Crest Nicholson

Half Year Results Presentation
18th June 2013

Half Year Results presentation

• Performance Highlights and Operations	Stephen Stone
• Financial Results	Patrick Bergin
• Outlook & Summary	Stephen Stone
• Q&A	

Business strategy set out at IPO

Grow volumes back towards 'Natural scale'	**Outlets +8% plus strong sales rates**
Maintain focus on Southern half of England	**Land additions centred on London & South East**
Pull through Strategic land to support gross margins	**Operational starts on 4 strategic sites**
Sustain operating margins at c.18%	**Operating margin 18.1%**
Focus on Return on Capital	**'Sweating' larger sites to drive ROCE**

Performance highlights (1)

Revenues of £192.0m (2012: £138.6m)	**+39%**
Unit completions of 810 units (2012: 746)	**+9%**
Sales per Outlet Week at 0.77 (2012: 0.65)	**+18%**
Forward sales of £330.9m (2012: £220.5m)	**+50%**

Performance highlights (2)

Gross profit of £53.4m (2012: £39.2m) **+36%**

Gross profit margin of 27.8% (2012: 28.3%) **-0.5%**

Operating profit of £34.8m* (2012: £21.7m) **+60%**

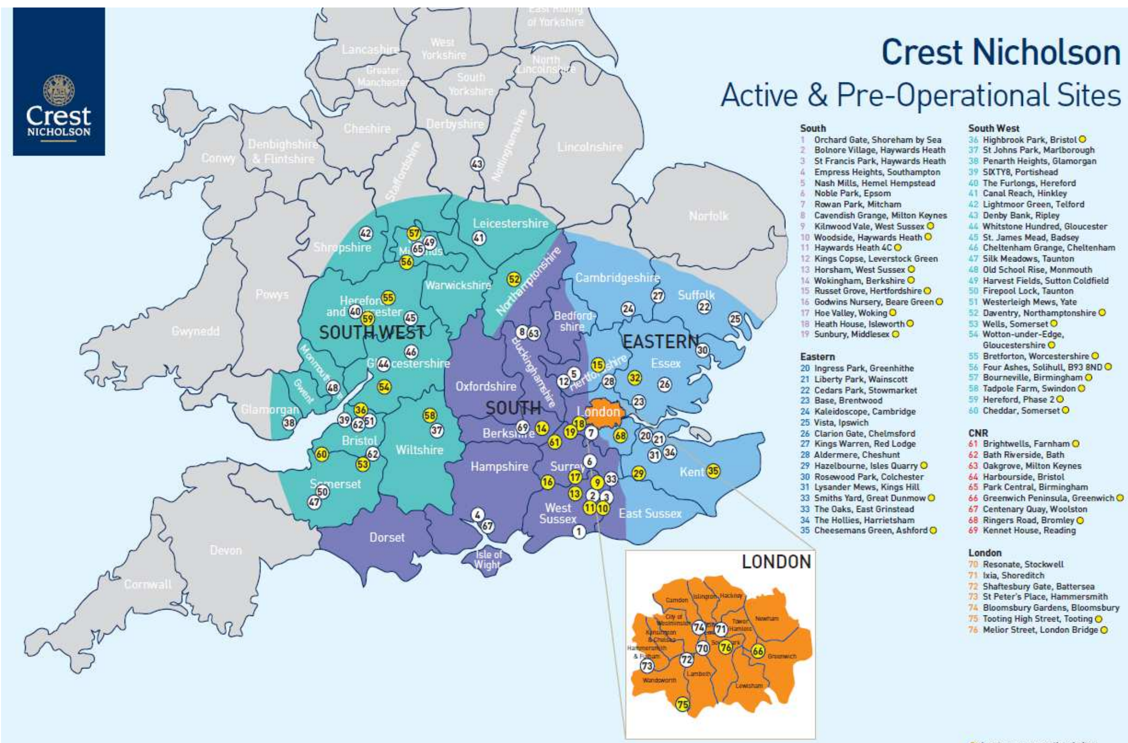
Operating profit margin of 18.1%* (2012: 15.7%) **+2.4%**

