Crest Nicholson Holdings plc

Preliminary Results for 2016

24th January 2017

Agenda

• Performance highlights	Stephen Stone
• Investing for Growth	Patrick Bergin
• Financial Results	Patrick Bergin
• Summary	Stephen Stone
• Q&A	

Performance highlights (1)

- Strong operational and financial performance – delivered on our target of £1bn of sales:
  - £997m statutory Revenue
  - £3m sales within JV line
- Housing market continues to thrive, particularly at lower price points where Help to Buy applies; 'Brexit' impact short-lived as fundamentals strong
- Temporary stop on land buying & some infrastructure in post-referendum period: generated strong net cash balance at year-end and highlights resilience of operating model
- On track to deliver targets of 4,000 homes and £1.4bn sales in 2019

Performance highlights (2)

Revenue of £997.0m (2015: £804.8m) **+24%**

Operating profit of £203.8m (2015: £163.3m) **+25%**

Profit before tax of £195.0m (2015: £154.0m) **+27%**

Earnings per share of 62.0p (2015: 49.3p) **+26%**

Total dividend per share of 27.6p (2015: 19.7p) **+40%**

Operating profit margin of 20.4% (2015: 20.3%)

Return on Capital Employed of 31.3% (2015: 26.8%)

Performance highlights (3)

Open-market ASP# of £371k (2015: £309k) (Legal Completions)	**+20%**
Unit completions of 2,870 units (2015: 2,725)	**+5%**
Sales Outlets at 47 (2015: 44)	**+7%**
Sales per Outlet Week* at 0.81 (2015: 0.90)	**-10%**
Forward sales at mid-January of £533.5m (2015: £511.8m)	**+4%**
GDV of land pipelines of £10,646m (2015: £10,466m)	**+2%**

 # Includes PRS on OM basis   * Excluding PRS

Current market dynamics

Fundamentals of the market are still strong…

- Employment and mortgage access remain strong, underpinning demand. Lender appetite good and Help to Buy a major support for the sector
- Land availability continues to be very good, supporting re-investment at or above our hurdle rates
- Sales and cost inflation both showing signs of moderating

…but 2017 may bring some challenges…

- Sterling depreciation is likely to drive inflation, increasing some input costs and reducing levels of real-income growth for purchasers
- The triggering of Article 50 may increase uncertainty and cause another temporary reduction in sales rates

Post-referendum sales performance

	OM sales (ex-PRS)	Outlets	SPOW	ASP	Sales value
Aug-Dec 2016	772	50	0.74	£439k	£339m
Aug-Dec 2015	721	44	0.78	£353k	£254m
Variance	51	6	(0.04)	£86k	£85m
% change	+7%	+14%	-5%	+24%	+33%

- Sales rates since 2016 referendum broadly in line with prior year; lower level overall reflects seasonality
- Strong growth in outlets and ASPs driving increased revenues; benefit in both 2016 (as lost sales caught up) and in 2017
- Volumes for 2017 expected to increase modestly; revenues c.10%

London: a two speed market

- Properties over £1m selling at slower rates. London Help to Buy driving strong sales rates in areas of better affordability
- Sales prices in Zone 1 flat to soft, depending on location and price point
- £80m of revenue to achieve in Zone 1 of which only 41 units priced over £1m still to sell
  - £57m of targeted revenue from these higher priced sales
  - requires sales rate of 2 a month, currently being achieved
- Continuing successful policy of investing in areas of greater affordability:
  - currently selling in Peckham & Lower Sydenham
  - latest new site exchanged in Walthamstow

Political landscape

- Strong political support for housing remains; no change to target of 1m new homes by 2020
- Focus moving towards improving the speed of delivery and less on increasing home ownership
- White Paper now somewhat overdue: expect to be supportive of means to improve delivery, but with potential ‘sticks’ for non-performing sites
- Starter homes expected to be less prescriptive, following consultation
- Publication date still a movable feast

