



BARKHAM PLACE
WOKINGHAM

PRELIMINARY RESULTS 2019 PRESENTATION

28 JANUARY 2020



WELCOME & INTRODUCTIONS



IAIN FERGUSON
CHAIRMAN



AGENDA

CHIEF EXECUTIVE OVERVIEW
PETER TRUSCOTT

FINANCIAL REVIEW
DUNCAN COOPER

STRATEGIC REVIEW AND UPDATE
PETER TRUSCOTT & TOM NICHOLSON

- Our Updated Strategy
 - Five strategic priorities
 - Four foundations
- Summary

Q&A



FARINGDON FIELDS
FARINGDON, OXON



OVERVIEW



KINGSMEAD
FAVERSHAM

PETER TRUSCOTT
CHIEF EXECUTIVE



OVERVIEW

- A year of considerable change for Crest Nicholson
- New Executive Leadership Team now in place
- Updated strategy launched and being implemented
- Adjusted PBT in line with previous guidance at £121.1m
- Maintained full year dividend at 33.0p per share



KILNWOOD VALE
FAYGATE, HORSHAM

FINANCIAL REVIEW



RESONATE
STOCKWELL

DUNCAN COOPER
GROUP FINANCE DIRECTOR



INCOME STATEMENT

IN LINE WITH GUIDANCE

£m (unless otherwise stated)	FY19	FY18 restated ¹	% Change
Revenue	1,086.4	1,121.0	3% ▼
Cost of sales	(884.5)	(874.1)	
Adjusted gross profit²	201.9	246.9	18% ▼
<i>Adjusted gross profit margin %²</i>	18.6%	22.0%	
Administrative expenses	(65.5)	(64.9)	
Net impairment losses on financial assets	(3.4)	-	
Adjusted operating profit²	133.0	182.0	27% ▼
<i>Adjusted operating profit margin %²</i>	12.2%	16.2%	
Net finance expense	(11.0)	(12.0)	
Share of joint venture results	(0.9)	(1.3)	
Adjusted profit before tax²	121.1	168.7	28% ▼
Adjusted income tax ²	(23.7)	(32.1)	
Adjusted profit after tax²	97.4	136.6	29% ▼
Exceptional item net of income tax	(14.9)	-	
Profit after tax	82.5	136.6	40% ▼
Adjusted basic earnings per share (p)	38.0	53.3	29% ▼
Dividend per share (p)	33.0	33.0	

- Adjusted profit before tax in £120m-£130m range
- NRV provision of £7.0m
- Future ECL on Bonner Road JV of £3.2m
- Adjusted effective tax rate of 19.6%
- Pre tax £18.4m exceptional charge for fire
 - c. £7m Crest freeholds
 - c. £11m other obligations



¹ Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018

² 2019 figures adjusted for the £18.4m exceptional item relating to the combustible materials charge, net of £3.5m tax credit where appropriate

VOLUME BY CHANNEL

ONGOING BREXIT UNCERTAINTY

	FY19	FY18 restated ¹	% Change
Outlets (full year equivalents)	59	55	7%▲
Sales per outlet week (Open market private)	0.45	0.64	30%▼
Sales per outlet week (Open market inc-Bulk)	0.76	0.82	7%▼
Home completions (units)			
Open market (private)	1,463	1,849	21%▼
Affordable	741	677	9%▲
Bulk ²	708	522	36%▲
Total	2,912	3,048	4%▼

- Open market performance impacted in H2
 - Customer verbatims
 - Elevated cancellation rates
 - Volatile visitor numbers and interest
- Good Bulk performance
 - Consistent delivery across 2019

¹ Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018

² Bulk completions reflect sales to Private Rented Sector (PRS), Registered Providers (exc. S106) and private investors



AVERAGE SELLING PRICE AND FORWARD SALES BY CHANNEL

£'000	FY19	FY18 restated ¹	% Change
Home completions			
Open market (private)	437	429	2%▲
Open market (inc-Bulk)	388	396	2%▼
Affordable	187	166	13%▲
Total housing ASP (weighted average)	337	345	2%▼
Open Market reservations			
Open market (private)	426	433	2%▼
Open market (inc-Bulk)	354	404	12%▼
Forward sales			
Open market (private)	401	458	12%▼
Affordable	149	141	6%▲

- OM (private) ASPs increase due to mix
 - Strong Bulk performance on lower-priced segment
 - London effect continuing to unwind
- OM (inc-Bulk) ASP continuing to reduce
- Forward sales for 2020 also down