Profit before tax of £28.1m* (2012: £16.0m) **+76%**

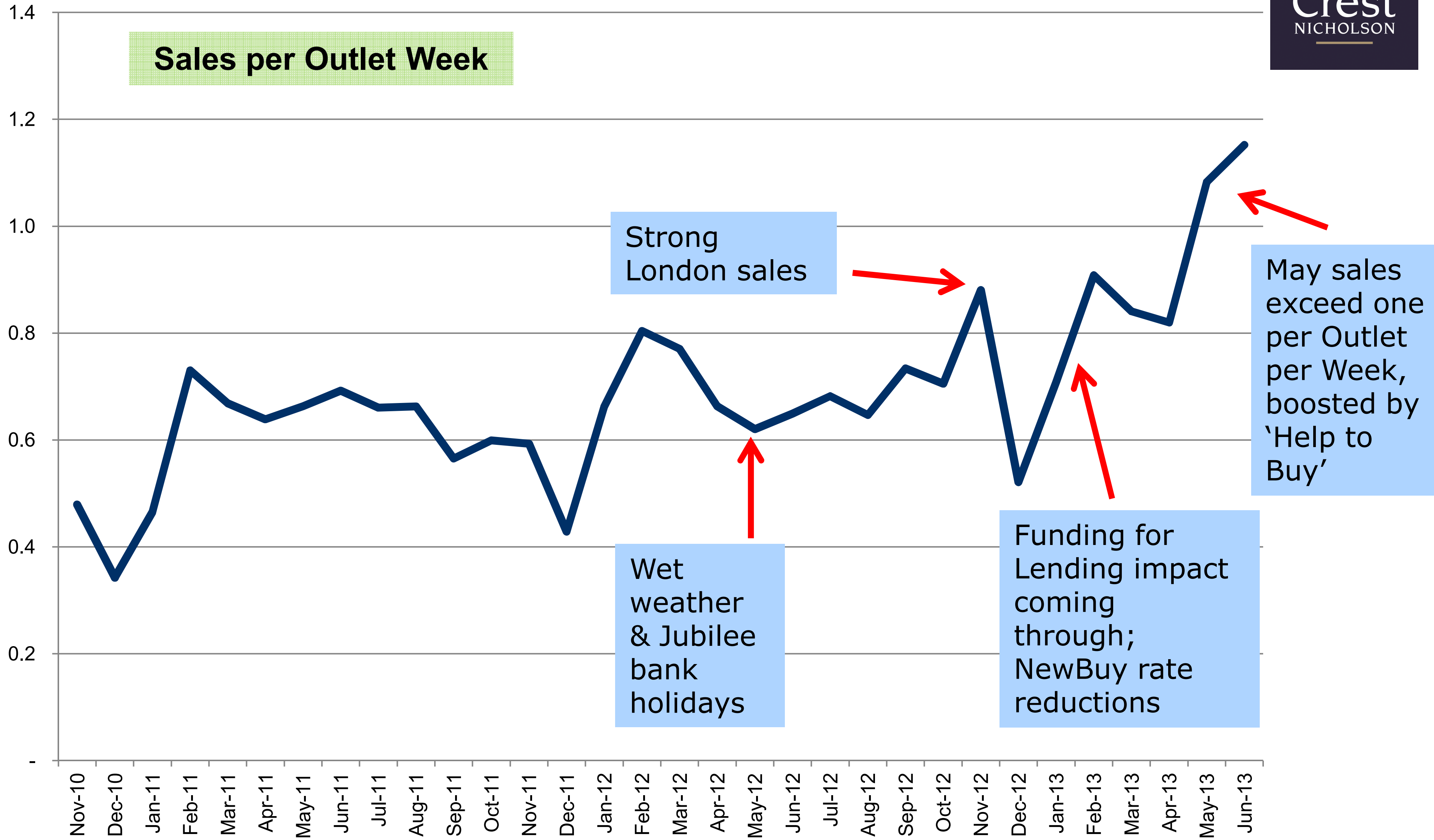
* Figures for 2013 quoted pre-exceptional charges of £5.9m incurred on IPO

Outlet growth

- Outlets increased by 8% in the first half, averaging 43 for the period
- New site openings and dual-outletting on major sites to sustain outlet growth



Strong sales performance



Supported by improving lending environment

- Crest’s sales rates have historically been strong versus peers

- Further supported by improving mortgage market: pricing and availability

Interest rate %	May ‘12	Sept ‘12	Jan ‘13	May ‘13
Halifax new-build 80-90% LTV	5.39	5.19	5.09	4.39
Halifax NewBuy	5.99	5.79	5.19	4.69
Nationwide NewBuy	5.79	5.39	4.44	4.44
Halifax Help to Buy				3.19
Nationwide Help to Buy				2.44

- Undoubted fillip from launch of Help to Buy; key is for supply chain, lenders and planners to play part in translating into higher Legal Completions

