Crest Nicholson Holdings plc

Interim Results for 2017

13th June 2017

Agenda

• Performance highlights	Stephen Stone
• Operational performance	Patrick Bergin
• Financial Results	Robert Allen
• Summary	Stephen Stone
• Q&A	

Performance highlights (1)

- Positioned for Growth:
  - £420m statutory revenue (+3%)
  - £76m profit before tax (+5%)
- Housing market continues to be robust, particularly at lower price points where Help to Buy applies
- After temporary stop on land buying in H2 2016, disciplined investment now resumed and Midlands Division progressing to plan
- Positive momentum carried into the second half of 2017 on outlets and sales; on track to deliver growth in revenue for the full year, albeit risk of post-election uncertainty
- On track to deliver targets of 4,000 homes and £1.4bn sales in 2019

Performance highlights (2)

Revenue of £419.7m (2016: £408.1m)	**+3%**
Operating profit of £80.3m (2016: £77.8m)	**+3%**
Profit before tax of £76.2m (2016: £72.6m)	**+5%**
Earnings per share of 24.4p (2016: 23.3p)	**+5%**
Dividend per share of 11.2p (2016: 9.1p)	**+23%**

Operating profit margin of 19.1% (2016: 19.1%)

Performance highlights (3)

Open-market ASP* of £418k (2016: £372k) (Legal Completions)	**+12%**
Unit completions of 1,064 (2016: 1,206)	**-12%**
Sales Outlets at 49 (2016: 44)	**+11%**
Sales per Outlet Week* at 0.81 (2016: 0.87)	**-7%**
Forward sales at mid-June of £540.4m (2016: £520.8m)	**+4%**
Forward sales for full year 2017 including completions £763.8m (2016: £722.5m)	**+6%**
GDV of land pipelines of £11,112m (2016: £10,582m)	**+5%**

*** Excluding PRS**

Current market dynamics

Still a good market…

- Employment and mortgage access remain strong, underpinning demand. Lender appetite good and Help to Buy remains a major support for the sector
- Land availability continues to be benign, supporting re-investment at or above our hurdle rates

…with some familiar challenges…

- Sterling depreciation driving inflation, increasing some input costs and reducing levels of real-income growth for purchasers
- Political and macro economic backdrop still uncertain as Brexit negotiations begin
- Access to sufficient supplies of labour & materials a constraint on speed of growth

Political landscape

- Potential for uncertainty as Conservative Minority Government seeks to deliver its programme
- Cross-party consensus on need for more housing, albeit preferred approaches vary across parties: generally benign political environment for housing sector
- Focus of No. 10 likely to be elsewhere:
  - Brexit negotiations
  - Potential for leadership change &/or new elections
- White Paper likely to form blue-print for ongoing housing policy; consultations underway and should help to inform implementation

Sustaining our Operational Performance

Sales performance – OM (excluding PRS)

Sales in last 3 months 16% ahead of same period last year

Good momentum building as new outlets opening in second half

- Sales per Outlet Week (SPOW) YTD on a par with whole of FY 2016, at 0.81
- Strong revenues reflective of higher OM ASP; shift in ASPs now largely done and sales rate settling into new pattern at c0.8 sales per outlet week

Full year vs Half year

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- Over 40% of FY2016 revenues achieved in H1’16; H1’17 represents less than 40% of expected full year revenues
- PRS delivery timings a significant factor:

Units	2017	2016
First half	43	173
Second half	167	18
Total	**210**	**191**

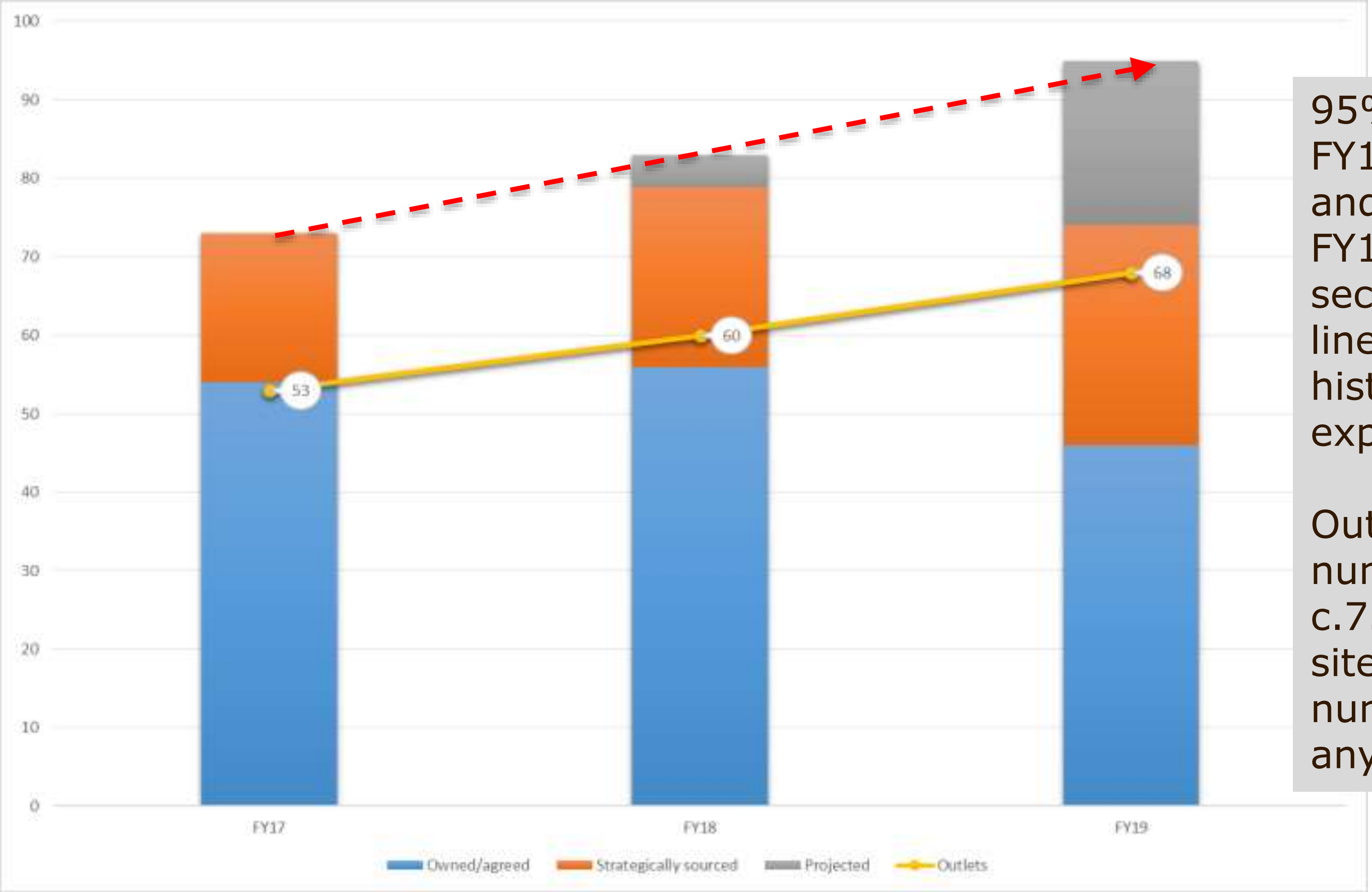
- Delays in land acquisitions and site starts & weaker opening forward sales position, following EU vote, also modestly impacted H1’17
- Strong second half contributions expected from a number of flagship schemes, including first phase of Longcross, plus apartment schemes at Peckham, Sydenham, Bristol, Centenary Quay and Crawley where build phasing delivers second-half legal completions

Maintaining land pipeline

	Apr 2017		Apr 2016		Inc/(Dec)%	
	Units	**GDV £m**	**Units**	**GDV £m**	**Units**	**GDV £m**
Short-term housing	17,056	5,661	15,377	5,143	11%	10%
Short-term commercial	-	222	-	248		(10)%
Total short-term	**17,056**	**5,883**	**15,377**	**5,391**	**11%**	**9%**
Strategic land	16,902	5,229	17,820	5,191	(5)%	7%
Total under contract	**33,958**	**11,112**	**33,197**	**10,582**	**2%**	**5%**