¹ Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018



CASH FLOW

GOOD CASH CONVERSION IN SLOW MARKET

£m	FY19	FY18 restated ¹	Change
Operating profit before changes in working capital and provisions	116.7	186.4	69.7 ▼
Increase in trade and other receivables	(11.5)	-	11.5 ▼
Decrease / (increase) in inventories	62.1	(125.9)	188.0 ▲
Increase in trade and other payables	2.2	57.1	54.9 ▼
Contribution to retirement benefit obligations	(9.0)	(9.0)	-
Cash generated from operations	160.5	108.6	51.9 ▲
Interest paid	(11.1)	(10.3)	0.8 ▼
Tax paid	(24.2)	(36.0)	11.8 ▲
Net cash generated from operating activities	125.2	62.3	62.9 ▲
Net cash flow from investing activities	(14.8)	3.9	18.7 ▼
Net cash flow from financing activities	(124.1)	(57.1)	67.0 ▼
Net (decrease) / increase in cash and cash equivalents	(13.7)	9.1	22.8 ▼
Cash and cash equivalents at the beginning of the year	184.3	175.2	9.1 ▲
Cash and cash equivalents at end of period	170.6	184.3	13.7 ▼

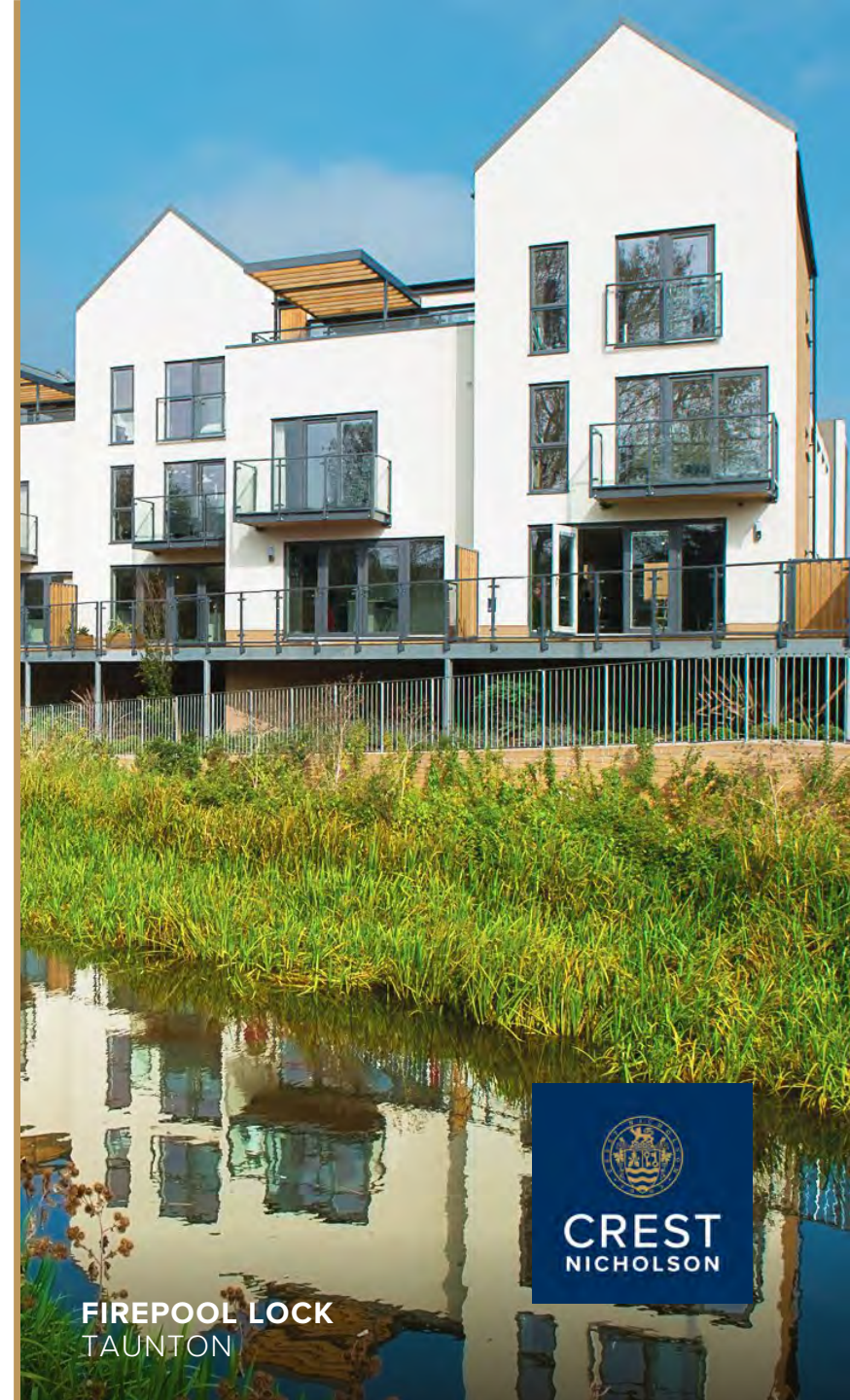
¹ Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018