Implications of housing stimulus

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- Crest seeking to match demand with increased supply, but some potential for house price inflation as borrowing costs to customer reduce
- Supply chain will need some time to adjust to higher demand
  - Recruit and train additional labour
  - Increase materials production and delivery network capacity
- Some signs of supply chain stress:
  - Brick & block lead times extending
  - Sub-contractors ‘too busy’ to tender for work
- Build cost inflation expected, (partially) offsetting sales price increases
- Land prices stable so far; limited number of bidders outside of London
- Planning authorities will need to accelerate rate at which reserved matters on Planning Consents are cleared, so new sites come through

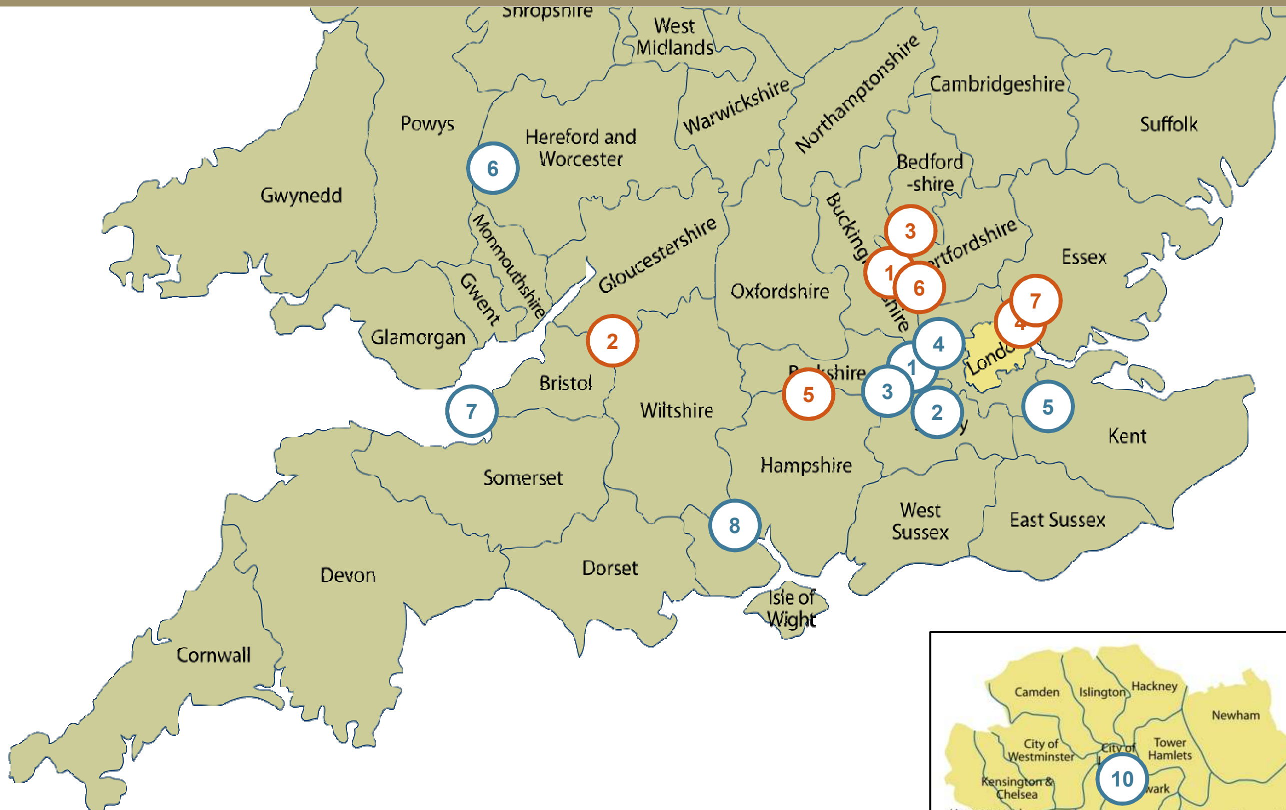
Portfolio progress

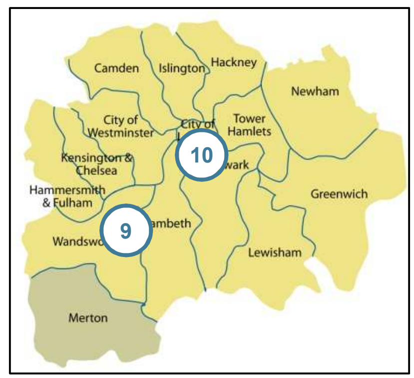
	Apr 2013			Apr 2012			Change		
	Units	GDV £m	Plot cost £’000	Units	GDV £m	Plot cost £’000	Units	GDV £m	Plot cost £’000
Short-term housing	17,094	3,780	29.3	15,413	3,233	27.8	1,681	547	1.5
Short-term commercial	-	288		-	260			28	
Total short-term	**17,094**	**4,068**		**15,413**	**3,493**		**1,681**	**575**	
Strategic land	13,763	3,338		14,742	3,156		(979)	182	
Total under contract	**30,857**	**7,406**		**30,155**	**6,649**		**702**	**757**	

