Trading Update

Thursday, 27 April 2023

Trading Update

Jennie Daly

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Good morning, everyone. Thank you for joining Chris and I. It does not seem like five minutes ago that we were talking to you at the year-end. So I intend to keep this morning's comments brief.

Since we last spoke, some degree of stability has returned to the housing market, albeit it is still a very different place to this time last year and we remain in uncertain times. When we spoke to you in March, we said that all things considered, we were pleased with how the spring selling season had started, and this has continued. It is encouraging therefore, to be reporting a net private sales rate for the year to 23 April of 0.75.

Interest from customers remains and there continues to be a healthy level of commitment and product availability from mortgage providers. There were some planned bulks in the period, including the agreement I mentioned to you all at the prelims with the Defence Infrastructure Organisation to deliver 176 new zero-carbon ready homes for soldiers and their families at our Whittle Gardens development.

We see this as very much a normal course of business, benefiting both this and future years. But for complete transparency, you will see that we have also included the sales rate, excluding bulks of 0.66 in this morning's statement, which I hope is helpful.

Cancellations are slightly lower at 15% and quite low in absolute terms with the core reasons remaining broadly similar to what we talked about at the full year, that change in circumstance, unable to achieve a mortgage and break down of chains. I have spent some time with our sales teams in recent weeks, and though experiences do vary from site to site overall, they report that in line with the national data, consumer confidence is rising, although from a very low base.

I think it is also worth saying that the cost of living concerns do remain very much at the forefront of our customers' minds. So our teams are continuing to work extremely hard to achieve our sales rate and are supporting customers more throughout the process. So for example, our recent events with independent finance advisors have proved very popular and our CRM data has been an important tool in helping our sales teams drive sales performance at a plot level and staying close to our customers.

Incentive levels have not really moved and are currently running around 5%, and pricing remains reasonably firm.

Our order book now stands at a value of £2.4 billion and circa 8,500 homes, which is 21% and 23%, respectively, during the last year. I think it is worth calling out that there is a greater proportion of affordable homes in this year's order book and the blended ASP in the order book is up 2%, with both individual ASPs of the private and affordable order book showing increases, reflecting inflation captured through the course of last year.

Web sessions are broadly the same as 2022, with the drop in organic search, offset by increased and targeted media spend, which is helping to drive footfall to our sites. Overall, appointments are up on the prior year as we retain a flexible model, facilitating walk-ins to support those booked in advance.

As a result, our forward indicators continue to show good levels of interest. In more recent weeks, we've seen the seasonal impacts of improving weather and the Easter holiday break, but post Easter online activity has recovered well.

The lending market remains healthy. I think as you are aware, first-time buyer product continues to be challenged, but rates have reduced from last autumn's highs. So for example, our latest rate card shows the Halifax two-year fixed at 4.39% and a five-year fixed at 4.03%, both for 75% LTV.

As we said in this morning's statement, prevailing annualised build cost inflation remains high, but is beginning to moderate from the 9% to 10% we reported in March, a trend we expect to continue as the year progresses.

Coming on to land, we remain highly selective, but alert to opportunity in the land market. And as you know, we benefit from a very strong land position amongst other things because of scale and the quality of locations. This has been an advantage in this market and in an increasingly difficult planning environment.

We are also seeing the benefit of our strategic pipeline, and we have made really good progress, converting circa 5,000 strategic plots in the period. We are currently trading off 239 outlets. But as I told you back in November, planning has been quite a strong headwind. And looking forward, outlet openings are going to be a reflection of how resilient the market is in sales rate and whether we have the appetite to add land through that period or not. So there are quite a number of moving parts.

And then on to guidance. Given the short time since the full year announcement, I do not think you will be surprised that we are not going to add much in terms of guidance. But we are today reiterating our volume range of 9,000 to 10,500, broadly equivalent to a net sales rate assumption of 0.5 to 0.7, with completions more weighted to the second half with a round of 45/55 weighting.

As outlined at the full year, value over volume remains our guiding principle in these market conditions, together with tight cost management and WIP control. And as I discussed at full year, our teams are very focused on building our order book and optimising sales price into 2024. And as a result, not all reservations taken between now and the end of September will be for completion in 2023.

We have come into these market conditions with the advantage of our strong landbank, and this together with our operational delivery focus and highly experienced teams, meaning that we are in a great place to take advantage of opportunities, but also delivering attractive returns to our investors, including the 4.78 pence final dividend being paid in a couple of weeks, subject, of course, to our shareholder approval at today's AGM.

