris Carney: Yes. And on the proposed changes, you got to bear in mind that we are in consultation on those, so it is very much dependent on the outcome of that consultation. But if they did proceed, then perhaps, say, 75% of those annualised savings might be realised in the current year.

Glynis Johnson (Jefferies): Actually, a little bit of really follow-up on a few of the bit in terms of the incentives. Can you just talk us through the "let us take care of it"? Just a bit more colour in terms of who is eligible for it, what actually you are doing within that? And then just in terms of whether the costs of that are coming as a deduction off selling price, when you are actually going to see that through the P&L or whether that is coming as additional costs.

And then just a bit more colour just maybe in terms of what you are seeing on the ground, what is the constraint on customer demand once you get them through the door, once you get them booking that appointment? Is it just that they are waiting for interest rates to level off to make sure they are getting the right deal? Is it their thinking that house prices are going to come off and that they should wait? Is it eligibility for mortgages? Is it just the affordability and we need to wait for the energy costs to come back? What are the real time push backs you are getting from those customers to evolve who need more time?

Jennie Daly: Yes. I mean, look, incentives, I think my response to Anthony's question about trying to build a bespoke incentive or a bespoke package around each customer is very much at the heart of the "let us take care of it". And if you look at the website, you will see that it talks to customers that are both concerned potentially about mortgage payments but also those who may be more concerned about energy prices and normal bills, for example, or just around support in an uncertain market.

So I think that, that bespoke approach works really well for us and is a part of that focus that we have in supporting our customers through all stages in the sales process in these challenging times.

On the constraint on customer demand, I think what we are seeing is a continuing strong level of customer interest. It is their ability to affect that interest or affect that demand, either through concerns on mortgage availability, around affordability, particularly first-time buyers, and the changes that we have seen with the old mind of Help to Buy that they need more support in understanding sort of products and affordability. So first-time buyers is definitely an area that we can see genuine constraint.

And cost of living, it very much depends on the nature of the customer, their income profile as to how significant those particular issues are. I mean it has been very pleasing, Glynis, in the first few weeks of the year to see mortgage interest rates starting to come in. And we have seen some really good movement, some very good movement, in fact, at the lower loan to value, but we would like to see some more movement at those higher loan-to-value levels to support those fundamentally important first-time buyers.

Glynis Johnson: Can I just go back to "let us take care" of it, just so I understand. Because when I look on the website and it talks about up to £15,000 deposits or it talks about £15,000 mortgage contribution. Can you just quantify "let us take care of it", what are maximum levels of cost that could be, but also does it come off selling price or is it extra cost?

Jennie Daly: I think as a couple of the peers have said over the last couple of days, incentives really top out at around 5%. And after that, achieving a mortgage becomes more difficult. So lenders tend to have an issue with any incentives above 5%. And if you look at the terms, conditions of many offers across the market, you will see that limitation up to there.

I mean what we have found from a marketing perspective, Glynis, which I think is what trying to get at is, let us call it the hook marketing terms. Often the hook that brings the customer to us is not actually the incentive or the package, let us call it, that we end up with. So for example, the key worker is something that we know in some of our regions has been really effective in bringing customers, piquing their interest and bringing them to talk to us, but ultimately, when we have done the reservation, it has been built in a different way.

So I think I would really stress that flat incentives are a tool but really then we flex around the customer which is what that "let us take care of it" is all about.

Glynis Johnson: And Chris, does it come off the selling price? Would a 5% incentive be a 5% lower selling price within this product, or does it come as extra additional costs?

Chris Carney: All incentives, Glynis, are discount to pricing. But as Jennie said, we are not running at a blanket 5% discount. Actually, in the first half of this year, discount levels were remarkably low. Yes, they have increased a little bit post the mini budget, but actually still nowhere near on average that 5%.

Glynis Johnson: But when the value is looking at the valuation, if you look at the valuation less the discount.

Chris Carney: Yes, that is right. So it is net of the two. It is in the net revenue.

Andy Murphy (Edison Research): I have just got one question left. It is really around the land market and your attitude to land purchases, what you are thinking about, whether you think or whether you are seeing land prices decline or whether you think they will in fact decline or whether your view is that people would tend to sit on their hands and activity this year for the next, say, six to nine months, or will just plateau out or whether you genuinely think there will be a resetting and prices might come down. Interested in your thoughts.

Jennie Daly: Okay. That is a bit of a philosophical one I think at this point. Our approach to land at the moment remains highly selective. You can see in the reporting that we have not increased the number of approvals. We are in an excellent land position. And therefore, for land to be attractive, it would have to be really very attractive levels. I would not really have expected the land market to have reset yet in any event. It does require a degree of stability in the sales market that flows back into land.

And then there are multiple other factors as to how much, if any, prices would decline availability, where the sales market is, landowners' own comfort, you would expect to see declines where landowners are feeling under a degree of pressure. And I think at this point it is fair to say that there is not many feeling pressure and prepared to sit back and watch also. So I think we will continue to monitor it, but we will be very selective in the coming months.

Closing remarks

Okay. Well, thanks again for your time this morning. I think we can all agree that we are in uncertain times. But you can see that we are entering this environment in a good place. We have got an excellent landbank and a strong balance sheet. We acted quickly on costs, land and WIP investment to reflect the lower demand.

Whilst the market is tougher, the business, I think, is operating well, and our increased number of outlets as we enter this year is a key differentiator for Taylor Wimpey and our ability to secure sales in the market. It is challenging, but we have always known that we operate in a cyclical market, and we have run the business with that in mind.

Fundamentally, the UK has a shortage of housing, and we remain well placed in the medium to long term in a highly attractive market.

So Chris and I look forward to speaking with you all again on our full year results on 2 March. Thank you, everybody.

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