- Growth in the land pipeline during the first half of 2017 to supply the growth ambitions of the business while retaining commercial discipline
- Land market still very benign & a number of strategic sites with planning applications running
- Key focus remains on maintaining adequate outlet breadth; land sales made on larger, strategic sites to aid delivery and fund infrastructure

Site growth underpins outlet trajectory



95% of FY18 land and 78% of FY19 land secured, in line with historical experience

Outlet numbers c.75% of site numbers at any time

New division on track

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- New Midlands division created by re-alignments within current operating areas; familiar territory and supply chain
- New office in Tamworth secured and key divisional Board appointments made; primarily internally sourced
- Division to be primed with three operational sites and new land opportunities being actively progressed; ahead of schedule
- Growth projections based on achievements of previous new team at Chiltern; anticipate delivering 300 units by 2019

Retaining focus on skills & supply chain

- Production & skills remain a key constraint; business focused on sites, offices and supply chain – training and retaining graduates, site managers and apprentices
- Economics of manufacturing elements off-site continue to be examined; prototypes using two alternative OSM approaches being built at Arborfield Green; now underway
- Implications for labour force forthcoming Brexit negotiations; likely to see some reductions in supply as status of foreign workers remains unclear
- Periodic material supply issues require managing; temporary issues with availability rather than cost the primary issue at present

Financial results

Key metrics (1)

	HY 2017	HY 2016	Inc/(Dec) %
Outlets (full year equivalents)	49	44	11%
Sales per Outlet Week (OM inc-PRS)	0.81	1.06	(24)%
Sales per Outlet Week (OM ex-PRS)	0.81	0.87	(7)%
Legal completions			
Open market (ex-PRS)	800	909	(12)%
PRS	43	173	(75)%
Affordable	221	124	78%
Total	**1,064**	**1,206**	**(12)%**

- Outlets growing as divisions increase capacity; further growth in H2
- Reduction in sales rates as anticipated, given ASP increases
- PRS unit numbers in line with expectations and biased towards second half. Open market sales reflect timing differences on apartment sales

Key metrics (2)

ASPs	HY 2017	HY 2016	Inc/(Dec) %
Legal completions			
OM ex-PRS	418	372	12%
OM inc. PRS on OM basis#	409	349	17%
Affordable*	186	187	-
OM Reservations			
OM ex-PRS	411	387	6%
OM inc. PRS	411	345	19%
Forward sales			
OM ex-PRS	416	383	9%
OM inc. PRS	311	307	1%
Affordable*	131	130	1%

- ASPs settling into 'new normal' at just over £400k

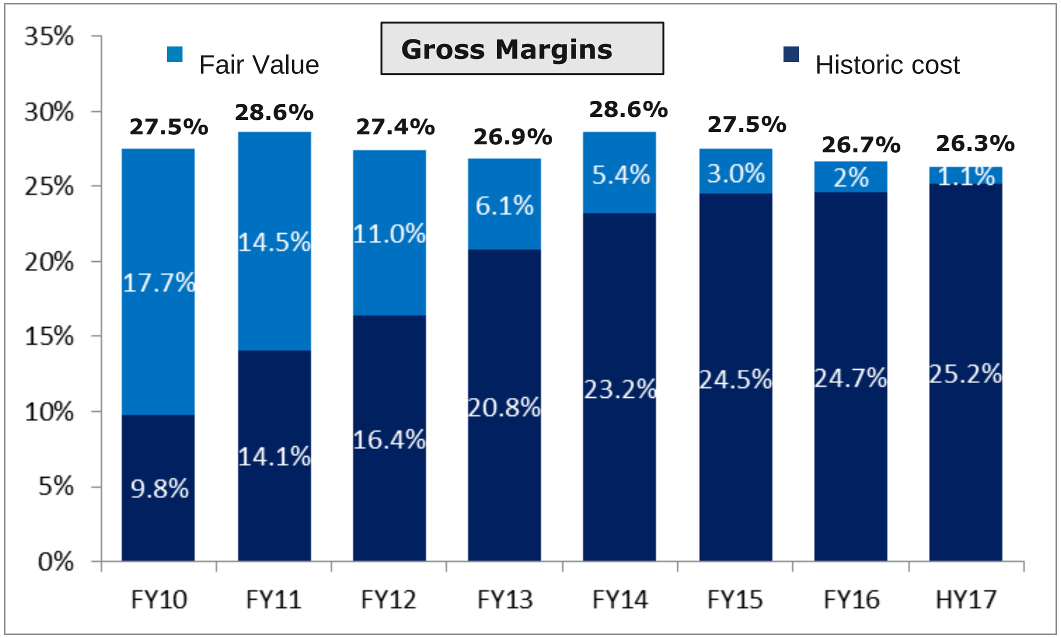
* Affordable ASP varies depending on extent to which related Affordable Land Sale matched to year of Affordable unit practical completion.