BALANCE SHEET

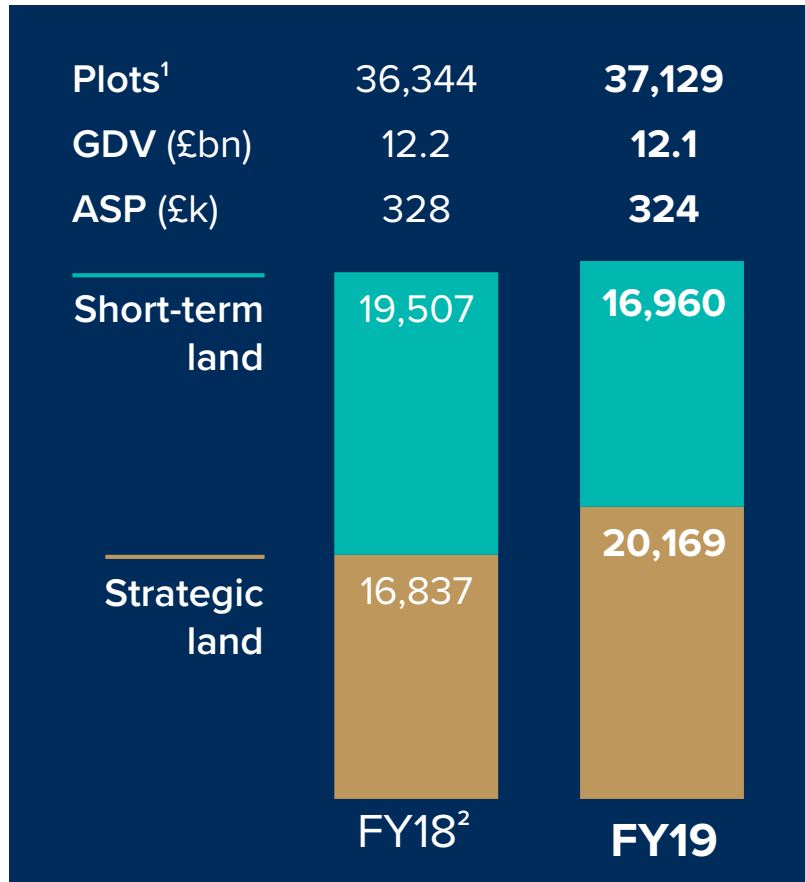
ROBUST AND WELL-FINANCED

- Net cash £37.2m (2018: £14.1m)
- Average net debt £144.2m (2018: £193.4m)
- Net debt and land creditors £179.3m (2018: £195.6m)
- Inventories £1,151.1m (2018: £1,213.2m)
 - Higher completed units due to sales rate
 - Lower WIP mainly due to lower land spend
- Pension deficit £6.2m (2018: £2.5m surplus)
- £250m RCF facility extended to June 2024
 - £35m drawn at year end (2018: £70m)



CURRENT LAND PORTFOLIO

A CAPITAL-EFFICIENT STORE OF FUTURE VALUE



Short term land

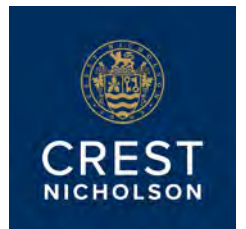
- 2,912 home completions
- 1,290 plots sold through land sales
 - 419 to JV with Sovereign Housing Association
- 1,655 plots added
 - 647 in growing Midlands division – ASP of £308k
 - 197 plots transferred in from Strategic portfolio
 - Balance of lower than PY ASPs and re-plans

