Crest Nicholson Holdings plc

Preliminary Results for 2018

29th January 2019





Agenda

• Performance highlights	Stephen Stone
• Financial performance	Patrick Bergin
• Building for the future	Patrick Bergin
• Land pipeline & strategic re-focus	Chris Tinker
• Outlook & Summary	Patrick Bergin
• Q&A	

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2018 Performance - Highlights

Unit completions of 3,020 (2017: 2,935) **+2%**

Sales inc. JV's of £1,136.6m (2017: £1,065.6m) **+7%**

Profit before tax of £176.4m (2017: £207.0m) **-15%**

Dividend per share of 33.0p (2017: 33.0p) **Maintained**

Operating profit margin of 16.7% (2017: 20.3%)

ROCE of 23.0% (2017: 29.7%)

- Profit before Tax within range set out in October Update; able to withdraw certain land disposals to preserve value and enable Crest to realise future development profit
- Management actions to sustain strong cash flows; net cash at year-end

Responding to challenges

Challenges we faced

- Strategy to move up ASP curve undermined by fiscal & political changes
- Tougher London market: prices, costs & volumes: land buying
- Reduced volumes on higher-ASP sites; fewer discretionary buyers willing to commit – 10 sites (including London) difficult
- Deteriorating market in second half of the year; further margin weakness; increase in built stock
- Ongoing Brexit uncertainty

Our responses

- Land buying targeted at lower ASPs
- Mitigating sales for intermediate tenure, primarily to Registered Providers (RPs); generated strong receipts from excess stock
- No further acquisitions in London; closed London office
- Higher-priced sites forecast conservatively for 2019; slowed build to reflect lower sales rates
- Paused on growth – controlled expenditure on land & introduced WIP controls

Looking forward - Strategic focus

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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

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Key Volume Metrics

	FY 2018	FY 2017	Inc/(Dec) %
Outlets (full year equivalents)	55	51	+8%
Sales per Outlet Week (OM inc-PRS)	0.82	0.81	+1%
Sales per Outlet Week (OM ex-PRS)	0.74	0.77	(4%)
Legal completions			
Open market (ex-PRS)	2,008	1,982	+1%
PRS	375	266	+41%
Affordable	637	687	(7)%
Total	**3,020**	**2,935**	**+3%**

- Multi-channel approach sustaining overall reservation rate; modestly lower excluding PRS
- Strong PRS delivery across three schemes

Key Price Metrics

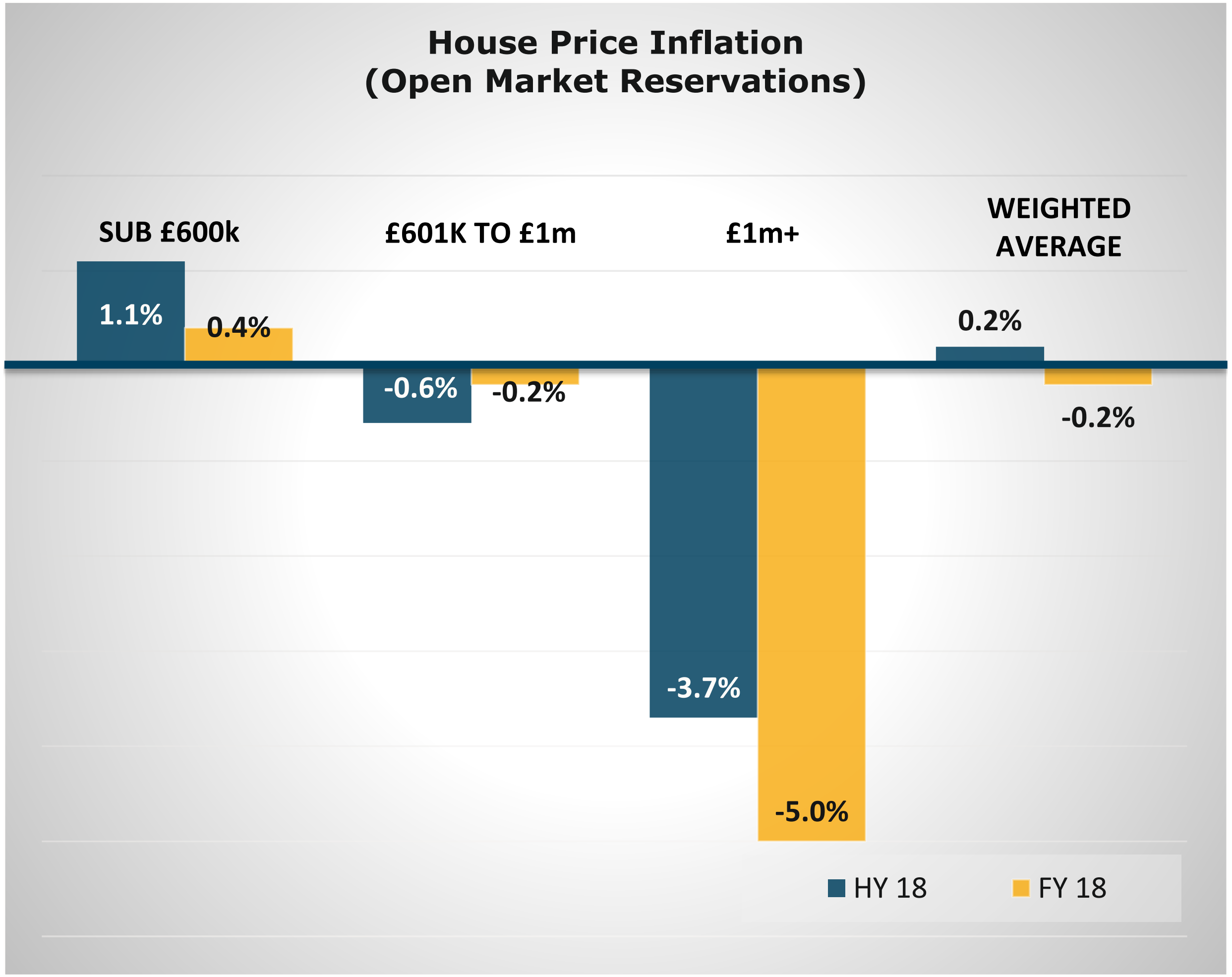
ASPs	FY 2018	FY 2017	Inc/(Dec) %
Legal completions			
OM ex-PRS	432	417	+4%
OM inc. PRS	393	388	+1%
Affordable*	194	174	+11%
Total housing	**351**	**338**	**+4%**
OM Reservations in 2018			
OM ex-PRS	424	416	+2%
OM inc. PRS	404	403	-
Forward sales			
OM ex-PRS	392	433	(9%)
Affordable*	136	143	(5%)

