Crest Nicholson Holdings plc

Interim Results for 2018

12 June 2018





Agenda

• Key messages & Operational Highlights	Patrick Bergin
• Financial Results	Robert Allen
• Summary	Patrick Bergin
• Q&A	

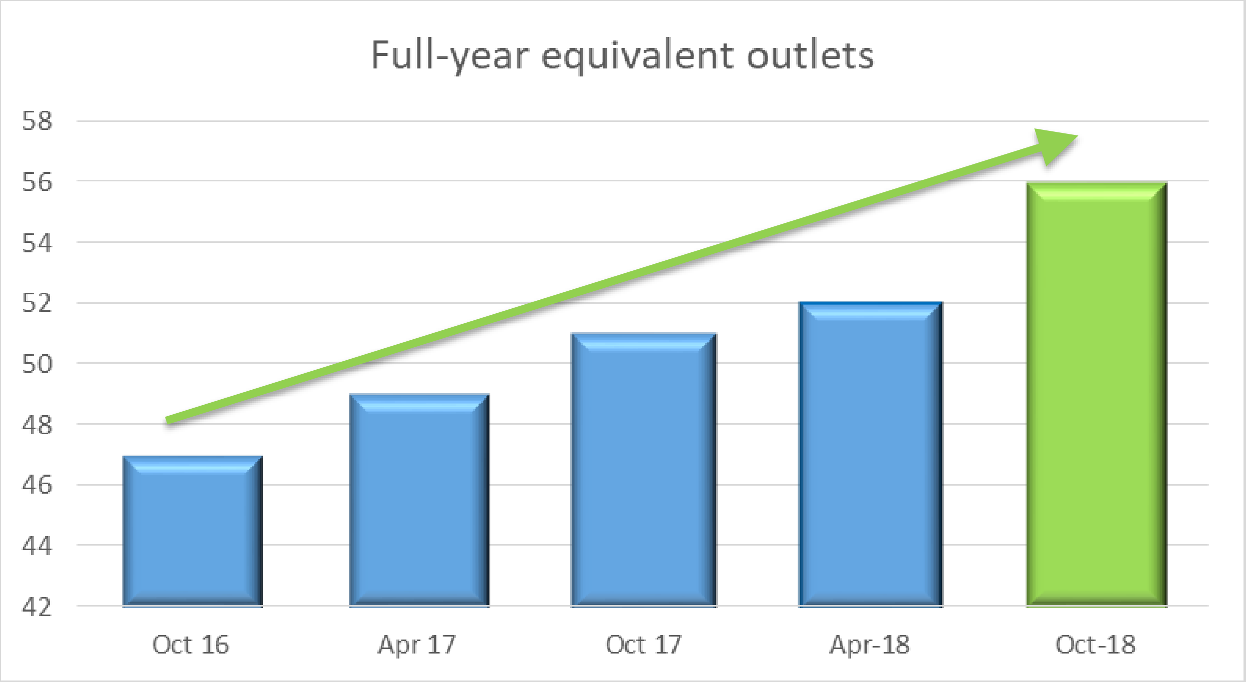
Key Messages

- Strong operational performance underpins unit growth of 18% and revenue growth of 13% but market pricing has impacted margins
- Strategy to sustain margins on higher-priced properties requires slower sales rate
  - no longer targeting £1.4bn of revenue for FY19
- Business actions to protect margins already underway
- Confident in Crest Nicholson model & the quality of returns that it generates

Performance highlights

Unit completions of 1,251 (2017: 1,064)	**+18%**
Revenue of £473.8m (2017: £419.7m)	**+13%**
Operating profit of £81.4m (2017: £80.3m)	**+1%**
Profit before tax of £74.8m (2017: £76.2m)	**-2%**
Dividend per share of 11.2p (2017: 11.2p)	**-**
Operating profit margin of 17.2% (2017: 19.1%)	

Outlet growth driving momentum



- Steady growth in outlets over last two and a half years; accelerated by Chiltern and Midlands
- Further outlets planned for the second half of 2018 with 5 opened since early May
- Strong land visibility from secured portfolio, including Strategic land

Driving operational efficiency

- Increased repetition of existing house types within divisions has delivered benefits and enabled the 1% margin hurdle rate increase in 2017 without compromising product quality.

