Trading Update

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Trading Update

Jennie Daly

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Good morning everyone and Happy New Year to you all, although it might feel like a while ago now. Thank you for joining us this morning. As usual, I am joined by Chris Carney, our Group Finance Director. You will have already seen our short trading statement this morning, so as usual I will just take you through some brief introductory comments and then we can open up to your questions.

As you all know, we came into 2023 in a strong position which I think stood us in good stead in what was a challenging year for the industry, coming in the wake of the mini budget, cost of living challenges for our customers and increased mortgage rates significantly impacting affordability. Firstly, I would like to thank all of our teams and our partners for their hard work in delivering a good set of results in difficult markets conditions.

We completed 10,438 homes in the UK including 82 JV completions, which is comfortably within our guidance range, and we expect to deliver operating profit at the top end of our guidance. So very much in line with what we told you back in November. In the year, affordability was the main focus for our customers and while underlying demand was there, their ability to execute was negatively affected and conversion of interest took longer. Our net reservation rate was 0.62 versus 0.68 last year, which I think is a great result and reflects the quality of our locations and our homes for sale. If I exclude bulk deals, we achieved a net private sales rate of 0.54 versus 0.65 in the previous year.

As we mentioned in November, whilst pricing generally has been reasonably firm, we have seen low single digit pricing deflation versus the peak of September 2022, which will continue to work its way through the order book in H1. Build cost inflation continued to moderate as expected and I am pleased to say that new tenders are today running at 0-1%. But, like pricing, I would remind you here that it takes time to flow through, and as such completions today reflect the prevailing cost environment when those properties were constructed. You will see that we have given you guidance in the statement on how we expect that to unfold, which I hope is helpful.

We continue to make good progress against our priorities, and I am pleased that throughout 2023 we have made good headway in customer service improvements and we are delivering a five-star performance.

The land environment remained challenging in the year. Opportunities existed but prices did not move to reflect either the increased market or planning risk environment. With the benefit of a very high-quality landbank and strategic pipeline, and with the vast majority of our planning in place for 2024, we have had the advantage of being very selective to meet demand and drive value. So you can see that the approvals are meaningfully down on last year. We continue to assess the balance between risk, demand and value and will be agile in our response to evolving conditions on a site-by-site basis.

We retain a very healthy financial position with a strong balance sheet and we ended the year with net cash of £678 million, slightly ahead of our expectations.

We are only two weeks, not even that, into 2024 so it is too early to call, but of course there are encouraging signs. We have seen mortgage interest rates come in a bit towards the end of the year and again at the start of 2024, which is encouraging, particularly as we head into the important spring selling season. Our customers can now get a five-year fixed at a 75% loan-to-value from Halifax at around 4.39%, compared to 4.55% a year ago, and a two-year fixed from Halifax at 4.7% compared to 4.95% a year ago. And the appetite from lenders remains strong.

Our teams are staying close to our customers, and just to give you a bit of an anecdotal sense of what we are seeing, we are seeing pretty high levels of early engagement and enquiry activity, and we are starting to see more interest from first-time buyers than in recent times. Obviously, we will be able to say more on this in the results in February when we can talk more about how the spring selling season is evolving.

In line with our expectations, and as we have previously flagged, we have come into 2024 with a lower order book compared to a stronger 2023. And as you know, sales rates today do not translate into volumes today, there will be a lag. On outlets these will be impacted in 2024 by our reduced land buying and the continuing slow and under-resourced planning system. Our teams though remain very active in getting outlets opened as efficiently as possible. We are, as always, very focused on controlling what we can control and driving incremental value efficiencies in all areas of the business, all the way down to site level.

To summarise, now whilst the near-term demand environment remains uncertain, we are really very well positioned with a robust balance sheet, excellent land position and highly experienced teams. We have talked to you a lot about agility in the last 18 months and this remains very important to us as we seek to maximise the market opportunity available to us now and in the future. We continue to pull all the levers available, ensuring that we are actively progressing our landbank including our strategic pipeline and positively positioning the business to capture customer demand as we move forward. As you all know, there is very significant unsatisfied demand for UK housing. And we remain very confident in the medium and long-term for our business. Our priority in 2024 continues to be optimising value and performance.

So that is it from me for now and Chris and I will take your questions.

Q&A

Aynsley Lammin (Investec): Morning all, just two from me. It may be three actually. Just interested to hear your comments on expectations for pricing and how you are tactically going into the spring selling season with incentives versus what you had to use last year.

Then second related question, if you are looking at maybe 2-3% build cost inflation on average for the year next year, underlying margin is still expected to be down on that assumption that pricing is broadly flat. Is that fair? Are you doing anything cost-wise to maybe support the margin a bit more? Interested to hear your thoughts on how much you could offset of that underlying erosion.

