Crest Nicholson Holdings plc

Pre-Close Trading Update

October 2018

Key messages

- FY18 PBT below market expectations
- Decisive management actions
- New strategy reflecting current market conditions
- Focus on dividend, cash flow and shareholder returns
- Confident in the quality of our business and long term capabilities

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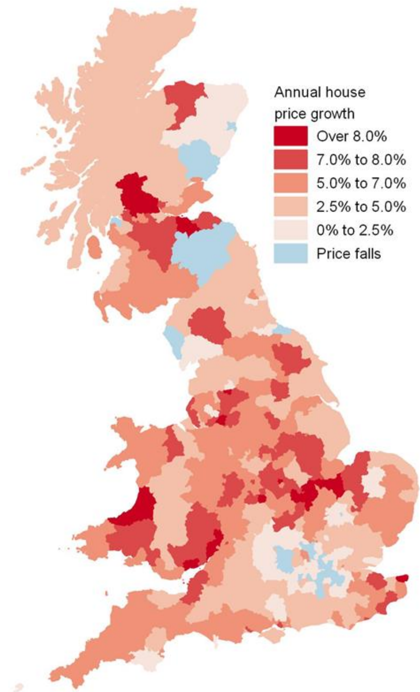
Current trading

- Seasonal pick up in higher priced sales did not happen
- London and Home Counties market increasingly challenging
- 10 challenging sites account for most of the gross margin shortfall
- Mitigating actions partially offset revenue and receipts reduction, but impacting margin
- Expect Profit Before Tax for the year to 31st October 2018 to be in the range of £170m to £190m
- Some significant transactions pending

Half year reported existing challenges...

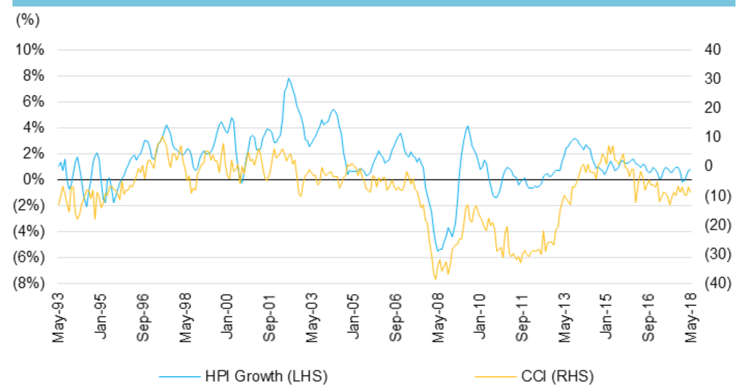
Sales at lower price-points and away from London & South East generally quite resilient, **BUT**:

- HPI slowing - as pricing recovery moves North
- Build cost inflation abating but still present: skills shortages and exchange rate changes
- Consumer confidence weak, as political and economic uncertainty persists. Discretionary buyers reluctant to commit
- Second-hand market slow at high price points – few buyers; sellers 'trapped' by stamp duty and reluctant to enter soft market – impacting on business via chains / slow down-sizer market



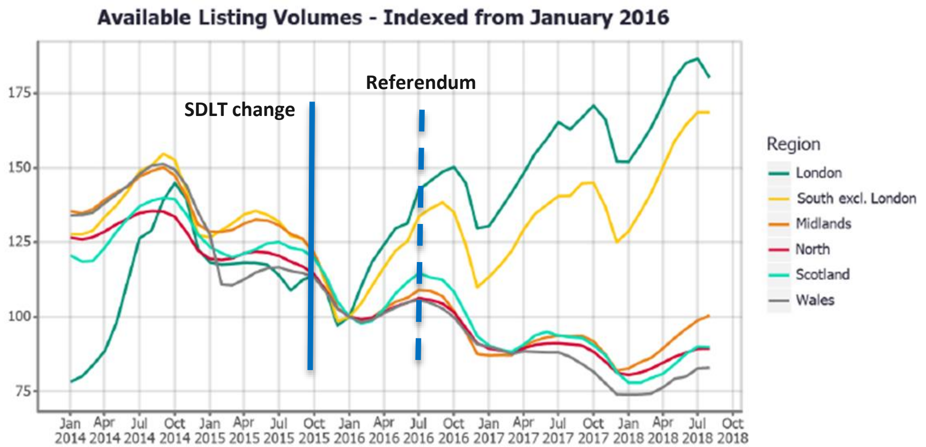
Source: Savills, using Land Registry data to Sept'18

