Taylor Wimpey plc

Trading Update

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Trading Update

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Morning everyone and thank you for joining us extra early this morning. As usual, I am joined by Chris Carney our Group Finance Director. I will start this morning with a few very brief comments, none of which I think will come as a surprise to you, and then we will open up for Q&A.

I would like to start this morning by acknowledging the hard work and commitment of our teams, who have helped us to deliver a resilient performance in what continues to be a challenging housing market backdrop. We are pleased with the sales rate, which reflects the locational quality of our sites supporting our sales efforts. We continue to demonstrate that Taylor Wimpey is a strong and agile business with high-quality product and locations underpinned by an excellent landbank and robust balance sheet.

As I said, I think this continues to be a challenging period for the housing sector and while we have seen reductions in mortgage rates from the highs we saw over the summer, they continue to be elevated compared to recent years. This, together with the broader cost of living pressures, continues to pose affordability challenges for our customers, though mitigated to some degree by continuing wage growth. Despite this, it is worth reiterating that early customer enquiry activity remains strong, comparable to enquiry levels seen in 2019.

Against this backdrop we reported a year to date sales rate of 0.63 homes per outlet per week, which excluding the impact of bulk deals was 0.57. So far in the second half our sales rate is 0.51 and excluding the impact of bulk deals is 0.48. Importantly, this is not driven by price which remains reasonably firm and while incentives are being used to secure customer commitment, these continue to be well controlled. Down valuations have remained low in the period. Overall our sales teams are working hard and proactively with customers all along the customer journey.

Moving on to land, I think you will see from the statement that we continue to be cautious in our approach, benefitting from our strong landbank and high-quality locations, positioning us very well. The current land environment continues to show few signs of the sort of value movements which would encourage us back to the land market in any meaningful way given the current trading conditions. That said, we own and control all of the land for 2024 and have planning in place for the vast majority. We have already started on site on 37 future outlets which are due to open at the end of this year and first half of next year and continue to make good progress on others.

You will have seen that we are reiterating our guidance for the year of 10,000-10,500 UK completions but now expect Group operating profit to be at the top end of our guidance range of £440-470 million. This is because of our focus on optimising price and sharp cost discipline.

Looking to next year the sales environment remains uncertain and the operating environment tough with second staircase and new buildings safety procedures delaying progress on high density sites, the failure of legislation to resolve nutrient neutrality constrained sites in the near term and ongoing planning inertia more generally. While of course it is far too early to give guidance for 2024, you can see from our statement that we will come into the year with a reduced order book compared to our position last year. This will of course impact us next year but overall our ethos remains. That is to protect value, as we have discussed many times before.

As always, we at Taylor Wimpey recognise the value of our partners and of supporting each other through challenging times, ensuring that we are ready for recovery. Our teams continue to be in the detail with our suppliers and subcontractors to find ways both sides can work together more efficiently and challenge cost fairly. I think it is pleasing that we do see build cost inflation continuing to abate as a result of these actions and of course the wider environment.

A good example of this is as part of our annual sales spec review we have engaged extensively with our suppliers and contractors and aligned this to the increased customer insights that we have now and which we have spoken about in the past. We have challenged ourselves to ensure our customer offering continues to be of the high-quality and specification valued by our customers whilst at the same time targeting cost savings.

We will continue to work hard to manage the business tightly against the current market backdrop but also put the business in the best possible position to optimise performance in all market conditions. And because of our strong balance sheet, excellent landbank and highly experienced teams we have choices. We have a differentiated dividend policy to return 7.5% of net assets to give investors increased visibility and, as I said earlier, our focus in the short term remains on tight cost control and protecting value. While the short term market is challenging the sector there is no doubt that the UK housing market remains an extremely attractive market with the opportunity to deliver much needed homes in an undersupplied market in the medium and long term.

Hopefully that has given you a bit of an overview and we are quite happy to go to questions.

Q&A

Will Jones (Redburn): Morning, a couple from me please if I can. The first maybe exploring recent trading if that is okay. We had Persimmon earlier in the week talking about more customer positivity in October specifically. I just wondered if you have noticed any change as you have gone through autumn. Do you see any difference in October relative to September or would you say it has been more consistent?

Linked to that, as you look forward, just wondering how you are thinking about your bulk sales strategy as you exit this year and into next as well.

Then the second main one was really just around build costs. I think you have mentioned abating inflation, but just wondering to what extent you are managing to achieve any absolute gains as you push back on the supply chain. Thanks.