- New core house type range progressing. Scope to:
  - Increase extent of repetition in housing delivery; regional core floorplates progressing to group-wide core floorplates
  - Drive procurement benefits from scale of output; familiarity of build
  - Deliver using Traditional or OSM approaches
  - Apply different elevational treatments, to maintain differentiated offer

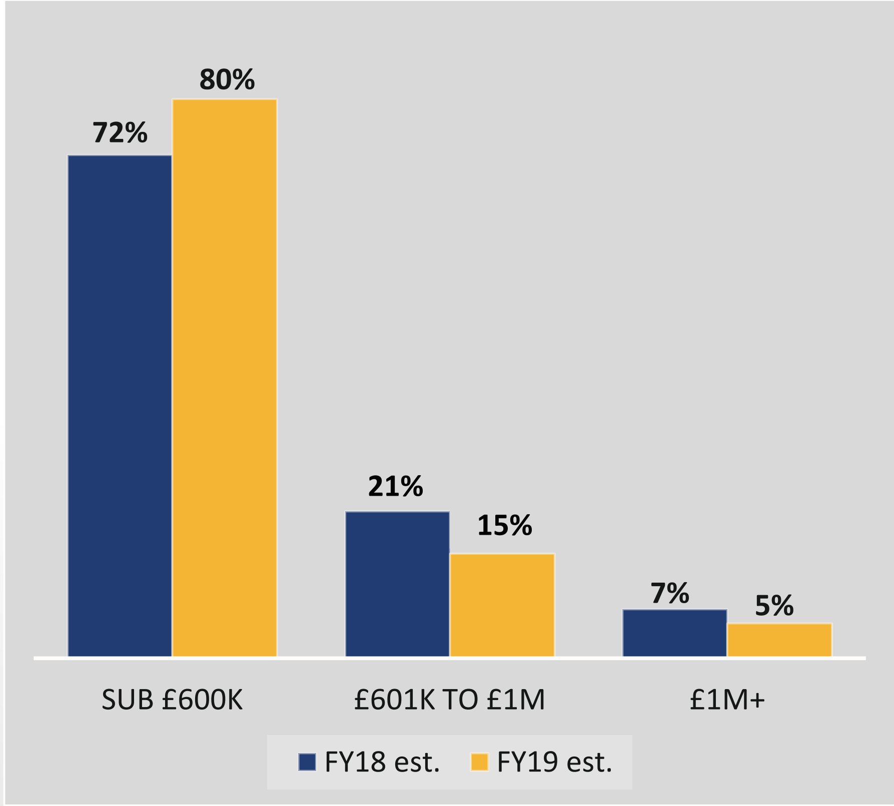
- OSM trials scaling up:
  - Apartment units first to be built over the next 18 months, including for PRS. Scale trials of housing in planning
  - Speed to Roof a key benefit, addressing skills bottlenecks, weather exposures and providing improved quality of working environment

Adoption rates	2019	2020
New Core house types	350	600
OSM units in production	300	450

Portfolio strategy rebalancing ASPs

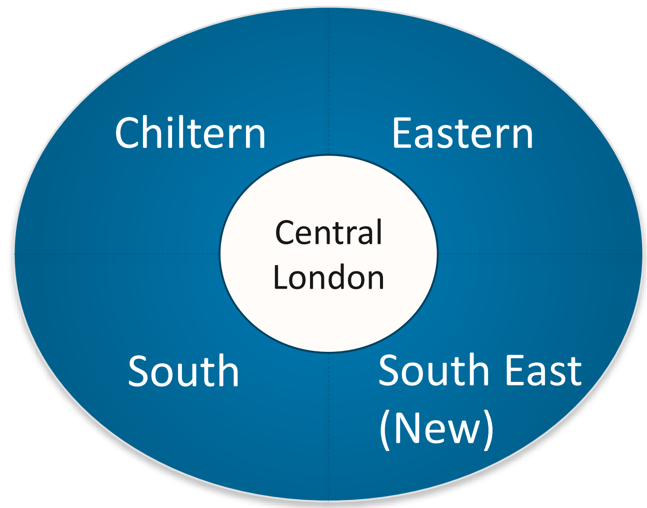
- Open market revenues represent c. 85% of total Group revenues
- Strategy over the past 18 months to exit central London and limit land purchases with units above £1m
- Midlands and Chiltern growth further supports future growth at HTB price points. More than 50% of HY 18 land investment
- 8 sites with product at the most challenging price point of over £1m remain

