Crest Nicholson Holdings plc

2015 Interim Results

16th June 2015

Agenda

• Highlights	Stephen Stone
• Financial Results	Patrick Bergin
• Operational performance	Stephen Stone
• Private Rental Sector	Chris Tinker
• Strategy, Outlook and Summary	Stephen Stone
• Q&A	

Performance highlights (1)

Sales per Outlet Week at 0.93 (2014: 0.83)	+12%
Unit completions of 1,124 units (2014: 1,091)	+3%
Open market ASP (ex-PRS land sale) £309k (2014: £269k)	+15%
Forward sales at mid-June of £436.4m (2014: £347.3m)	+26%

Performance highlights (2)

Revenues of £333.2m (2014: £241.1m)	**+38%**
Operating profit of £63.6m (2014: £44.7m)	**+43%**
Earnings per share of 18.6p (2014: 12.3p)	**+51%**
Dividend per share of 6.4p (2014: 4.1p)	**+56%**

Operating profit margin of 19.1% (2014: 18.5%)

Crest
NICHOLSON

Financial Results

Key metrics

	HY 2015	HY 2014	Inc/(Dec) %
Outlets	44	42	+5%
Sales per Outlet Week (Open market)	0.93	0.83	+12%
Legal completions			
Open market	834	769	+8%
Affordable	290	322	-10%
ASP			
Open market*	309	269	+15%
Affordable**	128	105	+22%

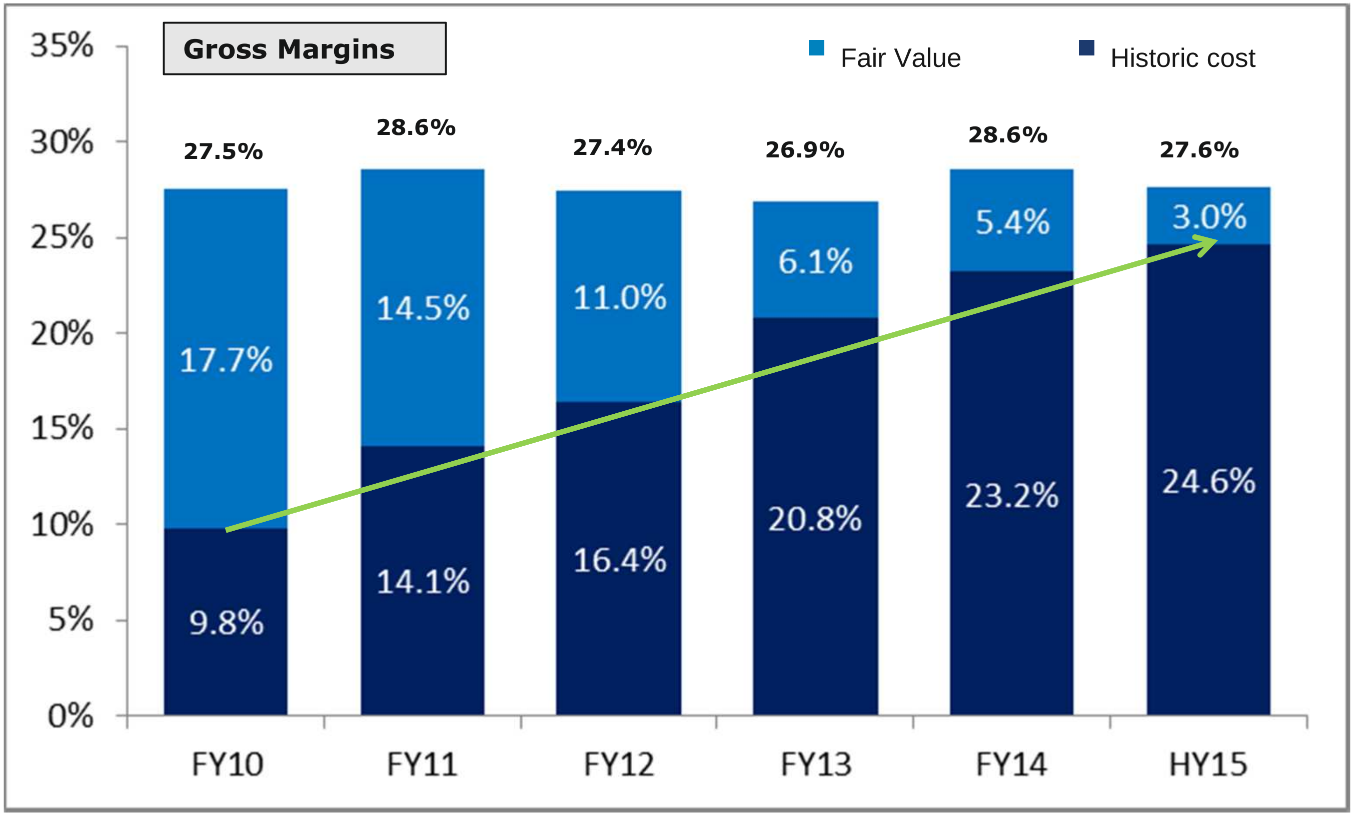
* Excluding impact of PRS land sale revenues

