Crest Nicholson Holdings plc

PRELIMINARY RESULTS 2020

26 January 2021

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‘Crest Nicholson’ or the ‘Group’ refers to Crest Nicholson Holdings plc and its subsidiary companies.

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AGENDA

PETER TRUSCOTT

- FULL YEAR OVERVIEW
- MARKET CONTEXT

DUNCAN COOPER

- FINANCIAL REVIEW

PETER TRUSCOTT

- STRATEGY UPDATE
- SUMMARY AND OUTLOOK

Q&A

MORTON PARK
MILTON KEYNES

FULL YEAR OVERVIEW

- Strong progress on all five strategic priorities
- Internal reorganisation completed
  - Strong, new leadership team now established
- Adjusted profit before tax (APBT) delivered ahead of guidance
- Excellent progress on strengthening the balance sheet
- Reinstatement of dividend
- Effective COVID-19 response

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MARKET CONTEXT

- Good market fundamentals remain
  - COVID-19/Brexit pent up demand
  - Government support for housing market
  - Stable lending backdrop
- Need to navigate macro environment
  - Furlough scheme
  - Stamp Duty holiday
  - Help to Buy phase 1/2
- Prepared for an uncertain 2021
  - Continued COVID-19 disruption to HY
  - Structural changes in working practices
  - Market remains resilient

LANCASTER GRANGE
BRICKET WOOD, ST ALBANS

FINANCIAL REVIEW

DUNCAN COOPER
GROUP FINANCE DIRECTOR

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INCOME STATEMENT

GOOD UNDERLYING PROGRESS DESPITE COVID-19

£m	FY20	FY19	% Change
Revenue	**677.9**	**1,086.4**	**37.6▼**
Cost of sales[1]	(570.2)	(884.5)	
Adjusted gross profit[1]	**107.7**	**201.9**	**46.7▼**
Adjusted gross profit margin %[1]	*15.9%*	*18.6%*	
Adjusted administrative expenses[1]	(50.3)	(65.5)	23.2▼
Net impairment losses on financial assets[1]	(0.3)	(3.4)	91.2▼
Adjusted operating profit[1]	**57.1**	**133.0**	**57.1▼**
Adjusted operating profit margin %[1]	*8.4%*	*12.2%*	
Adjusted net finance expense[1]	(10.7)	(11.0)	
Share of joint venture results	(0.5)	(0.9)	
Adjusted profit before tax[1]	**45.9**	**121.1**	**62.1▼**
Adjusted income tax[1]	(8.5)	(23.7)	
Adjusted profit after tax[1]	**37.4**	**97.4**	**61.6▼**
Exceptional items net of income tax	(48.1)	(14.9)	
(Loss) / profit after tax	**(10.7)**	**82.5**	
Adjusted basic earnings per share[1]	**14.6**	**38.0**	
Dividend per share (p)[2]	**-**	**11.2**	

- Adjusted profit before tax ahead of £35m-£45m range
- Adjusted gross profit lower due to
  - COVID-19 revenue impact
  - c.£20m less land and commercial contribution
  - c.£18 lower S&M expenses
- Adjusted administrative expenses savings delivered
- Adjusted effective tax rate of 18.4%
- £48.1m exceptional charge net of tax

1 FY20 and FY19 figures adjusted for exceptional items as disclosed on slide 9

2 FY19 interim dividend paid
FY19 final dividend of 21.8p was cancelled due to the impact of COVID-19

SALES METRICS

STRONG SECOND HALF AS STRATEGY TAKES EFFECT

	FY20	FY19	% Change
Outlets (full year equivalents)	63	59	6.8 ▲
SPOW (Open market)	0.59	0.76	22.4 ▼
Home completions (units)			
Open market (private)	1,146	1,463	21.7 ▼
Affordable	506	741	31.7 ▼
Bulk[1]	595	708	16.0 ▼
Total	**2,247**	**2,912**	**27.5** ▼