Open Market Revenue by Price Point (%)



Adapting approach to London

- Central London investment not financially attractive, Zone 1 exit almost complete
- Land prices in outer zones increasingly stretched; sales have high dependency on London Help to Buy
- Announced our intention to close the Central London office and re-open a South-East division, based in Kent, from October 2018
- New approach working from 'Outside-In'. Three existing M25 offices plus proposed new South East office to address outer London opportunities as part of their broader site portfolios
- Positions the Group to drive better financial returns while retaining the operational flexibility to develop attractive opportunities identified in outer London

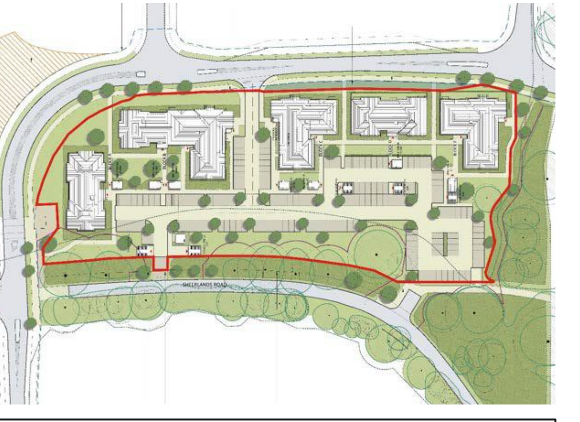


Approach to Outer London

PRS continues to supplement OM sales

- PRS delivery peaked at 218 units for the half year with final 78 unit handovers to M&G at Kilnwood Vale, ahead of programme
- Further 100 units to be brought forward at Kilnwood Vale
- Further 52 unit PRS phase consented at Bath Riverside and first 114 units of anticipated 228 units also consented at Arborfield Green
- Both under delivery in partnership with M&G
- Schemes in design/planning at Sherborne Wharf, Birmingham, Longcross, Surrey and Harry Stoke, Bristol
- Future unit delivery to remain at 5 to 10% of annual production into the foreseeable future

227 unit first suburban PRS scheme at Kilnwood Vale handed over to M&G



Further 114 PRS units for M&G have commenced delivery at Arborfield Green

Capital efficiency & cash generation

- Capital allocation and capital efficiency is constantly under review by the Board
- Large part of land pipeline held in capital efficient manner; strategic land primarily under options. Land sales on larger sites will continue to form 5-7% of revenue and cash generation strategy
- Changed approach to London will improve capital efficiency as South East division matures; scope to improve asset turn with a broader portfolio in more traditional markets
- Midlands and Chiltern start ups have consumed c. £200m of investment over the last three years, with c £75-£100m investment from free cash flow still required to reach scale
- Reaching natural scale over next 3-4 years improves Free Cash Flow generation as investment in growth subsides

Robust business model

A premium brand, leading housing developer

- **Focused geography** – a long term focus on the economically prosperous Southern half of the UK

- **A value added model** - strong reputation for quality of product, design and place-making; developer & employer of choice

- **Balancing risk** - partnership approach provides some macro-economic protection

- **Building business resilience** – operations delivering growth - increased focus on efficient design, costs and commercial discipline to underpin sustainable earnings

- **Shareholder distribution** – 50% of profits after tax distributed with potential to increase when new divisions reach scale