Bench strength

Stephen Stone
Chief Executive Officer

Patrick Bergin
Chief Operating Officer

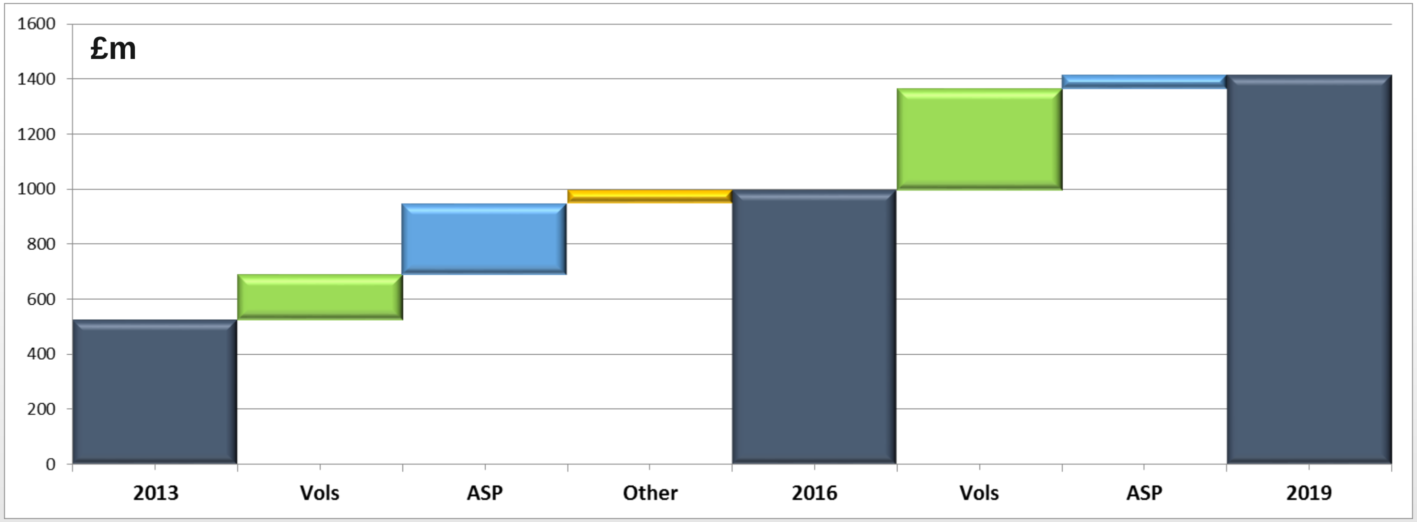
Robert Allen
Group Finance Director

Chris Tinker
Chairman - Major Projects & Strategic Partnerships

Investing for Growth

Investing for growth

- 2016 target achieved; re-iterating commitment to 2019 targets of 4,000 homes and £1.4bn sales
- Having largely repositioned ASPs, growth now primarily volume driven as newer divisions reach capacity and PRS numbers increase
- In addition, a further division is planned for this calendar year, to expand business bandwidth and contribute to the delivery of 2019 volume target



Strong land pipeline

	Oct 2016		Oct 2015		Change %	
	Units	GDV £m	Units	GDV £m	Units	GDV £m
Short-term housing	15,901	5,300	16,064	5,106	(1)%	4%
Short-term commercial	-	232	-	249		(7)%
Total short-term	**15,901**	**5,532**	**16,064**	**5,355**	**(1)%**	**3%**
Strategic land	17,026	5,114	17,712	5,111	(4)%	-%
Total under contract	**32,927**	**10,646**	**33,776**	**10,466**	**(3)%**	**2%**

- Short term housing units lower as land purchases temporarily stopped in immediate post-referendum period; overall replenishment close to usage level
- Key focus remains on maintaining adequate outlet breadth; land sales made on larger, strategic sites to aid delivery and fund infrastructure
- Strong and active pipeline a key underpin for future revenue projections

