Half Year 2023 Results

Wednesday, 2 August 2023

Highlights

Jennie Daly

Chief Executive, Taylor Wimpey plc

Welcome

Good morning. It is good to see you all here today. I know it is a busy reporting day. So thank you very much for coming in a little early.

Agenda

I think you will recognise our agenda. I will make a few comments and highlights on the first half. Chris will then take you through the detailed financials, and then I will update you on how we are seeing the market, which I know will be a focus for you all. And importantly, how we are driving performance in today's environment.

First half highlights

So there are four key things I would like to draw to your attention this morning.

First, completions are slightly ahead of expectations in the first half at 5,120, despite the mixed market, and the challenges, of course, of rising interest rates for our customers.

Second, we have delivered a strong operational performance, driving best-in-class execution and tight cost discipline. Our sales rate of 0.71 compares well to the market. This is driven, I believe by our quality site locations and continuing to realise value from recent investments, such as our CRM system, our strong customer proposition, and our experienced sales teams. It is worth saying that this performance has been achieved with minimal bulks and without giving away price, in line with our value over volume approach. We moved early to align build-to-sales rates, reduced overheads, and have taken a highly selective approach to land acquisitions. This is a choice open to us because of our strong landbank of around 83,000 plots, benefiting from the conversion of 6,000 plots from our strategic pipeline, and the strategic pipeline now stands at 140,000 potential plots.

Third, against an uncertain macroeconomic backdrop, the value of our differentiated ordinary dividend policy is clear and remains a key focus and priority for us. Today, we have announced an interim dividend of 4.79p per share, amounting to £169 million.

And four, we continue to manage the business for the long term as we make further progress on build quality and customer service and ensuring that we are future fit. This includes continuing to progress our net zero programme and the future home trials at Sudbury, which I know many of you have visited.

So in summary, we are very pleased with our half year performance.

And I will now hand over to Chris.

Financial review

Chris Carney

Group Finance Director, Taylor Wimpey plc

Summary Group results

Thanks, Jennie. Good morning, everyone, and thanks for joining us again today. So I would echo what Jennie said. We are very pleased with the results in the half, which demonstrate how well the business is performing despite the macroeconomic challenges.

We ground out a very good sales rate, meaning completions were ahead of our guidance of 45% in the first half. And that, combined with disciplined build and cost control, resulted in a gross profit margin of 21.6% and an annualised return on net operating assets of just under 20%.

Lower volumes and margins meant that the profit before tax was reduced by over 40% year-on-year. But after allowing for tax and paying the ordinary dividend, we still maintained the tangible net asset value per share at the 2022 closing level.

UK performance summary

So the reduction in UK volume is mainly a function of the lower order book we entered the year with. Sales in the period from the start of the year through the spring selling season were actually quite encouraging before higher mortgage rates in recent months weighed on affordability for customers, impacting demand.

Despite these changing conditions, both the private and affordable average selling prices landed in line with the guidance we provided back in March. Private pricing was up 8.6% year-on-year. This was driven by a greater mix of completions from our higher quality locations throughout the country and from London, as well as underlying price improvements.

In contrast, affordable pricing was slightly lower due to mix, with fewer homes from London than the first half of last year. As we guided, affordable mix was 23%, 1% higher than last year. And in half two, I'm expecting the affordable mix to be slightly higher than the 20.5% we reported in half two last year.

At the bottom of the slide, you can see the reduction in the gross and operating margins for the UK business, excluding Spain, and I will break these down on the next slide.

UK operating margin

So let me talk you through the moving parts on margin. Underlying inflation on selling prices compared to the first half of last year was 4% on average. Inflation on build costs was 9% in the first half, consistent with the annualised rate of cost inflation on new tenders that we communicated through half two last year.

Overall, the net impact from price and cost inflation reduced gross margin by 2.7 percentage points year-on-year. The absence of land sales, together with higher marketing costs, contributed a further 1.2 percentage point decrease to gross margin. Inevitably, lower volumes meant lower recovery of fixed costs, seen in the 2 percentage point reduction relating to net operating expenses.

As you will recall, we took decisive early action with our cost base in the second half of last year and made further changes at the start of this year to optimise efficiency across our operations, positioning the business for more challenging market conditions.

These changes incurred £8 million of one-time costs in half one operating expenses, which alone reduced our half one operating margin by close to 50 basis points. After allowing for the £19 million of annualised savings from those changes, our run rate on UK fixed costs is now around £320 million a year, with roughly 30% of those in cost of sales.

Looking forward to half two, we expect further impact to our margin following the recent increases to mortgage rates. And as a result of ongoing build cost inflation, this, however, is moderating. The prevailing annualised rate of build cost inflation on new tenders is 6%, and I am expecting that to reduce to low-single digits by the end of this year.

Summary Group balance sheet

We ended the half with a very strong balance sheet. This demonstrates our resilience and how well we have adapted to the changing market conditions. The value of our land holdings has reduced by £274 million over the last 12 months as our highly selective approach meant that we approved the purchase of very little land.

Nonetheless, we remain in a strong position with seven years of supply in our short term landbank based on current output. The increase in work in progress year-on-year reflects the high levels of build cost inflation, the weighting of completions to the second half, and a bit more infrastructure spend as we move forward with opening new outlets.