Then lastly on the site numbers you flag up the planning issues and challenges. At this point, what do you assume average outlets to be this year? Would it be in line with the 238 that you delivered on average last year or slightly less/slightly more? Interested to hear your thoughts there. Thanks.

Jennie Daly: Okay, thanks Aynsley. In terms of expectations on pricing, I think last year we talked about agility. We talked about assessing plot-by-plot, site-by-site and that behaviour is well embedded in our business. From a pricing point of view, it would be really a matter of the strength of the market. I do expect it to vary on a site-by-site basis, more than necessarily on a regional basis.

Incentives, we have seen the use of incentives, we have been really targeted. It still remains around 5%. When the spring selling season last year was doing well we eased in our incentives. They declined a little bit again through the year but overall actually we were at c.5%. So I am really happy with the way that our sales teams deploy incentives. You will remember that we have built a fairly bespoke approach to incentives for customers and so I do see that oscillating. It certainly would be one of the first places for us to go to compress if demand pulls through.

On site numbers and outlets, you know Aynsley that we do not give guidance around outlets. I am pleased, you will note that the outlet number that we have given is 10 sites more than we reported in November. Despite the backdrop of those planning challenges, and they are very real, and the reduced landbank, I am still pretty happy with the outlet number that we have got to open this year. But where we get on average outlets is really going to be a function of how the sales market plays through. I am not going to try and crystal ball that for you at this point.

Chris, can you pick up the build cost?

Chris Carney (Group Finance Director, Taylor Wimpey plc): Yes. Aynsley, obviously today that inflation rate on new tenders is around 0-1%. Actually if you look at materials, it is probably a bit higher, maybe 1-2%, and that has been partly offset by slightly lower labour costs. There is still quite a lot of noise on price increases from material suppliers in general, but I think we will be able to navigate our way around most of that. Labour costs on average obviously slightly less than this time last year because subcontractor orderbooks have come under pressure over the last six months as the build rates across the industry have fallen in line with sales. We anticipated that and retendered where we felt there was value. How it then progresses as we go through the year, I do not have a crystal ball but there is plenty of moving parts. We tried to give you some help in the statement so you can understand the dynamics of the first half. Yes, as you would expect, notwithstanding whatever happens in the market with costs, we have quite an extensive programme, certainly over the last couple of years, that has continued right up to the current date where we look to share knowledge with the supply chains to really identify areas where we can improve value without impacting quality, customer experience or health and safety. Each one of our business units has a detailed value improvement plan as a result of that process. We will be doing everything that we can to offset any increases that come through.

Aynsley Lammin: Great, thank you very much.

Jennie Daly: Thank you.

Will Jones (Redburn): Morning, I will go with three please if I could. The first is maybe on planning. There was the latest iteration of the NPPF published in December. I just wondered if you thought that left any scope for planning to get maybe a little less bad.

Second, around land buying. No more approvals I think in the last couple of months of the year but what would you say was most important for you when you consider the appetite to get back to purchases. Would an improving sales market be enough, or do you feel like you do need lower prices as well? Maybe link that to whether there is any scope for the strategic landbank to help out if the open market does not.

Then finally bulk sales were I think 13% of the mix last year. Is there a base case for thinking on how that trends in 2024? Thank you.

Jennie Daly: Okay. Thanks Will. I will take the planning point last and address the others. On the land we have talked about being highly selective and I would say with the early signs of improvement around customer enquiries, we are becoming more thoughtful about that. But, the constraints in planning do mean that land availability is tight and therefore prices are not moving. And so it is still very much a balance of value, the risk both in planning, technical and timing, and ensuring that we are serving the best interests of our shareholders in the deployment of capital. So quality and value I think will be very much a focus in our decision to look at actions in the land market but we will also be looking at locational selectiveness, strong location from a quality and value point of view, but we will also be considering those parts of the business maybe where we would like to see a little bit more investment. Quite an iterative process I think from here and really looking to see the enquiry levels, which are really pleasing, actually manifest into demand and commitment from customers.

Around bulk, we have talked about bulk being part of our toolkit and I would still lean heavily into that. It has a place, but again we always seek to balance that against the value and what is right for the site. So no change in our strategy overall. It is fair to say we have been maybe a bit more tactical in parts of the year last year. We took what we needed and no more. How it plays out I think it will be really a matter of how the market develops. There is always a place for some elements but the size will reflect how the market is doing.