Strategic land

- Secured 3,774 plots on 8 sites

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

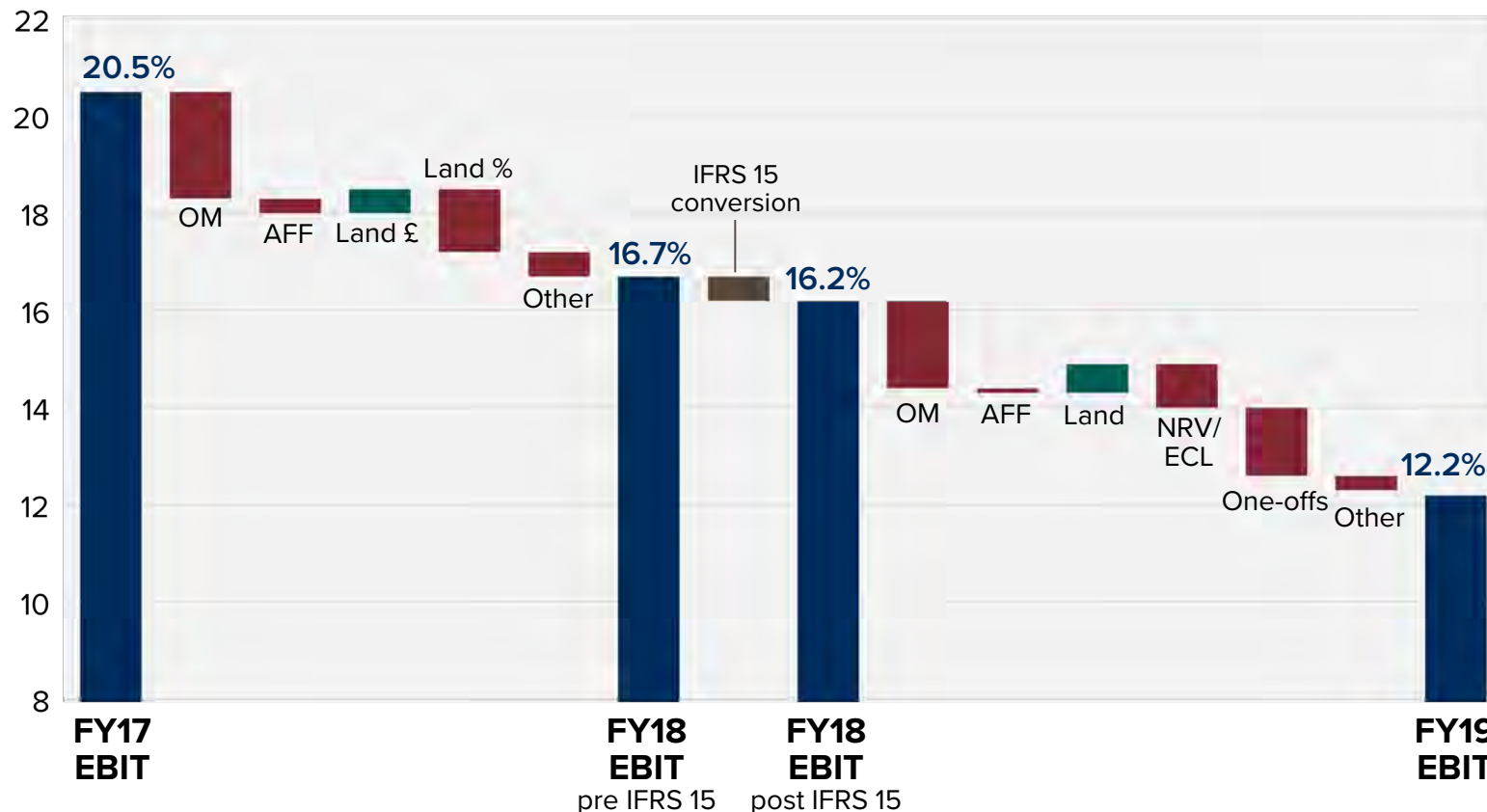
2 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018



UNDERLYING PROFITABILITY

STRUCTURAL AND SELF-INFLICTED OPERATIONAL DE-LEVERAGE

FY17 to FY19 MARGIN WATERFALL



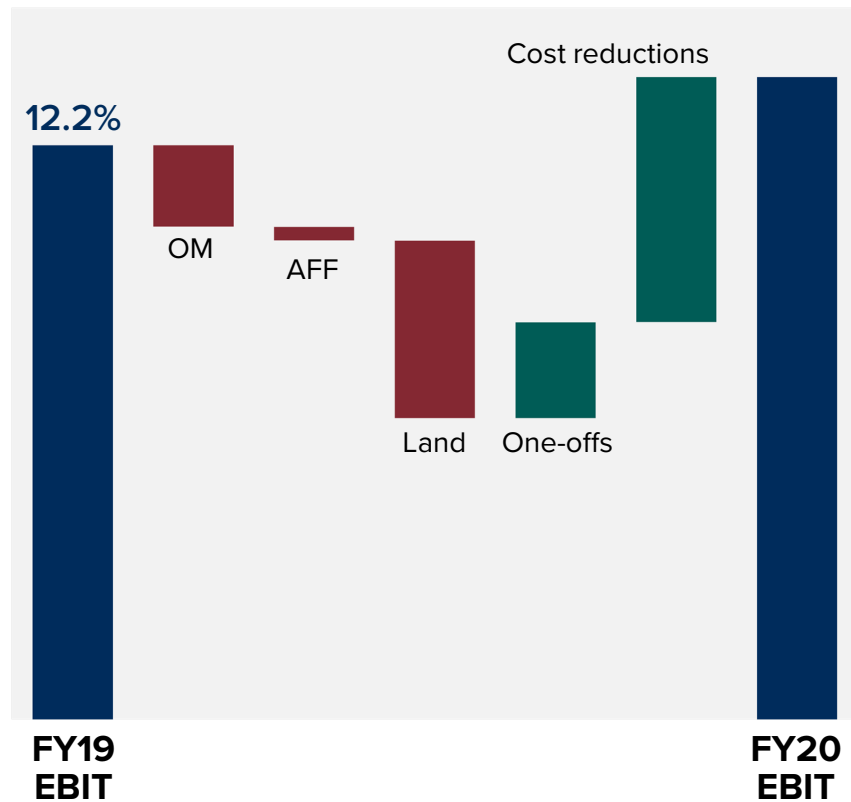
- Open market business in decline
- Increasing land sales – not always accretive to rate
- One-offs recognised in FY18
- No reduction in overheads



REBUILDING PROFITABILITY IN 2020

COST-LED RECOVERY

FY19 to FY20 MARGIN WATERFALL



- London effect and other low margin sites continue to unwind
- Lower land sale contribution
- NRV/ECL not repeated
- Cost initiatives start to contribute
- Market conditions improvement an overlay



