Crest Nicholson Holdings plc

Preliminary Results for 2017

24th January 2018




Agenda

• Highlights	Stephen Stone
• Operational performance	Patrick Bergin
• Financial results	Robert Allen
• Summary	Patrick Bergin
• Q&A	

Strategic positioning

Reaching natural scale

- Operating at the quality end of the new homes market across the Southern half of England; new Chiltern & Midlands divisions complete geographic coverage
- New divisions growing to scale underpins revenue and volume increases over the next 3 – 4 years; still targeting to deliver £1.4bn sales in 2019 in a stable market
- Disciplined land buying and consistent strategic land conversions and partnership schemes delivering good margins and high ROCE
- Strong & increasing cash generation as divisions reach scale and achieve steady-state cash conversion
- Increased focus on driving efficiencies through design, product and delivery, to underpin returns and reduce risks to delivery

Performance highlights

Sales & Earnings

+7%

Dividends

+20%

- **Strong financial performance**, delivering further growth in sales (including joint ventures), earnings and dividends, as business moves to 2x cover model
- **Market backdrop**, with sales price inflation moderating; Zone 1 slower than anticipated, as the business balanced margin erosion versus receipts
- **Robust business model**, achieving strong returns from a conservative Balance Sheet and lower risk partnership arrangements on major sites
- **Customer satisfaction** rating close to 90%; targeting return to 5-star builder status, delivering growth & returns without compromising on quality or customer experience

Operational performance

Building blocks for future growth

Divisional expansion stimulating good outlet growth
- Crest now re-established in all target geographies
- Growing to natural scale over next 3-4 years

Evolving price & product mix
- Higher ASP & lower Sales per Outlet in revenue mix
- Strong volumes from major sites, particularly in areas of good affordability, &/or aided by Help to Buy

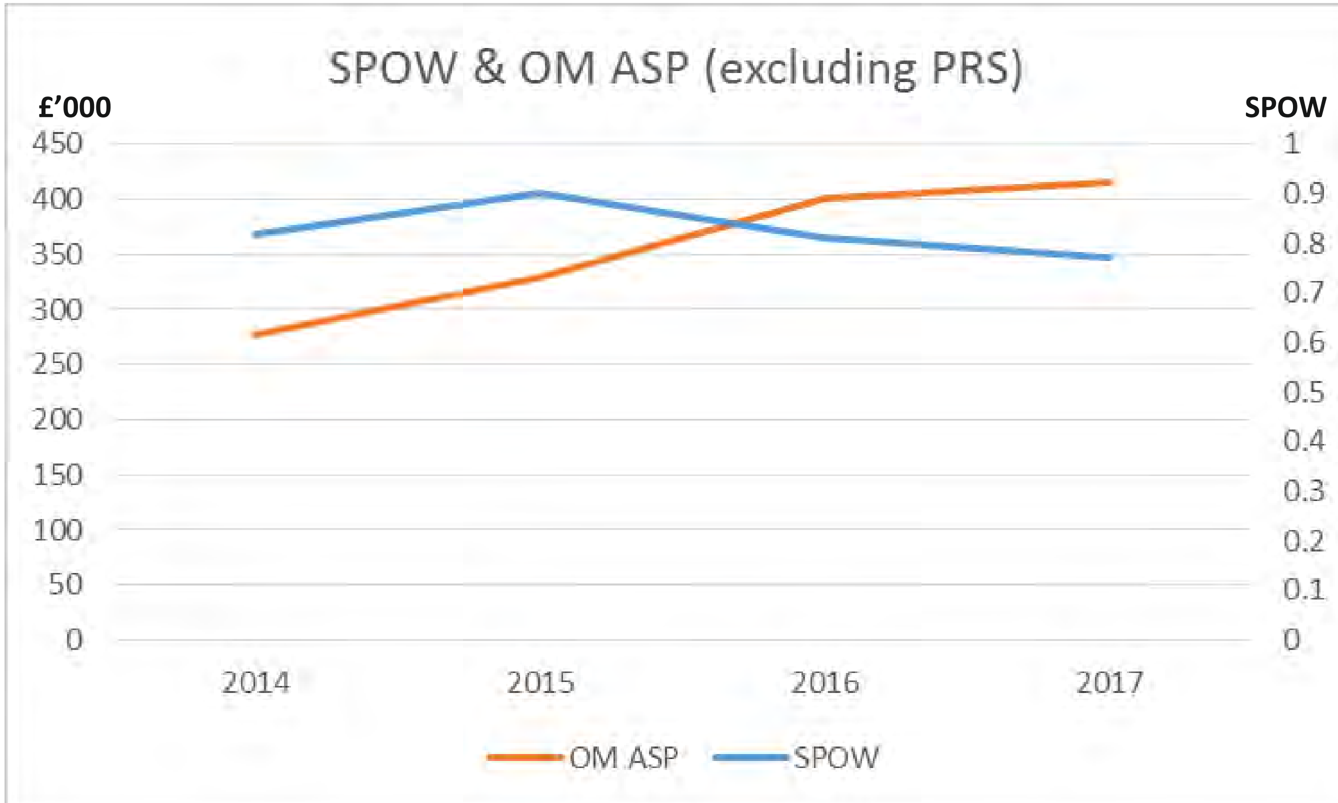
Good land availability
- Supporting re-investment at or above our hurdle rates
- Strong conversions from strategic into short-term pipeline