- Strong run on strategic conversions has increased unit numbers in short-term portfolio
- Overall 11% increase in GDV(1) of total land bank
- Moderate change in plot cost, driven by additions in London & South East

(1) GDV is gross development value, which is the Group’s estimated total receipts from a proposed development, at current sales values and based on the Group’s current development plans for the land

Site additions





- Site acquisitions and options centred on London and the South East
- Breadth of sites facilitating Outlet expansion
- 1,019 units added to the short-term land bank and 1,449 to the strategic land bank

SITES PURCHASED THIS YEAR:

	Plots
1. Sunbury	206
2. Beare Green	24
3. Woking	149
4. Isleworth	59
5. Kings Hill	40
6. Hereford	29
7. Cheddar	28
8. Southampton	329
9. Tooting	112
10 Melior St., Borough	43

STRATEGIC SITE ADDITIONS:

1. Cheshunt	14
2. Chippenham	400
3. Great Amwell	90
4. Brentwood	131
5. Arborfield, Reading	702
6. Waltham Abbey	87
7. Mountnessing	25

Strategic land bank

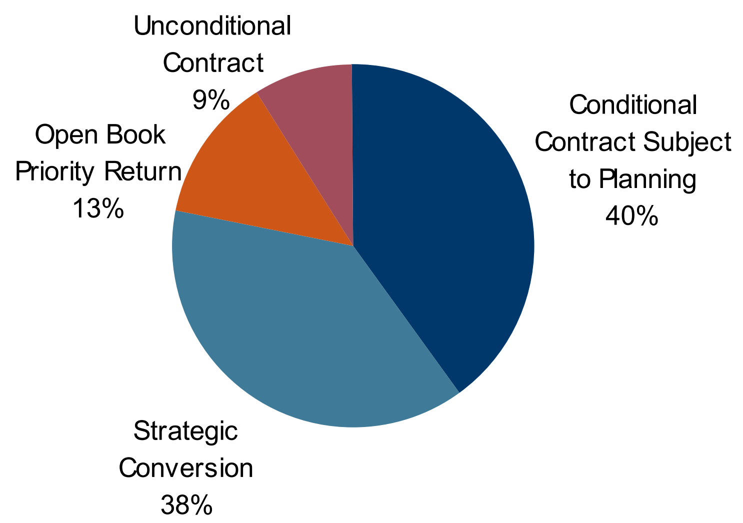
- **7** new sites added
- **3** consents achieved in period
- **4** operational commencements

Units from strategically-sourced land set to rise to c.20% in FY13 (FY12: 15%)