Jennie Daly: Good morning Will. I think in terms of recent trading we have seen some marginal changes over the year. When we reported at our interims, we have had an 0.47 in July. Now we are reporting a tick up from that period and 0.51 over this half year so far. There are marginal improvements. We did see some improvements in October, but I think when you slice and dice the trading period, the 18 weeks, based on previous years it is relatively flat. I think that we are seeing in some of the anecdotal commentary coming from our sales teams is a little bit more confidence, a little bit more of a return of first time buyers seen over October but I think it is fragile.

If we go to bulks we have talked before about our approach to bulks being predominantly around planned transactions that we factor into financial planning, particularly for our larger sites. Our drivers for bulks are predominantly around the quality of the deal, improving capital returns in some of those bigger assets and we see them as incremental to the order book. We maintain that there is a place for bulks within our overall strategy, but we are really mindful of that protecting value. I think also mindful of the challenges that we continue to see in planning, the fact that there is little readjustment in the market in terms of overall land pricing and the potential challenges ahead in replacement dynamic around land. However, at this point I think it is part of a toolkit. I am comfortable with the level that we have, and we have got a series of some really good partners that we enjoy working with that is fair and balanced. It will remain part of the toolkit.

I am going to pass over to Chris for the depth of build cost inflation but, as I said in my opening, we are pleased to see it coming in and that the teams are working really hard right across the Group to drive down our build cost.

Chris Carney (Group Finance Director, Taylor Wimpey plc): Morning Will. Yes, in August we reported prevailing annualised rate of build cost inflation of 6% and said we were expecting that inflation to continue to moderate as we progressed through the year. That 6% rate from August has dropped to around 3% today. The main driver has continued to be materials with labour inflation at pretty negligible levels on a 12 month basis because labour rates have really just continued to reduce in line with activity on site. As work for subbies has become more scarce I think that has provided some opportunity for us to at worst hold subbie rates and in some cases negotiate reductions. Especially on sites where there is good visibility on future output.

Will Jones: Great, thank you.

Aynsley Lammin (Investec): Hi, morning, just two questions from me. I just wondered on the site numbers; obviously year to date they are up but the current level of site numbers is a bit lower. Is that something we should read into where site numbers might be on average into 2024? I know it is early days but just interested to hear that.

Then any regional differences in trading across the country, price points or anything we should be aware of or of interest there or is it pretty broad based consistent trends across the country in terms of recent trading? Thanks.

Jennie Daly: Morning Aynsley. In terms of outlets I think the reason that we have given you some visibility on the number of outlets that we are already on but yet to open is because of our position in the land market. We have been out of the land market for quite some time now and that does have implications for future outlets. Nevertheless I think we are still showing a very good, strong number of openings and they are not all the openings going into 2024. We are working on a number of others, and we are very well planning progressed for 2024. Inevitably if we stay out of the land market for longer periods then that does have ramifications for outlets. The two have consequential impacts on each other. We do not give guidance on outlets, so I am not going to go any further than that but actually I am quite pleased at the number of future outlets that we are working on given that backdrop.

On regional differences nothing more than is well reported. London and the south east particularly impacted, albeit I think our teams are trading really well for that backdrop and environment. Probably I would continue to call out, and I think it is something that I have said before, it is more on a site by site basis. We do see that some areas that saw particularly strong house price inflation over the previous period are more impacted in the current climate, which obviously goes straight back to affordability. However, nothing more than we would expect on general differentiation between regions.

Aynsley Lammin: Great, thank you very much.

Harry Goad (Berenberg): Hi, morning, thanks for taking my question. Jennie, just to come back to your comment on land please where I think you said you have not really seen any material change in valuations yet. Firstly, why do you think that is? Do you think that is just a typical duration thing? It takes, I do not know, a couple of years for that to feed through.

Secondly, when you think about the movement you have had in build cost, selling prices and sales rates, broadly what do you need to see land prices drop by before you get interested? Thanks.

Jennie Daly: Okay. I think in terms of the valuations in the end there is just very little moving in the market. I would describe it as a very muted and quiet market. Although there is bid activity there is very little final commitment, so we are not seeing transactions completing. There are a few exceptions, but they do not make a market. Why are valuations not moving? I think it comes back to overall land supply. The planning system has been particularly moribund and worsening probably since 2018. We saw it really start to tighten up through Covid. The Covid years and lack of clear direction in Government policy has left this inertia, as I described it this morning. Local authorities are really not moving things on. There is just not enough land coming to the market, allowing landowners to feel really quite robust, either taking their land out of the market and not trading at all or holding very tightly to price expectations that were set pre the market change.