Last year, we implemented increased controls over both plot and infrastructure investment to match the build rate in every location to the corresponding sales rate, and this remains an area of sharp focus. Land creditors have continued to reduce and remain less in total than our net cash balance. And this demonstrates our capacity to thrive when conditions improve and our continued ability to pay the ordinary dividend.

The largest component of the provisions balance relates to fire safety. We are constantly reviewing and updating our expectations for remediation costs on a building-by-building basis, and the existing provisions remain our best estimate of the cost of the works.

Group cashflow

Net cash ended £13 million higher than it was at the same point last year, and that is down to the focus across the business on cash and our controls over costs, land and WIP spend. Net land spend was £323 million during the period, mainly related to paying down land creditors, even so, those payments still exceeded land recoveries hence the £80 million net investment in land on the chart.

The net investment in WIP is a function of build cost inflation, and the other factors I referenced on the previous slide. Tax paid reflects a full half of the Residential Property Developer Tax and the increase in Corporation Tax from April. We paid £10 million in total against our provisions in the first half, £7 million of which related to fire safety, and I am expecting that to pick up to around about £40 million in half two, including reimbursement of the Building Safety Fund.

Our capital allocation priorities

There is absolutely no change to our capital allocation priorities. So I am expecting this to sound reassuringly familiar. Our first priority will always be maintaining a strong balance sheet. Where there are good opportunities in the land market, we will look to take advantage of those. But of late, good opportunities have been few and far between. And that is because land prices have not adjusted, despite house prices being 3% below the peak, build costs increasing period-on-period and sales rates being slower.

We can bide our time because we have a strong land position and we retain the skills, experience and capital to respond swiftly when the situation changes. Our ordinary dividend policy to pay 7.5% of net assets is measured and prudent and provides investors with certainty.

We have stated our intention to pay the ordinary dividend through the cycle and in the event of a normal downturn. We have also gone beyond that and noted that the policy could withstand a reduction of 30% in volumes and 20% in price from the peak. The middle of our updated volume guidance for this year would represent a 26% reduction on 2021 volumes. But pricing has been pretty resilient. And to date, it is only fallen 3% from the peak 12 months ago.

So today, we are proposing an interim dividend for 2023 of £169 million or 4.79p per share, in line with our policy, which will be paid in November.

Whilst we remain committed to returning excess capital to shareholders, we recognise that despite the good news on inflation from a couple of weeks ago, mortgage rates are likely to remain high for some time, and there is still lots of uncertainty. It is therefore right to retain maximum strength and flexibility. So the Board is not proposing any return of excess capital at the moment, but we will continue to keep that position under review.

2023 guidance

On guidance, given our better-than-expected sales rate in half one, we have narrowed the range of our volume guidance for this year to 10,000 to 10,500 UK completions, at the top of the range we previously communicated. While there are more moving parts than we would normally be experiencing at this point in the year, we wanted to try and be as helpful as possible. We are expecting Group operating profit, including joint ventures in the range from £440 million to £470 million depending on volumes.

Similarly, we are providing a range for year-end net cash, which is also based on the volume range. There is no change to our approach on land. We are only approving a small number of sites, where the risk-return profiles are compelling. One small benefit of the increase in interest rates is that we are now earning more income on our cash balances, and we reported £2 million of net finance income in the first half.

We have updated our guidance on net finance charges to switch to a £3 million net interest income for the year, and this guidance incorporates allowance for new rates on both our €100 million private placement loan and our revolving credit facility, both of which have recently been renewed, meaning that we have extended our average maturity across those facilities to 5.3 years. And our JV guidance is unchanged.

So in summary, a strong first half performance, partly due to better trading conditions in Q1 than we expected, but also due to the actions that we took last year and at the beginning of this year to reduce costs and improve efficiency without losing capacity for future growth.

Driving performance

Jennie Daly

Chief Executive, Taylor Wimpey plc

Current market backdrop challenging but long term outlook favourable

Okay. Thank you, Chris. So in terms of customer demand, we know that underlying interest is there, but high mortgage rates and the cost of living generally are biting, particularly for first time buyers. You will be well versed in these stats by now. But with the five-year fix at 6.54% and the average two-year fix at 6.88% based on a 75% loan-to-value versus last year's 3.43% and 3.48%, respectively, is not hard to see why affordability is tight.

The good news is that lenders remain keen to lend into the new homes market, and we have seen some reductions in the last couple of weeks.

Overall, customer confidence is low, but with employment remaining high, strong wage growth, and supply of housing remaining tight, pricing has remained resilient.

Moving to the medium to longer term, there is a lot of reasons to be positive about the outlook. The desire for homeownership remains high, the supply and demand imbalance is widening, and pent-up demand is likely to increase, given the rising population and falling industry volumes, given the planning environment.

Performing well in the current market

Our latest sales figures are for the four weeks to 30 July, so a traditionally quieter period for the sector.

We have seen a trending down of sales rates as mortgage rates increased and consumer confidence weakened. So the sales rate of 0.47, which does not include any bulks will not come as a big surprise. This compares to 0.62 for the first half, excluding bulks. And as I have said previously, we are not doing an especially large number of bulks, but they do tend to stand out given that sales rates are lower. And in the interest of transparency, we have separated them out here for you.

As at 30 July, the order book stood at 7,900 homes with a value of £2.2 billion. And we were 91% forward sold for private completions for 2023. So well set.