** Affordable ASP varies depending on extent to which related Affordable Land Sale matched to year of Affordable unit legal completion. Affordable units as % of overall delivery expected to continue at c.25%

Income statement

Income statement (£m, unless stated)	HY 2015	HY 2014	Change	
Revenue	**333.2**	**241.1**	**92.1**	**38%**
Cost of sales	(241.4)	(171.8)	(69.6)	
Gross profit	**91.8**	**69.3**	**22.5**	**32%**
% gross profit margin	***27.6%***	***28.7%***	***(110 bps)***	
Administrative expenses	(28.2)	(24.6)	(3.6)	
Operating profit	**63.6**	**44.7**	**18.9**	**42%**
% operating profit margin	***19.1%***	***18.5%***	***60bps***	
Net financing costs	(5.3)	(6.4)	1.1	
Share of JV	-	0.1	(0.1)	
Profit before tax	**58.3**	**38.4**	**19.9**	**52%**
Income tax	(11.6)	(7.5)	(4.1)	
Profit after tax	**46.7**	**30.9**	**15.8**	**51%**
Earnings per Share (p)	**18.6p**	**12.3p**	**6.3p**	**51%**

Underlying margin growth continues



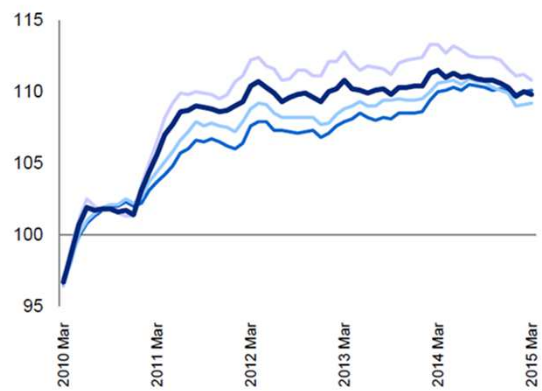
Actual & projected fair value contribution to Gross Margin:-

- 2014 – £34m
- 2015 - £27m
- 2016 - £15m
- 2017 - £12m

- Underlying margin strength as 'fair value' impact diminishes; residual provision of £99m at 31st Oct 2014 to unwind over time as long-tail sites complete - £54m in next 3 years
- Operating margins aided further by scale leverage and rising ASPs

Build costs (1)

Chart 1: Construction Material Price Indices, UK
Index, 2010 = 100



Source: Table 1, Monthly Statistics of Building Materials and Components

Table 1: Construction materials experiencing the largest price increases and decreases in the 12 months to March 2015, UK

Construction Materials	% change on a year earlier
Largest price increases	
Imported Plywood	8.4
All Bricks	8.2
Ready-mixed concrete	4.8
Largest price decreases	
Fabricated Structural Steel	-10.6
Concrete Reinforcing Bars	-9.9
Imported sawn or planed wood	-5.7

Source: Table 2, Monthly Statistics of Building Materials and Components

- After initial sharp rises in 2014, rates of increase in costs slowed down; overall annual impact of c.5%
- Post-MMR, moderation in sales rates (& HPI) had a similar effect on input prices. Falling oil prices reduce manufacturing and haulage costs
- Resurgent market likely to see upward pressure on costs, as rising volumes increase scarcity and give suppliers and sub-contractors choices

Build costs (2)