You asked how long would it normally take for the land market to feel the heat or feel the change. We are well passed where I would normally have expected the land market to start reflecting the level of market change that we are experiencing Harry by quite some way. I would say probably six months at a push you would expect the land market to really start to exhibit the change. I think we are in a slightly different dynamic and that is something that is obviously on our mind.

In terms of what sort of price, we would take us back to the market. It is always on a site by site basis. It is always based on the quality of the deal, the quality of the location so I am going to side step that a little bit. We review every site in detail both locally and centrally. It is where we then see it fitting the balance of the business overall.

Harry Goad: Brilliant, thanks Jennie.

Marcus Cole (UBS): Hi, morning, thanks for taking my questions. Just to be clear on the outlets, where do you expect to exit this year?

Then just a couple of questions on the order book. What is the private/social volume split? Are there any private ASP movements that we should be aware of? Thank you.

Jennie Daly: Okay. I am not going to predict outlets. It is going to be a case of where sales rates and other things go through to the end of the year. I think in terms of private/social split in the order book it is probably 48%/52%, something like that in favour of affordable.

Chris Carney: Yes, the precise split Marcus is 3,360 private units, 3,682 affordable. That should get you to the 7,042 in the statement.

Marcus Cole: Okay, thank you. Then just on the private ASP in the order book?

Chris Carney: Yes, I think if you just apply the numbers that you can see in the statement, you can see that the blended average selling price in the order book is down by about 3%. Inevitably there is always mix in that. It is probably slightly more weighted to higher average selling price plots in London than last year, but it has also got more affordable as a percentage than last year's order book. However, having said that I think it was broadly offset and you would always expect that there would be some underlying deflation because the peak in house prices was September time last year. We came into this year around about 2% below that. We updated you at the half year to say we were probably about 3% below the peak and it is probably a touch more than that now. That does flow through gradually into the order book and I think that is what you are seeing.

Marcus Cole: Okay, thank you very much.

Chris Millington (DB Numis): Morning everyone, thanks for taking my question. Just quite a high level one and I know it is not really a traditional trading update sort of question but as market conditions remain quite difficult and who knows what they do next year, how resolute are you feeling on your dividend at the moment? You do stand out in the sector for maintaining it relative to a few others who have obviously taken a more cautious view.

The second one is just on land creditors and what the move has been over the year so far.

Then the final one is going back in time. You mentioned about hoping to actually build an order book to obviously show volume growth into next year. That has obviously not transpired with the way the market has moved. Should we now be thinking volumes are going to move backwards somewhat next year with the exception obviously of Spain taking off in a decent way? Thanks so much.

Chris Carney: Right, I think there is probably a couple for me there, Chris. I am really pleased you asked the question on dividend because it gives me the chance to highlight once again that we have a differentiated dividend policy. I am very happy to remind you of the policy, but I am sure you have heard it all before and there is absolutely no change to it. However, perhaps to give you some additional comfort, it is worth reminding you that today's statement says we are expecting to end this year with a healthy cash balance, which we have given a range on. I would also add that I expect to end the year with land creditors at or below our net cash balance, meaning that we would retain a very strong balance sheet.

Group land creditors I think was your second question so a nice segue there. They peaked in June 2022 at £844 million. The reduction in land buying since then meant they fell to £588 million at the end of the first half of this year and I am expecting them to continue to reduce through to the end of the year.

Then on 2024 volume we are too early to be giving you guidance on 2024 at this point.

Chris Millington: I totally understand. Okay, thanks so much.

Jennie Daly: Thanks Chris.

Anthony Manning (Bank of America): Good morning, thanks for taking my questions. The first one would be just the improved EBIT outlook. Some of that came from better costs. Could you give us some kind of indication of where they came from? Is it through growth or more opex savings? Are they sustainable going forward?

Then secondly you talked about the sales rates firming up through autumn and we have heard peers saying that as well. Could you talk about the incentive levels and how they have changed throughout the year, particularly through this period? Thank you.

Jennie Daly: Yes, I will take the sales question and Chris if you take the EBIT question. I think on incentives I would go back to we have seen incentives as a tool to aid commitment and they do not create a market. That is probably the one thing that I would start with. If you think back to earlier in the year, we talked about having a bespoke approach to incentives Anthony and that means our teams are empowered to put together incentive packages that match either the resistance or the objection that a customer has to aid the purchase. We have seen incentives being deployed. We have seen them dropping back through periods of the year where sales rate was more robust and have seen them pick up since that interest rate peak in the summer. We are sitting at around 5%. From a sales rate perspective, yes, we have seen that little bit of a nudge up, but I would go back to my comments earlier which is it is relatively flat compared to what you would normally expect to see in the dynamic market. A little bit of incremental benefit but I would not want to go too far on that. We would expect things to quieten down now in a normal year and into the year end, and really looking forward to the spring selling season next year.