Developing skills in the business
- Sustaining a strong pipeline into our Award-winning Graduate Scheme and Site Management Academy
- Continuing to employ significant number of apprentices; 10% of workforce
- Strong record of internal promotion and career development

Outlet growth key

- Steady growth in outlets over last two years; accelerated by addition of Chiltern in late 2015
- Opening Midlands in 2017 will stimulate further growth in 2018 & beyond; 3-4 additional outlets per division, per year – c.15% growth p.a. from two divisions
- Good outlet breadth improves delivery resilience

Sales rates & ASP



- Sales rates given current sales mix settling down in 0.75 – 0.8 range
- OM ASP growth in line with stated strategy to reposition product & location mix, to drive strong revenue growth; peaks in 2018
- Volume mix in FY18 expected to comprise reduced affordable but higher OM content than FY17

Strong delivery on a number of sites

- Major site model continues to provide strong volume underpin; broad tenure & product mixes:
  - Open market – traditional and contemporary
  - Affordable housing
  - Private Rented Sector
  - Land sales to other developers part of our model

- Multi-outlet approach and appropriate commercial structuring enables good unit delivery and strong returns on capital

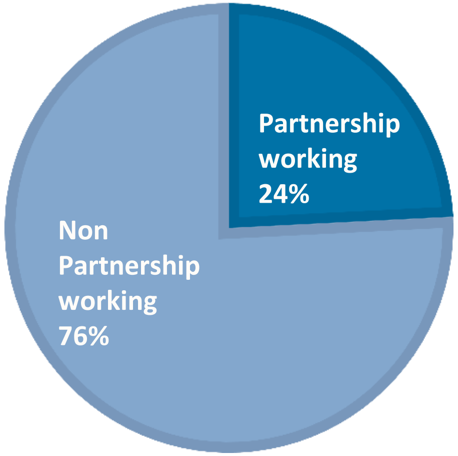
- Larger schemes typically sourced from strategic land conversions or partnerships with public sector or significant private institutions; c.8-12 schemes of > 1,000 units contributing at any point in time

Partnerships a growing element of land pipeline

Our partners:

- Share our ethos for high quality development
- Participate in the risks and rewards of a project
- Defer land payments, supporting increased early investment in place-making
- Generate significantly increased ROCE% for a circa 2-3% reduction in GM
- Priority-return models set agreed margin parameters, flexing land values for changes in key price & cost inputs

Proportion of portfolio subject to partnership



Oakgrove, MK: 1,000 new homes in Partnership with HCA

Arborfield Garden Village: 2,000 new homes in Partnership with DIO

Finberry, Ashford: 1,000 new homes in Partnership with Church Commissioners

Strategic Land Great Source of Long Term Value

Our Strategic land:

- Source of 44% of consented short-term land pipeline
- Combines backbone sites with outlet breadth
- Increasingly supports our Garden Village brand
- Can be drawn down in phases and valued at time of drawdown