- Build cost pressures in specific trades, primarily on labour rates; materials now experiencing more ‘normal’ inflation
- Context of UK housing strength against backdrop of slower growth in Europe and elsewhere helping to keep some prices lower
- Highest inflation has applied to bricks & bricklaying; carpentry, plumbing and M&E (in London) also meaningful
  - Current increases running at c.5-8% p.a. depending on location
- Highest cost inflation in London, but build cost:sales <40%, so requires build cost to be 2.5x rate of sales price inflation to fully erode
- Nonetheless, will restrain gross margin % improvement

Balance sheet

Balance sheet (£m, unless stated)	30th April 2015	31st October 2014	30th April 2014	Change on Oct'14	Change on Apr '14
Non-current Assets	84.2	100.1	116.9	(15.9)	(32.7)
Inventory	850.1	814.1	706.4	36.0	143.7
Trade & other receivables & financial assets	54.2	48.1	40.4	6.1	13.8
Cash and cash equivalents	113.9	142.0	89.0	(28.1)	24.9
Total Assets	**1,102.4**	**1,104.3**	**952.7**	**(1.9)**	**149.7**
Interest bearing loans and borrowings	(174.5)	(161.3)	(149.6)	(13.2)	(24.9)
Land creditors	(157.2)	(214.5)	(135.0)	57.3	(22.2)
Retirement benefit obligations	(21.6)	(23.7)	(20.0)	2.1	(1.6)
Trade and other liabilities	(190.8)	(168.3)	(164.4)	(22.5)	(26.4)
Total Liabilities	**(544.1)**	**(567.8)**	**(469.0)**	**23.7**	**(75.1)**
Shareholders' Equity	**558.3**	**536.5**	**483.7**	**21.8**	**74.6**
Net debt/Equity	10.9%	3.6%	12.5%		
Net debt (inc. land creditors)/Equity	39.0%	43.6%	40.4%		

Cash flow

Cash flow (£m, unless stated)	HY 2015	HY 2014	Change
Operating profit before changes in working capital and provisions	**66.5**	**46.6**	**19.9**
(Increase)/decrease in trade and other receivables	(3.8)	3.6	(7.4)
Increase in inventories	(36.0)	(128.7)	92.7
Decrease in trade and other payables	(41.2)	(5.1)	(36.1)
Cash outflow from operations	**(14.5)**	**(83.6)**	**69.1**
Interest paid	(4.5)	(4.1)	(0.4)
Tax paid	-	-	-
Net cash outflow from operating activities	**(19.0)**	**(87.7)**	**68.7**
Net cash inflow from investing activities	3.6	3.6	-
Net cash (outflow)/ inflow from financing activities	(12.7)	48.6	(61.3)
Net decrease in cash and cash equivalents	**(28.1)**	**(35.5)**	**7.4**
Cash and cash equivalents at the beginning of the year	142.0	124.5	17.5
Cash and cash equivalents at end of the period	**113.9**	**89.0**	**24.9**

Forward sales

	YTD FY15	YTD FY14	FY14	FY13
Units – all years	2,102	1,779	1,499	1,360
% change on prior period	+18%		+10%	
GDV (£m) – all years	436.4	347.3	249.4	230.1
% change on prior period	+26%		+8%	
% of FY2015/14 target GDV	79%	87%	24%	34%

- Strong forward sales position reflects OM sales rates and PRS pipeline
- Well positioned in relation to full year target GDV