ASP £'000	FY20	FY19	% Change
Home completions			
Open market (private)	400	437	8.5 ▼
Open market (inc-Bulk)	336	388	13.4 ▼
Affordable	161	187	13.9 ▼
Total housing ASP (weighted average)	**297**	**337**	**11.9** ▼

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

- Good performance post lockdown
  - Further growth in outlets
- Good bulk performance
  - 119 units at Sherborne Wharf
  - CNPSL delivery key
- ASPs continue to reduce
  - London mix unwinding
- Forward sales at 15th January 2021
  - 2,435 units and £564.5m GDV
  - c.55% of FY21 covered
- YTD SPOW rate 0.60

EXCEPTIONAL ITEMS

ADAPTING OUR STRATEGY IN THE FIRST HALF

£m	FY20	FY19
Costs of sale impairments		
Inventory impairment	43.2	-
Net fire provision charge	0.6	18.4
Total cost of sales exceptional charge	**43.8**	**18.4**
Restructuring costs	7.5	-
Net impairment losses on financial assets	7.6	-
Finance expense	0.5	-
Total exceptional items	**59.4**	**18.4**
Tax credit on exceptional items	(11.3)	(3.5)
Total exceptional items after taxation	**48.1**	**14.9**

- COVID-19 trigger for impairment review
  - 7.5% residential / 32.0% commercial
  - £43.2m NRV provision (incl. £9.3m abortive WIP)
  - £7.6m expected credit loss – London Chest Hospital
  - £0.6m fire charge (£2.6m further remedials offset by £2.0m recoveries)
  - £0.5m shared equity loans
- £7.5m restructuring
  - Reorganisation and IT systems
  - Severance impact in H2
  - No onerous lease impact for Head Office

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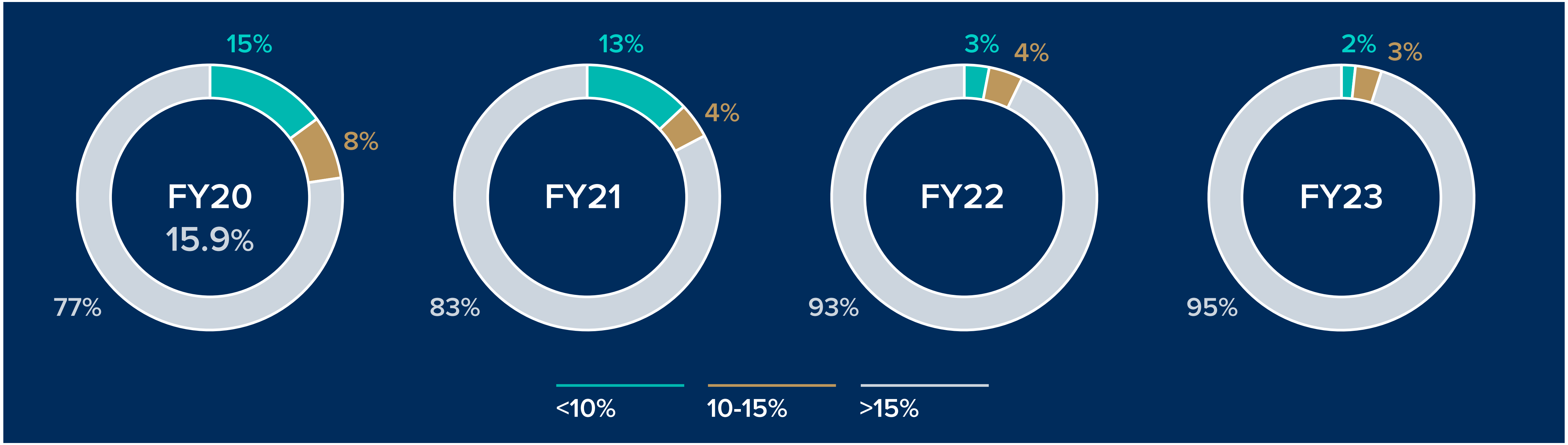
SITE GROSS MARGIN EVOLUTION