Net pricing continues to be resilient, down 3% from the peak in quarter three 2022. We continue to develop and evolve our customer offering, ensuring that an appropriate balance is made between sales rate and price. We have a strong customer proposition with a quality product and locations, which I do believe differentiates us and an improved and effective sales effort to deliver it.

We have said from the outset that we do not intend to lead the market down. We will, however, continue to monitor the market, and we will respond to market pricing as it evolves on a site-by-site basis.

Incentives are around 5%. The most popular ones continue to be mortgage contributions, deposits paid and option upgrades. Down valuations, which do tend to be an early sign of future pricing pressures, and have remained low.

Customers have been willing to transact despite the interest rate environment. However, today's market is about those who can affect that demand. Of reservations taken in July, 69% came from prospects first registered from 1 May onwards. And our proactive approach to marketing, which I will come on to talk to you about, has driven customer inquiries and while no doubt reflecting the macroeconomic environment are above 2019 levels. Appointments are holding up well also supported by walk-ins.

Our customers

So understanding and supporting our customers has been a key focus in our response to the changing market conditions, and I want to share some of that colour with you. The chart on the left hand side shows the shift in reservations by buyer type, particularly highlighting the changes in first time buyers, reducing substantially to 30% from 40% in half one 2021 and down from 37% just 12 months ago.

The data on the right-hand side comes from our IFA. So I do want to caution that this is representative rather than complete. I know you like data, and there is lots of it here. But a key takeaway for us is that while the market is constrained by affordability, our customers and their lenders are adapting. So for example, increasing the length of mortgage terms has become more normal with 27% of first time buyers now taking a 36-year plus term versus only 7% in 2021. And for second time buyers, the 31 to 35 and 36-year plus terms have increased this year up to 42% versus 28% in 2021.

A few of you have asked previously at what mortgage rates are customers unable to buy? And it is one that we have been working to understand better. It is not straightforward, though, given that single-income purchasers are now in the minority. So of customers requiring a mortgage, 68% buy with two applicants and with the majority of those having a joint income of between £50,000 and £100,000, and 18% with a joint income of over £100,000.

Improved customer engagement

As I have said, the sales team are driving real value from the investments that we made in recent years in our CRM system, and the ability to leverage that is a real differentiator. We cannot change the market, but we can make sure that we are capturing the demand that is there and that we are supporting our customers along their buying journey.

Our CRM system gives us more insight at individual customer and site levels than ever before and is driving real value for our business. Inquiries drive our database and marketing efforts are targeted to drive relevancy and quality. From there, inquiries are filtered and categorised using the CRM, ensuring our experienced sales teams are following the highest quality leads and prospects.

And when I have been to sales centres, I continue to be impressed by the skill and focus of our sales executives in their engagement with our customers, all of which are logged, a significant benefit given the longer periods we are now engaged with our customers before

commitment. And I have even listened in on a few of the mystery shops and heard for myself how our teams on the ground support our customers through their buying decisions.

We are proud to be a five-star builder. However, I do believe that we can still do better. And we have been working across our business to improve our customer responsiveness internally and by engagement with and improving the performance of our supply chain.

Agile response to market conditions

So we have talked about how our customers are responding. But what have we been doing? We continue to be proactive and take a dynamic approach to the prevailing market conditions. This is not a single action but a continuous series of actions. We pulled levers quickly, as Chris pointed out, but we are not just sitting back. We continue to be very focused on operational performance, increased cost control across all of our departments, increased management controls and sign-off of levels of WIP, and ensuring our sales teams have the tools to operate in a tougher market.

The land market has not changed since we updated you in April, and prices are not reflective of the increased level of risk that we are seeing in the sales market. We, therefore, do remain cautious. We only approved around 1,400 plots in the first half. And land decisions are carefully considered having regard to local market conditions, planning risk and the quality of the key metrics, but remembering that uncertainty does bring opportunity.

We continue to target savings in procurement through standardisation, and this helps to offset build cost increases as well as the consolidation of stock, resulting in savings in efficiency and installation, and increasing economies of scale. There are a number of small incremental changes across our operations too that are driving meaningful efficiencies. This is a constant focus for us as we work to offset inflation and regulatory costs. And I will give you a few small examples.

We have revised and improved our scope of work to increase consistency, reduce day works and variations, and we have upgraded our management systems, tracking commercial variances, excesses, etc., across our commercial activities. This supports earlier management intervention too where necessary. And we have adopted a reusable stairwell system, which improves safety, reduces timber waste, and delivers efficiencies.

And finally, we launched a new standard suburban apartment range at the beginning of May, which will drive savings over the next three or four years. And like our standard house type range, these I think will also result in improved quality and more consistent customer offer, more efficient use of land and better planning outcomes.

Planning permission approvals are volatile and uncertain

Now, I just want to take a step back and try to put the planning challenges that we have talked about for some time into perspective. This slide shows the HBF quarter one 2023 housing pipeline report, showing that both plots and projects achieving planning approval and it gives you a relatively long-run view.

It shows that the downward trend in approvals we talked about during 2022, continue into quarter one of this year. At around 3,000, the number of housing projects granted planning permission in the first quarter fell by 11% from quarter four. And the number of units approved at 71,000 was 24% lower than the same time last year.