So I hope that has been a helpful summary. And Chris and I are happy to take your questions.

Q&A

Harry Goad (Berenberg): I have got two. The first one on bulk sales, which you obviously referenced some activity in the first quarter. I mean how do you think about bulk sales or

PRS type deals maybe looking ahead over the next year or two? Is that something that you are looking to embrace more of to support sales rates into next year?

And then the second point separately on land. I appreciate, obviously, there is not much need or appetite to be acquiring much land right now. But where do you think land prices need to move to when we think about particularly cost inflation we have had before land prices get interesting again from a residual value perspective?

Jennie Daly: Okay. Thank you for that, Harry. I mean in terms of the bulks, first of all, as you heard in my overview, the DIO deal that we flagged in at the prelims, very much planned transactions factored into our financial planning, and that deal has been in negotiation for quite some considerable time.

So we tend to think of bulk deals on a site-by-site basis. I would tend to think of them on a tactical basis based on each site circumstance rather than an overarching theme. And the main driver is the quality of the deal and the benefits that it adds in terms of capital return to each individual site and particularly our bigger assets. And of course, the fact that they are incremental in terms of deals.

It does have some bearing, but it has not been the main driver for those larger deals. So very much quality driven and ensuring that we are improving the capital returns of each site.

Around land prices, I mean, it is the big question. Land has not moved. Activity is quite muted in the market with little being moved. There has not been a meaningful movement in price or recognition of the build cost environment. We would like to see land prices reflecting more of the reality in build cost inflation that we have seen and also the impact of reduced sales rate activity, and we are not quite in the same place at this point in time.

Marcus Cole (UBS): I have got two questions as well. I was hoping if you can give some additional colour on margins. Is there anything you can talk to around operational leverage and build cost inflation for this year? And the second one was around planning. I just wondered how much of a risk it is for volume and recovery in the business for next year.

Jennie Daly: Okay. If I sort of take the planning question, Chris, and you tackle the margin and operational leverage. I mean I think I am at risk of sounding like a broken record around planning. We have been talking about the increasingly tightening sort of restrictions and bottlenecks within planning for some time Marcus.

And as I said in the overview, I think planning and the frustrations in planning do represent some level of risk, particularly on the timing of outlets openings and leveraging elements of our landbank. And that is a factor right across the sector, not just at Taylor Wimpey. We were all tackling it at the moment.

So Chris, on margin?

Chris Carney (Group Finance Director, Taylor Wimpey plc): Yes. Well, Marcus, as this is a trading update, we are not going to provide any more guidance on profit or margin for 2023 full year. But I am very happy to reiterate the specific guidance that we gave on the half one income statement from when we updated the market at the beginning of March.

So Jennie has already mentioned the volume range for the full year. We are still expecting that normal 45/55 half on half to split. The private average selling price in the first half expected to be similar to the £367,000 average for the second half of 2022.

The affordable average selling price in the first half also broadly similar to the £162,000 that we reported in the second half of last year.

On operating leverage, as said on the call in January that broad brush, we had about £300 million of fixed costs with about a quarter in gross margin, which is absolutely fine for modelling operational gearing outcomes. It is probably a bit higher at around about £320 million and probably closer to 30% in cost of sales, if you want to be absolutely accurate.

And obviously, those are annualised numbers, so you need to half them for the first half. But in addition to those fixed costs, admin expenses in the first half, obviously, will bear the £8 million of restructuring costs that Jennie referred to earlier. And the full year guidance for JVs is £2 million with all of that coming in the second half. So no contribution from JVs in the first half.

Aynsley Lammin (Investec): Just two for me. Firstly, on pricing. Obviously, you say sales incentives still running at 5%. Just trying to get a feel for what kind of underlying pricing is doing, how resilient it really is? Because obviously, I assume some of that is what you factor in as a trade in amount for the salespeople on the floor. And yesterday, one of your peers talking about, in fact, on some sites, they are actually being able to I think pushing ASPs up a bit. I mean I just wonder what your thoughts were on that? Or any comment you can only on the real kind of underlying pricing, if you like?

And then, secondly, just on mortgage availability, a bit more colour there would be helpful. So yesterday, something came out, lots more kind of product availability. Is it still a bit more difficult for new build first-time buyers? What you are seeing there on the ground?

Jennie Daly: Okay. Just on mortgage availability first. I mean, I think that we see a good range of product right across the piece and the lenders. And we have seen quite a bit of activity, particularly at the upper end of the market and some of the smaller regional sort of building societies and others, which is very, very pleasing.