ANOTHER YEAR OF REPOSITIONING THE PORTFOLIO



COMPLEX AND CAPITAL INTENSIVE SCHEMES
DISCIPLINED OVERSIGHT AND FOCUS ON CASH GENERATION

Centenary Quay
Southampton

- FY21 projected sell through: 8%
- FY21 cash out: £15.9m
- Bulk deal interest

Sherborne Wharf
Birmingham

- FY21 projected sell through: 100%
- FY21 cash out: £11.5m
- Bulk deal agreed

Brightwells Yard
Farnham

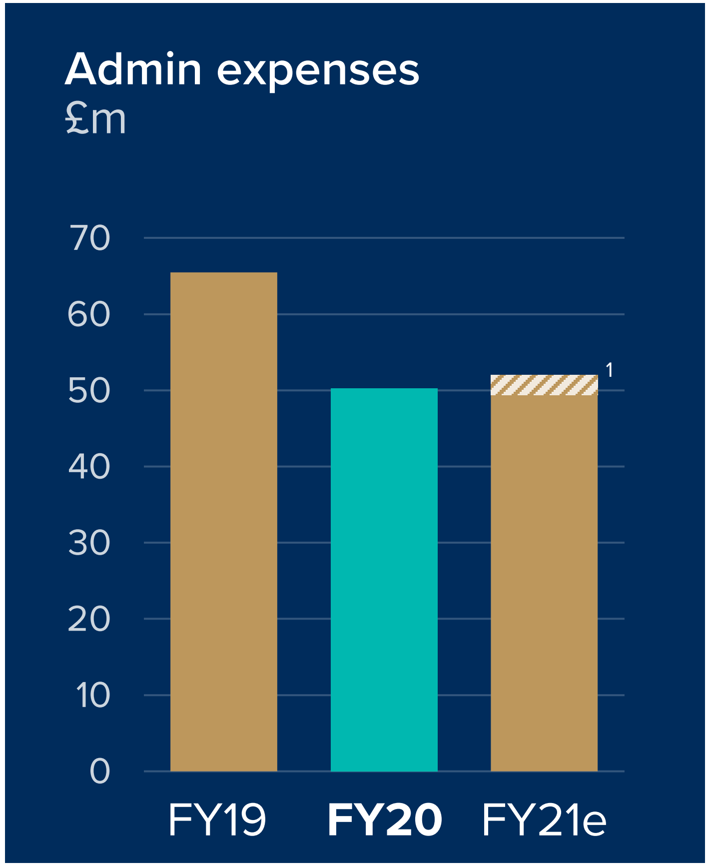
- FY21 projected sell through: 31%
- FY21 cash out: £31.6m
- Anchor tenants

The Old Vinyl Factory
Hayes

- FY21 projected sell through: 100%
- FY21 cash out: £10.7m
- Bulk deal agreed

SUSTAINABLE REDUCTION IN OVERHEADS

DELIVERING OUR OPERATIONAL EFFICIENCY PROGRAMME



- Administrative expenses down c.23% compared to FY19
- Internal reorganisation complete
  - 215 fewer permanent roles
  - Simplification of reporting lines and responsibilities
  - Strong controls for future recruitment
- Review of all discretionary expenditure
  - Culture shift evident in FY21 Budget
- Underlying progress into FY21
  - £2.5m repayment of JRS funding[1]
  - Bonus accrual
  - COVID-19 disruption and furlough

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CASH MANAGEMENT

EARLY AND DECISIVE ACTION DRIVES IMPROVEMENT

£m	FY20	FY19	Change
Operating profit before changes in working capital and provisions	**43.0**	**116.7**	**73.7▼**
Decrease / (increase) in trade and other receivables	45.8	(11.5)	57.3▲
Decrease in inventories	96.8	62.1	34.7▲
(Decrease) / increase in trade and other payables	(52.9)	2.2	55.1▼
Contribution to retirement benefit obligations	(6.7)	(9.0)	2.3▲
Cash generated from operations	**126.0**	**160.5**	**34.5▼**
Interest paid	(8.7)	(11.1)	2.4▲
Tax paid	(3.1)	(24.2)	21.1▲
Net cash generated from operating activities	**114.2**	**125.2**	**11.0▼**
Net cash flow from investing activities	(4.2)	(14.8)	10.6▲
Net cash flow from financing activities	(41.2)	(124.1)	82.9▲
Net increase / (decrease) in cash and cash equivalents	**68.8**	**(13.7)**	**82.5▲**
Cash and cash equivalents at the beginning of the year	170.6	184.3	13.7▼
Cash and cash equivalents at end of period	**239.4**	**170.6**	**68.8▲**