It is worth pointing out here that the decline in approvals during the first quarter was widespread, large private and social housing projects and smaller-sized sites all declined.

I know I need to be careful because I can talk about this for a very long time and time is short this morning. But let me boil the complex issues down into two main areas. Firstly, local authority resources, with local planning authorities seeing a reduction in their funding by 55% since 2009-2010. And secondly, only 42% of local planning authorities had a fully up-to-date local plan as at March 2022.

Though repetitive, I think it is important to call these out, because these are the challenges that affect the overall delivery of housing in our country and directly affect the opening of outlets for Taylor Wimpey and right across the sector.

As you know, the National Planning Policy Framework in 2012 led to improvements that benefitted land supply right up to 2018. And during this period, it certainly was not easy, but plans were progressing, and visibility was good with the presumption in favour of sustainable development as a backstop. The graph, I think clearly shows that the last few years have been much more problematic.

Lichfields, the planning consultant, has estimated that an additional four to five medium-sized sites of about 50 to 250 homes are required per district per year in order to achieve Government targets, something that is simply not supported by the current state of our planning system.

And of course, it would not be a planning slide at the moment without mentioning nutrient neutrality. The issues continue to affect 74 councils and an estimated 145,000 plots, placing further pressure on delivery. For us, the focus remains ensuring that we are progressing planning and driving the most value from our assets, but it is frustrating and slow.

We continue to engage with Government on all of these issues. And as you might expect, we are actively engaged across all of the key political parties, and of course, at local authority level. We have 26,000 plots representing 133 sites in planning for first principle determination. But with the average length of time taken to determine continuing to extend, I think we really do need this level in the hopper.

And having painted that rather stark picture, just let me give you some reassurance that we own and control all of our land for 2024 completions, almost all of it with detailed planning. So we are in a really good position.

Given the land market, the frustrations in the regulatory process, the length of our landbank is, I believe, a benefit.

Well positioned with high-quality landbank

So I spoke to you previously about the way we measure our landbank at our Capital Markets Event last year. And I talked about the five main ways that we look at it: length, weight, shape, efficiency and quality.

Look, I will not go through all of these again. But you might remember that I also told you that at different times in the cycle and operating conditions, we would prize some of those measures over others.

Key strengths of Taylor Wimpey are the quality and the length of our landbank. The land decisions that we have made in respect of land acquisitions in recent years have set us up with a strong landbank, which has given us choices. And it has allowed us to be disciplined in our approach to land acquisition in these uncertain times.

We are also differentiated by the scale, maturity and distribution of our strategic land position standing at 140,000 potential plots and converting 6,000 plots in the period. This is an excellent result and provides support to our short term landbank. In this environment, the quality of our landbank is a key component to our customer proposition. And I think that you can see this reflected in our strong sales rates relative to the market.

So to remind you, we grade all our land right from the very start of the selection process against the macro and micro locations with 85% of our plots in A or B locations. This is really important. As in tougher markets, locations I think are even more important. And I am sure that this is supporting our sales rate and firm pricing.

We remain committed to opening our outlets through the system as quickly as possible. And I would say we are solutions-focused in doing so. But the previous stats outlined the challenges that the sector is facing. And like I said, this does present a real challenge across the sector.

In the first half, we operated from 244 average outlets and ended the period with 235 outlets. And you will note that we have already started on 21 outlets due to open in the second half.

Investing in the future

So a lot of you have heard about how we are setting ourselves up in the current market. But as a team, we are constantly thinking about the longer term. How our actions today can ensure that we are a thriving and sustainable business in the future. This year, we have been working hard to communicate and implement our net zero plans across the business, and this is a key priority.

Again, we were delighted that so many of you in the room were able to join us and visit our site in Sudbury, where we have five homes testing a different combination of fabric and technology solutions to deliver zero carbon homes.

The goal is to find solutions to enable Taylor Wimpey to build high-quality, zero carbon ready homes that our customers will enjoy living in and which will be deliverable at scale. Importantly, these homes were completed on a live development by Taylor Wimpey employees and our subcontractor partners rather than in controlled conditions. And I think this allows us to better capture the lessons to be learned.

We will continue to monitor the performance of the properties following sale, and this will allow us to collect valuable data and customer feedback.

So just to recap. Whilst we continue to await the Government's consultation and we will not know the outcome of that potentially until the summer 2024, we are I think well placed, having worked through the transition into parts L and F and the trials such as that at Sudbury, I think we are actively working towards the Future Homes 2025 regulations.

I think it is important to state, particularly with the backdrop of discussions in the last few weeks, that though Future Homes is part of a solution to the Government's target of net zero

carbon by 2050, it does not stand on its own, and wider Government commitment is required for consumers to benefit. We are also progressing our timber frame factory, which is currently being fitted out with production due to commence later in the year. And the first kits to be delivered to the site early next year.

And we continue to seek further cost efficiencies in central procurement through our strategy of standardisation and simplification and by leveraging Taylor Wimpey logistics, wherever possible. So we are nearly there.

Summary and 2023 priorities

Turning to the priorities I set out this year. We are making good progress on all of these areas. As you have heard today, we are getting the customer offering right. I think this is key. Our teams remain focused on tight cost management and WIP control. We are building as strong an order book as possible to allow us to optimise price going into 2024. And we remain committed to net zero and investing in the areas that matter and will drive the most value in the future.