Chris Carney: The improvement in moving to the top of the operating profit guidance range is really due to our focus on optimising price and controlling costs. Our team is working very hard applying their experience and a really disciplined approach to grinding out every bit of value. It has been quite a while since we really started actively engaging with all our subbies and suppliers to review the scope of works, the materials, the routes of procurement and any alternatives that allow us really to drive down cost without compromising on build quality, on value for our customers and health and safety. Yes, we have been chipping away at it for a time so I think in answer to your question you will see that come through the gross margin line.

Anthony Manning: Really helpful, thank you.

Ami Galla (Citigroup): Thanks, just two questions from me. One was maybe tied to incentives again. In terms of part exchange can you give us some colour if that has meaningfully stepped up in the second half of this year?

The second one is just on Government support measures. Over the next 12 months what would you expect coming from the Government in terms of support to the housing market?

Jennie Daly: Yes, thanks Ami. From a PX point of view I think we are at about 4% through the year. We did see it pick up in the latter half and we are managing it really well. I am actually very pleased. It is a good tool, but the teams are demonstrating their ability to move the stock through. That continues protecting value, playing all the way through to our PX.

Around Government support, I do not have any more of a crystal ball than anyone else. We are all hearing the messages from Treasury around the level of fiscal constraint that is likely to be required. I do not have great expectations around the November statement. Depending on how the rest of the year plays out and early next year, and bearing in mind that it is an election year, all things being equal we might expect something a little bit more election focused in the spring budget but I think there are probably very few levers that are actually available for Government to pull in the short term.

Ami Galla: Thank you.

Glynis Johnson (Jefferies): Good morning, two if I may. The first one in terms of land, you obviously highlighted the strong landbank but when do you need to go back into the land market in scale or when do you need to make that decision that you need to step back in?

The second one, you often get asked the question on the regional differences in terms of selling rates and pricing, but I wonder if I can actually tie it back into your land buying. The way you differentiate sites, your AA sites, your AB sites, your BA sites. Are the sites that you view to be in the best locations actually the ones that continue to perform best or is it actually there is catchup that comes through some of the not quite as strong locations?

Jennie Daly: Okay, really good question there on the regional differences. I often go back to it is a site by site thing, and I think that that is where you are getting to too around the AA and the ABs and the like. The really premium locations tend to slow down. They tend to be more price preservative so they hold their price, but rate can be very slow. That makes this type of environment where you are trying to find that balance challenging. However, we do see that the quality of our sites is playing through. The quality of the sites are not just about sales price. It is about affordability and aspiring population; strong economic backdrop and I think that discipline is helping support our sales rate through this quite volatile year Glynis.

On land and when we need to go back, you can see that we are maintaining a really strong short term landbank given the fact that we have been out of the market for some time. However, it is something that we are continually reviewing. If conditions remain as tight in the land market as they are it will not be a mass return to the market. It will be a very subtle and incremental review of where we feel locationally either we have got the most confidence or locationally where we feel there is a need to increase our presence. I do not see it as a big flick of the switch. I see it as this constant review and assessment.

Glynis Johnson: Thank you.

Sam Cullen (Peel Hunt): Morning everyone, it is an extension to Glynis's question on land really. In terms of how do you think about the flex in your hurdle rates under that scenario if you are having to top up the short term landbank in some areas?

Jennie Daly: Yes, I am just looking at a list of the sites that we have approved over the last year, and I can say I know every one of them in detail. We have been through them in significant detail, and it is a combination of the security that we feel in those market locations, the realism that landowners have been willing to express and the confidence that our teams have around other risks like technical, but planning risk as well, so really planning sure in them. That is where the balance on hurdle rates comes. We are very mindful of the price/build cost dynamic when we are looking at the small number of opportunities that we are committing to. I am very satisfied that we have got a sufficient level of headroom in those to withstand movements in the market. Also bear in mind that the land that we are buying today is not really going to come into production until 2025, late 2025, 2026. Looking at our confidence in that medium term market.

Sam Cullen: Okay, thanks.

Jennie Daly: Thank you very much. Hopefully the Q&A was helpful.

Just to wrap up, we are pleased to have delivered a resilient performance against this tough market backdrop. It is a testament I think to the strength of our business including our highly experienced teams, that sharp operational focus that we have talked about again this morning, the strong financial position and our excellent landbank. This means that we are well positioned to navigate current market conditions and really well placed to capitalise on opportunities when market conditions do allow.

Thank you all for your time this morning.

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