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

Income statement

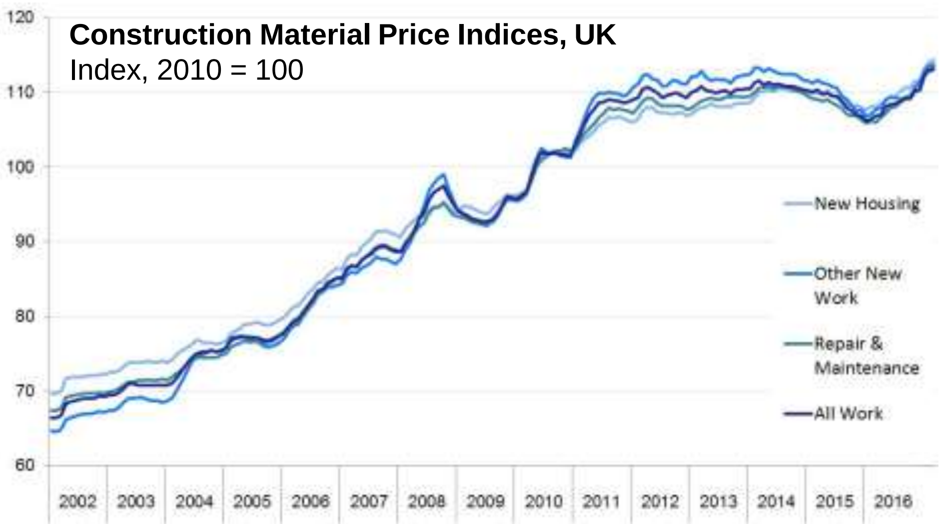
Income statement (£m, unless stated)	HY 2017	HY 2016	Change on 2016	% increase
Revenue	**419.7**	**408.1**	**11.6**	**3%**
Cost of sales	(309.3)	(297.7)	(11.6)	
Gross profit	**110.4**	**110.4**	**-**	**-%**
% gross profit margin	***26.3%***	***27.1%***	***(80bps)***	
Administrative expenses	(30.1)	(32.6)	2.5	
Operating profit	**80.3**	**77.8**	**2.5**	**3%**
% operating profit margin	***19.1%***	***19.1%***	**-**	
Net financing costs	(4.1)	(4.6)	0.5	
Share of JVs	-	(0.6)	0.6	
Profit before tax	**76.2**	**72.6**	**3.6**	**5%**
Income tax	(14.1)	(13.7)	(0.4)	
Profit after tax	**62.1**	**58.9**	**3.2**	**5%**
Basic Earnings per share (p)	**24.4p**	**23.3p**	**1.1**	**5%**
Dividend per share (p)	**11.2p**	**9.1p**	**2.1**	**23%**

Strong underlying margins



- Underlying gross margin % levelling off; headline rate lower as contribution from fair valuation provision diminishes as expected
- Margin expansion tightening across the business as net gains from inflation reduce - sales inflation is moderating with build costs inflation continuing in low single digits
- Operating margins at 19.1% are in line with the prior year

Build costs



- Government statistics show increasing material cost inflation; year on year increase to March 2017 was 5.9%
- Overall experienced annual build cost inflation still 4-5%; cost inflation was less than 1% in the February to April quarter (Q2 for Crest) but upwards pressure is expected