SUMMARY

- Robust balance sheet and adequate liquidity
 - Significant working capital opportunity
- £12.1bn of GDV in flexible land portfolio
 - Lower future land sale contribution
- Open market decline continues into 2020
- Cost-led recovery
- FY20 PBT guidance of £110m-£120m



WATERSIDE AT MONKSMOOR PARK
DAVENTRY



STRATEGIC REVIEW AND UPDATE



FARINGDON FIELDS
FARINGDON, OXON

PETER TRUSCOTT
CHIEF EXECUTIVE



MARKET CONTEXT

- Political certainty helpful but future EU relationship still unclear
- Good market fundamentals remain
 - Imbalance of supply and demand
 - Low interest rate environment
 - Stable employment levels
- Encouraging early signs this year



FAIRFIELD GARDENS
STOTFOLD



FIRST IMPRESSION

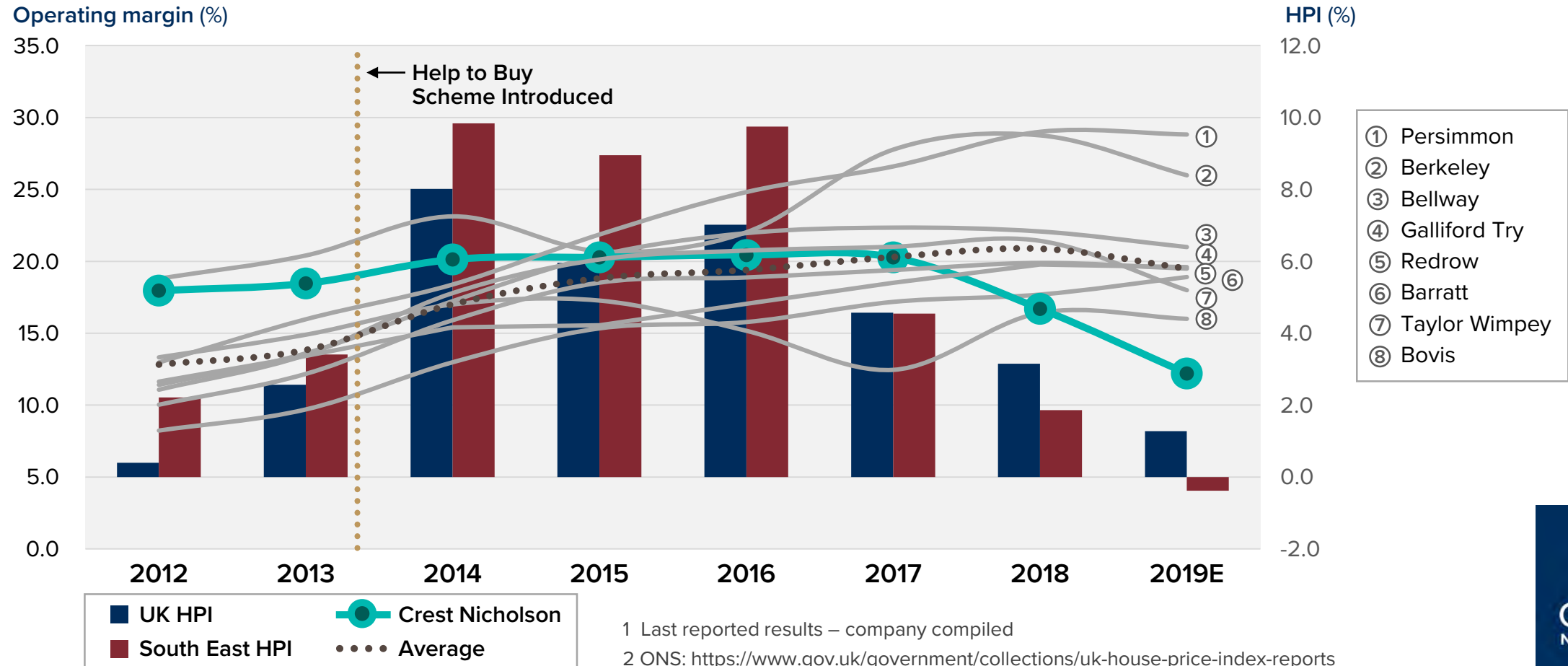
- Visited all the sites and divisions
- Passionate, enthusiastic people
- Strong land portfolio and great placemaking
- Bespoke on design and specification
 - Pricing premium difficult to sustain
- Failure to achieve procurement scale and benefits
- Unsustainable levels of operating costs and overheads
- Complex organisational structure

A business of many strengths but not realising its potential



A BUSINESS MODEL THAT HAS RELIED ON INFLATION

OPERATING MARGIN OF UK LISTED HOUSEBUILDERS¹ AND HPI² (%)



DETAILED STRATEGY REVIEW

- Retain and build on our strong brand and placemaking
- Realise maximum value from land portfolio
 - Grow outlet capacity for Crest Nicholson
 - Clear prioritisation of development options
- Much greater focus on operational efficiency
 - New standardised housing range
 - Full specification review
 - Sales-related costs and overheads reduced
- Five-Star customer service aspiration
- Develop multi-channel, multi-tenure capability
 - Build on reputation as a trusted partner
 - Diversify income streams with capital efficiency