So just pulling that together, we are performing well in a challenging market, and we continue to work hard to drive performance. We run the business for the long term. And given our strong position and our priority to drive value by optimising price over volume in the face of inconsistent market demand, we are driving performance. We are leveraging our assets as effectively and efficiently as possible and pursuing operational excellence and discipline across all our activities.

And we are well positioned with a strong balance sheet, a differentiated dividend policy, where the ordinary dividend is a clear priority to provide visibility to our investors, and excellent landbank and experienced teams right throughout the business.

In conclusion, we are well placed, and we are a resilient business, performing well in the current market, firmly focused on execution, controlling what we can, whilst continuing to prudently invest in the future to ensure that we can come out of this stronger.

So thank you for your attention this morning. And Chris and I will be happy to answer your questions.

Q&A

Will Jones (Redburn): I will start with three, please, if I can. The first just thinking, I guess, tactically in the second half, it seems like you are moving the focus to building that year-end order book for price optimisation into next year. What kind of sales rate do you think you need to achieve in the second half to get there? And do you think the minus 3% price experience today is sufficient for that? And perhaps how the bulk sales will come into that picture as well?

Second one around the landbank. I think you said you approved only 1,000 or so plots in the half, but I think the landbank was sequentially pretty steady in plot terms because of a couple of quite big strategic transfers. Can you just talk us through those and that you are happy that they reflected prevailing market conditions?

And then last one is just a clarification actually on mortgage terms for customers. Am I right in interpreting that slide 17, you are saying that the average mortgage term of your

customers is 36 years? Or is it just a proportion of above 35? And any sense of how that number has changed over the last few years?

Jennie Daly: Okay. I will pass over to Chris just on the order book. But essentially, look, I think this is a week-to-week, month-to-month trading environment. I have set out, I think, quite clearly what we are doing to support our customers. But there is no doubt that the wider macroeconomic backdrop and how that is playing through to mortgage interest rates has affected demand.

The order book is a real focus, and we have taken that into account in our assessment of that volume range that we have narrowed in on today. Pricing has been pretty resilient. We consider that there is a number of factors playing through here, the sheer level of demand that there is, but also the really high employment levels that we are retaining, that we are seeing wage growth. And although sentiment is weak, there is still a level driving that affordability.

And just on bulk sales, look, I think we are striking the right balance. We are striking the balance that we need at the moment. It is a tool and certainly something that we have good partners that we have worked with over time. But we do tend to look at these things on a project-by-project basis and the quality of the proposal ahead of us. And keep in mind that value over volume balance that we are seeking to achieve.

On the land, 1,400 approvals. You are absolutely right. The 6,000 strategic land transfers is what is holding our landbank at that stable 83,000. They are good quality. I mean, one of the benefits of strategic land, Will, and we have talked about in the past, of course, and I tend to do this when I am talking about it. We call our strategic land in over a period. Now it has been very frustrating with the planning environment, but we get to check and recheck the quality of the metrics of those sites on their way through. So I am quite pleased with those.

And in terms of the mortgage term, I would again stress that this comes from our IFAs. So it is a relatively small sample versus the overall market, but I think it is directional. And we are seeing, particularly first time buyers have moved to that 36-year plus, and I think the number was 27%. But I would caution around the size of the data capture.

Chris, is there anything that you want to add just on the order book point?

Chris Carney: Well, I would just say that the sales rate for the last four weeks in the statement, 0.47. We are now at the start of August. That has historically been a pretty quiet period. There is, I guess, a little bit of further uncertainty of bank decision tomorrow that is finally balanced, I think, between 25 bps and 50 bps. And the volume range for this year reflects a reasonably wide range of sales rate outcomes for sales in August and September, as you would expect.

And really sales in the last quarter are what builds the order book for the year-end. And it is really hard to absolutely pinpoint at this point in time, based on what I have just said, exactly what the market is going to be like, but we will be targeting to build as strong an order book as we can possibly get to go into next year.

Typically, we would target to be 35% forward sold. I am not suggesting that we will get there, but that would, in normal market circumstances, be the target.

Rajesh Patki (JP Morgan): I have got three as well, please. First one, could you give us some colour on the discount on the bulk sales? Is it diluting the overall margin profile of the Group?

Second one is on sales outlets. How are you thinking about those heading into next year? And the last one is any initial remark on 2024? Are you thinking about volume recovery next year?

Jennie Daly: Okay. If I take the 2024 ones, and Chris, if you pick up the discount query. In terms of outlets, we have identified that there is 21 that we have already actively started working on. I described it as a chunk more with detailed planning that we have yet to start for 2023, and that will certainly support 2024.

And I have set out just how well set we are for our delivery in 2024 with all those sites with detailed planning and strong ownership and control profiles on them. We do not give guidance on outlet opening, as you know. And given everything that I have said about planning, hopefully, you have got a degree of sympathy for why that is so difficult in the current environment.

But I think that we are in a really good place in terms of control and forward planning for 2024. I mean, given what we said, Rajesh, about trading week-to-week, month-to-month in this half, it is very hard for us to predict what 2024 is. But we will talk to you later in the year about that. And just on that discount point, Chris?

Chris Carney: Yes. I mean that 0.47 sales rate over the last four weeks does not have any bulks as we have not done any bulks in that period. I think we gave a reasonable commentary back at the prelims about I think the majority of the bulks, certainly the larger ones that we would have done this year, actually have been pre-planned for quite a long time on site. So I know that you would hear in the market that, typically, a bulk deal at this point in time might have a 10% discount.