Expanding width of land pipeline

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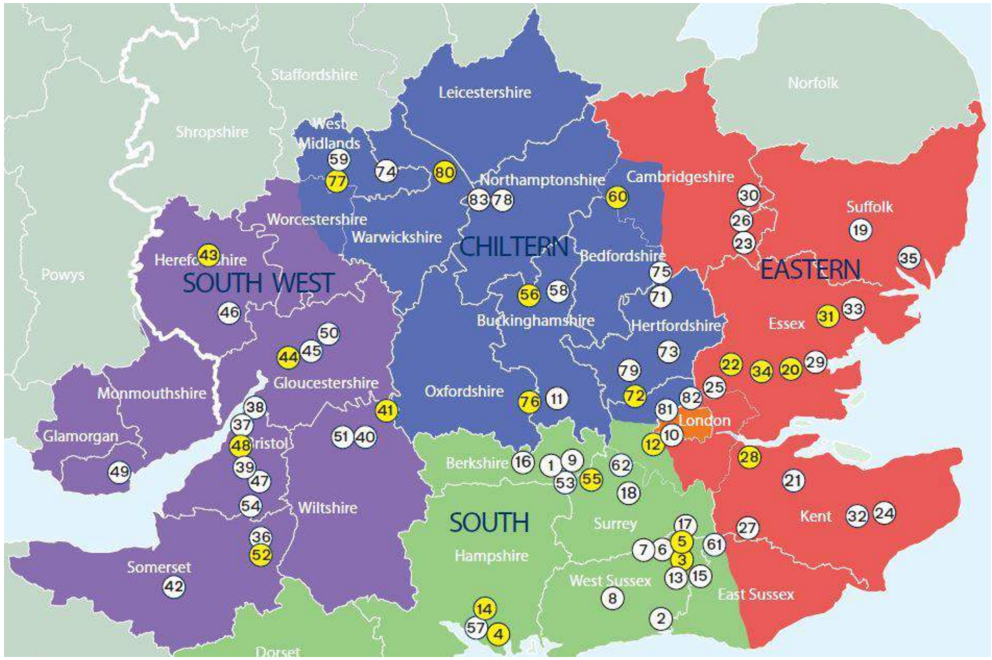


- Land pipeline 'width' – measured in Outlets – most important metric for ensuring delivery. Continual replenishment of sites important for growth
- Sixty sites currently under construction; will fuel further Outlet growth, helping to drive forecast volume increases
- Outlet breadth a counter to any softening of sales rates that further 'Brexit' uncertainty may generate

Active strategic pipeline

- Good traction with Strategic land; 7 sites and 1,536 plots consented in the year and converted into the short-term land pipeline
- 82% of plots now in Draft Allocations or better; planning applications running on a number of larger schemes
- 9 sites and 1,615 plots added to maintain broad pipeline of future potential

Driving delivery on major sites

Oakgrove, Milton Keynes	228
Bath Riverside, Bath	202
Tadpole Garden Village, Swindon	136
Monksmoor Park, Daventry	128
Centenary Quay, Southampton	124
Halo, Cambridge	104
Finberry, Ashford (Kent)	99
Penarth Heights, Cardiff	89
Mitchams Park, Cambridge	85
Bolnore Village, Haywards Heath	81
Park Avenue, Sunbury	76
	1352

- High sales rates and variety of tenures drive strong completion levels on a number of our schemes, helping to meet delivery aspirations
- Product mix includes c.50% apartments which sell at a faster rate
- Crest's 'Garden Village' model well established and is delivering significant volumes alongside strong place-making
  - Longcross included in government list of 14 supported locations

Evolving approaches in Production

- Production & skills increasingly a key constraint as the sector seeks to meet national volume delivery aspirations; new approaches may be required
- Additional IT tools deployed to ensure programme accuracy and maintenance of quality standards as the business grows
- Economics of manufacturing elements off-site under examination and increasingly competitive; scale will help reduce unit costs
- Prototypes using two alternative OSM approaches being built at Arborfield Green in 2017
- New range of more contemporary house types to complement existing formats; responding to changing lifestyles & preferences