Financial results

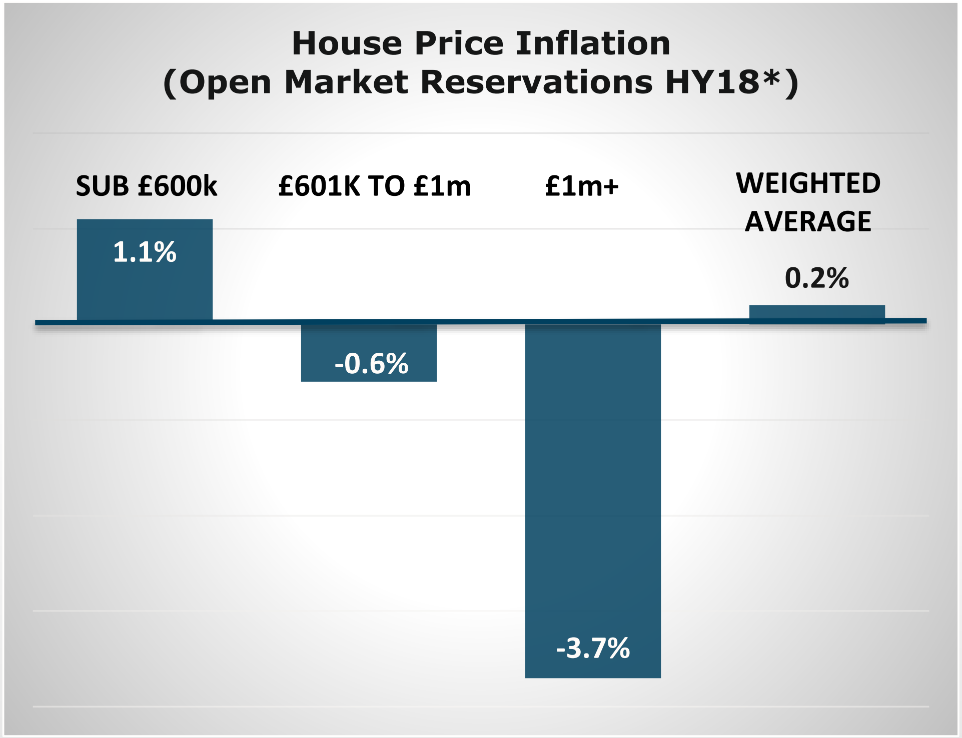
Key metrics

	HY 2018	HY 2017	Inc/(Dec) %
Outlets (full year equivalents)	52	49	6%
Sales per Outlet Week (OM ex-PRS and bulk deal)	0.72	0.81	(11)%
Sales per Outlet Week (All)	0.78	0.81	(4)%
Total Housing ASP	367	364	1%
Legal completions			
Open market (ex-PRS)	884	800	11%
PRS	218	43	407%
Affordable	149	221	(33)%
Total	**1,251**	**1,064**	**18%**

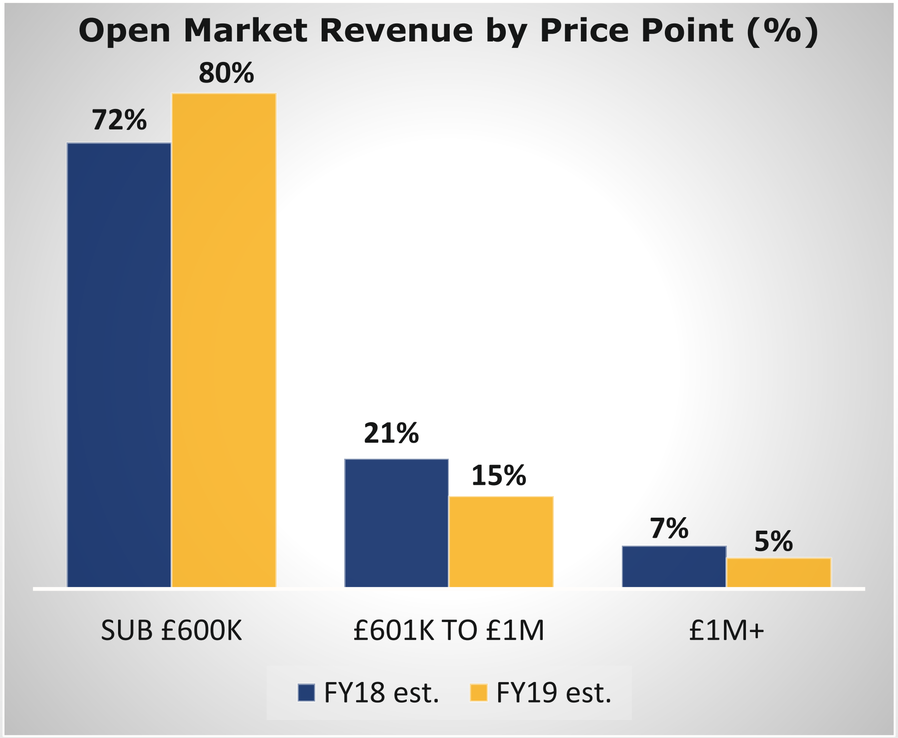
- Outlets up 6% with a further 5 outlets opened since early May
- Open Market completions (ex-PRS) grew 11% with PRS more than offsetting affordable reduction in HY18