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

Income statement

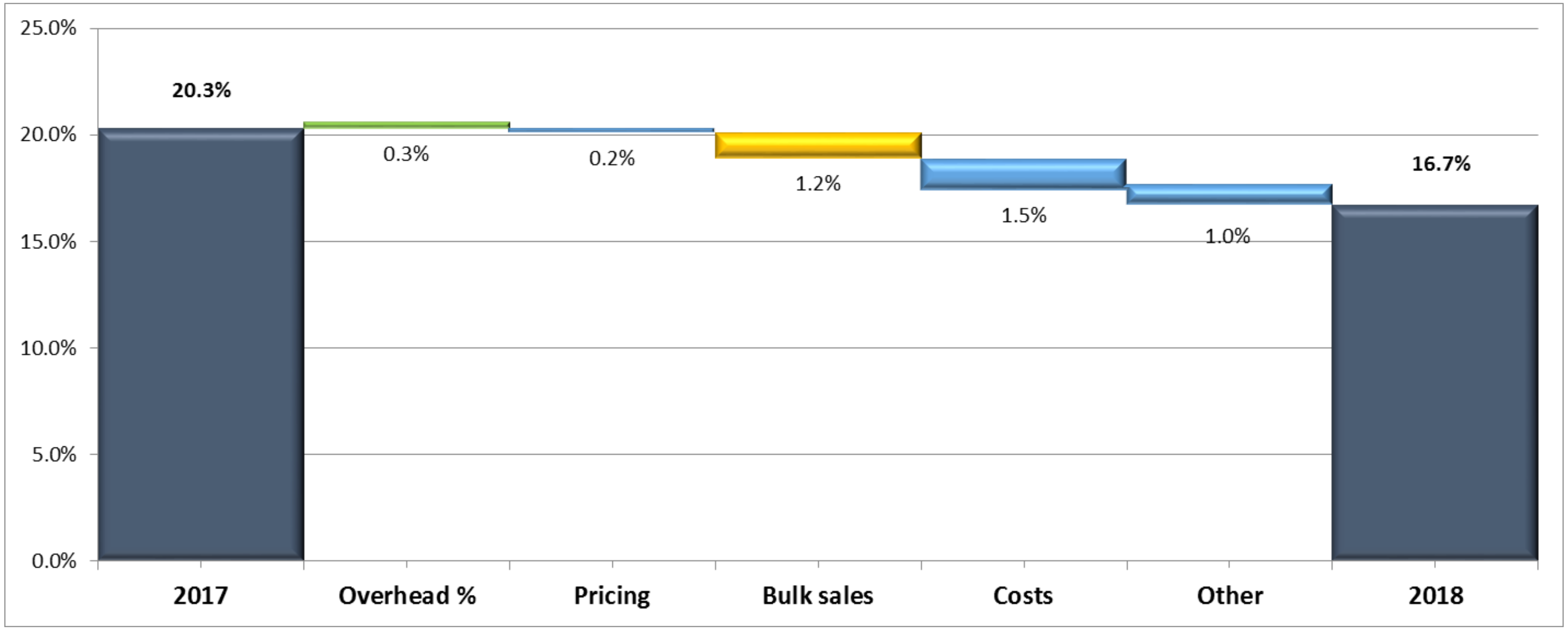
Income statement (£m, unless stated)	FY 2018	FY 2017	Change on 2017	% change
Revenue	**1,136.1**	**1,043.2**	**92.9**	**9%**
Cost of sales	(881.4)	(768.3)	(113.1)	
Gross profit	**254.7**	**274.9**	**(20.2)**	**(7)%**
% gross profit margin	***22.4%***	***26.4%***	***(400bps)***	
Administrative expenses	(64.9)	(63.3)	(1.6)	
Operating profit	**189.8**	**211.6**	**(21.8)**	**(10)%**
% operating profit margin	***16.7%***	***20.3%***	***(360bps)***	
Net financing costs	(12.0)	(8.3)	(3.7)	
Share of JVs	(1.4)	3.7	(5.1)	
Profit before tax	**176.4**	**207.0**	**(30.6)**	**(15)%**
Income tax	(33.6)	(38.4)	4.8	
Profit after tax	**142.8**	**168.6**	**(25.8)**	**(15)%**
Basic Earnings per share (p)	**55.7p**	**66.1p**	**(10.4)p**	**(16)%**
Dividend per share (p)	**33.0p**	**33.0p**	**-**	**- %**

Pricing



- House price experience toughest on higher-value, discretionary sales; modestly negative overall
- Increased use of part exchange; inventory value of £34m up from £24m
- All product 'marked to market' each quarter, to update portfolio for achievable pricing
- Achieved pricing reflected in FY19 forecasts