Then on planning, I think that the overall message from me on the NPPF is the NPPF that was issued at the end of the year is by a slim margin better than the consultation the year before, but the consultation in December 2022 was quite a major negative for the sector. I still feel that we are in a worse position from a strategic planning policy position now than we would have been before the consultation was issued in December 2022. We can see the planning approvals continue to fall quite rapidly. And I am concerned that with the removal of the five-year housing land supply, and when you have an up-to-date plan that might not sound too scary on an academic basis, but there is a hundred local plans out there that do not have a five-year housing land supply but are defined as up-to-date. Local plan environment is worsening and by next year I think less than 30% of authorities will have an up-to-date local plan. We have got no mandatory housing targets and we are in an election year, actually two elections. Some local authorities are affected and a national election. So I do think that it is going to be a challenging planning environment for a while.

Will Jones: Thank you.

Harry Goad (Berenberg): Hi, morning Chris and Jennie. Thanks for taking my question. Just coming back on this land topic, and I hope this is not just repeating Will's question, but if we have another year where let us say land prices do not really move because of the constraints you have talked about in the planning environment, how do you almost philosophically think about land purchases? If you are unable to get to what would have been your target hurdle rates, are you willing to compromise a little bit in some geographies to start replenishing the landbank? How do you think about that? I appreciate it is a bit hypothetical but it may become a real issue in 2024. Thanks.

Jennie Daly: Land acquisition in any market is always a range of compromises and checks and balances. Really, it is no more changed. But when we see whether it is market contraction or hopefully, optimistically, market improvement it does not tend to operate universally. It will move patchily. It will be variable for a while, and we will be following that variability. We will also be looking at the land availability dynamic. Where land is available, then it is likely that pricing would be better and the ability to conserve or drive margin would be improved versus areas that are really under pressure. It is quite a patchwork, and it really comes down to the point that I was making with Will which is it is a site-by-site, area-by-area assessment Harry. I think maybe in November I might have said something about flicking a switch. It is not that dramatic. It will evolve and I would be more iterative.

Harry Goad: Okay. Thank you.

Glynis Johnson (Jefferies): Morning, thank you. Just two from me. I guess the first one might have a couple of parts but the first one is you referenced Jennie actually, the fixed rate mortgages for 75% loan-to-value mortgage. Is that the typical mortgage that your customers are taking? Are most sitting around that, maybe improving to 78% loan-to-value? Is that what you think is most important or is it that we need more 90% loan-to-value mortgages? I am just wondering in terms of their appetite what are lenders telling you in terms of their willingness to put money behind some of these lower rates that are coming through?

Then the second question which you are possibly going to bat away but I am going to ask anyway. You said the outlets will be impacted and I just wanted to be a bit more forensic on that. Do you mean that the number of outlet openings you do in 2024 will be lower than a normal year, or are you talking about the net number of outlets?

Jennie Daly: Okay. Thanks Glynis. On the fixed rates, I do not have the absolute up-to-date, but when we looked at the information most recently it was about 78% or thereabouts I think was the level of loan that our average customer was taking (FTB). But, your point on first-time buyers is absolutely spot on. What we want to see is better value lending at the higher LTV levels to stimulate more first-time buyer activity. I do not see that a functioning housing market can operate without first-time buyers and whether that is second-steppers or getting onto the market.

The lenders, other than Lloyds, in terms of big names there is not many lenders in the 95% category. I would be hopeful that as the wider environment improves and any concerns that lenders might have of house prices reducing now paling into the background that they will get braver and start filling that 95% LTV category. I think it is really important.

On outlets, I think in terms of impact we are calling out the planning situation. We have been very clear about you cannot be out of the land market, and you can see how low our approvals were, without there being some impact. What I am not being specific about is the overall time frame because it does play back to sales rates and how sales rates then flow through the outlets dynamic. So not really going to be drawn very much further than that this morning Glynis.

Glynis Johnson: Thank you.

Ami Galla (Citigroup): Just two questions from me. The first one was just on your marketing efforts into the spring season. I think last year you talked about relying on not just organic traffic but also utilising paid channels. Is that still the strategy that you would take and are you looking doing something different from a sales and marketing effort in that respect?

The second one was just on land pricing. I know there have been a couple of questions on land so far, but on land pricing, given the constraints on consented land, do you see a bigger discount on the strategic pipeline and naturally would you divert more focus on building a strategic pipeline in this market? Thank you.

Jennie Daly: Okay. From a marketing effort point of view, we redoubled our efforts coming into the year. So Boxing Day campaign, I think it was a really good one. We had some really good social media pickup. I hope that you had the opportunity to see it. But, we are relying still quite heavily on paid media to drive the enquiries. I think I am pleased at this point that the quality of the enquiries and some of the feedback from the sales teams is improving. Probably the thing to look out for is, is there a sense of urgency. I think that is what we would be looking for through the spring selling season is, are particularly first-time buyers going to wait to see if rates drop further? That is the test that we will be looking for in the spring selling season. In terms of sales and marketing, at this point, I think that we have got a real positive start but it is fragile. There are still issues around affordability and other things so I do not see us pulling back from paid media for some time. I think that we will continue that strategy.