Pricing evolution across the portfolio

Sales below £600k benefit from inflation. Market above £1m challenged



Portfolio strategy shifts towards units below £600k

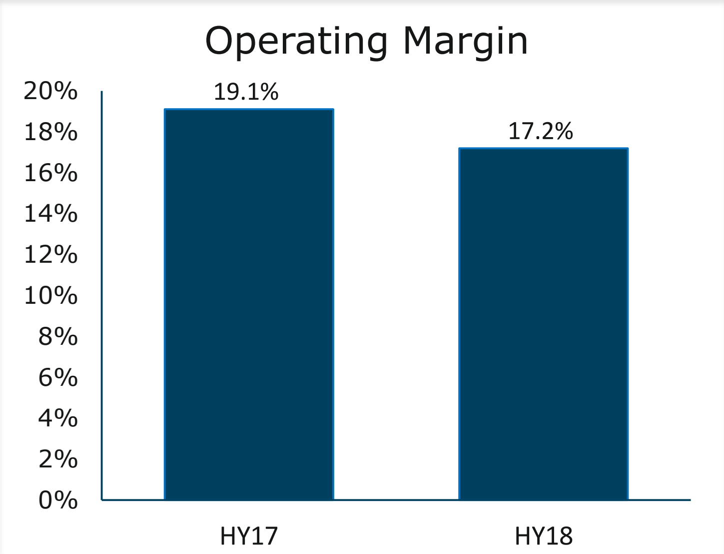


*Excludes bulk sale impact

Income statement

Income statement (£m, unless stated)	HY 2018	HY 2017	Change on 2017	% increase
Revenue	**473.8**	**419.7**	**54.1**	**13%**
Cost of sales	(362.0)	(309.3)	(52.7)	
Gross profit	**111.8**	**110.4**	**1.4**	**1%**
% gross profit margin	***23.6%***	***26.3%***	***(270bps)***	
Administrative expenses	(30.4)	(30.1)	(0.3)	
Operating profit	**81.4**	**80.3**	**1.1**	**1%**
% operating profit margin	***17.2%***	***19.1%***	***(190bps)***	
Net financing costs	(5.8)	(4.1)	(1.7)	
Share of JVs	(0.8)	-	(0.8)	
Profit before tax	**74.8**	**76.2**	**(1.4)**	**-2%**
Income tax	(13.9)	(14.1)	0.2	
Profit after tax	**60.9**	**62.1**	**(1.2)**	**-2%**
Basic Earnings per share (p)	**23.8p**	**24.4p**	**(0.6)p**	**-2%**
Dividend per share (p)	**11.2p**	**11.2p**	**-**	**-**

Underlying Margins



Operating Margin	*HY18*
Prior year comparator	**19.1%**
Fair Value unwind	+0.3%
Underlying build cost impact	-1.5%
Price/Mix	-1.4%
Overheads/cost savings	+0.7%
Operating margin for the period	***17.2%***

- Operating margin:
  - Operating margin guidance of 18% as pricing softer than anticipated
  - Half year margin typically c.1% below full year outturn
  - Overhead benefit in the first half and fair value associated with PRS completions in Birmingham will unwind for full year. Mix expected to improve
- Land buying strategy and operating efficiencies help underpin future margins
  - Benefits arising from portfolio shift towards lower ASPs plus the 2017 hurdle rate increase of 1% have improved margins in land pipeline
  - Pricing prospects of improved mix also better; still seeing gains at lower levels
  - Focus on operational efficiencies to protect margins

Cash flow

Cash flow (£m, unless stated)	HY 2018	HY 2017	Change
Operating profit before changes in working capital and provisions	**83.7**	**83.1**	**0.6**
Increase in trade and other receivables	2.3	(17.6)	19.9
Increase in inventories	(119.6)	(171.5)	51.9
Increase in trade and other payables	2.8	67.0	(64.2)
Contribution to retirement benefit obligations	(4.5)	(4.5)	-
Cash (used by)/generated from operations	**(35.3)**	**(43.5)**	**8.2**
Interest paid	(5.0)	(3.7)	(1.3)
Tax paid	(17.9)	(18.5)	0.6
Net cash (outflow)/inflow from operating activities	**(58.2)**	**(65.7)**	**7.5**
Net cash flow from investing activities	2.8	1.5	1.3
Net cash outflow from financing activities	(17.9)	(73.8)	55.9
Net decrease in cash and cash equivalents	**(73.3)**	**(138.0)**	**64.7**
Cash and cash equivalents at the beginning of the year	175.2	282.3	(107.1)
Cash and cash equivalents at end of period	**101.9**	**144.3**	**(42.4)**