Developing our people

74 apprentices employed; 9% of employees
21 graduates in dedicated rotational scheme
19 in Crest Site Manager Academy – training apprentices and others in site management

- Developing management and site skills in the business a high priority
- Action on a number of fronts, to grow and develop our own staff and support the supply-chain in delivering growth
- Opportunities for learning and career progression in a growing Crest business aid attraction and retention; strong culture of internal appointment
- Talent reviews and succession plans help seed new Divisions

Financial results

Key metrics (1)

	FY 2016	FY 2015	Inc/(Dec) %
Outlets (full year equivalents)	47	44	+7%
Sales per Outlet Week (OM inc-PRS)	0.95	1.04	-9%
Sales per Outlet Week (OM ex-PRS)	0.81	0.90	-10%
Legal completions			
Open market (ex-PRS)	2,101	2,042	+3%
PRS	191	109	+75%
Affordable	578	574	+1%
Total	**2,870**	**2,725**	**+5%**

- Outlets growing as new divisions bring on additional capacity
- Reduction in sales rates as anticipated, primarily ASP mix effects, but also reflective of slower Central London market and post-referendum impact in summer
- PRS unit numbers growing in line with expectations

Key metrics (2)

ASPs	FY 2016	FY 2015	Inc/(Dec) %
Legal completions			
OM ex-PRS	384	317	+21%
OM inc. PRS on OM basis#	371	309	+20%
Affordable*	149	143	+4%
OM Reservations in 2016			
OM ex-PRS	400	330	+21%
OM inc. PRS	365	316	+16%
Forward sales			
OM ex-PRS	423	352	+20%
OM inc. PRS on OM basis#	314	287	+9%
Affordable*	138	127	+9%

* Affordable ASP varies depending on extent to which related Affordable Land Sale matched to year of Affordable unit practical completion.

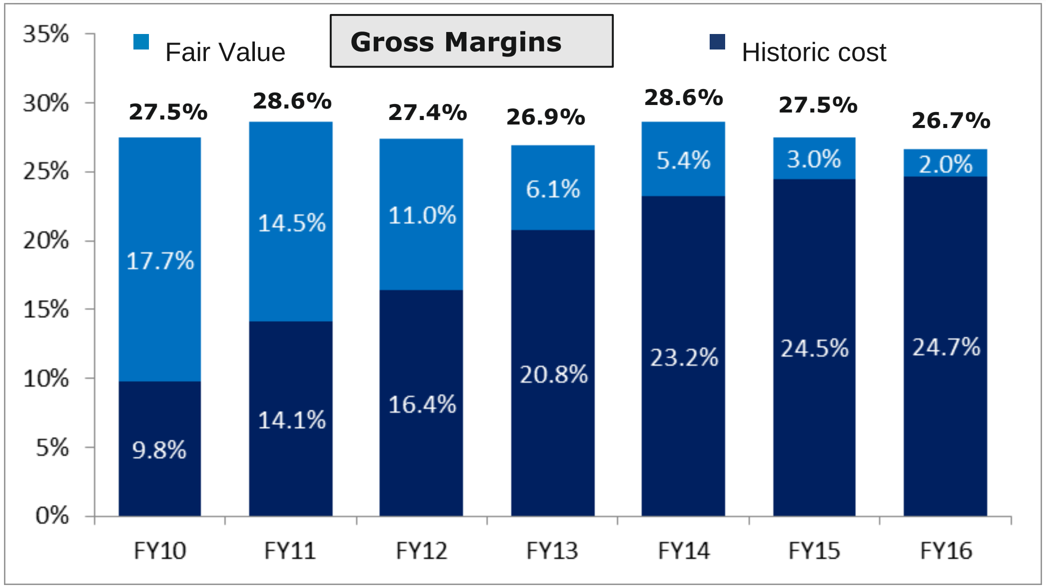
Includes relevant proportion of PRS land sale revenues with related PRS units