Margins



- Selected disposals of excess stock made to Registered Providers, maintaining receipts
- Build cost inflation at c.3% of cost, 1/3rd in London where cost increases on a number of projects were higher
- Initiatives to offset impact of cost inflation underway

Balance sheet

Balance sheet (£m, unless stated)	31st October 2018	31st October 2017	Change on Oct'17
Non-current Assets	109.7	110.0	(0.3)
Inventory	1,186.2	1,086.5	99.7
Trade & other receivables/assets	97.2	106.2	(9.0)
Cash and cash equivalents	184.3	175.2	9.1
Total Assets	**1,577.4**	**1,477.9**	**99.5**
Interest bearing loans and borrowings	(170.2)	(142.0)	(28.2)
Land creditors	(209.7)	(215.6)	5.9
Retirement benefit obligations	-	(7.2)	7.2
Trade and other liabilities	(318.9)	(295.3)	(23.6)
Total Liabilities	**(698.8)**	**(660.1)**	**(38.7)**
Shareholders' Equity	**878.6**	**817.8**	**60.8**
Net debt/Equity	n/a	n/a	
Net debt (inc. land creditors)/Equity	22.3%	22.3%	

- Inventory increase in part due to growth of new Midlands division
- Stock of completed units up; higher mix of apartments
- Pension surplus
- Gearing within target ranges and £14m net cash at year end
- 7% growth in shareholders' equity

Cash flow

Cash flow (£m, unless stated)	FY 2018	FY 2017	Change
Operating profit before changes in working capital and provisions	**194.2**	**217.7**	**(23.5)**
Decrease/(increase) in trade and other receivables	2.5	(26.8)	29.3
Increase in inventories	(99.7)	(150.7)	51.0
Increase in trade and other payables	20.6	36.4	(15.8)
Contribution to retirement benefit obligations	(9.0)	(9.0)	-
Cash generated from operations	**108.6**	**67.6**	**41.0**
Interest paid	(10.3)	(7.8)	(2.5)
Tax paid	(36.0)	(36.5)	0.5
Net cash generated from operating activities	**62.3**	**23.3**	**39.0**
Net cash flow from investing activities	3.9	8.3	(4.4)
Net cash flow from financing activities	(57.1)	(138.7)	81.6
Net increase/(decrease) in cash and cash equivalents	**9.1**	**(107.1)**	**116.2**
Cash and cash equivalents at the beginning of the year	175.2	282.3	(107.1)
Cash and cash equivalents at end of period	**184.3**	**175.2**	**9.1**

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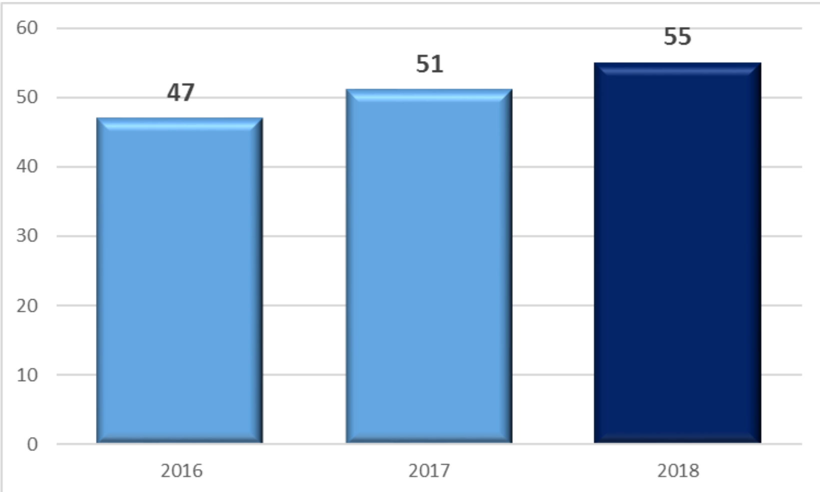
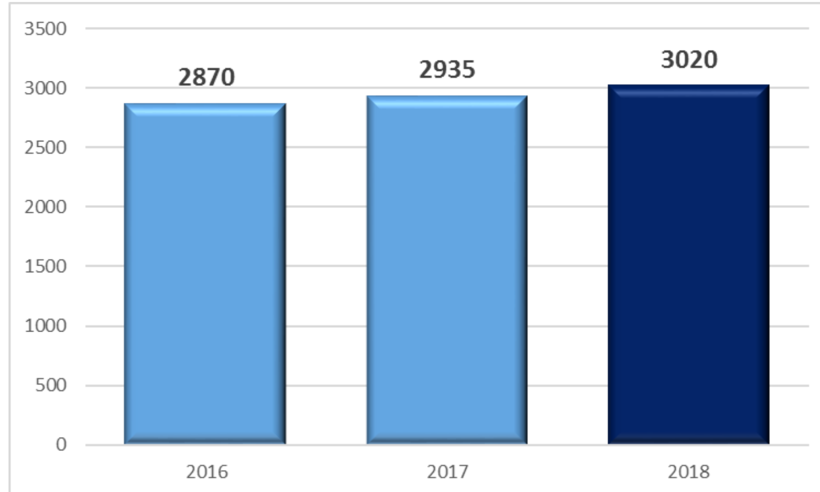
Operational delivery going well