Just on land pricing, and you reminded me that actually I did not fully answer Will's question about strategic, so I will just pick the two up together. My apologies to Will. He was very polite there. Our strategic land pipeline, I have talked about it in terms of its depth and breadth, is a real positive and an opportunity lever. We cannot get away from the fact that the strategic land pipeline also has to navigate the planning environment but when we do so we do expect to see price benefit flowing through that. But, strategic land valuation is marked to market. There is a discount embedded. It is still pegged to overall market dynamics and if land pricing is holding then the strategic land price paid will also reflect that.

We are working our strategic land pipeline really very hard and we actually had a pleasing level of output from it last year. If you remember 2022 probably was a little bit of a disappointment so you can see that it really is that congestion just flowing through rather than that marking a step-change in the way that local authorities are processing things. I am still very much a proponent of our strategic pipeline and the value that it can deliver to the business through all parts of the cycle, including land market cycles.

Ami Galla: Thank you.

Marcus Cole (UBS): Good morning all, just three questions. I think they should be quite simple. What was the private ASP in the order book? The land creditor balance at the end of 2023 would be helpful and any comments on fire safety cash outflow in the year. Thanks.

Jennie Daly: Chris, are you happy to take those?

Chris Carney: Yes, that is fine. On the first one Marcus, if you are looking for an indication of the average selling price on completions in the first half, I would expect that to be similar to the £320,000 average that we reported in the first half of 2023, probably with a slightly higher affordable ASP and a slightly lower private ASP. The land creditor balance at the end of the year I am expecting to be around the £520 million mark and fire safety cash I am assuming you are asking for next year. I think in 2023 we spent around about £17 million, leaving a remaining provision of £192 million and I am expecting that that spend will increase to probably something around the £60 million mark when we get into 2024.

Marcus Cole: Okay, thanks very much.

Jennie Daly: Thank you Marcus.

Chris Millington (Numis): Morning all, happy new year. I will go with the usual three but hopefully they are fairly straightforward. I would just love your opinion on what you see opex doing next year, just in light of inflation and potential variable remuneration coming back in.

Second one is really to put the enquiry point you are making into context. I just wonder if you could comment, are we running ahead of last year? How does it compare to pre-Covid? Anything you can give there.

Then the final one is probably for Chris but really the moving parts on cash, just why you have outperformed this year. It may be the land creditor point I think you just mentioned there Chris but also what you expect the moving parts to be in 2024.

Jennie Daly: Okay, thanks Chris and happy new year. From an enquiry point of view, yes they are positive to comparable of last year. We can see website traffic is up pretty strongly. We have seen quite a strong level of appointments. Website appointments are up. Walk-ins are up quite materially. Organic traffic is not picking up quite so well and it has actually gone back a little bit. That plays into the comment that I had with Ami that we will be keeping the foot on the gas in terms of sales and marketing. Appointments held in the period, up quite strongly as well Chris.

Chris Millington: Very helpful, thank you.

Chris Carney: Then in terms of your opex question, I think obviously I will provide more colour when we get to the prelims, but I think you will not go too far wrong if you assume admin expenses for 2024 will increase slightly compared to 2023.

I think then on cash moving parts, yes we ended the year with £678 million of net cash, a really strong position slightly ahead of the guidance range which was £500-650 million, mainly due to lower land spend in the second half. That incorporated £575 million of net land spend in the year, probably around about £20 million of exceptional provision spend in the year, £7 million on pensions in the year and we will give you guidance on 2024 cash when we get there. You have already heard me, I think earlier in response to Marcus's question, say that I think that the cladding spend is likely to be around about the £60 million mark. I am expecting pensions to be pretty much flat at the £7 million but I will give you more on the rest of the moving parts when we get to the prelims.

Chris Millington: Okay, helpful. Just a quick checking query Chris. You mentioned admin costs going up a little bit.

Chris Carney: Sorry. Sorry, yes I did. I was saying admin expenses for 2024 will be slightly up on 2023.

Chris Millington: Understood. Thanks so much, guys.

Jennie Daly: Thank you. Thank you as always for your time this morning guys, and your questions. Hopefully you found it helpful.

We are pleased to have delivered a good performance against a tough market backdrop. I think it is testament to the strength of our business overall, including our highly experienced teams. It is still very early days and uncertainty remains, but it is encouraging to see mortgage interest rates decreasing and, as you have heard, we have seen a good level of enquiries. We will continue to be disciplined. We are working hard progressing our landbank including our strategic pipeline and positively positioning the business for this year and the medium-term. Chris and I look forward to speaking to you all again at the full year results on 28th February. Thank you. Have a good day.

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