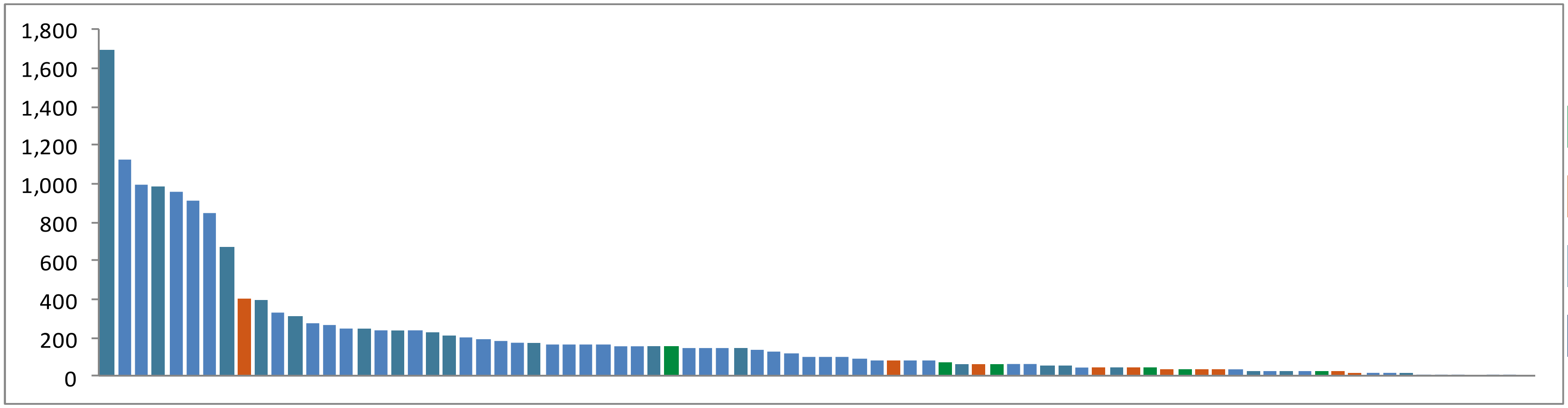
A dynamic source of high-margin land

Strong Short-Term Land Bank Characteristics

- Total sites: 76 – potential to dual outlet on larger schemes
- Fundamentals Right:
  - Balanced risk/reward
  - 95% Southern half of England
  - 30% Public/private Partnership
- Average site size > 200 dwellings
- Underpinned by strong backbone

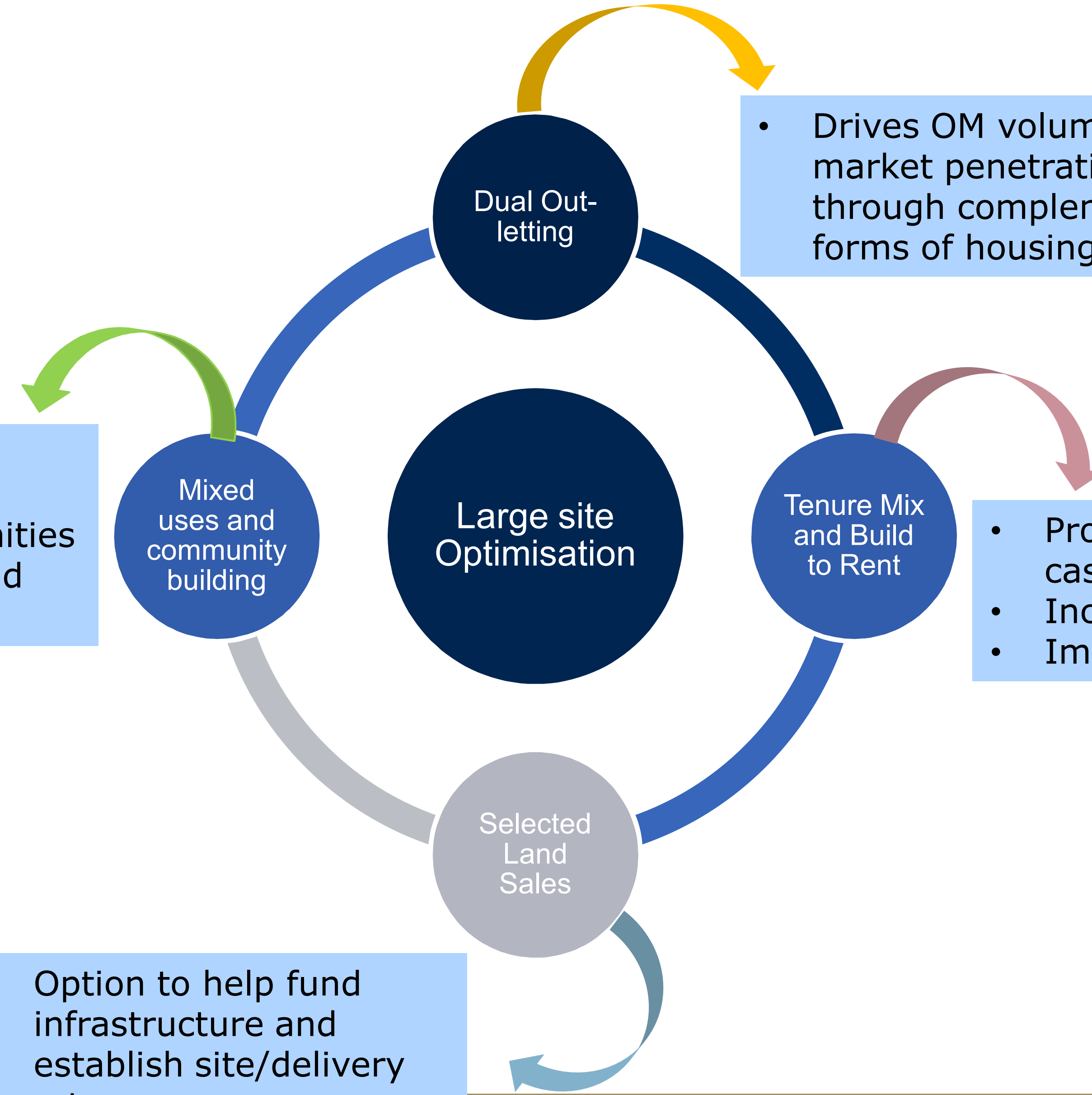


Consented site size by region (number of plots per site)