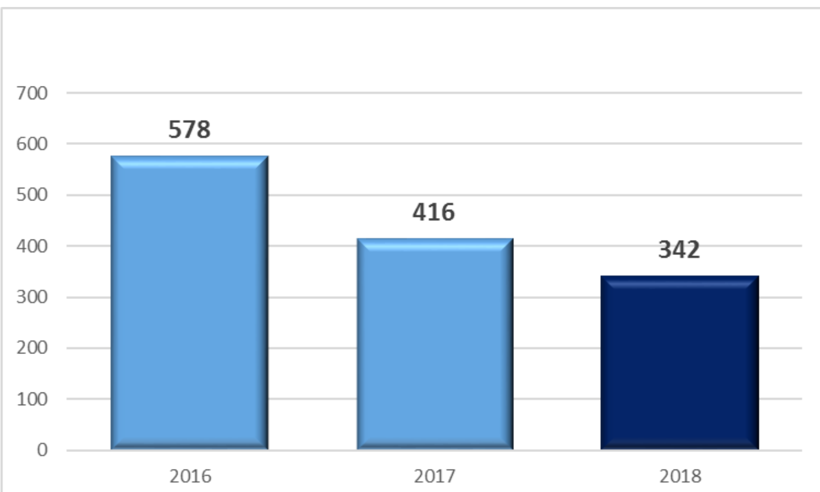
Growing Outlets



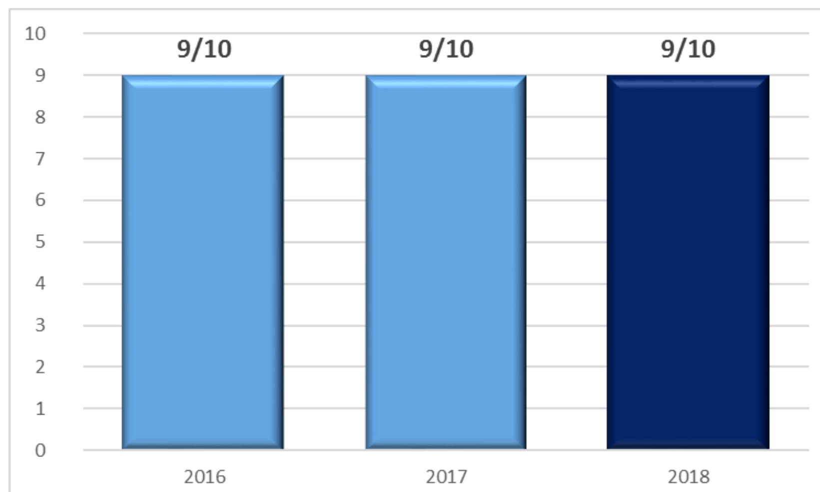
Increased Output



Improving safety – reduced AIIR

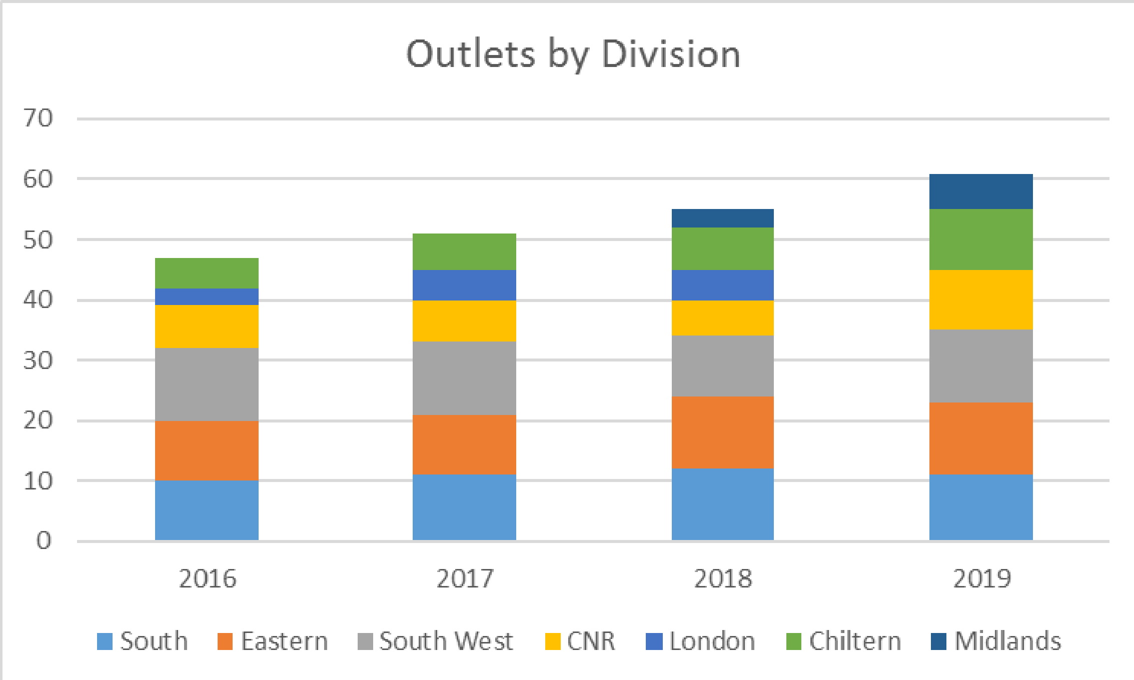


Customer recommendation



Classified as General

Outlet growth driven from newer divisions



- South, Eastern & South West steady at 10-12 outlets each
- Existing investment in Chiltern & Midlands divisions driving outlet growth
- Former London schemes moved into CNR, South & Eastern

Continuing to deliver quality schemes

Driving business improvements

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Operational efficiencies

- Procurement gains to secure from greater rationalisation of specification and supply chain – new Director of Group Operations to drive benefit realisation
- New 'Aurora' range of more contemporary house types launched, complementing existing formats. Optimised for off-site manufacture and compliant with emerging space standards
- On-going examination of economics of off-site manufacturing: prototype houses built & scale trials now underway. Cost & productivity benefits to drive; reduced reliance on scarce skills