I mean I think we mentioned at the prelims that our first-time buyers were drawing down 78% mortgages. So in that part of the market, there is really good competition. I am seeing lenders still remaining very committed to lending in the new homes market. So for example, we are not seeing any movement in down valuations. It has been surprisingly low, in fact, over this period.

I think that there has definitely been a pause in rate movement, and we will need to see where things go in May. But I think in broad terms, Aynsley, really good availability. And our sales teams and brokers are able to place most customers, albeit, you will see in the cancellation rate as well, but unaffordability or inability to achieve mortgage does remain one of our key reasons for cancellations.

On pricing, I said reasonably firm. I could probably say reassuringly firm. We have been trading at minus 2% from the quarter three peak last year very consistently. It can be variable across sites. There may be some regional variation, but it is not significant. It is more on a site-by-site basis.

On that pushing ASPs, again, I would say on some sites where we have seen particular resilience, then we would take the opportunity as you would expect us to. But I would still say that many of our customers are challenged. Cost of living issues is forefront of their mind. And it is definitely not universal.

Anthony Manning (Bank of America): I just had two, please. Just touching again on the bulk deals. I appreciate you are taking a value over volume strategy. But could you give us an idea of the embedded margin in those deals, where does it stand to normal private sales? And then, again, is there any one-offs, as you mentioned the defence contract, that we should expect in the second half that we should know about?

And then, secondly, just on the build costs. I appreciate you said the 9% and 10%. But as we are in Q2 now, if we were to look forward on that kind of spot basis, if that was annualised rate and the inflation we saw in Q1 last year taken out, where would that 9% to 10% move to if we were thinking at the end of Q2?

Jennie Daly: Okay. Well, I will take the bulk. Chris, if you want to take the build cost inflation.

Chris Carney: Yes.

Jennie Daly: Yes. Look, we have been stressing that these have been planned deals, and the DIO deal, for example, is by far the greatest in size. So I do want to put it in context that this is normal course of business, they probably do stand out, which is why we wanted to be more transparent today than we normally would, given all eyes on sales rates and volumes this year.

We look at these deals in overall terms. And there is a balance in margin versus return on capital and turnover on these sites. But they are also very much factored into the teams. These sites are larger assets, and we will have factored that into our original thinking when we have been acquiring them.

So I do not see these as significant in and of themselves, but more significant because of the year that we are in, Anthony.

In terms of any others planned, there is one other that springs to mind that, again, has been in negotiation for a little while. But again, that would stay very much within the normal course of business scale.

Chris Carney: Yes. And just going to the build cost. When we updated at beginning of March, I said that the prevailing annualised rate of build cost inflation was unchanged at 9% to 10% and that we were seeing some signs of moderation and would expect the level of cost inflation to reduce as we progressed through the year. And that is exactly what is unfolding.

I think it is important to bear in mind, and I think you alluded to this, Anthony, that typically Q1 sees the majority of build cost increases. We are now in Q2. And so the Q1 increases from last year are excluded from that annualised inflation spot calculation. And so that measure is naturally reducing as time goes on.

On the materials side, whilst there is still inflationary pressure and uncertainty around energy and wages, along with some suppliers still updating their cost base from 2022, there are clear signs of stabilisation, although not much in the way of actual price reductions.

There is good availability of pretty much all materials now and categories which have had longstanding issues appear to be resolved. So I guess by the time we update you in the summer, and I know you asked for the full year, but I think that is a little bit too much of a stretch at the moment, I would not be surprised if we were talking by then about a spot rate of build cost inflation somewhere around the 5% to 6% percent level. We are not there yet. The current trajectory would need to continue for the spot rate to get to that level by the time we update at the beginning of August.

Cedar Ekblom (Morgan Stanley): Just one question from me. On the point you make on focusing on value over volume, we have now seen the market recover and stabilise after that Q4 downturn. And so I want to understand when do you start thinking about the trade-off of volumes not growing from here into next year, assuming the market remains at a stable level relative to the value question of bringing sites to market in this kind of a backdrop. So it is not really about if the market recovers from here. It is more about how do we think about the trade-off if we now stay at a broadly stable level?

I mean demand is weaker than it was this time last year, but it has recovered from that really bad point in Q4. How happy are you to not grow your volumes into 2024?

Jennie Daly: Okay. Thank you for that, Cedar. I think as we look into 2024 and beyond, we are optimistic in the medium and in the long term. We have a great landbank. So we have got a great platform from which to grow when conditions are there. So I think we are really well placed.