London
Midlands
South West
South East

Larger sites: Maximising opportunity



- Drives OM volumes and market penetration through complementary forms of housing

- Provides progressive cash flows.
- Increases delivery rate
- Improves ROCE

- Ancillary and complementary business opportunities
- Creates vitality and adds value

- Option to help fund infrastructure and establish site/delivery rates

Case study 1:- Oakgrove

- Partnership sourced on vision, design and sustainability principles through OJEU bid to the HCA
- New £175m village for Milton Keynes
  - 950 dwellings
  - £18m District centre
  - Schools and community uses
- Land secured under 15 year development agreement and drawn in phases:
  - Agreed priority returns for Crest
  - Deferred land payments
  - No guaranteed minimum land value
  - Sharing of surplus proceeds
- Retail let to Waitrose and pre sold to BMW pension fund
- Dual outletting with complementary housing products between divisions
- Joint sales rate since established of 10 to 15 dwellings per month

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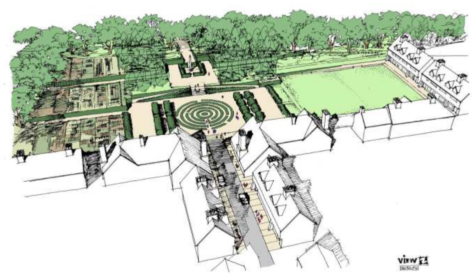
Case Study 2: – Faygate, Horsham

- Strategically sourced and consented for c.2,300 dwellings
- Land for first 1,416 dwellings acquired in discounted bulk deal
- Balance of site held under option.
- £2.3m GBB funding for the access roundabout
- Land sale to help fund rest of initial infrastructure
- Multi outletting:
  - Traditional housing
  - Local centre quarter
  - Discrete character zones
- £9m LIF loan for new Faygate station approved in principle by HCA



Evolving Crest's Vision

The Garden Village Principles:

Politically and Locally Liked:

- Combining the best of town and country living
- Access to strong local, cultural, recreational and shopping facilities
- Integrates with and is accessible to transport systems
- Encourages vibrant communities and provides homes that are affordable for local people

Playing to Crest's Strengths:

- High quality, imaginative design
- Homes with gardens and parking
- Generous green space
- A mix of public and private networks of well managed, attractive gardens, tree lined streets and open spaces
- Places emphasis on walkable neighbourhoods