Our Strategic Land portfolio:

- Should deliver a further 8,000 plots to the short term pipeline over the next 3 years
- Provides an increasing source of higher margin land

Status	Sites	Plots	GDV £k	ASP
Allocated	10	3,316	949,149	418.7
Draft Allocation	6	4,963	1,921,367	395.1
No Allocation	23	9,995	3,089,899	309.1
Total	**39**	**18,174**	**5,960,414**	**328.0**

Strategic land pipeline supports all Operating Divisions

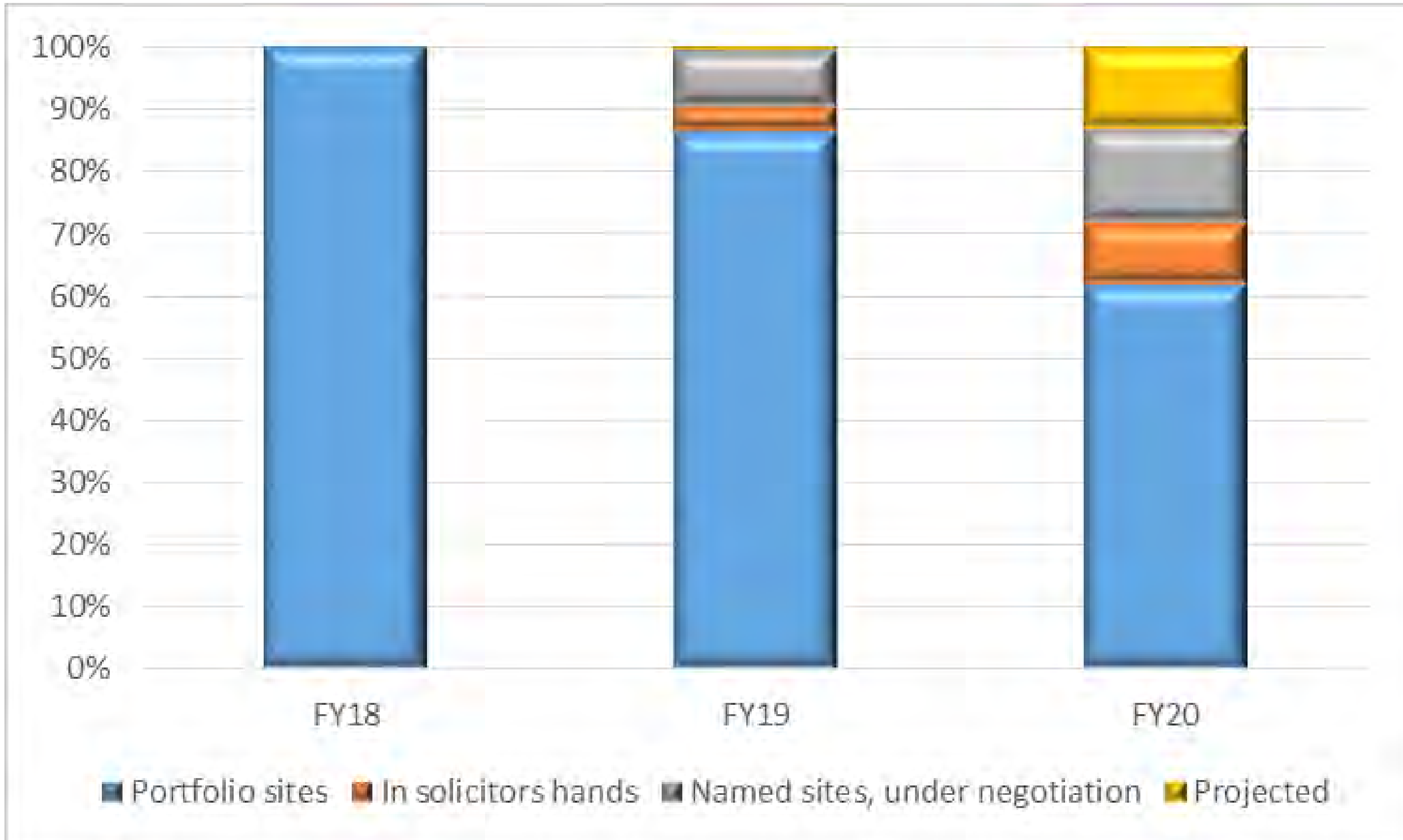
Circa 45% of the Strategic Land pipeline should be consented in the next three years