Operational Performance

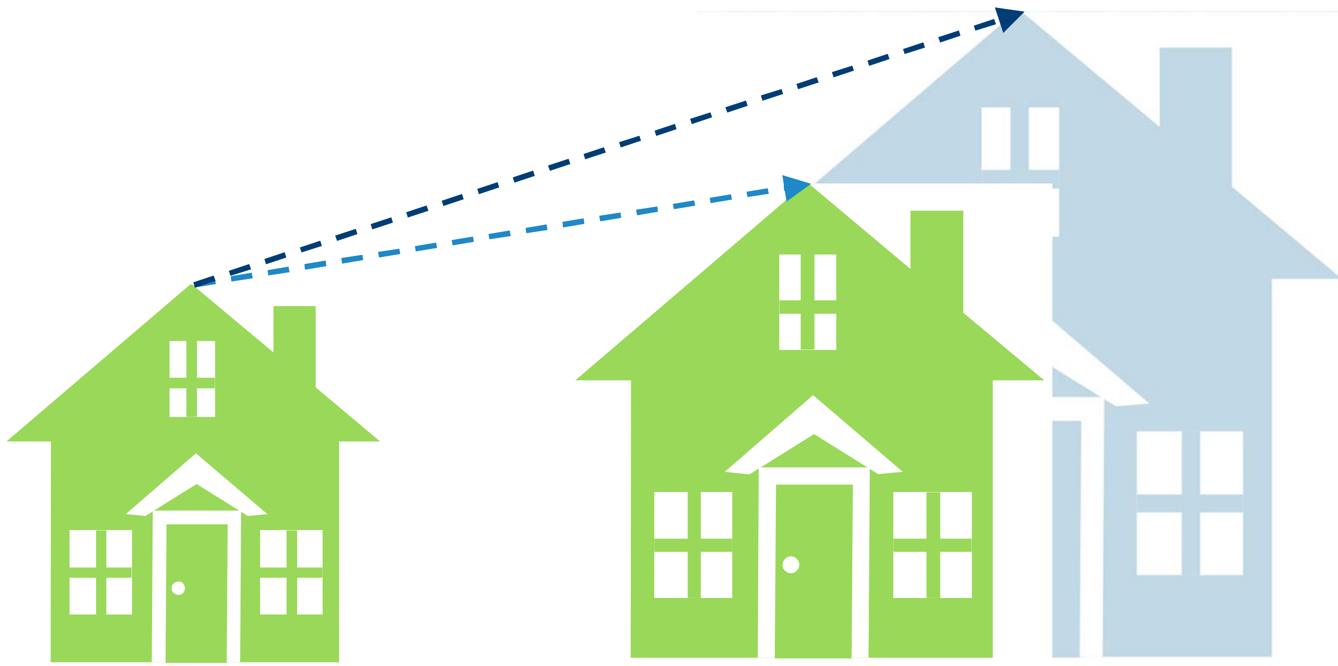
Favourable alignment of factors

- Favourable sector dynamics here for the foreseeable future, underpinned by strong fundamentals in our areas of operation
- Against the backdrop of a growing economy and rising employment, mortgage access continues to improve:
  - Extension of Help to Buy confirmed to 2020
  - Increasing supply of higher LTV products at competitive rates
- Clear election outcome provides policy continuity and removes cloud of uncertainty over London in particular
- Land market benign; sales price and build cost inflation steady…but may accelerate
- Real incomes rising, as wage growth outstrips low CPI

Election outcome and stated policies

- Conservative government provides for continuity of currently supportive policy framework
- Election pledges to support apprenticeships and further assist first-time buyers are helpful
- Risks to London market in particular subside, as concerns over the potential for rent controls, mansion tax and other interventions in the market are removed
- Affordability likely to remain a key focus – may support expansion, among other things, of PRS.