Income statement

Income statement (£m, unless stated)	FY 2016	FY 2015	Change on 2015	% increase
Revenue	**997.0**	**804.8**	**192.2**	**24%**
Cost of sales	(731.2)	(583.5)	(147.7)	
Gross profit	**265.8**	**221.3**	**44.5**	**20%**
% gross profit margin	***26.7%***	***27.5%***	***(80bps)***	
Administrative expenses	(62.0)	(58.0)	(4.0)	
Operating profit	**203.8**	**163.3**	**40.5**	**25%**
% operating profit margin	***20.4%***	***20.3%***	***10bps***	
Net financing costs	(8.1)	(9.5)	1.4	
Share of JVs	(0.7)	0.2	(0.9)	
Profit before tax	**195.0**	**154.0**	**41.0**	**27%**
Income tax	(38.2)	(29.9)	(8.3)	
Profit after tax	**156.8**	**124.1**	**32.7**	**26%**
Basic Earnings per share (p)	**62.0p**	**49.3p**	**12.7p**	**26%**
Dividend per share (p)	**27.6p**	**19.7p**	**7.9p**	**40%**

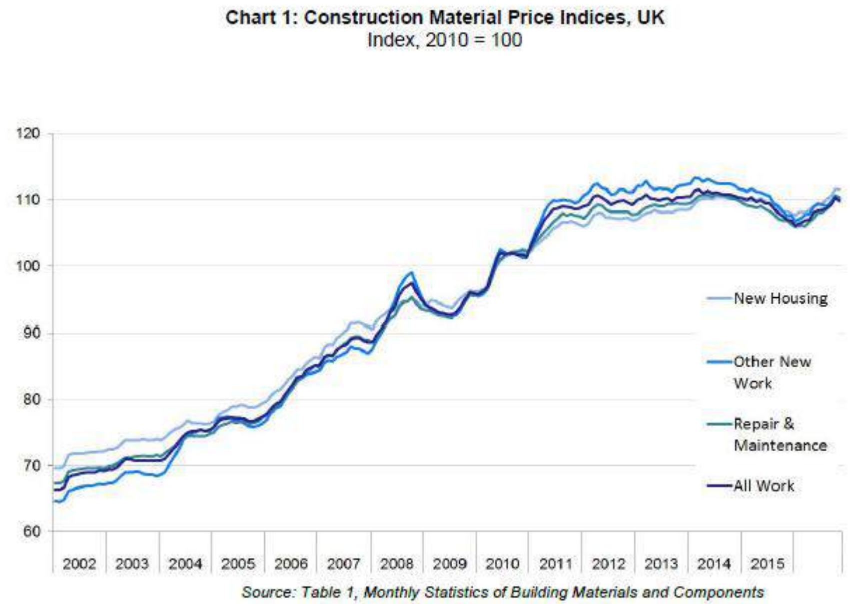
- Strong earnings & dividend growth

Strong underlying margins



- Underlying gross margin % levelling off but remain at a robust level; headline rate lower as contribution from fair valuation provision diminishes as expected
- Margins tighter in higher-priced Central London market, as pricing is softer and build costs – although abating with lower starts – are still coming through; elsewhere, net inflation gains continue to aid margin progression
- Operating margins aided by scale leverage, offsetting the modest decline in GM% - EBIT margin of 20.4% just ahead of 20.3% for 2015

Build costs



- Slight shift of emphasis, with higher increases on materials than labour costs; exchange rate impacts starting to work through, albeit impact on overall build cost <1%
- Surveyors reporting improved overall picture for lettings against budgets
- Cost inflation of 4-5%, being accommodated within sales price uplifts; cost inflation less than 1% in Aug-Oct quarter (Q4 for Crest)