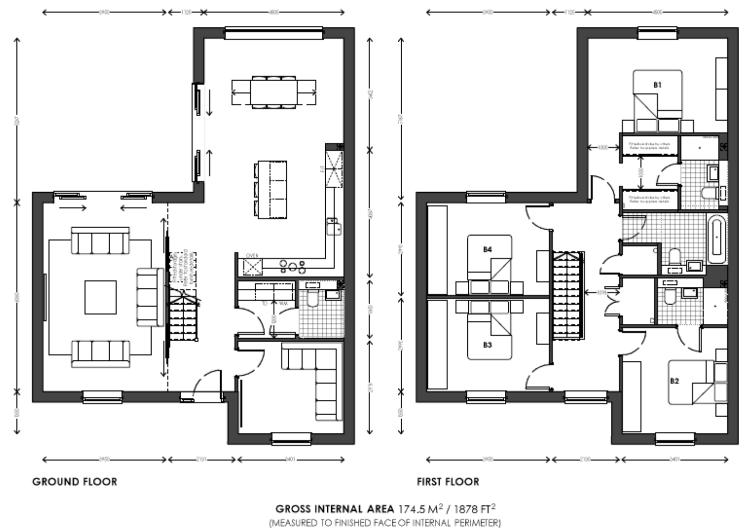
Broad focus on building business resilience in key areas

  - Health, Safety & Environment
  - Build quality & customer satisfaction
  - Staff engagement, training & development

Aurora range

New 'Aurora' range to update Crest product offer & drive business benefits

- Common floorplates, with a strong DNA – based on light, open layouts
- Designed to be OSM-efficient, but capable of delivery in traditional masonry form
- Opportunity to drive group-level procurement benefits and to design out elements of construction waste
- Roll out underway across business on new sites: anticipate 50% of FY2021 output will be 'Aurora' range
- Key element in planned efficiency programme



Off-site manufacturing

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Business case for OSM covers a range of factors:

- Addressing skills shortages
- Driving productivity – speed and scope for non-sequential working
- Quality and safety
- Precision – reduced waste/re-work

- Scale trials underway on 4 projects and c.300 units to test application of R&D principles on live sites
- Supply chain relationships key; learning together
- Particularly suited to PRS and pre-sold intermediate housing

Operational efficiencies – target benefits

Procurement benefits

Rationalisation of suppliers underway

Aurora housing range

Expecting 50% adoption within three years

OSM

25% adoption within three years

- Operational efficiencies to partially offset build cost inflation, in absence of sales price inflation: benefits to build as new sites come on stream
- Additional margin protections from increased hurdle rates, stronger strategic pull-through and operating leverage as new divisions grow

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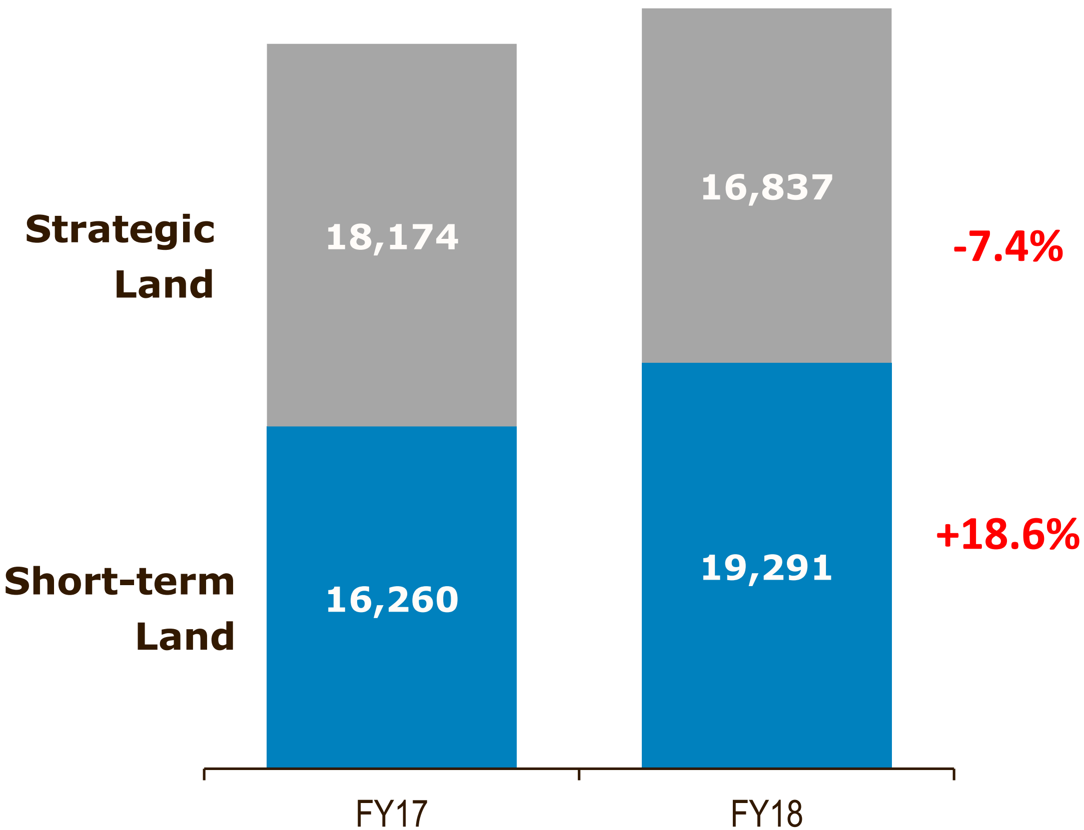
Land Pipeline supports new Strategy

- Land bank creates flexible store of value for the future
- GDV and margins underpinned by growing proportion of strategic land
- ASP's being repositioned and reduced
- Increased granularity shows how the land portfolio is de-risked for the future
- Short term portfolio supports emerging strategy:
  - To unlock cash
  - Drive greater proportion of pre-sales
  - Work in JV's on a number of key projects