Balance sheet

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Balance sheet (£m, unless stated)	30th April 2018	31st October 2017	30th April 2017	Change on Oct'17	Change on Apr'17
Non-current Assets	100.5	110.0	125.8	(9.5)	(25.3)
Inventory	1,206.1	1,086.5	1,107.3	119.6	98.8
Trade & other receivables/assets	106.8	106.2	85.2	0.6	21.6
Cash and cash equivalents	101.9	175.2	144.3	(73.3)	(42.4)
Total Assets	**1,515.3**	**1,477.9**	**1,462.6**	**37.4**	**52.7**
Interest bearing loans and borrowings	(180.4)	(142.0)	(178.8)	(38.4)	(1.6)
Land creditors	(223.2)	(215.7)	(242.8)	(7.5)	19.6
Retirement benefit obligations	(2.1)	(7.2)	(13.3)	5.1	11.2
Trade and other liabilities	(286.1)	(295.2)	(292.2)	9.1	6.1
Total Liabilities	**(691.8)**	**(660.1)**	**(727.1)**	**(31.7)**	**35.3**
Shareholders' Equity	**823.5**	**817.8**	**735.5**	**5.7**	**88.0**
Net debt/Equity	9.5%	n/a	4.7%		
Net debt (inc. land creditors)/Equity	36.6%	22.3%	37.7%		

Forward Sales Growth

	YTD FY18	YTD FY17	FY17	FY16
Units – all years	2,387	2,323	1,997	1,773
% change on prior period	+3%		+13%	
GDV (£m) – all years	568.2	540.4	391.4	344.5
% change on prior period	+5%		+14%	
Forward sales inc. YTD completions	854.1	763.8	265.3	231.0
% change on prior period	+12%		+15%	
% of FY2018/17 forecast	c. 70%	70%	21%	21%

Delivering growth – sales YTD £90m ahead of FY17 with c. 30% to go

Financial summary

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- Solid progress on 2018 revenues. Forward sold c.70% for 2018. Sales YTD plus forward sales for FY18 up 12% at £854m
- Some timing differences expected between H1 and H2
  - PRS bias towards H1 balanced by the affordable housing bias towards H2
  - Land & commercial revenue biased towards H2. Broad split expected to be 25/75 in 2018
- Operating margin guidance at 18% reflects price experience. Future margins supported by:
  - Hurdle rate increase +1% coming through in land pipeline
  - Portfolio shift towards lower ASPs improves pricing prospects
  - Drive for further operational efficiencies
- On track to deliver revenue and volume growth for 2018/2019
- Maintaining focus on return on capital

Summary

Summary

- Housing market below £600k in good health. Activity above this level harder, with some specific challenges on pricing and interdependency with second-hand market
- Business operations running well; site numbers growing as our new divisions thrive. High standards of product quality and site presentation being maintained
- Decisive action taken in respect of approach to London
- Accelerated delivery on initiatives to drive operational efficiency with good progress made
- Confident in the outlook for the operational and financial performance of the business in the medium term

Q&A

Appendix

Key Price metrics

ASPs	HY 2018	HY 2017	Inc/(Dec) %
Legal completions			
OM ex-PRS	439	418	5%
OM inc. PRS on OM basis#	389	409	-5%
Affordable*	247	186	33%
Total Housing ASP	**367**	**364**	**1%**
OM Reservations			
OM ex-PRS	434	411	6%
OM inc. PRS	434	411	6%
Forward sales			
OM ex-PRS	429	416	3%
OM inc. PRS	370	311	19%
Affordable*	141	131	8%

* 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

Land pipeline

Land pipeline - April	**Plots**	**GDV £m**	**Balance Sheet land at cost - £m**	**Expected total land cost - £m**
2018 Short-term	16,983	5,872	697	1,337
2018 Strategic	18,125	5,960	33	1,212
2018 Total	**35,108**	**11,832**	**730**	**2,549**
2017 Short-term	17,056	5,883	653	1,315
2017 Strategic	16,902	5,229	30	998
2017 Total	**33,958**	**11,112**	**683**	**2,313**

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