Balance sheet

Balance sheet (£m, unless stated)	31st October 2016	31st October 2015	Change on Oct'15
Non-current Assets	118.7	110.3	8.4
Inventory	935.8	904.5	31.3
Trade & other receivables/assets	76.6	50.2	26.4
Cash and cash equivalents	282.3	187.4	94.9
Total Assets	**1,413.4**	**1,252.4**	**161.0**
Interest bearing loans and borrowings	(205.3)	(218.0)	12.7
Land creditors	(185.0)	(160.4)	(24.6)
Retirement benefit obligations	(16.7)	(7.5)	(9.2)
Trade and other liabilities	(287.2)	(235.8)	(51.4)
Total Liabilities	**(694.2)**	**(621.7)**	**(72.5)**
Shareholders' Equity	**719.2**	**630.7**	**88.5**
Net debt/Equity	n/a	4.9%	
Net debt (inc. land creditors)/Equity	15.0%	30.3%	

- Modest inventory increase of 3%: completed stock
- Cash balances significantly higher as land investment held back in summer
- Gearing levels well within target ranges; net cash at year-end
- 14% growth in shareholder equity

Land bank, balance sheet and cash flows

Land pipeline	Plots	GDV £m	Balance Sheet land at cost - £m	Expected total land cost - £m
2016 Short-term	15,901	5,532	563	1,205
2016 Strategic	17,026	5,114	26	865
2016 Total	**32,927**	**10,646**	**589**	**2,070**
2015 Short-term	16,064	5,355	528	1,230
2015 Strategic	17,712	5,111	27	881
2015 Total	**33,776**	**10,466**	**555**	**2,111**

- Land cost of sales including fees, overages and s.106/CIL = c.20-25%
- Control exercised over certain plots in land pipeline by contract: only amounts paid (e.g. deposits) included on Balance Sheet
- Strategic land – mostly options; priced and paid at point of draw-down:
  - Higher margin due to land discount
  - Options often allow to be drawn in tranches, managing risk & cash
- Strong cash generation in 2016 as land replenishment slowed post-vote

Cash flow

Cash flow (£m, unless stated)	FY 2016	FY 2015	Change
Operating profit before changes in working capital and provisions	**209.4**	**169.5**	**39.9**
Increase in trade and other receivables	(46.4)	(35.3)	(11.1)
Increase in inventories	(31.3)	(90.4)	59.1
Increase in trade and other payables	60.0	4.1	55.9
Contribution to retirement benefit obligations	(9.0)	(9.0)	-
Cash generated from operations	**182.7**	**38.9**	**143.8**
Interest paid	(9.3)	(8.9)	(0.4)
Tax paid	(19.6)	(6.5)	(13.1)
Net cash generated from operating activities	**153.8**	**23.5**	**130.3**
Net cash flow from investing activities	9.7	7.6	2.1
Net cash flow from financing activities	(68.6)	14.3	(82.9)
Net increase in cash and cash equivalents	**94.9**	**45.4**	**49.5**
Cash and cash equivalents at the beginning of the year	187.4	142.0	45.4
Cash and cash equivalents at end of period	**282.3**	**187.4**	**94.9**

Forward sales

	YTD FY17	YTD FY16	FY16	FY15
Units – all years	2,343	2,368	1,773	1,680
% change on prior period	-1%		+6%	
GDV (£m) – all years	533.5	511.8	344.5	328.9
% change on prior period	+4%		+5%	
% of FY2017/16 target	37%	37%	21%	25%

- Modest growth in overall forward sales; temporary sales impact from referendum vote in summer and slower sales rates in Central London
- PRS units continue to offer a meaningful contribution of incremental revenue
- Proportion of full year target reserved in line with expectations for this time of year

Summary

Summary

- Fundamentals of housing market remain strong in most areas of operation: high levels of employment and good mortgage access, supported by Help to Buy scheme

- Last six months sales rates similar to prior year; higher ASPs and increased outlet numbers driving revenue growth

- The business is focused on delivering a strong Total Shareholder Return, with 40% revenue growth targeted through to 2019 and a 2x cover dividend model from 2017

- We are planning for the future with further expansion, investment in exploring options for modern manufacturing methods and key senior appointments to ensure the business continues to be well-managed and controlled

- The business has a strong land pipeline, modest gearing and is well placed to continue growing shareholder value and meeting the aspirations of our staff & customers

Q&A

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