Our evolving land bank portfolios

	FY17	FY18	
Plots	34,434	36,128 (1)	+5%
GDV	£11.5bn	£11.82bn	+ 2.8%
ASP	£340k	£326k	-4.2%



(1) £0.27bn Commercial stock (FY17 :£0.25bn) excluded from GDV and ASP

(2) Plot numbers, GDV and ASP based on management estimates of site capacity and expected sales prices which are updated quarterly

Short-term land bank:

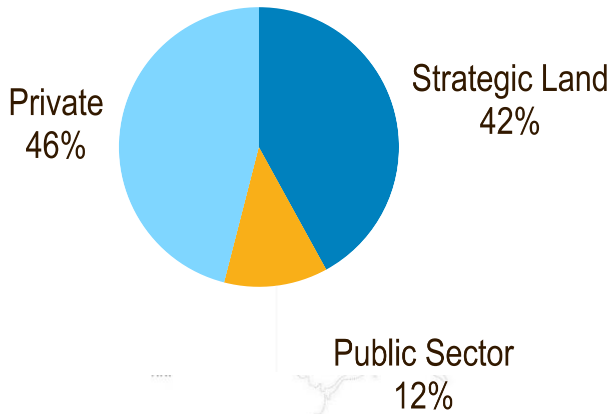
- Increased by 18.6%, repositioned to lower ASP's through:
  - **Strategic land conversions:** 2,461 plots at ASP £317k
  - **Midlands plots:** 757 plots at ASP £262k
  - **Other plots:** 3,509 plots at ASP £310k
- 3,696 plots completed or traded

Strategic Land Bank:

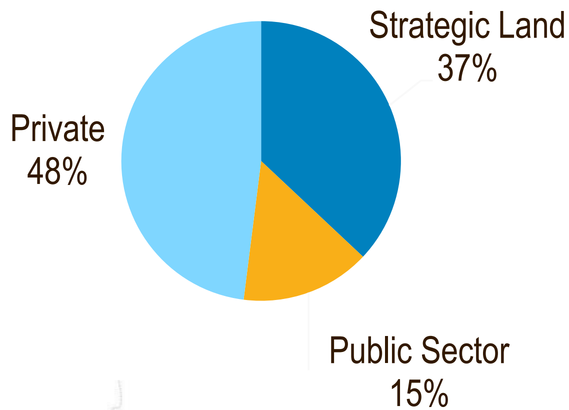
- Reduced in scale following good conversions after successful year in planning

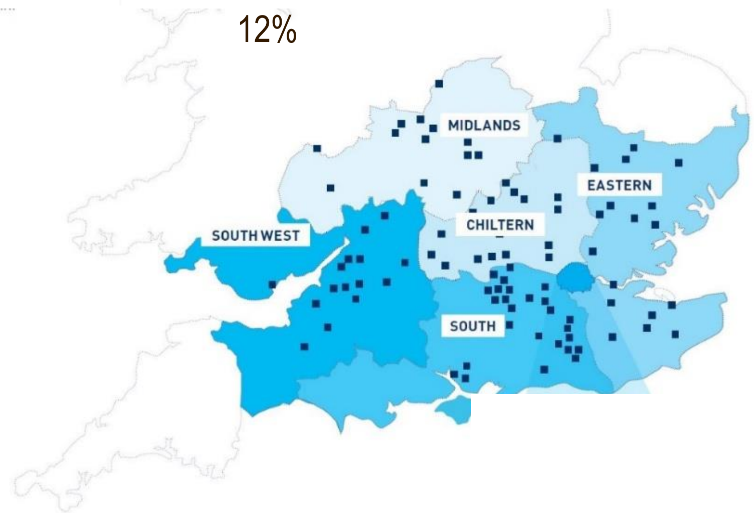
Strategic land underpins high quality Short term land bank