KILNWOOD VALE
FAYGATE, HORSHAM

CREST NICHOLSON REGENERATION RESTRICTED

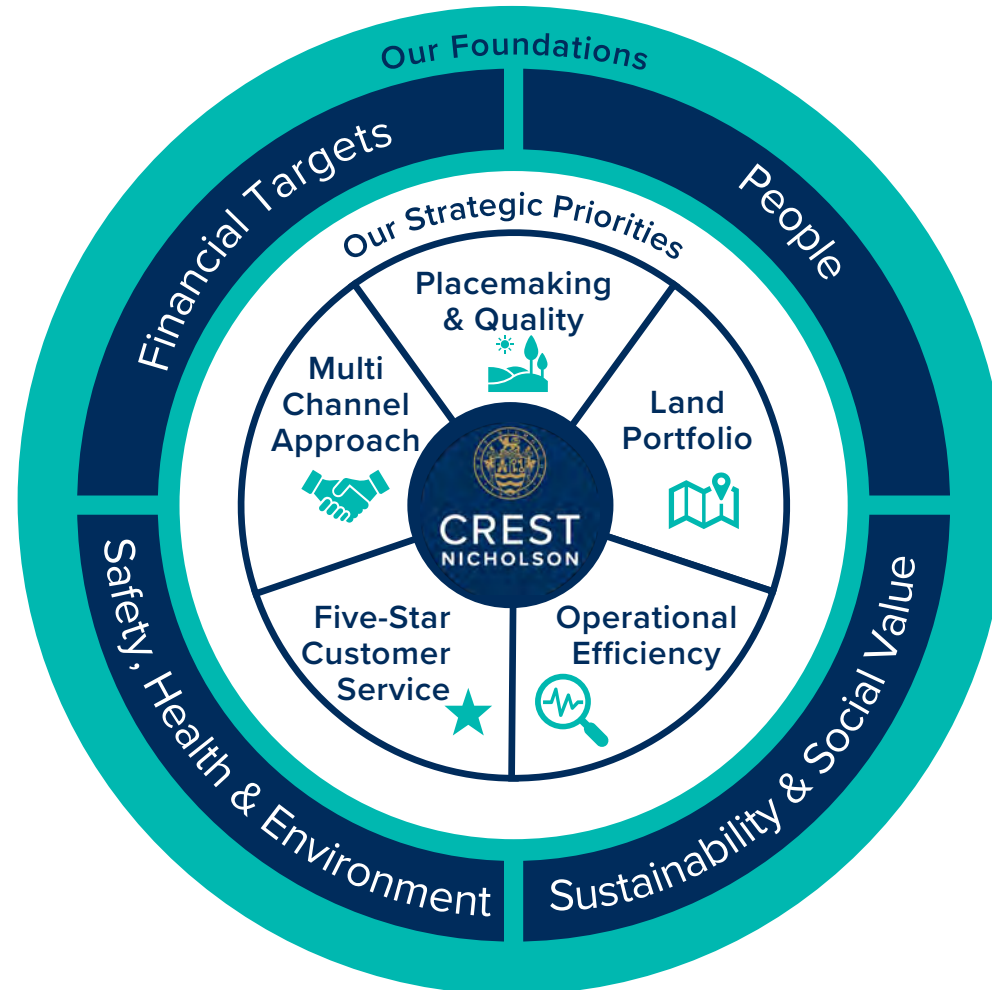
- Now becomes two businesses
 - Crest Nicholson Southern Counties (CNSC)
 - Crest Nicholson Partnership and Regeneration (CNPR)
- CNSC – focused on building and selling dwellings in its own geographical area
- CNPR – a business development function only
- Four areas of focus
 1. Major projects procurement
 2. Partnerships and relationships
 3. Sales facilities for PRS and RPs
 4. Commercial development

New leadership in place



OUR UPDATED STRATEGY

A CLEAR PLAN TO BECOME A LEADING HOUSE BUILDER





PLACEMAKING AND QUALITY

- Creating attractive and vibrant communities
- Distinctive design and focus on sustainability
- Maintain reputation for build quality and specification
- Focus investment where customers value it



MEADOWSIDE
DAVENTRY





LAND PORTFOLIO

- Strong land portfolio offering flexible opportunities
- Strategic land capability a differentiator
- Clear prioritisation of development options:
 1. Develop as a Crest Nicholson outlet
 2. Create an additional Crest Nicholson outlet
 3. Partner with Private Rented Sector (PRS) or Registered Providers (RPs)
 4. Joint venture
 5. Outright land sale