That is certainly not our experience with the bulks that we have done year-to-date because most of those, like I said, were already baked into our site assumptions. And therefore, they were in negotiation over an extended period. What that looks like going forward? I do not know.

Glynis Johnson (Jefferies): I am going to edge up to four, if I may. The first one, just in terms of the land market. Your plot cost to ASP in the back of the pack actually looks very low, obviously, on a relatively few number of sites. But given what has happened in terms of build cost, given what has happened in terms of selling rates, what actually is a good plot cost to ASP in this environment? Because clearly it needs to be lower to make it look interesting.

The second question, just in terms of, again, back of the pack, the website hits look like with the media push, it actually looked like they might have improved a little bit. Is there underlying interest, and is it just that customers are sitting on their hands waiting for the best deal, but they still could transact. They are just sitting and waiting just to see if it gets any better, or is there something else in there?

The fact you have not taken out any substantial cost where we have seen a couple of your peers be a little bit more dynamic, how should we read that in terms of your ambitions from a

volume perspective? When do you think you are going to get back to previous volumes? How quickly can you return there?

And then lastly, Government interaction. We obviously saw some stats in terms of Gove's interactions with the housebuilders over the last quarter that was in the paper over the weekend. He did mention that further down the chain, there have been some interactions. What are Government saying to you in terms of particularly support for the first time buyer, but also planning? Nutrient neutrality, can they sidestep it with the presumption of water treatment? Anything there?

Jennie Daly: Okay. Thanks for that, Glynis. I mean, we describe our market, but obviously, it is multiple markets across a wide geography and also a wide range of site sizes, types, costs. Just addressing the figure in approvals, I think, it is 12.9%, c.13%. There is some strategic land in there, there are definitely some very good deals in there, and there is also a reflection of the geographical mix and the level of WIP commitment in infrastructure. So there is quite a few things at play. But it is a small number of sites to be making broad assumptions on.

In terms of, well, what does a good plot cost look like in this market? I would have to give you the same answer. It is highly variable; planning risk, technical risk, overall market risk are the things that we would be considering, though, if that is helpful.

On the website hits, organic traffic on the website has fallen. It is down around the 30% level consistently over the last year. But we have been supplementing that with paid media. Our sales and marketing teams are really targeted. I talked about that targeted channels, specifically to ensure that we are capturing good quality interest, and that has been very important for us.

The underlying levels of interest are good, and I made a reference to, they still look pretty good against 2019 comparators. So there is a level of sentiment and affordability with the mortgage interest rates, probably a dollop of concern around prices falling a little bit further and wider economic issues. So stability, I think, whether that is in the interest rate environment or the economic environment, will support recovery in customer sentiment.

Just on the substantial costs, I mean we obviously moved quite quickly earlier in the year, and although it is always disappointing to have to make redundancies. I do think that that was the right decision to make and particularly as the year unfolded. We retain a structure that is capable of supporting that sort of 16,000 to 17,000 unit output. Our function of recovery to those volumes is going to be a combination of the macroeconomic environment easing and affordability, and importantly, the overall easing up of that sclerotic planning system that we have talked about. But look, we remain ambitious overall for the business. I think that we are really well positioned, Glynis, and we are poised. And if the indicators were right, then we would start moving the business in that direction.

And then finally, on Government interaction. Look, there is a lot of interaction, and both Taylor Wimpey as our own business entity, but also with the HBF and some of the other umbrella groups. And they have been mostly focused around planning. Supply side has been a big part of those discussions, but there have been some demand side conversations.

They are probably getting a bit old now. They were really in the spring around the spring budget, but we would expect some of those conversations to start again now as we head into the autumn and the autumn budget.

And then nutrient neutrality, we are getting more positive signals from Government, but it does seem to be quite a legal knot that has been woven around it. We were looking quite hopeful at one point, but it seems to have gone a little bit quiet. It is a very complex issue, as you know. But probably more optimistic, but I would say on a very measured basis than I was earlier in the spring.

Glynis Johnson: Can I ask how many sites you have tied up with nutrient neutrality?

Jennie Daly: It is a difficult question to answer, Glynis, because we have a number that are stuck because of the requirement for assessment, but that there are solutions. Those solutions are part of what we can do onsite, part of what we can do. So for example, in Teesside, we have recently successfully bid for and acquired some of the credits from Natural England.

So it is continually dynamic. And we are taking our cautious approach about the way that we are plugging those into our forecast and plans in the future.

Aynsley Lammin (Investec): Just two questions from me. Coming back to the last four weeks of trading, I am obviously aware, it is a very short period. But the cancellation rate has gone up to 24%. What should we read into that? Is that more indicative of a weaker market, higher interest rates having their effect as opposed to the seasonal slowdown? Just interested to hear your thoughts around that increase?

And then just on cost inflation. I think, Chris, you mentioned current tender prices, inflation is around 6%. You expect it to go to 3%. Just a bit more colour around what is driving that trend, labour materials, and any other colour you can give?

Jennie Daly: Yes. I mean just on the four weeks and 24%, it sounds high, but you need to look at it in terms of the overall gross sales versus the cancellation. So in absolute terms, numbers in the order book, it is not that great. It is just that the overall sales number is low. And then I am going to pass cost inflation to you, Chris.