On track to meet our initial targets - Revenue growth to c.£1bn by 2016



2013

- 2,172 units
- OM ASP £250k

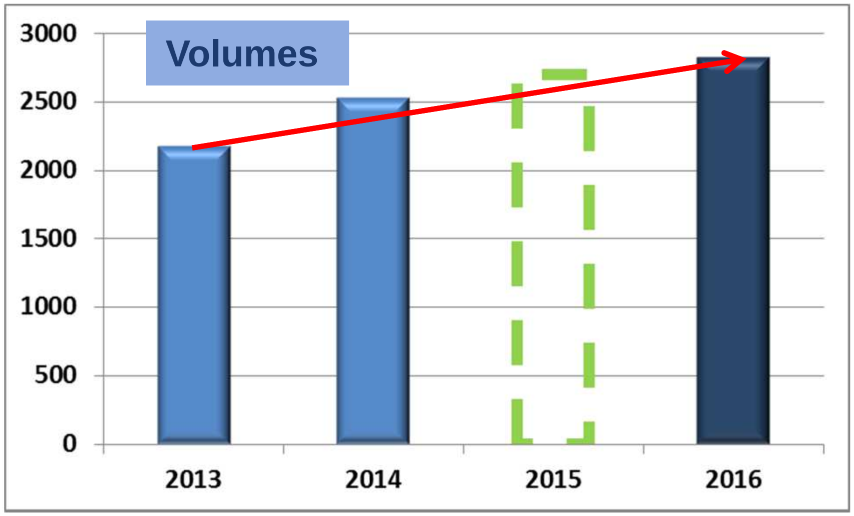
2016

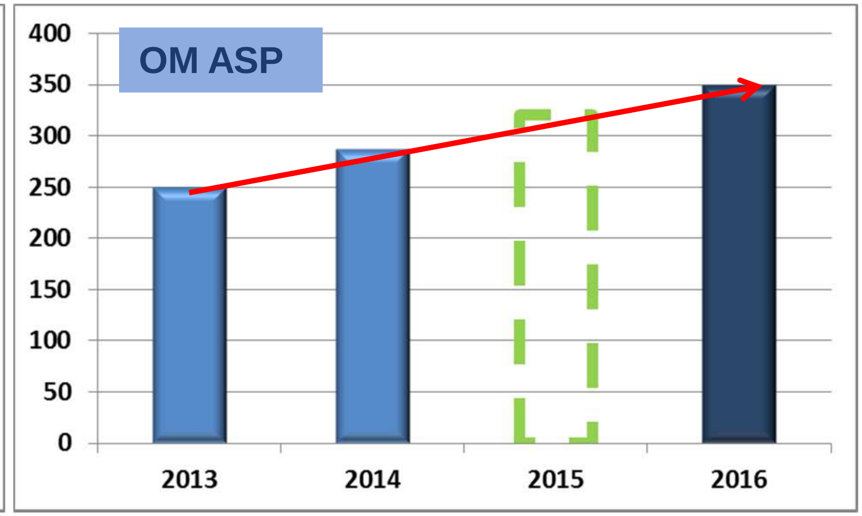
- Volumes 2,700 – 2,900

AND

- OM ASP £340k - £350k

Progress at the half-way mark





Actual Forecast Target

Actual Forecast Target

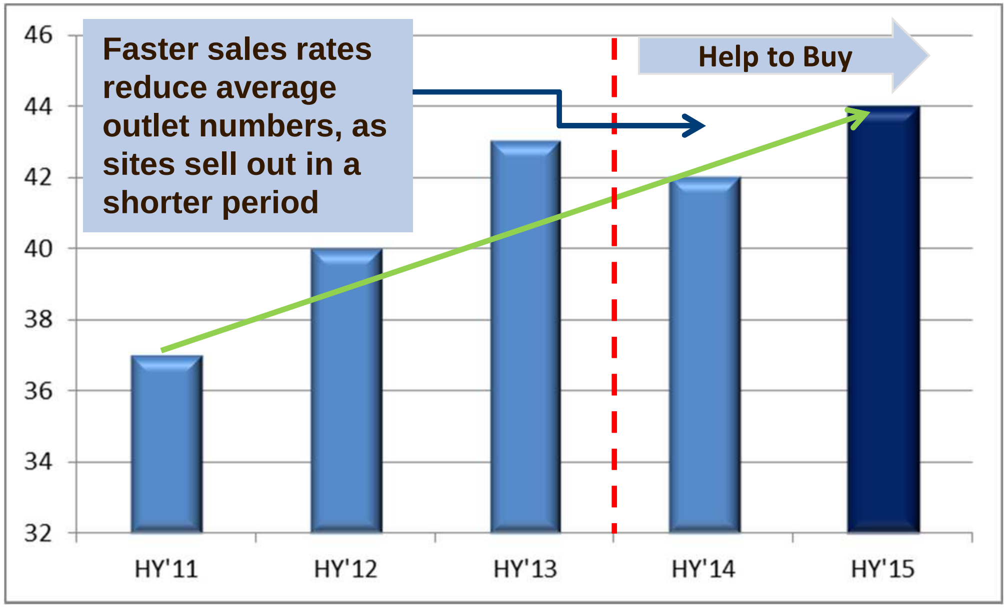
- Performing just ahead of upper end of target range
  - Volumes growing c.30%
  - OM ASP growing c.40%
- Cumulative revenue growth expected to be c.80% over three years
- Drives strong earnings and underpins progressive dividend