Declining Consumer Confidence Impacting Pricing

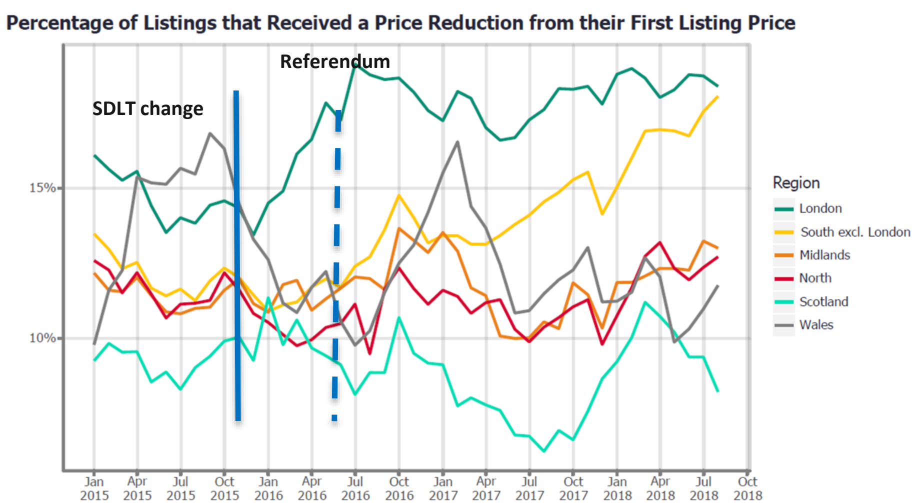


...evident in broader market...

Regional sales stock Total Market



Regional asking price reductions New Build



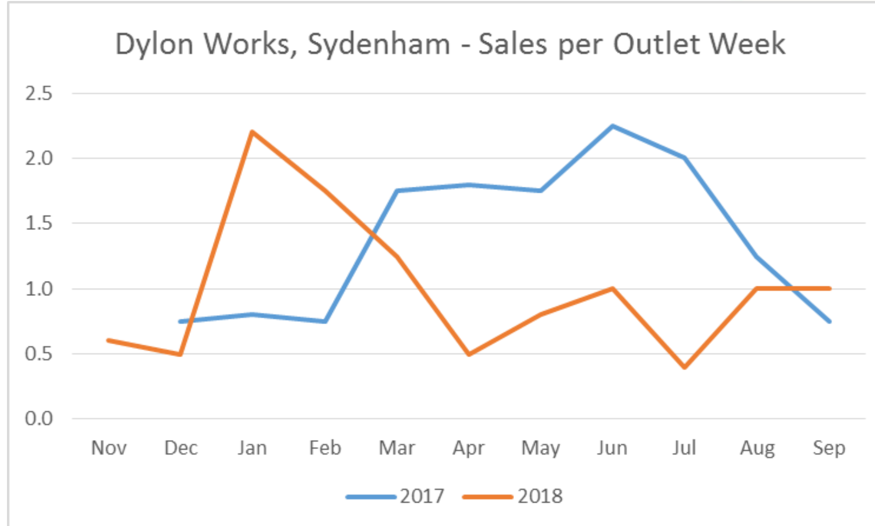
Rightmove Data Services 2018

- Listing volumes show close relationship in 2014 & 2015; London buoyancy in that period
- Significant deviation in London & South following SDLT changes and Brexit vote
- 2018 has seen already significant gap widen further

- London asking prices softened post extra SDLT on investment properties
- Asking price reductions in South trend up from date of Brexit vote
- Further sharp increase in asking price reductions in the South in 2018; corollary of high levels of available stock

...& recent trading has weakened further

- September and October markets failing to show expected recovery from seasonal summer slow-down
- Wider London market also seeing marked slow-down in volumes and downward pressure on price: down-valuations
- Worsening consumer confidence, in part due to media coverage of Brexit risks
- Build cost inflation persisting against flat pricing environment, albeit the former is showing signs of moderating
- Greater use of incentives to clear stock has impacted on margin



London sales market indicators

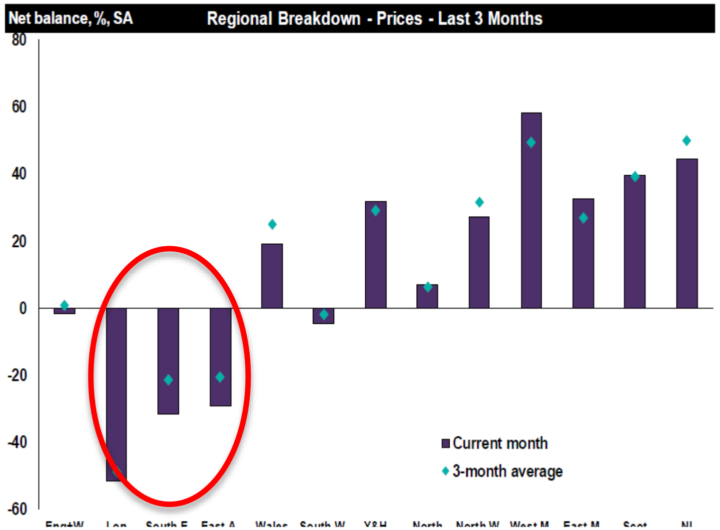
London Sales Market - Annual Percentage Change