But I think that these are, just at this point, still challenging times. I think that there are still reasons to keep our feet firmly on the ground and remembering those customers that still have cost of living challenges. So at this moment, we are concentrating on controlling the things that we can control. I am very pleased with the sales rate that we are sort of giving today, and there is no lack of ambition. But we do think it is important that we balance the value, that price optimisation, and ensure that we really focus on a strong order book, which will be really sort of contributory to 2024.

So I think when we look at sales rate, too, I think it is probably appropriate to caution that we are in the spring selling season. These figures that we are giving you are traditionally the strongest part of the year. We reported a 0.62 sales rate at the prelims and now reporting 0.75. But these last eight weeks would be traditionally known as the strongest part of the year.

If we looked at normal customer practice or at previous years, we would see that those weeks run at a premium to the rest of the year. So again, I think just keeping our feet firmly on the ground. So looking for a little bit more stability, yes, Cedar.

John Fraser-Andrews (HSBC): Two for me, please. The first is on build cost inflation. Chris, if I could just ask you to give some more colour on labour. I heard what you said on materials. It sounded on materials as if anything, there has been a bit of a touch of sequential increase versus the backend of last year. Perhaps you could clarify that and state the situation on labour?

And then, secondly, on outlets. They have fallen by 20 since December. Is that just a sort of normal drop-off and your outlook is to keep those a touch lower than your end position at December.

Chris Carney: Okay. So I will start on the build costs. I think on the labour side, the challenge is probably evident in every newspaper that you pick up at the moment. Inflation is proving a bit sticky. And whilst it is, I think set to fall in the balance of the year, there is wage pressure even with activity reducing.

However, we are resisting requests for price increases, and moreover, we are actively seeking discounts from the labour-only trades, where we feel there is most opportunity to reset that cost base. On the materials colour, yes, German steel is a bit cheaper than the end of last year. But then you have got hot dipped galvanized coil has been increasing in price recently. Timber is generally down versus last year. I guess cement is the one where you would expect the most increase in 2023, given the energy intensity of it.

So yes, that is hopefully a bit of useful colour for you, John.

John Fraser-Andrews: Well, I was going to follow up on that, Chris. It does sound as if labour then is pretty much unchanged sequentially from the end of December and materials on balance I think you are saying is slightly up.

Chris Carney: So we have been really clear in the statement that on an annualised basis, John, that the build cost inflation remains high, but is beginning to moderate for all the reasons that we saw have set out. And as I said I think in the answer to Marcus' question, that is naturally reducing at the moment, but it is still pretty high.

And if we continued at the same rate that we have seen in recent weeks, then perhaps by the time we update you at the interims, which obviously is at the beginning of August, perhaps the spot annualised rate of build cost inflation then would be around about the 5% to 6%. But we are absolutely not there yet. It would need to continue its downward trajectory.

Jennie Daly: Okay. In outlets, I mean, I do not think there is anything. So there is no normal. Outlets are fairly dynamic in the open trade and close. And we, as you know, do not provide outlet guidance, but we thought it was helpful for you to see the current outlet numbers this morning.

We have said last year as a consequence of that pause on land buying that there would be some impact on outlets this year. And as I mentioned in the earlier questions and in the overview, planning does remain a challenge.

Probably fair to say too, John, the sales rate has been better than we expected, and that has a consequence. And probably a little bit of more focused discipline on closing sites from a sales and cost position as well. But I would not overstate that. So the outlook does depend on the sales rate, landbank, the planning, wider economic environment.

Sam Cullen (Peel Hunt): Just got one really in kind of following up, I guess, on the outlets and the deferrals into next year. Are you building the pipeline for next year earlier than you have done in prior years? Is the first part of the question.

And the second part is really, should we be viewing this as a defensive move to mitigate further challenges that are likely to come in the next year in terms of the planning backdrop

given the politics of where we are in the election cycle? Or should we view it as more a positive move in terms of building momentum in the order book to kind of move hopefully back to, all things being equal, kind of beat and raise sort of mentality.

Jennie Daly: Yes. Okay. Actually, really good questions, Sam. We are not seeking to build the order book earlier than other years, but we are focused on building a strong order book going into 2024. We talk about price optimisation, and the balance of value over volume and the order book is a really key element of that, and it has benefits both to the quality of 2023 sales because we are not putting our teams under undue pressure.