- Land sale debtors settled
- WIP control
- Tax payments
  - Exceptionals impact
  - FY21 at c.£13m
- RCF utilisation

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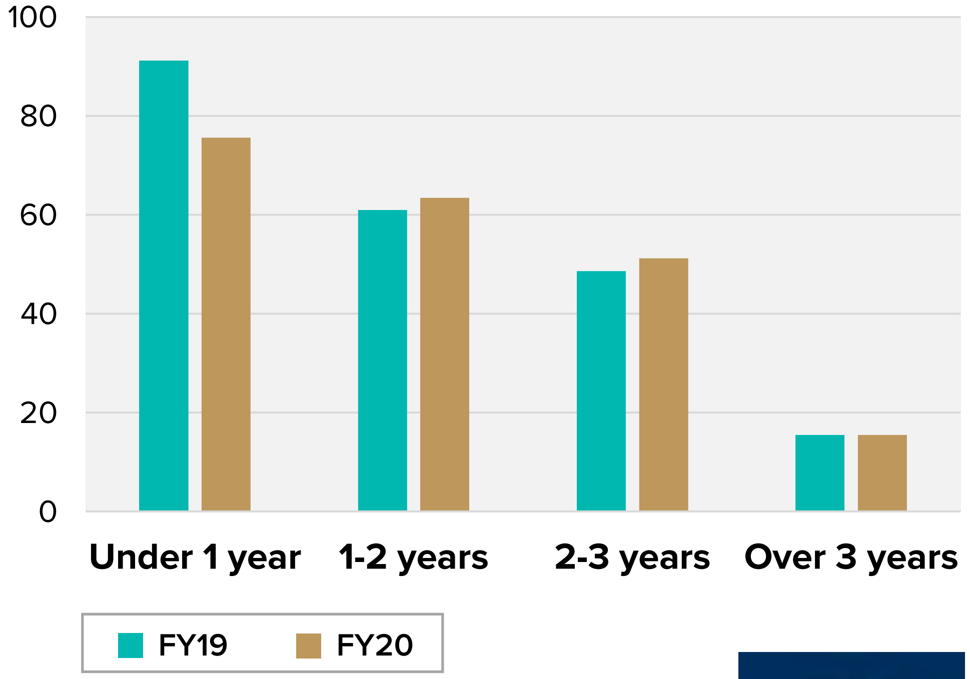
BALANCE SHEET

EXCELLENT PROGRESS SUPPORTS DIVIDEND REINSTATEMENT

- Net cash £142.2m (FY19: £37.2m)
- Average net debt £99.6m (FY19: £144.2m)
- Land creditors £205.7m (FY19: £216.5m)
- Pension deficit £13.8m (FY19: £6.2m)
  - £6.7m cash out in FY20 / £11.3m cash out in FY21
  - Triennial review due in 2021
- £250m RCF to June 2024
  - Undrawn at year end

LAND CREDITOR ROLL OUT BY YEAR (£m)