Balance sheet

Balance sheet (£m, unless stated)	30th April 2017	31st October 2016	30th April 2016	Change on Oct'16	Change on Apr'16
Non-current Assets	125.8	118.7	115.9	7.1	9.9
Inventory	1,107.3	935.8	940.5	171.5	166.8
Trade & other receivables/assets	85.2	76.6	61.6	8.6	23.6
Cash and cash equivalents	144.3	282.3	148.8	(138.0)	(4.5)
Total Assets	**1,462.6**	**1,413.4**	**1,266.8**	**49.2**	**195.8**
Interest bearing loans and borrowings	(178.8)	(205.3)	(174.9)	26.5	(3.9)
Land creditors	(242.8)	(185.0)	(197.0)	(57.8)	(45.8)
Retirement benefit obligations	(13.3)	(16.7)	(6.7)	3.4	(6.6)
Trade and other liabilities	(292.2)	(287.2)	(233.8)	(5.0)	(58.4)
Total Liabilities	**(727.1)**	**(694.2)**	**(612.4)**	**(32.9)**	**(114.7)**
Shareholders' Equity	**735.5**	**719.2**	**654.4**	**16.3**	**81.1**
Net debt/Equity	4.7%	n/a	4.0%		
Net debt (inc. land creditors)/Equity	37.7%	15.0%	34.1%		

Cash flow

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Cash flow (£m, unless stated)	HY 2017	HY 2016	Change
Operating profit before changes in working capital and provisions	**83.1**	**81.3**	**1.8**
Increase in trade and other receivables	(17.6)	(25.1)	7.5
Increase in inventories	(171.5)	(36.0)	(135.5)
Increase in trade and other payables	67.0	28.1	38.9
Contribution to retirement benefit obligations	(4.5)	(4.5)	-
Cash (used by)/generated from operations	**(43.5)**	**43.8**	**(87.3)**
Interest paid	(3.7)	(5.3)	1.6
Tax paid	(18.5)	(5.0)	(13.5)
Net cash (outflow)/inflow from operating activities	**(65.7)**	**33.5**	**(99.2)**
Net cash flow from investing activities	1.5	4.8	(3.3)
Net cash outflow from financing activities	(73.8)	(76.9)	3.1
Net decrease in cash and cash equivalents	**(138.0)**	**(38.6)**	**(99.4)**
Cash and cash equivalents at the beginning of the year	282.3	187.4	94.9
Cash and cash equivalents at end of period	**144.3**	**148.8**	**(4.5)**

Forward sales - housing

	YTD FY17	YTD FY16	FY16	FY15
Units – all years	2,323	2,336	1,773	1,680
% change on prior period	-1%		+6%	
GDV (£m) – all years	540.4	520.8	344.5	328.9
% change on prior period	+4%		+5%	
Forward sales inc. YTD completions	763.8	722.5	231.0	241.1
% change on prior period	+6%		-4%	
% of FY2017/16 target	71%	75%	21%	25%

- Momentum building for the full year with proportion of full year target reserved in line with expectations for this time of year

Summary

Summary

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- Housing market remains robust across the Group's principal operating areas: high levels of employment and good mortgage access, supported by Help to Buy scheme
- Trading for the first six months in line with expectations and on track to deliver revenue growth for the full year to 31 October 2017
- Carrying positive momentum into the second half of 2017 with rising outlet numbers and improving forward sales, but may see some short-term uncertainty following election result
- Shareholder returns underpinned by strong interim dividend growth of 23% as the 2x cover dividend model is implemented for 2017
- On track with medium term plans to meet our 2019 growth targets of £1.4bn sales and 4,000 homes

Don't forget!

- Invitations with full details issued 2nd June
- Opportunity to see & hear how Crest is shaping up for the future
- RSVP by Friday 16th June to charlotte.fox@Finsbury.com

Q&A

Disclaimer

You should note that the financial projections and other statements regarding Crest Nicholson's intentions, beliefs or current expectations referred to in this document are forward looking and do not relate solely to historical or current facts.

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