	Available Stock		New Listings		Demand		Average Price		Average Price
	Jul 2018	Aug 2018	Jul 2018	Aug 2018	Jul 2018	Aug 2018	Jul 2018	Aug 2018	Aug 2018
Flat 1 Bed	16%	14%	-2%	-2%	-8%	-5%	-6%	-6%	£384,000
Flat 2 Bed	14%	12%	-2%	-2%	0%	4%	-5%	-6%	£517,000
Flat 3 Bed	13%	12%	2%	-2%	-1%	-2%	-6%	-8%	£830,000
House 2 Bed	9%	6%	-3%	-2%	1%	-0%	3%	2%	£447,000
House 3 Bed	12%	10%	-0%	-2%	-5%	-3%	-0%	-0%	£540,000
House 4 Bed	2%	2%	-3%	-2%	-1%	-3%	-0%	2%	£830,000
House 5 Bed	2%	0%	-2%	-2%	5%	-3%	-1%	2%	£1,195,000

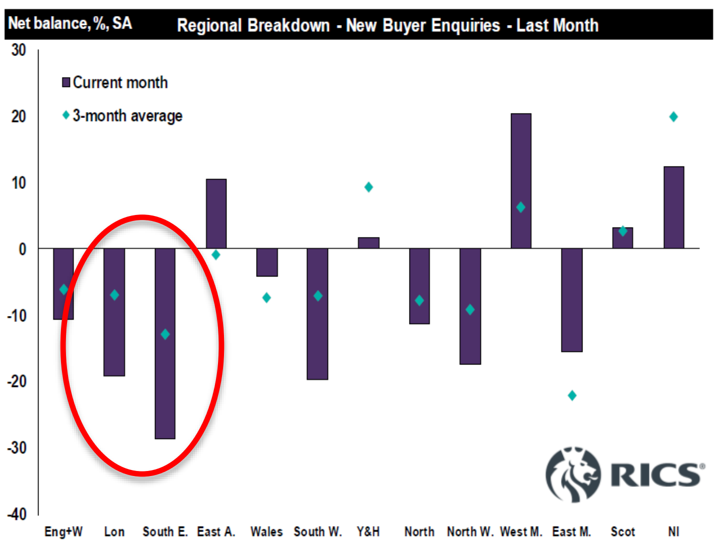
Rightmove Data Services 2018

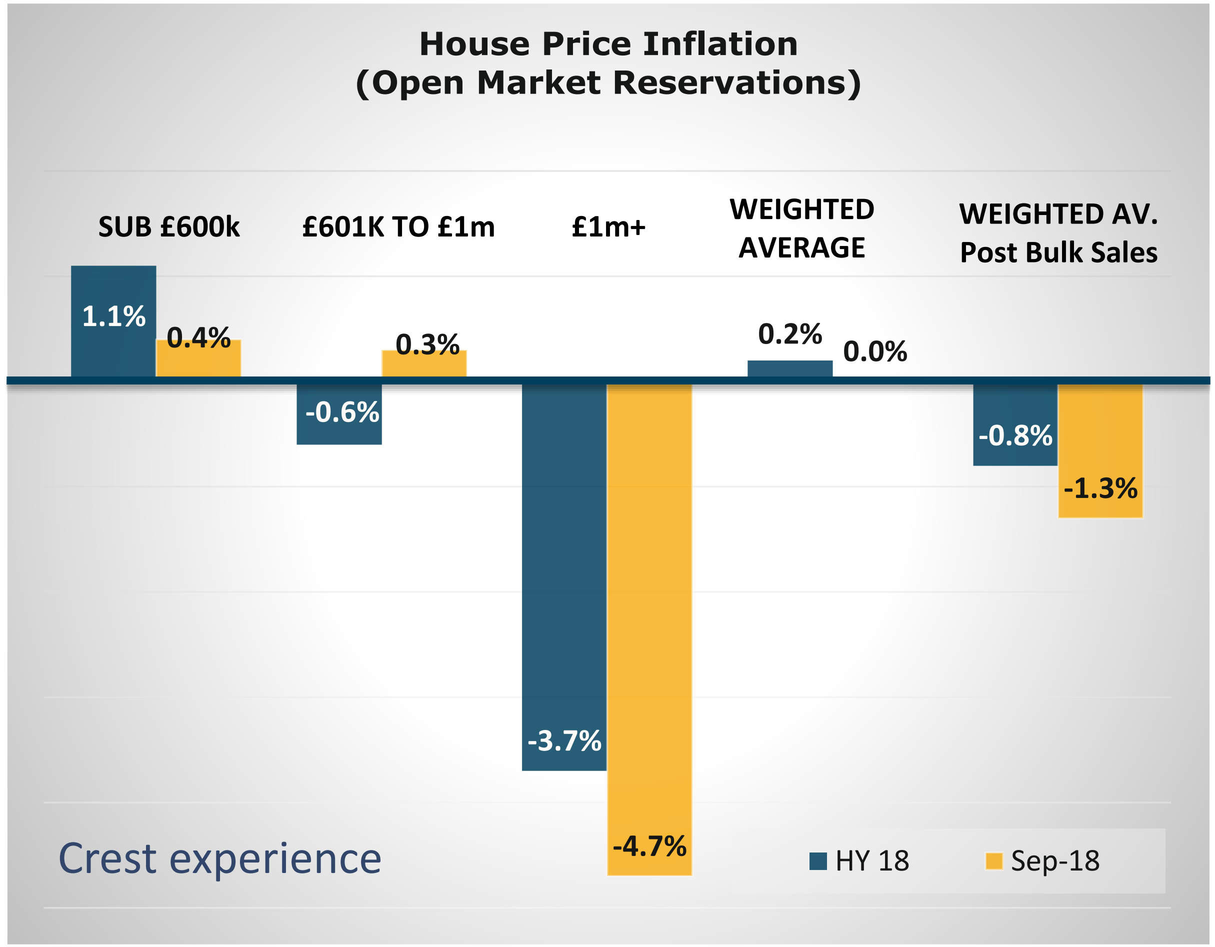
Impact of Brexit uncertainties

Regional Prices - Past three months



Regional Enquiries - Past month





Management mitigations in H2 18

- Slowed build programme to reflect current sales rates
- Implemented bulk sales of c.200 units to Registered Providers and PRS investors
- Selected land sales on long tail sites
- Closure of London division and movement of sites into regional divisions

Majority of outlets trading well…

- Operational delivery strong – unit & revenue growth in line with HY guidance
- Fundamentals still good: high employment, low interest rates & good mortgage access
- More discretionary buyers at higher price points significantly reduced

Overview – 80% performing well

- Homes in areas of good affordability still seeing reasonable levels of demand, assisted by Help to Buy
- Still seeing modest price gains away from London, consistent with national picture; Midlands currently strongest
- ASPs of sold units £315k
- Sales per outlet week 0.7; 7% lower than equivalent period last year

20% challenging

10 Challenging sites in FY18, geographically located in/close to London

- Higher ASPs – primarily over £600k
- Sales per outlet week achieved below 0.5, c.30% lower than equivalent period last year
- Combination of volume and price impacts led to significant gross margin erosion; half in London; mitigated in part through bulk disposals and land sales

New strategy

Long term strong and valuable business

- A premium quality brand, operating in the most economically prosperous part of the UK
- Strong reputation for building well designed homes and sensitive place-making – developer & employer of choice

- Good land and development pipeline with competitive embedded margins, efficiently held