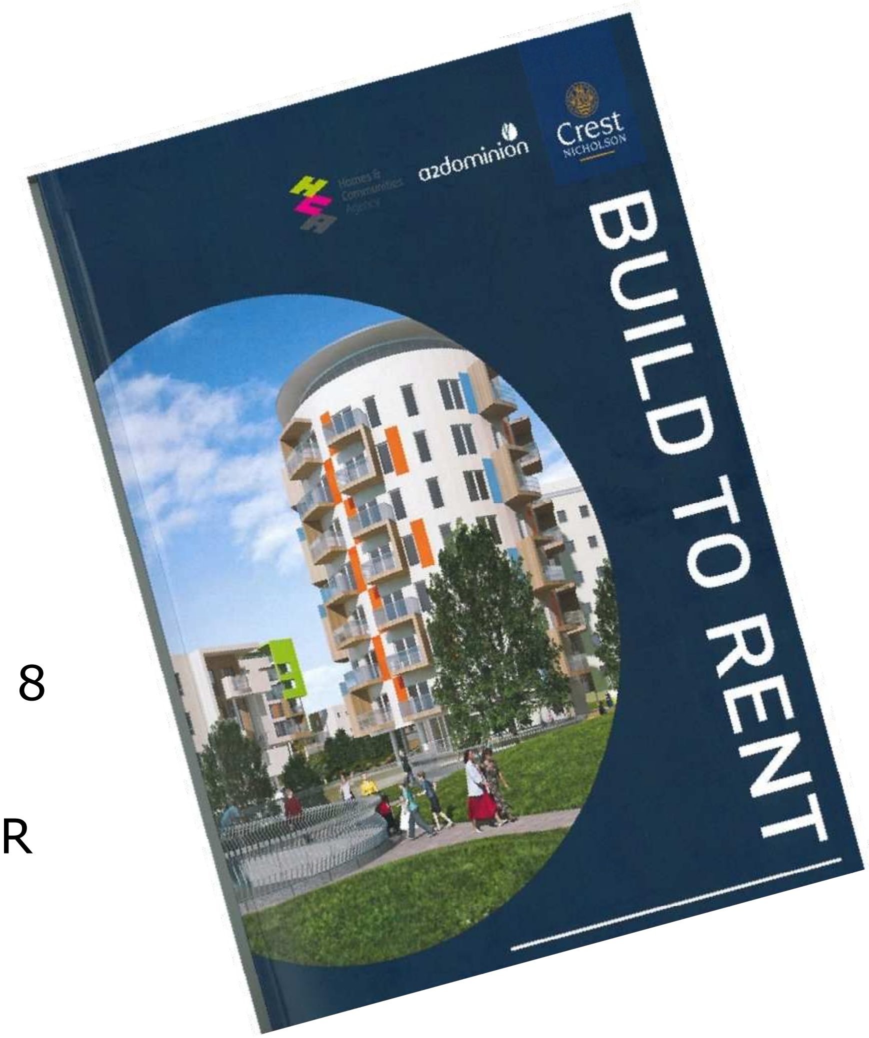
Reinforcing "Partner of Choice" Claim

- Already able to demonstrate significant and strong on-going partnership record delivering vision, value and good design

- Great Gateway to more public sector land:
  - Re-selected to HCA delivery partner panel in all three key operating areas
  - Negotiated and drawn next £74m phase of Centenary Quay from HCA (Right to draw another 800 dwellings in future – not in portfolio)
  - Appointed as Development Manager and Deliverer on Arborfield Garrison, Reading:
    - Crest to design and deliver 2,000 unit scheme
    - £230m GDV
    - Crest to develop 35% & district centre

Private Rental Sector

- Potentially good strategic fit with Crest's larger sites, product and public sector partner's aspirations.
  - Driving volume
  - Overhead leverage
  - Kicker for Return on Capital
- Evolving models with HCA and two potential partners
- HCA approved bid for funding to deliver circa 1,000 dwellings over 4 years
- Potential for nearer 2,000 dwellings over 8 years
- First two agreements exchanged with BTR partner A2Dominion achieved last week;
  - 46 Apartments at Harbourside
  - 102 Apartments at Centenary Quay



Financial Results

H1 2013 Financial Highlights

Strong growth and good returns

Revenue	Open Market ASP	Gross Profit
£192.0m (2012: £138.6m)	£241k (2012: £233k)	£53.4m (2012: £39.2m)
Gross Margins	**Operating Profit**	**Operating Margins**
27.8% (2012: 28.3%)	£34.8m (2012: £21.7m)	18.1% (2012: 15.7%)
Profit after tax	**EPS**	**Net Assets**
£21.9m (2012: £12.5m)	9.3p (2012: 5.6p)	£415.9m (2012: £286.0m)

- Statistics pre-exceptional (where applicable)
- 45% increase in Net Asset value over 12 months

Key metrics

	H1 2013	H1 2012	Inc/(Dec) %
Outlets	43	40	+8%
Sales per Outlet Week (Open market)	0.77	0.65	+18%
Legal completions			
Open market	699	537	+30%
Affordable	111	209	-47%
ASP			
Open market	241	233	+3%
Affordable*	161	122	+32%

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

Income statement

Income statement (£m, unless stated)	H1 2013 Pre-exceptional	Exceptional costs	H1 2013 Total	H1 2012	Change (pre-exceptional)	
Revenue	**192.0**		**192.0**	**138.6**	**53.4**	**38.5%**
Cost of goods sold	(138.6)		(138.6)	(99.4)	(39.2)	
Gross profit	**53.4**		**53.4**	**39.2**	**14.2**	**36.2%**
% gross profit margin	*27.8%*		*27.8%*	*28.3%*	*(0.5%)*	
Administrative expenses	(18.6)	(5.9)	(24.5)	(17.5)	(1.1)	
Operating profit	**34.8**	**(5.9)**	**28.9**	**21.7**	**13.1**	**60.4%**
% operating profit margin	*18.1%*		*15.1%*	*15.7%*	*2.4%*	
Net financing costs	(6.7)		(6.7)	(5.7)	(1.0)	
Profit before tax	**28.1**	**(5.9)**	**22.2**	**16.0**	**12.1**	**75.6%**
Income tax	(6.2)		(6.2)	(3.5)	(2.7)	
Profit after tax	**21.9**	**(5.9)**	**16.0**	**12.5**	**9.4**	**75.2%**
Earnings per Share (p)	**9.3p**	**(2.5)p**	**6.8p**	**5.6p**	**3.7p**	**66.1%**