Land, balance sheet and cash flows

Land pipeline	Plots	GDV £m	Balance Sheet land at cost - £m	Expected total land cost - £m
2017 Short-term	16,260	5,776	677	1,117
2017 Strategic	18,174	5,960	33	1,206
2017 Total	**34,434**	**11,736**	**710**	**2,323**
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**

- Good flow through from strategic into short-term pipeline and strategic sites replenished in turn with new options
- Short-term land pipeline additions on 21 sites, to supplement strategic conversions and maintain outlet growth – ability to be selective with open-market acquisitions
- Modest rise in ASP in land pipeline, as business has largely completed product & mix re-positioning

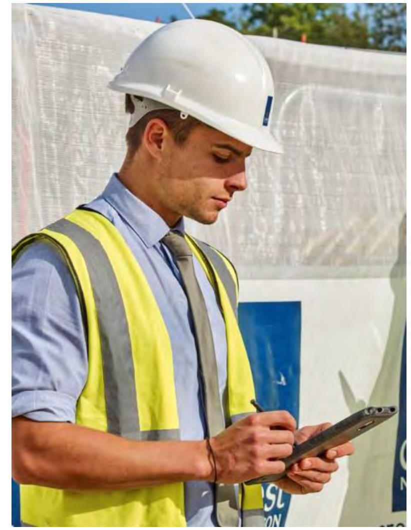
Land sources underpin forward visibility



- Strong visibility on land sources for forecast horizon; over 85% of FY19 land owned with most of balance identified and procurement underway – modest requirement for additional sites
- Over 80% of FY20 land sources identified, with over 60% contracted

Driving business improvements

- Seeking to increase business productivity:
  - On-going examination of economics of off-site manufacturing: prototype houses built & evaluation for cost & performance underway
  - New range of more contemporary house types progressing. Will complement existing formats and offer additional channel to market. Optimised for off-site manufacture and compliant with emerging space standards
- Operational improvements targeted, to continue to secure strong EBIT margins, particularly in low inflation environment & sustain quality & customer satisfaction
- Operating model to sustain its focus on:
  - Delivering strong ROCE, earnings & cashflows, as business reaches scale over next 3-4 years
  - Reducing operational risks in delivery
  - Maintaining Crest's strong position with major public & private partners



Operational summary

- **Land** – strong and varied supply, underpinning unit delivery and maintaining multiple channels to market
- **Sales** – sales rates and ASPs largely re-positioned, to drive revenue growth
- **Outlets** – new Chiltern and Midlands divisions driving strong outlet growth as they scale up over the next few years
- **Production** – new initiatives on core house types and off-site approaches in production underway
- **Operating model** – building on our established position with public and private partners, sustaining strong returns and cash flows as the business reaches natural scale

Financial results

2017 Financial Performance - Highlights

Sales incl JV's of £1,066m (2016: £1,000m) **+7%**

Operating profit of £211.6m (2016: £203.8m) **+4%**

Profit before tax of £207.0m (2016: £195.0m) **+6%**

Earnings per share of 66.1p (2016: 62.0p) **+7%**

Dividend per share of 33.0p (2016: 27.6p) **+20%**

Operating profit margin of 20.3% (2016: 20.4%)

ROCE of 29.7% (2016: 31.3%)

Forward sales

	YTD FY18	YTD FY17	FY17	FY16
Units – all years	2,462	2,343	1,997	1,773
% change on prior period	+5%		+13%	
GDV (£m) – all years	575.7	533.5	391.4	344.5
% change on prior period	+8%		+14%	
GDV (£m) – current year	441.0	395.8	265.3	231.0
	+11%		+15%	

- Positive momentum with forward sales for 2018 +11% higher than this time last year