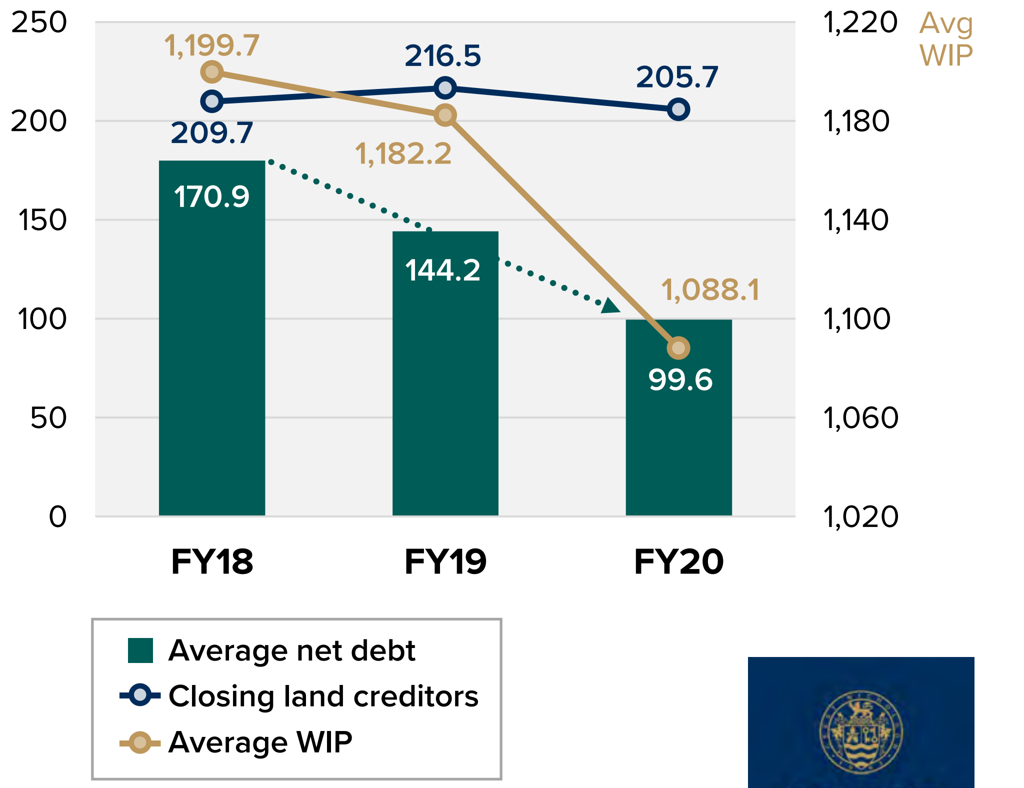


BALANCE SHEET

FIXING INEFFICIENT USE OF WORKING CAPITAL

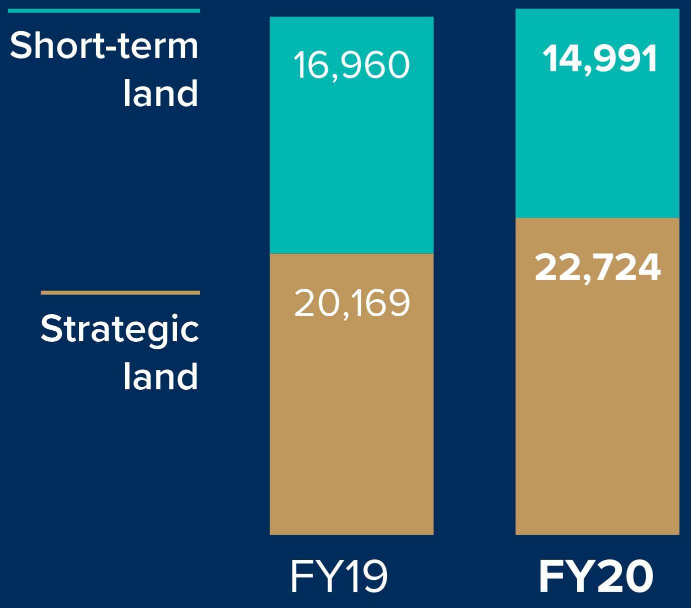
- Build programme disconnected from sales rates
- Reduction in completed stock units
  - 196 units at FY20 (459 units at FY19)
- Immediate COVID-19 response
  - Deferred or cancelled land payments
  - Extra controls on build spend
- Operational efficiency programme additive
  - Standard house types
- FY21 net cash expected to be lower
  - Bulk deals pulled into FY20
  - WIP intensive schemes continue