Balance sheet

Balance sheet (£m, unless stated)	30th Apr 2013	31st Oct 2012	30th Apr 2012	Change on Oct'12	Change on Apr'12
Non-current Assets	136.4	140.1	136.2	(3.7)	0.2
Inventory	542.3	469.4	438.3	72.9	104.0
Trade & other receivables	39.4	41.5	44.8	(2.1)	(5.4)
Cash and cash equivalents	79.1	150.1	85.1	(71.0)	(6.0)
Total Assets	**797.2**	**801.1**	**704.4**	**(3.9)**	**92.8**
Interest bearing loans and borrowings	(89.2)	(180.5)	(163.7)	91.3	74.5
Land creditors	(107.6)	(90.3)	(55.2)	(17.3)	(52.4)
Retirement benefit obligations	(31.3)	(29.9)	(47.6)	(1.4)	16.3
Trade and other liabilities	(153.2)	(153.3)	(151.9)	0.1	(1.3)
Total Liabilities	**(381.3)**	**(454.0)**	**(418.4)**	**72.7**	**37.1**
Shareholders' Equity	**415.9**	**347.1**	**286.0**	**68.8**	**129.9**
Net debt/Equity	2.4%	8.7%	27.5%	(6.3%)	(25.1%)
Net debt (inc. land creditors)/Equity	28.3%	34.8%	46.8%	(6.5%)	(18.5%)

Cash flow

Cash flow (£m, unless stated)	H1 2013	H1 2012	Change
Operating profit before changes in working capital and provisions	**29.5**	**22.4**	**7.1**
Decrease in trade and other receivables	2.1	1.9	0.2
Increase in inventories	(72.9)	(44.1)	(28.8)
Increase/(decrease) in trade and other payables	19.4	(8.5)	27.9
Cash generated from operations	**(21.9)**	**(28.3)**	**6.4**
Interest paid	(6.2)	(7.1)	0.9
Tax paid	-	-	-
Net cash flow from operating activities	**(28.1)**	**(35.4)**	**7.3**
Net cash flow from investing activities	(2.1)	(1.4)	(0.7)
Net cash flow from financing activities	(40.8)	-	(40.8)
Net (decrease)/increase in cash and cash equivalents	**(71.0)**	**(36.8)**	**(34.2)**
Cash and cash equivalents at the beginning of the year	150.1	121.9	28.2
Cash and cash equivalents at 30th April	**79.1**	**85.1**	**(6.0)**

Re-Financing

£m	30th April 2013	31st October 2012
Cash	79.1	150.1
Shareholder term loans	-	(151.9)
Revolving Credit Facility	(42.1)	-
Get Britain Building loans	(34.6)	(16.4)
Morley loan	(12.5)	(12.1)
Net debt	(10.1)	(30.3)
Undrawn facilities	(55.0)	-
Shareholder equity	415.9	347.1
Net debt/Equity	2.4%	8.7%

- Term loans replaced with RCF; maturity extended to December 2016
- Unsecured GBB loans used to finance specific projects
- Equity includes £50.4m net proceeds of equity capital raised at IPO

Forward sales

	YTD FY13	YTD FY12	FY12	FY11
Units – all years	1,877	1,327	837	947
% change on prior period	+41%		-12%	
GDV (£m) – all years	330.9	220.5	129.6	142.2
% change on prior period	+50%		-9%	
% of FY2013/12 target	88%	82%	25%	34%

- Opened year with lower forward sales position; Open Market sales up 22% by value but, as anticipated, Affordable down 35% on same basis
- Strong YTD sales have driven improved position

Outlook & Summary

Outlook

- Improving mortgage availability and pricing, coupled with stimulus from 'Help to Buy' is having a positive impact on sales
- Lead time to increase legal completions: supply chain, lenders and planning authorities all have to play their part – moderate impact by October'13 year-end
- Benefits of improving sentiment and sector stimulus therefore likely to be more fully felt in FY2014
- Nevertheless:
  - strong forward sales position provides great platform for future performance
  - opportunities to drive further benefits through PRS
- Anticipate commencement of dividend based on 2013 full year earnings

Summary

- A positive set of results on Crest Nicholson’s return to the market
  - Strong sales growth
  - Sustaining high operating margins
  - Positioned to continue driving value from high-quality development pipeline
- Business strategy as outlined at IPO remains on track and is being delivered; Board confident on out-turn for the year
- Opportunities emerging to advance growth targets and drive ROCE

Q&A

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