Key Sales Metrics

	FY 2017	FY 2016	Inc/(Dec) %
Outlets (full year equivalents)	51	47	+9%
Sales per Outlet Week (OM inc-PRS)	0.81	0.95	(15%)
Sales per Outlet Week (OM ex-PRS)	0.77	0.81	(5%)
Legal completions			
Open market (ex-PRS)	1,982	2,101	(6%)
PRS	266	191	+39%
Affordable	687	578	+19%
Total	**2,935**	**2,870**	**+2%**

- Carrying momentum into 2018 with 55 outlets now open
- Anticipated reduction in sales rates given ASP movements and our slower sales in Central London
- 2017 mix shifted towards PRS and affordable housing; in 2018 we expect this to reverse with open market sales growth and affordable housing reducing to below 20% of units completed (2017: 23%)

Key Price Metrics

ASPs	FY 2017	FY 2016	Inc/(Dec) %
Legal completions			
OM ex-PRS	417	384	+9%
OM inc. PRS	388	369	+5%
Affordable*	174	149	+17%
Total housing	**338**	**325**	**+4%**
OM Reservations in 2017			
OM ex-PRS	416	400	+4%
OM inc. PRS	403	365	+10%
Forward sales			
OM ex-PRS	433	445	(3%)
Affordable*	143	136	+5%

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

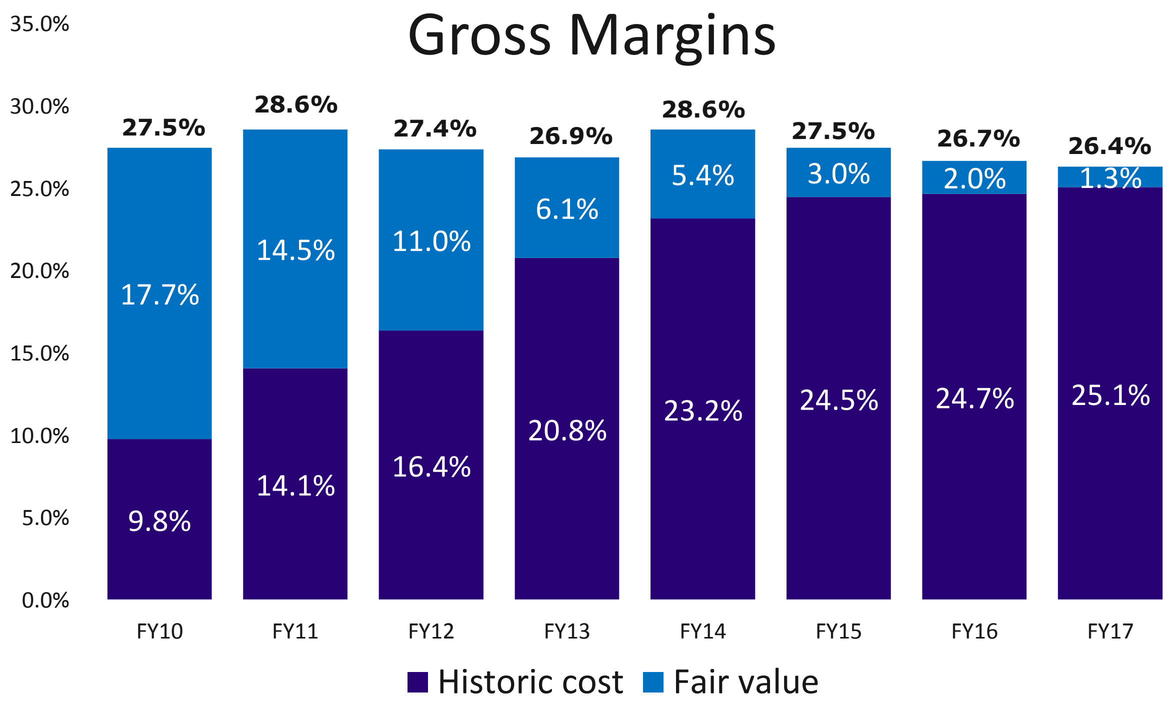
- Price inflation across the portfolio has moderated. As expected, product mix is the key driver of ASP growth