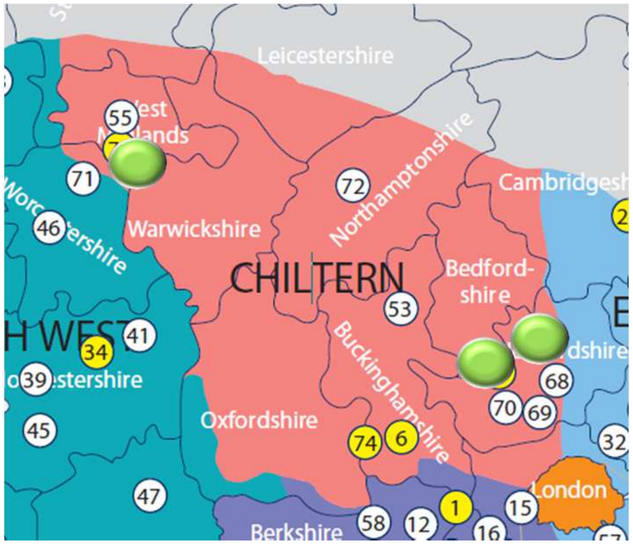
Land pipeline growing in value

	Apr 2015		Apr 2014		Change %	
	Units	**GDV £m**	**Units**	**GDV £m**	**Units**	**GDV £m**
Short-term housing	15,857	4,717	16,118	4,127	(1.6%)	14.3%
Short-term commercial	-	231	-	245		(5.7)%
Total short-term	**15,857**	**4,948**	**16,118**	**4,372**	**(1.6%)**	**13.2%**
Strategic land	18,153	5,139	15,046	3,865	20.7%	33.0%
Total under contract	**34,010**	**10,087**	**31,164**	**8,236**	**9.1%**	**22.5%**

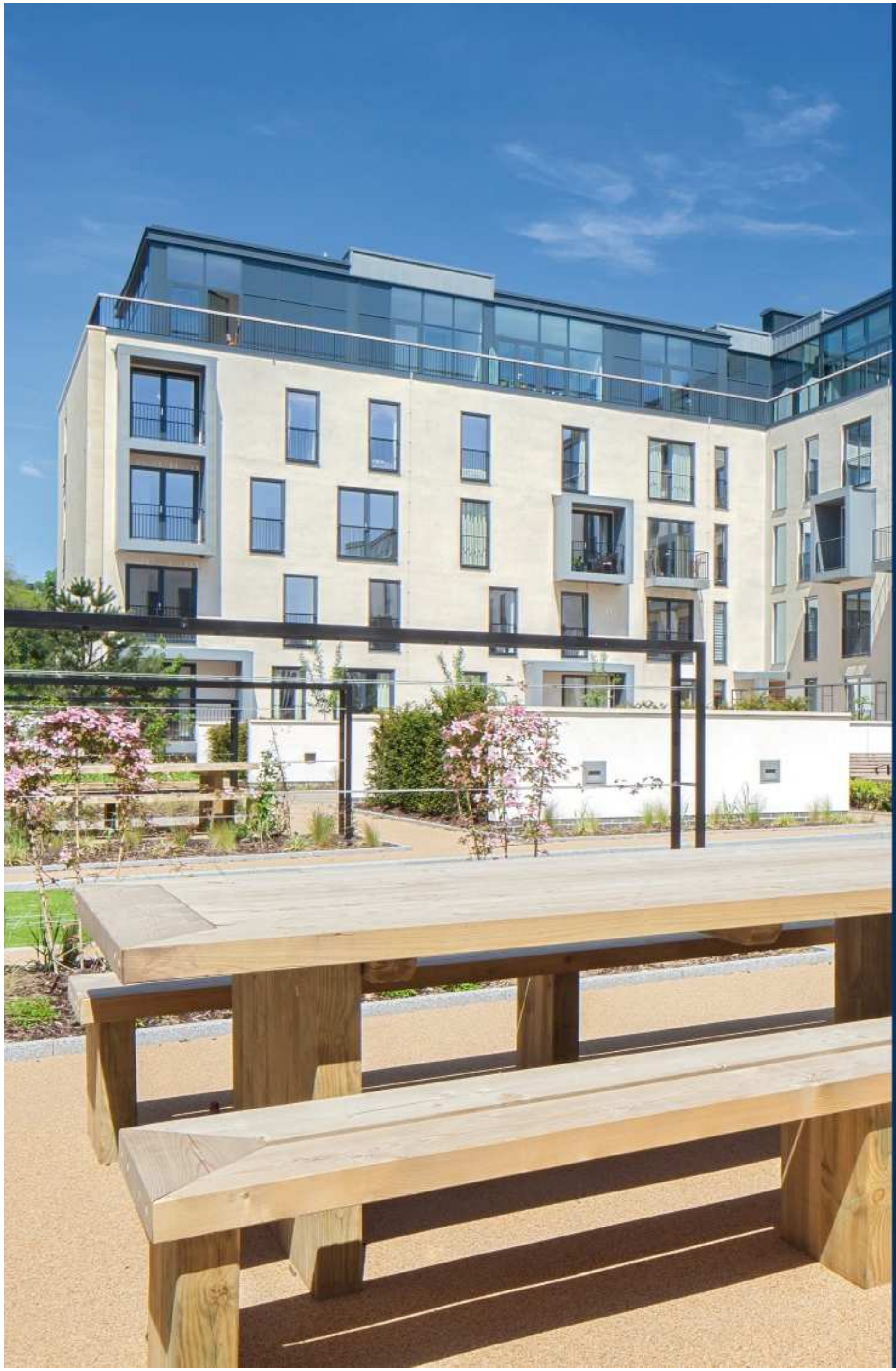
- Short-term portfolio; ASP increase as London and Chiltern grow
- Replenishment of Strategic plots continues; 2,274 plots secured at RAF Wyton, north-west of Cambridge
- Total land pipeline growing in unit and GDV terms