FY18 by Source



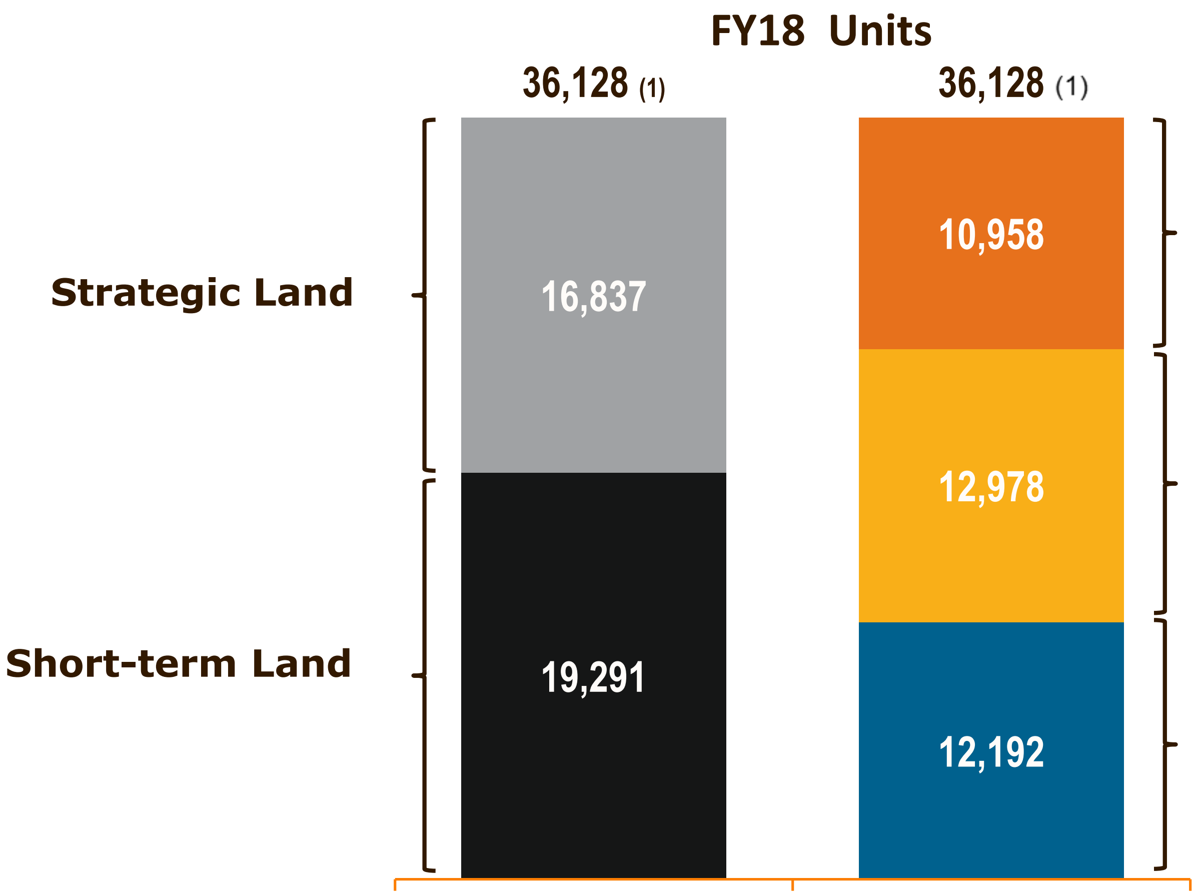
FY17 by Source





- Strategic land now 42% of short term land bank (8,036 plots)
- Strategic land characteristics:
  - Strong embedded margins as land acquired at a discount to OMV
  - Larger sites with flexibility: opportunity for JV's and greater tenure diversity
  - Exercised and drawn at prevailing OMV de-risking medium term margins
- ~2,500 further plots in the Strategic land bank are allocated/draft allocation and should pull through within 3 years

Deeper Dive into our flexible Land Pipeline



Long-term strategic land

- Unallocated but controlled
- Sites held under long term options exercised and priced at point of acquisition

Medium-term pipeline

- Backbone sites consented or subject to allocation/draft allocation
- Delivery within 2 to 4 years
- Mostly subject to options or partnership agreements

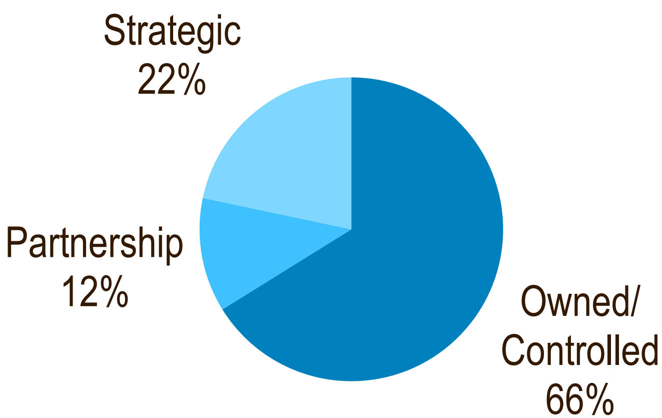
Short-term land

- Owned and/or controlled
- Circa 85% plots with planning consent/resolution to grant
- Delivery ongoing/to commence in 1 to 3 years

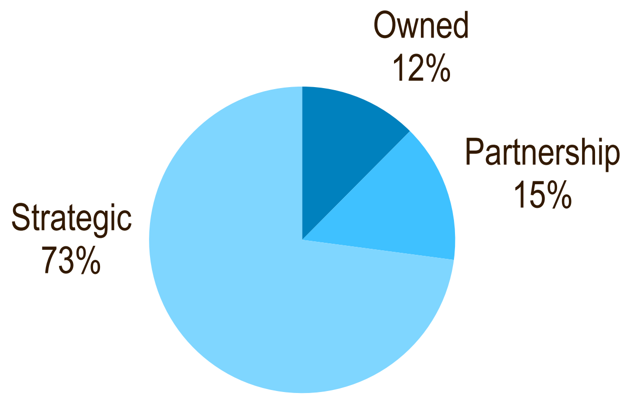
(1) Plot numbers based on management estimates of site capacity which are updated quarterly

Oct 18 Land pipeline characteristics

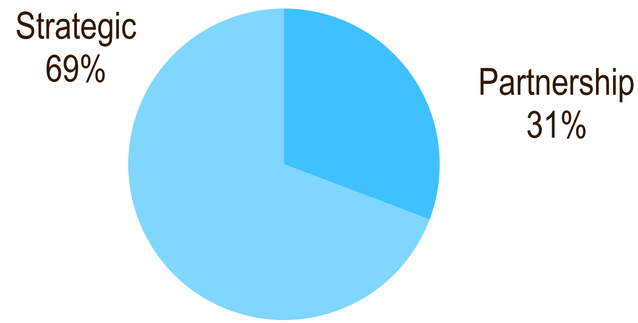
Short-term land by type



Medium-term pipeline by type



Longer-term land by type



Short-term pipeline

- 12,192 plots on 108 sites/phases,
- ASP £333k
- Circa 4 years supply
- Opportunities to joint venture 2,000 plots and unlock cash

Medium-term pipeline

- 12,978 consented or allocated/ draft allocated plots on 15 sites; ASP £339k
- 11,362 (88%) plots held flexibly and still to be exercised/valued
- Store of higher margin land for JV's and future outlet expansion

Long-term strategic land

- 10,958 plots on 37 sites,
- ASP £306k
- Controlled but not yet acquired strategic and partnership land
- Net investment represents option and promotion fees only