- Robust delivery model; customer satisfaction score approaching 90%
- Broad range of channels to market – open-market, s.106 affordable, PRS and shared ownership & land sales

Strategic framework

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1. Priority on cashflow and dividends

- Commitment to pay ordinary dividend of 33p per share in each of FY18 and FY19 *
- Focus on shareholder returns

2. Maximising portfolio value

- Generating value from our well acquired land pipeline
- Adapting the portfolio to address housing affordability
- Increase use of partnership model

3. Operational efficiencies

- New core house types introduced
- Scale trials of Off Site Manufacturing activities
- Adding operational resource

* Subject to no material deterioration in current market conditions

1. Priority on cashflow and dividends

1. Pay Ordinary Dividend of 33p in each of FY18 and FY19
2. Generate a cash reserve
3. Cash reserve allocated to maximise shareholder returns, subject to market conditions

2. Maximise portfolio value

- Land and development pipeline remains significant store of value
- Strong embedded margins – c.£1.6bn of Gross Margin in short term land pipeline
- Increasing our portfolio of sub-£600k properties
- Good conversions from Strategic land pipeline also driving lower ASPs
- Major project portfolio provides opportunity to drive valuable strategic partnerships and multiple channels to market
- Non-core assets to be monetised

3. Operational efficiencies

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New core house types introduced

- New Core housing range targeted to apply to 50% of sites within three years
- Drive associated procurement, build cost productivity and scale benefits

Engaging with Off Site Manufacturing

- Scale trials underway on housing, apartments and PRS to prove business case

Adding senior operational resource

Summary

- FY 2018 PBT to be in the range of £170m to £190m
- Commitment to pay ordinary dividend of 33p per share in each of for FY18 and FY19 *
- Ambition to maintain profitability for 2019 at FY2018 levels, despite market uncertainty
- Focus on cash generation and shareholder returns
- Board remains confident in the quality of our business and long term capabilities

* Subject to no material deterioration in current market conditions

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