Incremental purchases to drive Outlet growth



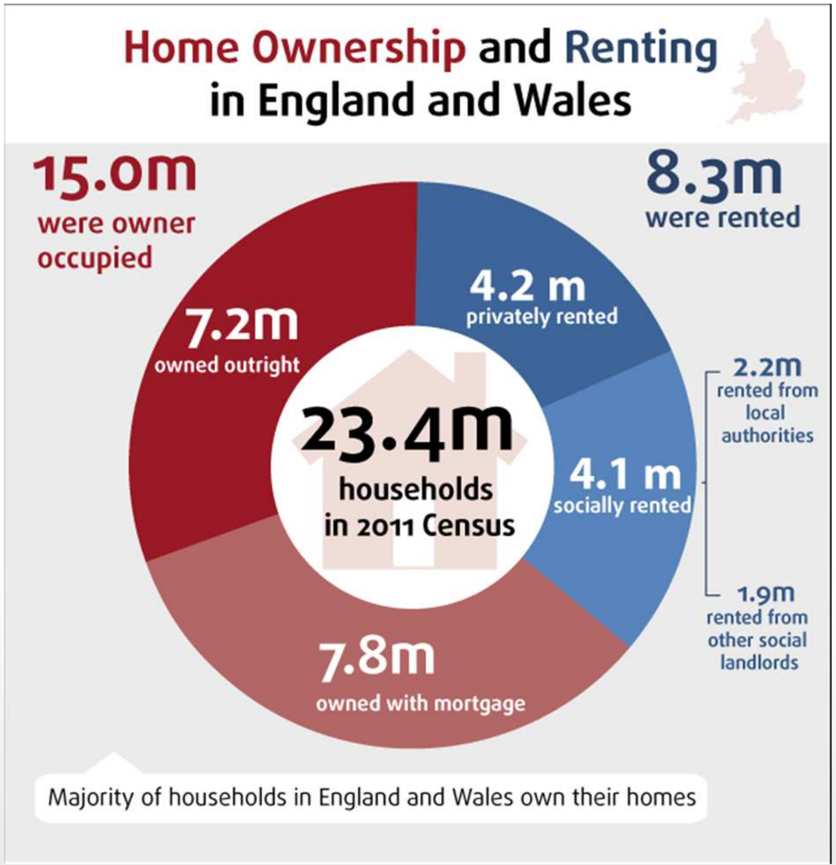


- Three sites added year-to-date in Chiltern division, at St Albans, Hitchin & Bourneville
- London additions in Peckham and Lower Sydenham
- Additional management bandwidth helpful to driving outlet growth