AV. NET DEBT VS WIP & LAND CREDITORS (£m)



CURRENT LAND PORTFOLIO
DISCIPLINED ACTIVITY IN THE MARKET

	FY19	FY20
Plots[1]	37,129	37,715
GDV (£bn)	12.1	11.4
ASP (£k)	324	299



1 Plot numbers based on management estimates of site capacity

Short-term land

- 2,247 home completions
- 952 plots added before deletions and other moves
- GDV significantly reduced
  - Underlying ASP difference minimal
  - Impact of NRV adjustments the driver

New land acquisition

- Approved 1,812 plots with average gross margin at 28.7%

Strategic land

- 2,409 plots added including 1,352 at Rougham Airfield, Bury St Edmunds

SUMMARY

- Good progress on first year commitments
  - Strengthened balance sheet
  - Cost-led recovery implemented
  - APBT delivered ahead of guidance
- Market will remain uncertain
  - Current trading encouraging
- Good visibility on gross margin progression
  - Strategy delivers growth in FY21 but poorer sites continue to drag
  - Strong accretion in FY22

STRATEGY UPDATE

PETER TRUSCOTT
CHIEF EXECUTIVE

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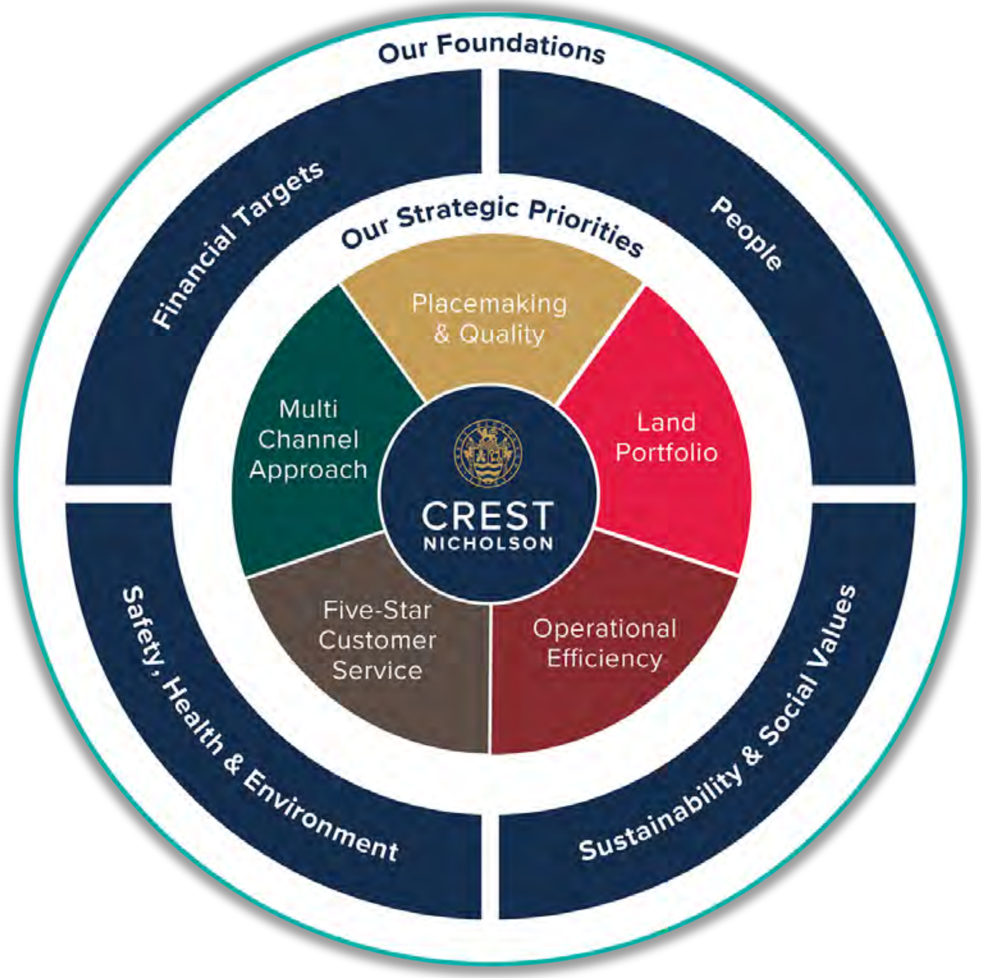
OUR UPDATED STRATEGY
STRONG PROGRESS ACROSS ALL ELEMENTS