Chris Carney: Yes. No, that is fine. I mean the main driver of cost inflation in terms of the 6%, obviously, has been materials, energy-intensive categories, anything sort of cement-based over the last 12 months have shown increases. We are not anticipating any further pressure at this point from energy. We will be looking, hopefully, to get some reductions as hedges expire, if the energy prices stay where they are. So that would be one element of that reduction down to low-single digits hopefully by the end of this year.

And on labour, yes, there has been less pressure from labour in the 6%. Sites across the industry, obviously have become less busy over the course of the year. That is mitigating the pressure on wages. Most recently, we have had the most success with negotiating on labour-only trades because it is just so much more transparent.

And so yes, I suppose I am assuming that that is really quite flattish by the time we get to the end of the year within that low-single-digit. So really, that is weighted towards materials.

Aynsley Lammin: Just one follow-up. On the cancellation rates, I mean how does it compare to the autumn period last year in terms of what you are seeing?

Jennie Daly: Yes. I mean I think last autumn, we got up to about 29% over one of the discrete periods of cancellations. But it was the same balance. Gross sales were down, therefore, the cancellations have a more meaningful impact. I think if we looked at absolute numbers, and Chris, you will correct me if I am wrong. There is nothing that stands out, Aynsley. It does not look like a particular run, for example, on sentiment. It is just the math.

Marcus Cole (UBS): A couple of questions for Chris on the cash flow. I just wondered if you could help us out with the moving parts in H2. And I just wondered where you could get to with land creditors by the year-end.

Chris Carney: Yes. So I guess, you have got the guidance, £500 million to £650 million for the year-end cash, the range is based on the volume range. It assumes around about £650 million of net land spend. So I think we did £323 million as what we said in for the first half, so around about the same amount again for the second half. Exceptional provisions in total around about £50 million; pensions for the year, £7 million.

Yes, and then land creditors, I would expect to see them continue to increase as we move through the year if we remain in the same position on land, which I would expect us to.

Charlie Campbell (Liberum): A lot of questions answered already. So just one really for me. Intrigued to see that the joint income stats that you showed, 66%, was it from memory, just seems a high number. I just wondered how that compares to normal periods in the past or whether that is just a function of first time buyers being so low. I just wondered if you could help us, that would be a higher number than I would have expected.

Jennie Daly: Yes. Look, it is a good question. I am going to again put our health warning that this is data that is called from our IFAs because we do not hold this data ourselves. I would say, Charlie, that we were surprised by some of the data, so we rechecked it. So there is definitely a sense that, first of all, that double income. It is very hard to map when incomes come together and what the outcome is going to be.

I cannot really give you very much more other than that is the data that we had. We rechecked it because it was surprising. We even looked at it on a geographical basis, and actually, that did not explain it. So it is what it is.

Ami Galla (Citi): Just a couple of follow-ups from me. One on planning. Beyond the broader sector challenges around planning, what proportion of local elections played a role in the planning delays in the first half? And incrementally, do you see that improving as we go into the second half in that respect? And also on the plots pending planning that you gave us, that was quite helpful. Do you have any colour of what that number looked like last year at this time?

The second one, really, I mean, on the cash side, the last follow-up really was on the work in progress. I mean we have seen infrastructure investment on the back of site openings in the first half. When I look historically, the level of work in progress is at a pretty elevated level versus revenue. Is that the new normal? Or do we expect that to normalise in the future years? And as we think about site openings and maybe if the average outlet levels next year remain similar to this year, do we need further investments on infrastructure?

Jennie Daly: Okay. On planning, look, I think you have got to the heart of one of the issues, which is planning is determined at a local level, at least in the first instance. Our preference as a business has always been to drive mutual outcomes at local levels. So local elections do have an impact, planning committees go into purdah, so there is a gap in decision-making if there is a meaningful change, and there has been in quite a number of councils this year, it takes time for planning committees to reconstitute.

Planning officers and the chief planning officers might decide to take less controversial or significant schemes to the first committee just to help them bed in, and so there is absolutely no doubt in my own mind that years where there is meaningful local Government elections, that we do suffer delays in decision-making.

I think history will show that we get there, but it is we get there in the end as opposed to on our original time scales. Over the years, though, we have increasingly in our operational businesses, they do map local Government elections. We do take local political movements into account. So they do not come as a surprise, but it does have an effect.

In terms of plots for last year, actually we do not have the data from last year because we really only tend to do it at full year end, if you remember, almost like a little census. But we have been tracking it more closely because of the scale of opportunity that is in there. I would say that last year, it would have been a little bit lower than it is sitting now. And as we have put in schemes we were building up through that land acquisition activity that we had in 2021 and 2022 going into applications.

And we have got a little bit of ins and outs now happening. I think at the prelims, we were at around 25,000. Now we are at 26,000. And I think that that is a pattern that unless we see a real change in local decision-making that is probably going to stay there, which is my comment about, I think we need a hopper of that size in order to pull through.

And outlet-wise, I have given you as much colour as I think I can give you, Ami. We are well set for more outlet openings this half. 2024, we are in a really strong position, as I said, in terms of planning control, ownership control for our 2024 plots. And then it is a factor of where we go on land acquisition, planning, how much improvement, if any, we see through that process.