Income statement

Income statement (£m, unless stated)	FY 2017	FY 2016	Change on 2016	% increase
Revenue	**1,043.2**	**997.0**	**46.2**	**5%**
Cost of sales	(768.3)	(731.2)	(37.1)	
Gross profit	**274.9**	**265.8**	**9.1**	**3%**
% gross profit margin	***26.4%***	***26.7%***	***(30bps)***	
Administrative expenses	(63.3)	(62.0)	(1.3)	
Operating profit	**211.6**	**203.8**	**7.8**	**4%**
% operating profit margin	***20.3%***	***20.4%***	***(10bps)***	
Net financing costs	(8.3)	(8.1)	(0.2)	
Share of JVs	3.7	(0.7)	4.4	
Profit before tax	**207.0**	**195.0**	**12.0**	**6%**
Income tax	(38.4)	(38.2)	(0.2)	
Profit after tax	**168.6**	**156.8**	**11.8**	**8%**
Basic Earnings per share (p)	**66.1p**	**62.0p**	**4.1p**	**7%**
Dividend per share (p)	**33.0p**	**27.6p**	**5.4p**	**20%**

- 7% earnings growth combined with a 20% growth in dividends

Robust Margin Delivery



- Delivered 40bps underlying margin growth in 2017. Margins becoming more challenging as sales price inflation eases but build cost increases continue
- Fair Value impact eroding over time as anticipated
- Operating Profit Margins at the upper end of guidance - 20.3% for 2017. Margins expected to moderate towards the middle of our 18% - 20% range

Balance sheet

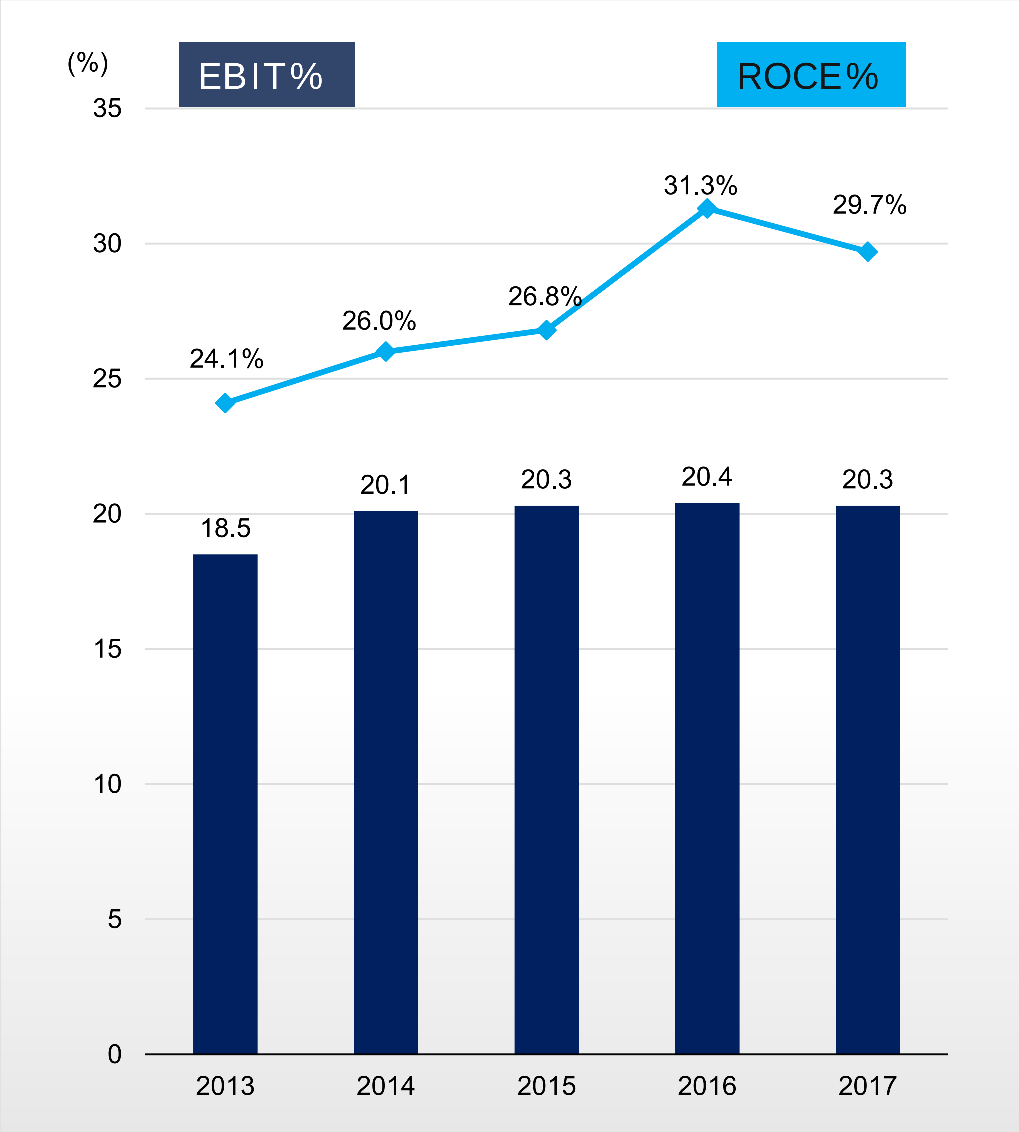
Balance sheet (£m, unless stated)	31st October 2017	31st October 2016	Change on Oct'16
Non-current Assets	110.0	118.7	(8.7)
Inventory	1,086.5	935.8	150.7
Trade & other receivables/assets	106.2	76.6	29.6
Cash and cash equivalents	175.2	282.3	(107.1)
Total Assets	**1,477.9**	**1,413.4**	**64.5**
Interest bearing loans and borrowings	(142.0)	(205.3)	63.3
Land creditors	(215.6)	(185.0)	(30.6)
Retirement benefit obligations	(7.2)	(16.7)	9.5
Trade and other liabilities	(295.3)	(287.2)	(8.1)
Total Liabilities	**(660.1)**	**(694.2)**	**34.1**
Shareholders' Equity	**817.8**	**719.2**	**98.6**
Net debt/Equity	n/a	n/a	
Net debt (inc. land creditors)/Equity	22.3%	15.0%	