PLACEMAKING AND QUALITY

WHAT WE ARE KNOWN FOR

LONGHURST PARK
HORSHAM

TADPOLE GARDEN VILLAGE
SWINDON

LAND PORTFOLIO

- Well located for changes to lifestyle and working practices
- Priority to secure more outlets
- Opportunity to utilise existing land portfolio in the short term
  - Multi tenure including bulk PRS and RPs
  - Joint ventures
- New acquisitions benefiting from operational efficiencies
  - New sites with reduced risk at lower ASP
  - 1,812 plots approved in the year- average gross margin at 28.7%

OPERATIONAL EFFICIENCY
RETURNING TO SECTOR LEVEL MARGINS

Key drivers	Progress FY20	Medium term aim
Internal re-organisation and cost saving initiatives	• Sales and marketing: one-third reduction • Overheads: £15m annualised savings	• Align to sector average level • Continued discipline as growth returns
New standardised house type range	• 5,500 units replanned	• Target 80% of houses in FY22
Standard specification	• £30m embedded into portfolio	• Stronger supplier relationships
Plotting efficiency (with new house type range)	• c.£40m opportunity identified	• Continue to improve margins

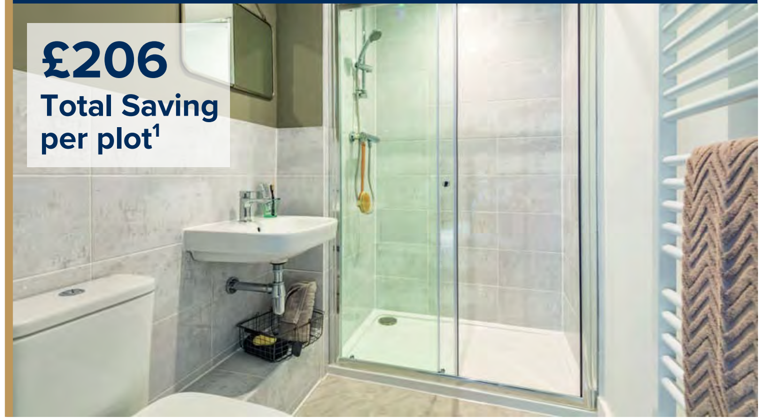
OPERATIONAL EFFICIENCY

FULL SPECIFICATION REVIEW DELIVERED

KITCHEN

£2,022
Total Saving per plot[1]

SANITARYWARE

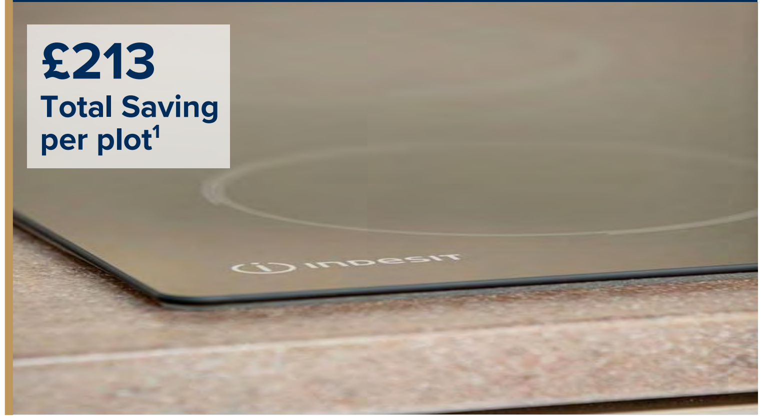


£206
Total Saving per plot[1]