And then going to throw the WIP at Chris?

Chris Carney: Ami, we started the year with WIP on the balance sheet of £1.7 billion, and we have managed WIP spend very, very tightly all the way through the year. But given that we are over 90% forward sold and the volume is weighted towards the second half and you have got build cost inflation, that is why the balance is £1.9 billion at the half.

And I think it is just worth reflecting in terms of the question about, all right is it reset? If you look at cumulative build cost inflation actually over the last three, four years, actually, it is more material than you might think it is. And I think for years, we had built cost inflation around about, what, 3%. And at that level it is in the noise, and you forget about it, but it has just been more elevated of late and that does cause you to reset on nominal values actually what is a sensible level.

John Fraser-Andrews (HSBC): Three for me, please. Firstly, incentives, the 5%. Can you just recap the journey of those from last year, what the base level was before the mini budget

and how those have oscillated in half one in the better trading period in Q1 then the deterioration?

Secondly, sites, the reduction from December. Is that purely planning or any strategic choice on your part? Is it a strategy to grow sites, average outlets open, from here on?

And finally, in Spain, seems to be a remarkably resilient market compared to the UK in terms of completions, pricing, margins. Everything looks pretty stable. Perhaps you could elaborate if that is the case and the outlook there. Thank you.

Jennie Daly: Okay. So in terms of incentive journey, I would say the first half of 2022 incentives were very, very low. If you can remember back that long, we were really pushing value and price. Through the last quarter of last year, I think the incentive usage went up and we exited the year at about 4% or 5%. But overall, incentives for 2022 were about 2%.

At the start of the year, I think we were closer to 5%. There was a period where the sales rate started to pick up, where we did observe a ticking down of incentives, so probably falling in the mid 4% range, but it has ticked back up again. So that is the journey. It oscillates with confidence in the market.

In terms of site reductions, look, it is very much planning. It is not a strategic decision. I can absolutely state that we are on every site that planning allows us to be on. We are focused, one of our business internal priorities is to continue to liberate our outlets. We see little benefit in holding outlets back. We do need to look at them in terms of the WIP, sort of the opening structure of the outlet, but we will continue to open all of our outlets.

And then to the point on Spain, we can see that demand has remained really robust there. Obviously, it is predominantly second homes. So it is a different kind of buyer that we have in our Spanish business, but pricing has been holding. There has been some inflationary pressures there, but they are coming in quite well. The outlook remains quite favourable in our Spanish business.

Samuel Cullen (Peel Hunt): Just two, if possible one. Thanks on the mortgage stuff on slide 17. Just one step further. I guess, given the 69% of people that you reserved in 1 July, first interest in May. Have you seen a tick up, just looking at the second steppers as the increase, in people porting their mortgage and a reduction of people playing in the spot market, if you like, in terms of refinancing at 5.5% or 6% or are they taking a 2% fix they had in 2021 and moving that over to a TW product?

Jennie Daly: I mean it is hard for us to see that visibility. But in discussions with our sales and marketing team, until customers go to our brokers that probably are a bit more informed, very few customers are actually aware of their ability to port mortgages, and that is certainly one of the myth-busting actions that we tend to take.

I know I can see Ian Drummond, here our Divisional Chair that covers Scotland, and they have had quite a lot of success, for example on having IFAs and brokers on site to talk to customers about some of those tools. We did see a little bit more taking variable rates towards the end of last year and early this year. That seems to have changed, and the customer seems to be valuing certainty in their mortgage so far as we can see.

Samuel Cullen: The second one was on, you answered Glynis' question about chats with the current Government, given the planning looks like it is probably going to get worse before it

gets any better as we run into the next year's election. How much talk have you had with the other side of the aisle or potential changes?

Jennie Daly: Yes. I mean we are in a pre-election period. And so we are engaging, and we are engaging across all the political parties and have had quite a good level of engagement with Labour as well as with the Government.

Anthony Manning (Bank of America): Just a final one from me, maybe more for Chris. On the outlook for net operating costs, can you remind us of how much of the cost savings have been realised this year? How much is going to be in next year? And is that enough to offset the other inflation you are seeing in that fixed cost basket, not to push you on 2024 guidance, but how should we think about that evolving over H2 and into next year?

Chris Carney: Yes. So net operating expenses, I think £118 million in the first half. I would suggest that if you double that and took off a little bit, that is probably close to where we would be for the full year. And the reasons for that, the savings that we expect this year were probably around about 85% of the full annualised run rate. So you remember that when we announced those changes, we were targeting £19 million of savings. There was a cost of £8 million in the first half.

In the first half, we achieved a £7 million of savings, £5 million of them in net operating expenses, £2 million of them in cost of sales. And obviously, that run rate will increase in the second half. So you will have, I think, in net operating expenses, a benefit of £2 million from the increased run rate in the savings and a benefit of not having £8 million of change costs in there. So there is like a £10 million benefit in the second half in net operating expenses, but that is partially offset by wage inflation and the opening of the new timber frame factory and also just general inflation as well. So that is why I say double it and take a bit off.

Jennie Daly: Then just to close, thank you for all your questions. I think we performed well given the backdrop. We are in a great position. I think we are well prepared for whatever the market throws at us. And look forward to speaking to you in the autumn. Thank you.

[END OF TRANSCRIPT]