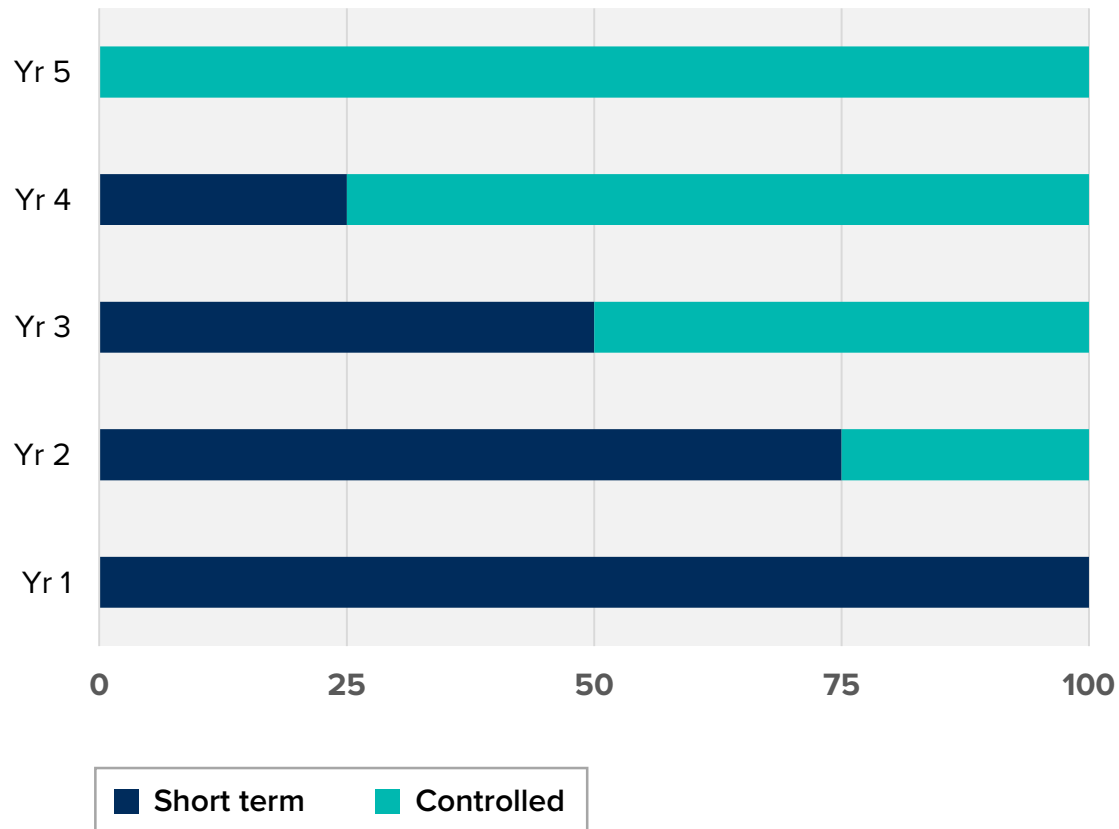
LONGCROSS

CHERTSEY – JV-SITE WITH AVIVA



LAND PORTFOLIO

LAND PORTFOLIO SHORT TERM V CONTROLLED



- Visibility of controlled land is desirable
- Land portfolio needs to be capital efficient
- Short-term land portfolio GM at 24.4%
 - Before selling expenses and overheads





PLACEMAKING AND LAND PORTFOLIO

CASE STUDY – KILNWOOD VALE



OPERATIONAL EFFICIENCY



TOM NICHOLSON
CHIEF OPERATING OFFICER





OPERATIONAL EFFICIENCY

- Significant opportunity for self-help
- £9m reduction in sales-related costs and overheads realised
- Detailed review of housing range and specification
- Introduction of best-practice disciplines across all divisions
 - Delivery process
 - Build times and rates
 - Stock management
 - WIP control
- New Southern Counties Division to maximise assets in the region





OPERATIONAL EFFICIENCY

SALES-RELATED COSTS & OVERHEADS

- Standardised team structures and job role
 - Headcount reductions
- Group-led approach to procurement of materials and resources
 - Creative agency costs
 - Brochure costs
- Sales office costs reduced
- Central overheads streamlined
 - Entertaining & sponsorship
 - Travel
- Further savings identified





OPERATIONAL EFFICIENCY

UNIFORM PROCESSES AND BEST PRACTICE

- Five new divisional MDs
- Leading point-of-sale presentation and materials
- Investment in training and development across the divisions
- Operational forums setting clear targets:
 - Build times including earlier outlet and show home openings
 - £ per sq ft build
 - Reduced professional fees
 - Increased number of tenders to achieve best price
- Greater focus on cash management and work-in-progress

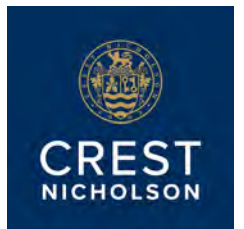




OPERATIONAL EFFICIENCY

NEW STANDARDISED SPECIFICATION

- Detailed specification review completed
- Enhanced specification at lower cost
 - Solus kitchen supplier
 - Wardrobe specification
 - Enhanced white goods package
- Significant opportunity taken to drive greater quality and buying power
- Strategic supplier relationships through consolidation
- New specification guidelines implemented across sites