DOORS

£438
Total Saving per plot[1]

APPLIANCES



£213
Total Saving per plot[1]

- Multiple benefits
  - Standard core ranges increasing quality
  - Supply chain visibility and certainty
  - Optimum supplier manufacturing efficiency
  - Enhanced on-site installation
- Stronger strategic supplier relationships
  - Solus agreements
  - Panel of preferred suppliers
- Significant ongoing efficiencies

1 Based on a 3 bedroom new house type range plot

OPERATIONAL EFFICIENCY

REPLAN AND PLOTTING OPTIMISATION

Scheme	Division	Plots replanned	Total plots	Total GM optimisation	Margin enhancement
Morton Park, Milton Keynes	Chiltern	49	240	£546k	60bps
Bessemer, Welwyn	Chiltern	47	110	£838k	210bps
Kegworth, Leicestershire	Midlands	136	188	£745k	126bps
Curbridge, Fareham	South	91	128	£2.4m	300bps
Tadpole, Swindon	South West	22	69	£1.2m	250bps

FIVE STAR CUSTOMER SERVICE

IMPROVEMENT IN ALL AREAS

- Five-star achieved (>90%)
- ‘Right first-time’ culture
- New processes and clear lines of responsibility
  - Build team taking greater ownership at handover
  - Customer service team focused on aftercare
- Currently trending above FY20 level

5 STAR HOME BUILDER CUSTOMER SATISFACTION
HBF 2020
HOME BUILDERS FEDERATION

MULTI CHANNEL APPROACH
BUILDING A MORE RESILIENT BUSINESS

- Creation of Crest Nicholson Partnerships and Strategic Land
  - Coordinated approach on major projects
  - CNPSL focus on managing relationships
  - Divisions focus on build with local expertise
  - Kieran Daya appointed to Executive Leadership Team
- Strong links with existing partners and rapidly developing pipeline of new interest
- Early engagement improves outcomes for both parties
- Growing appetite for small family homes
  - Good progress divesting apartment schemes in FY20

KIERAN DAYA
MD, CNPSL

PEOPLE
FOUR FOUNDATIONS

- Jane Cookson appointed to Executive Leadership Team
- Launched agile working policy
- Diversity and Inclusion Forum established
- Continued focus on employee engagement
  - Retain and develop our best talent
- Strong, new leadership team now established

SUSTAINABILITY & SOCIAL VALUE

FOUR FOUNDATIONS

- Established Sustainability Committee
- New sustainability targets by 2025
  - Scope 1 and 2 carbon reduced by 25%
  - Waste intensity reduced by 15%
  - 100% renewable electricity purchased
- Placemaking and biodiversity commitment
- Many examples of COVID-19 volunteering and community support

FTSE4Good

SAFETY, HEALTH & ENVIRONMENT
FOUR FOUNDATIONS

- AIIR of 369 (FY19: 372)
- COVID-19 protocols quickly introduced
  - New induction process
  - New signage and extra sanitising facilities on sites
  - Protective measures introduced to all sales suites
  - Guidelines from CLC, HBF and Government
- Enhancements to existing protocols
  - New software introduced to track performance
  - Increased frequency of senior leader tours
  - Benchmarking

FINANCIAL TARGETS
FOUR FOUNDATIONS

- Strategy implementation on track
  - Organisational restructure to deliver immediate savings
  - Greater operational discipline enhances balance sheet
  - Decisive action to address weaker assets
- Margin rebuild will now follow
  - FY21: another year of rebalancing the portfolio
  - New land and house types start to deliver in FY22
- Reinstatement of dividend from HY21 at 2.5 times cover

SUMMARY AND OUTLOOK

Summary

- Strong progress on updated strategy
- Resilient business and balance sheet
- Experienced team now established

Outlook

- Well set for all market scenarios
- Strong forward sales for FY21
- CNPSL gives opportunity for additional revenue streams
- Margin rebuild now the priority

Q&A

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