They are under pressure, and they are being driven for delivery. But it would tend to drive the wrong behaviours if we put too much pressure into trying to take too many completions into 2023, particularly later in the year. And it obviously then has the benefit of driving a really solid platform for us to deliver 2024. It gives us much more confidence and the opportunity to optimise price going into 2024. So we are not building it overly early, but it is a focus for us.

In terms of the defensive moves or a positive, I would absolutely start from the positive. We see great value in having a strong order book. We have been talking about it for quite a long time. And it is certainly something that last May in the CMD that we talked about. But to your point, on a positive basis, it then also has a really strong defensive benefit.

And you called out the election, and election years do tend to do odd things to customer sentiment and sales rates. So not the lead reason, but it certainly would not do us any harm in those conditions.

Ami Galla (Citigroup): Just one follow up from me. Just following up from that question on what happens to volumes next year. If you are positioning for a stronger volume recovery, can you give us some colour in terms of are you thinking of a higher WIP investment as we head into the end of this year?

Jennie Daly: So I mean WIP has obviously been a really sort of important management control focus over the current year. But we are trying to balance carefully the opportunity break versus the importance of controlling our investment in the ground and ensuring that we are sticking to a really strong discipline around that build sales balance.

So I mean, literally at this point in the year, we are trying to ensure that we are keeping as much opportunity open. And we will iterate and solidify that as we go through this year and we see how the sales environment progresses.

Clyde Lewis (Peel Hunt): Two, if I may as well. One on first-time buyers. I mean, Jennie, I think you referred to, obviously, the tough time first-time buyers are still having. But one of your peers yesterday mentioned a bit of a change in the trend that they have seen in terms of recent reservations there. Is that something you are starting to see? Or at the moment you are still struggling with the level of first-time buyers?

Jennie Daly: I mean, first-time buyer, they are very procyclical. And so the last quarter of 2022 showed a significant drop off in the first-time buyer inquiries. But really very early as the year opened, we saw first-time buyers inquiries increasing among those forward indicators and early leads.

And if I reflect back again to some of the information we were able to share with you at the prelims, that a significant amount of deposits that a number of first-time buyers have either supported by bank of mum and dad or savings taken really helping move them along.

I think it is important to just differentiate between first-time buyer completions in the first quarter of the year versus first-time buyer reservations. The reservation is probably a much better measure for where their sentiment is. And it is a good number. I think for the first 16 weeks of the year, 36% of reservations were first-time buyers.

But if we looked at that compared to the year before, it is about 8% down. I think that we would have expected it to be looking a lot worse. It is then just the sustainability of that interest going forward.

Clyde Lewis: Okay. Perfect. Thank you, Jennie. And the second was TopHat. Obviously, I am very aware that you are building your own brand new timber frame factory at the moment. But did you look at potentially investing in TopHat at all?

Jennie Daly: I mean TopHat, obviously, been very active in the market. And I am very happy to say that I have been and visited the site. And there has certainly elements of their operations there are things to be learned there.

Emily Biddulph (Barclays): I just have one quick follow up on the lead indicators that you were talking about. I think you said that they came off around Easter, but they have come back sort of stronger post then. I just wanted to be clear whether you are effectively saying lead indicators at the moment are in absolute terms where they were a few months ago. Or are you saying actually that they have come off a bit, but only in the sort of normal seasonal way that you would expect going into Q2.

Jennie Daly: Okay. Thanks, Emily. So just looking at last week and the week after Easter, our website sessions were down on the same week last year, but up at 11% on 2019. Within that, our organic traffic was down 35% on last year at 25% - 30% down on 2019. But as I mentioned in the overview, compensating that with paid media.

On an appointments basis last week, the appointments that we source from our website were down 36% on last year, but our teams are making up and have been making up those shortfalls through all of our trading this year with increases in walk-ins and manual appointments. And I have referenced how well our teams are leveraging our Dynamics system. We are delighted and we do think that that is really helping us drive customer engagement and support.

So we did see an effect last week. But what I have been told by the teams is, Saturday we had a real significant level of inquiries, so sort of making up for some of that more muted Easter break activity.

So look, thank you very much, everyone, for your questions this morning. As you have heard me say, I think we are still in uncertain times. But hopefully, you can see that our business is well placed and that we do have a clear strategy focused on delivering value from that high-quality landbank.

We remain very focused on our operational delivery, continued tight cost and work in progress management. But we do remain agile. And I think that we are very well placed to respond to any opportunities that either become available or the market delivers.

So thank you again for your time, and I look forward to seeing you at the half year.

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