- Investing for growth - 16% increase in inventory
- ROCE 29.7% (2016: 31.3%)
- Gearing within target ranges and £33m net cash at year end
- Group refinanced - £100m private placement and £250m RCF
- 14% growth in shareholders' equity

Cash flow

Cash flow (£m, unless stated)	FY 2017	FY 2016	Change
Operating profit before changes in working capital and provisions	**217.7**	**209.4**	**8.3**
Increase in trade and other receivables	(26.8)	(46.4)	19.6
Increase in inventories	(150.7)	(31.3)	(119.4)
Increase in trade and other payables	36.4	60.0	(23.6)
Contribution to retirement benefit obligations	(9.0)	(9.0)	-
Cash generated from operations	**67.6**	**182.7**	**(115.1)**
Interest paid	(7.8)	(9.3)	1.5
Tax paid	(36.5)	(19.6)	(16.9)
Net cash generated from operating activities	**23.3**	**153.8**	**(130.5)**
Net cash flow from investing activities	8.3	9.7	(1.4)
Net cash flow from financing activities	(138.7)	(68.6)	(70.1)
Net (decrease)/increase in cash and cash equivalents	**(107.1)**	**94.9**	**(202.0)**
Cash and cash equivalents at the beginning of the year	282.3	187.4	94.9
Cash and cash equivalents at end of period	**175.2**	**282.3**	**(107.1)**