(1) Plot numbers and ASP based on management estimates of site capacity an expected sales prices which are updated quarterly

Significant embedded value with low NIV

Land Pipeline	Plots (2)	GDV £bn (2)	ASP £k (2)	Balance Sheet Land at cost - £m	Expected total land cost - £m
Short-term(1)	12,271	4.35	333	695	913
Medium-term pipeline	12,899	4.37	339	43	867
Long-term strategic	10,958	3.36	306	9	621
FY18 Total	**36,128**	**12.08**	**327**	**747**	**2,401**

- Short term portfolio balance sheet land cost at 16.0% of GDV with total cost anticipated at 21.0% of GDV
  - Scope to JV and reduce land & WIP by c.£50m over 1-2 years
- Medium term (2 to 4 year), balance sheet land cost only 1.0% of GDV with anticipated total cost at 19.8% of GDV
  - Flexible store of land for future JV's and outlet growth
- Longer term land pipeline held at insignificant balance sheet cost as costs written down over life of options/agreements

(1) £0.27bn Commercial stock (FY17 :£0.25bn) excluded from ASP
(2) Plot numbers, GDV and ASP based on management estimates of site capacity an expected sales prices which are updated quarterly

Broadening our channels to market

Current sales profile

- Open market sales: 70%
- Affordable homes: 20%-25%
- PRS: 5% – 10%

Selected use of Joint Ventures and intermediate housing pre-sales to improve cash flows and de-risk sales

Proposed sales profile

- Open market sales: 60%
- Affordable homes: 20%-25%
- Intermediate – 10%
- PRS: 5% – 10%

Joint Venture with Registered Providers initially on 3 sites of circa 2,000 plots to:

- Unlock embedded land value quicker
- Share future infrastructure and S106 costs
- Increase level of pre-sales to circa 40% in lieu of 30% through related intermediate housing sales (ROCE enhancing v margin dilutive)

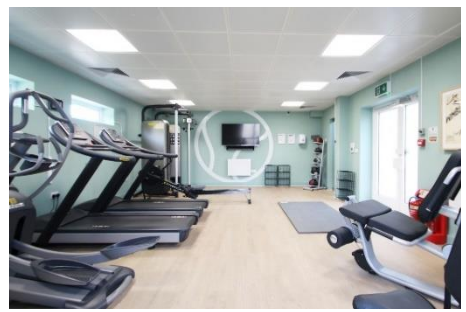
Use selected grant funded intermediate housing sales to broaden tenure base

Our PRS model is now well established

- In 2018 we completed 375 homes for the private rented market on 3 developments
- Strategic partnership with M&G about to contract its 5th development
- Other investment partners remain active and keen for rental apartments and houses on suitably located sites.
- Future pipeline of larger well located sites will continue to support delivery of between 5% and 10% sales per annum
- PRS is ROCE enhancing, risk reducing and EBIT% neutral

Park Central, Birmingham:

- 230 PRS units delivered for BBS capital
- Delivered in 24 months



The Green, Kilnwood Vale:

- 227 homes pre-sold to M&G
- Delivered within 21 months.

A new context for partnerships and JV's

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Strong Land bank

Large site place making and delivery skills

DM and PM capacity

Sales & marketing

Potential RP Partners

New Strategic Homes England Partnerships

Mixed tenure model;

- Spec housing
- S106 affordable
- Intermediate

Access to £9bn support/grant

Housing infrastructure funding (HIF)

Home Building Fund

Public Sector Land

Homes England

- In total £9bn Government funding for affordable housing programmes
- 2018 HE strategic partnership with 7 Registered Providers for extra 23,500 intermediate homes by 2023
- Two further waves of similar funding in the pipeline.

Three HIF/LEP awards secured to date:

- CQ, Southampton: £7m (Solent LEP)
- Ipswich: circa £10m (HE HIF)
- Bury Farm: Circa £14m (Solent LEP)*

(*) A consortium site of which Crest is a 25% partner.

Leveraging our land bank with selected JV's

Case Study Harry Stoke, Bristol;

- £280m GDV JV to be contracted this year and with circa 900 consented plots sold into a Crest/Registered Provider JV
- Land receipt realised upon formation of JV and shared infrastructure and development costs funding moving forward
- Crest place-making DM and PM skills to be utilised by JV for appropriate fees
- 40% of dwellings to be pre-sold to RP:
  - 30% for S106 affordable housing
  - Further 10% for intermediate housing
- Option for future strategic land to be added to JV upon grant of planning

Plots already in the operational land bank

1,300 plots remain in strategic land bank

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Forward sales

	YTD FY19	YTD FY18	FY18	FY17
Units – all years	2,861	2,462	2,102	1,997
% change on prior period	+16%		+5%	
GDV (£m) – all years	639.4	575.7	413.4	391.4
% change on prior period	+11%		+6%	
GDV (£m) – current year	419.2	441.0	253.1	265.3
	(5%)		(5%)	

- JV's will add a further £50m to forward land sales and secure circa £75m of forward affordable and intermediate housing pre-sales

Outlook

- Sales rates to date for 2019 in line with second half of 2018; achieved prices in line with October estimates
- Political and economic uncertainty likely to continue to impact near-term sales prospects
- First half results will therefore be lower than prior year
- Further EBIT margin pressure in FY19, assuming nil sales price inflation; actions underway to partially mitigate build cost inflation
- Strong forward sales demonstrate merit of new channels to market through wider partnership arrangements

Summary

- Engaged with specific challenges arising in 2018; took action to sustain receipts & manage cash & WIP
- Business operations delivering increased number of new homes; operational efficiency programmes in train
- Land pipeline flexible and retains significant embedded margin
- Developing our Strategic partnerships business and focusing on cash generation; delivering on our dividend commitment
- Confident in future delivery

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Disclaimer

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