OPERATIONAL EFFICIENCY

NEW STANDARDISED HOUSING RANGE

- Customer feedback on the Aurora range
 - Aim of 40 types – finished with 128
 - Open-plan living arrangements
- Flexible, high-quality range with no deviations
 - 24 core house types
 - A defined ‘toolkit’ of 14x houses
 - 7 common structure depths
 - 5 flexible internal layouts
 - 17 choices of 2, 2 ½, 3-storey capability
- Target 80% new house types for future planning applications



HYGGE PARK
KEYNSHAM, BRISTOL



OPERATIONAL EFFICIENCY CAN BE ELEVATED TO SUIT LOCATION





OPERATIONAL EFFICIENCY

NEW STANDARDISED HOUSING RANGE - PLOTTING EFFICIENCY

PREVIOUSLY APPROVED SCHEME

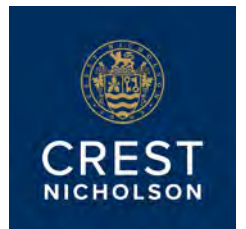


CURRENT PLANNING APPROVED SCHEME



Total units	25	▶	25
Number of house types	9	▶	6
Average Private Unit size	1,370 sq ft	▶	1,409 sq ft

- Same number of plots – all detached
- More variety in street scene
- Increased coverage
- £400k GM improvement





OPERATIONAL EFFICIENCY

DIVISIONAL RESTRUCTURE

- Creation of new Crest Nicholson Southern Counties (CNSC) division
 - Based out of Hampshire
- Rebalances capacity from other divisions
- Better alignment with our land portfolio
- Target 550-600 homes per division pa
- Opportunity to enter new geographies in the longer-term





FIVE-STAR CUSTOMER SERVICE

- Ambition to be Five-Star
- Group Production Director is leading
- Detailed process review completed
- Increased focus from site teams on delivery of product, service and aftercare
- Improved link to remuneration
- Currently trending above 2018 level





MULTI-CHANNEL APPROACH

BUILDING A MORE RESILIENT BUSINESS

- Buying land
 - Strategic
 - Major projects
 - Open market
- Selling homes
 - Individual sales
 - PRS
 - RPs / Affordable



LONGCROSS
CHERTSEY



MULTI-CHANNEL APPROACH

BUILDING A MORE RESILIENT BUSINESS

- Major project capabilities
 - Working with partners to procure major projects
- Management of key relationships: Government, DIO, PRS funds and RPs
- Responsibility for specialist sales
 - PRS
 - RPs /Affordable
- Commercial development capacity





MULTI-CHANNEL APPROACH

PRIVATE RENTED SECTOR

- Fastest growing sector of the residential property industry
- Driven by affordability issues of home ownership

CASE STUDY

- Arborfield
 - owned by M&G Real Estate Investment
- Two schemes providing 1 and 2 bedroom homes
- Professionally managed on behalf of M&G





SAFETY, HEALTH & ENVIRONMENT

FOUR FOUNDATIONS

- Number one priority
- AIIR of 372 (2018: 342) including one fatality
- Executive oversight from Group Production Director
- Thorough process review and benchmarking
 - Increased number of site tours
 - Restructure to drive best practice from Group
 - New training and induction process
 - Improved communications and reporting
- Continued link to remuneration





SUSTAINABILITY & SOCIAL VALUE

FOUR FOUNDATIONS

- Area of strength for Crest Nicholson
- Significant regulatory changes coming:
 - Future Homes
 - Biodiversity
 - Climate change
 - New building and planning regulations
 - Design codes
 - OSM agenda
- Active engagement influencing political agenda
- Controlled investment in OSM



FTSE4Good





PEOPLE FOUR FOUNDATIONS

- Strong track record of developing people
- Diversity and inclusion a key priority
- Pay at or above National Living Wage
- New values launched





FINANCIAL TARGETS

A CLEAR PLAN TO BECOME A LEADING HOUSE BUILDER

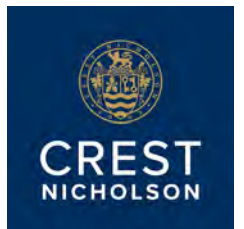
	FY19	FY22
Home completions (units)	2,912	>3,500
Outlets	59	>70
Adjusted operating profit margin	12.2%	Minimum of 250bps growth by FY22
Admin expenses as % of sales	6%	5%
ROCE	15.9%	>20.0%
Net cash	£37.2m	Strong cash surplus to invest or return
Dividend per share	33.0p	33.0p + RPI from FY21

Broadening our channels to market HISTORIC¹

FUTURE

Multi-channel sales contribution	Diversify income at better ROCE
Private 70% Affordable 20-25% Bulk 5-10%	Private 60% Affordable 20-25% Bulk 15-20%

¹ Based on average trading units for the period 1 November 2014 to 31 October 2017



SUMMARY AND OUTLOOK

- Good early progress on updated strategy
- New senior team now in place
- Decisive political outcome welcome
- Green shoots on footfall and visitors
- Understand we must rebuild trust
 - Opportunity to outperform beyond self help measures



MANDEVILLE PLACE
BRAMPTON





CLARION GATE
CHELMSFORD

Q&A



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