Track record on Margins & ROCE

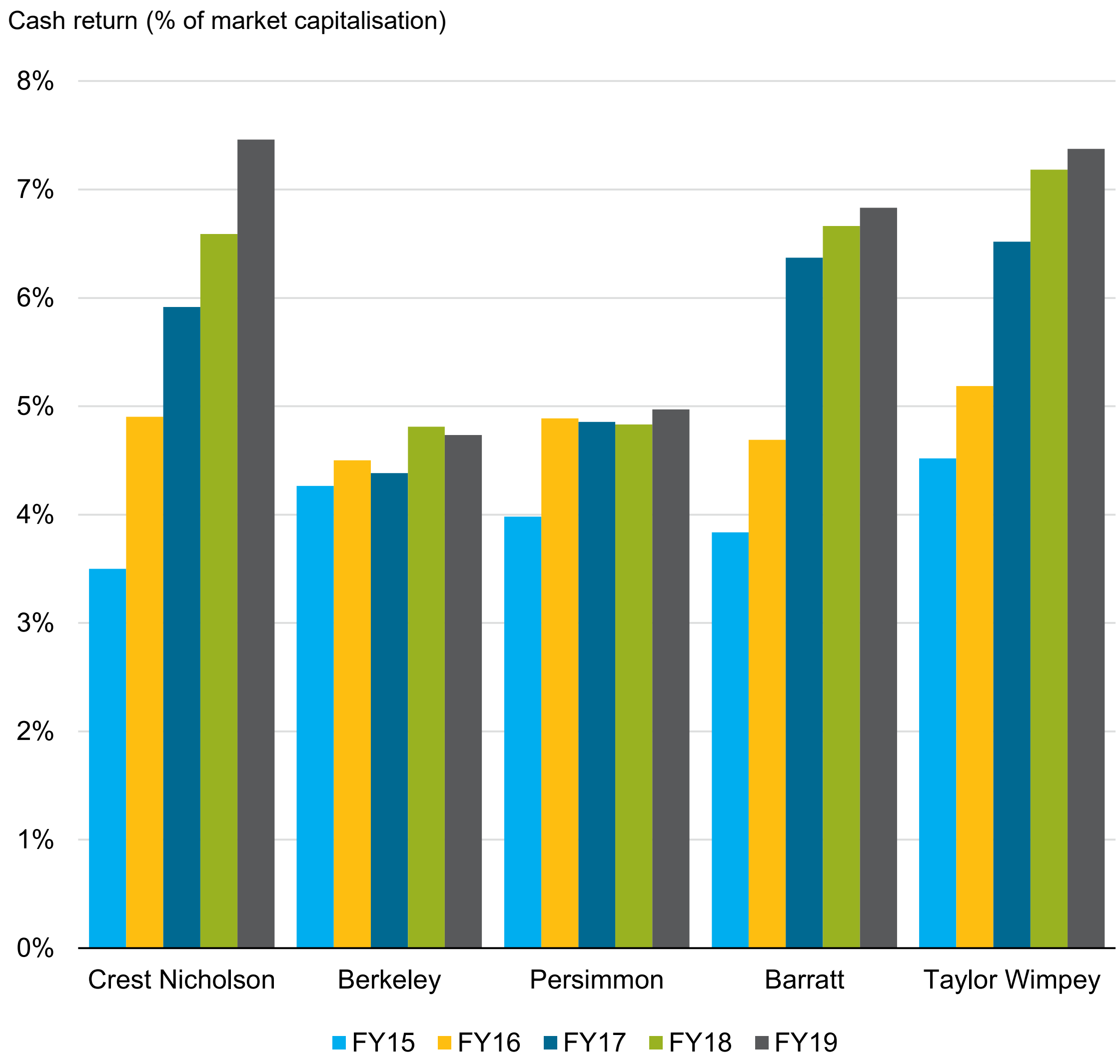


Returns to shareholders underpinned by:

- Strong operating profit margins of 18% to 20% since 2013
- ROCE of 25% to 30% since 2014, underpinned by strategic partnerships; expect to maintain towards higher end of this range
- Enables progressive dividend policy delivering 2x cover in 2017

Growing Returns for Shareholders

Current consensus view



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Summary

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- Board changes reflect an orderly succession plan and secure strong expertise in the business
- The fundamentals of the housing market remain strong in most areas of operation: underpinned by high levels of employment and good mortgage access, supported by the Help to Buy scheme
- The business is focused on growing back to its natural scale of operation in the next 3 – 4 years; still targeting £1.4bn of sales in 2019
- Strong operational focus to drive business efficiency and develop new products and approaches in production
- The business is growing the volume of new homes, whilst continuing to grow shareholder value and meet the aspirations of our staff & customers

Q&A

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