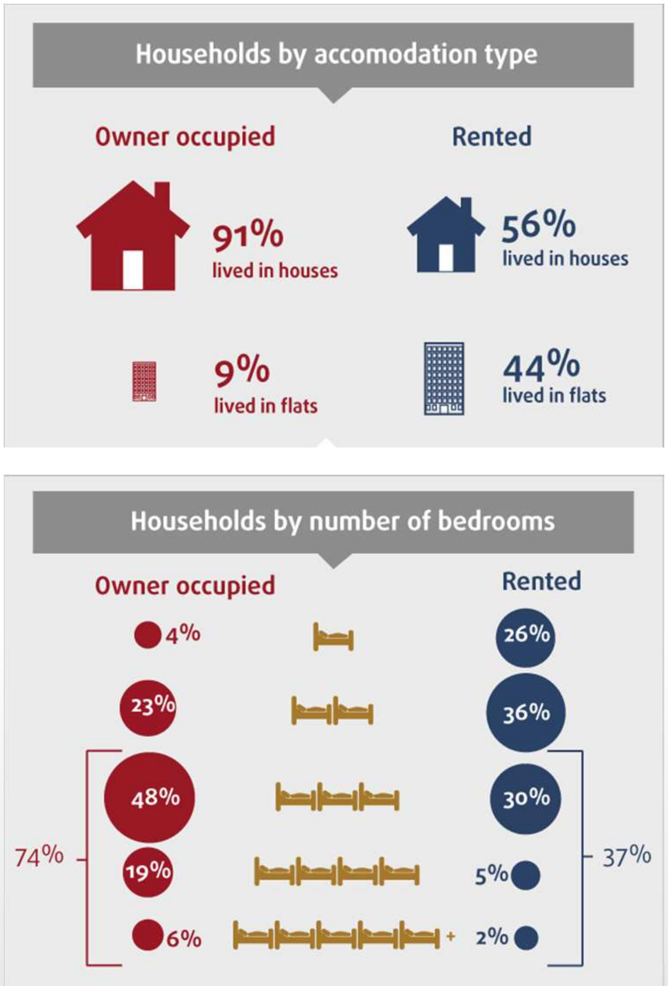
Private Rental Sector

England & Wales Household Composition



- The 2011 census data showed that 8.3m (35.5%) households in England and Wales were rented.
- Of these, 4.2m, the equivalent of 17.9% of households, are privately rented

Composition by type, size & tenure



- 56% of all renters live in houses representing 4.65m households.
- The majority of owner occupied households live in 2, 3 & 4 bedroom homes.
- The main focus for rented properties however is 1, 2 & 3 bedroom homes.

PRS: The Barriers

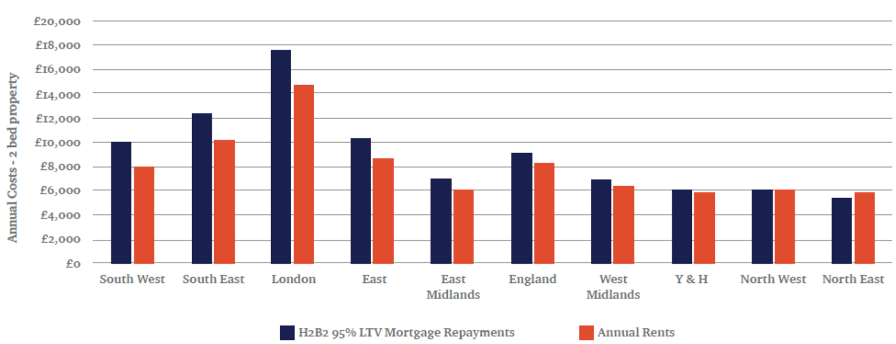
Despite Government encouragement and well publicised interest from investors and registered providers, the 2012 Montague report concluded that the main barriers to institutional PRS are:

1. Lack of suitably designed PRS product
2. A lack of standing stock
3. Shortage of relevant skills and expertise
4. Inefficient and high management costs
5. Planning and planning gain:
   - CIL/S106
   - Affordable housing requirements
6. Inability to compete in the land market against OM developers
7. Lack of encouragement through public sector land releases.

PRS: Institutional Investment Criteria

The many Institutions we have met have broadly used the same investment metrics to assess opportunities and to appraise the robustness and price of PRS schemes.
Increasingly there is no geographic barrier

Cost of Buying at High LTVs Versus Renting by Region



Source: Hamptons International

Demand variables:
- % of 25–34yr olds
- forecast growth of 23-34yr olds
- % households in PRS
- Unemployment rate
- Employment forecast
- Gross pay/week
- Disposable income growth

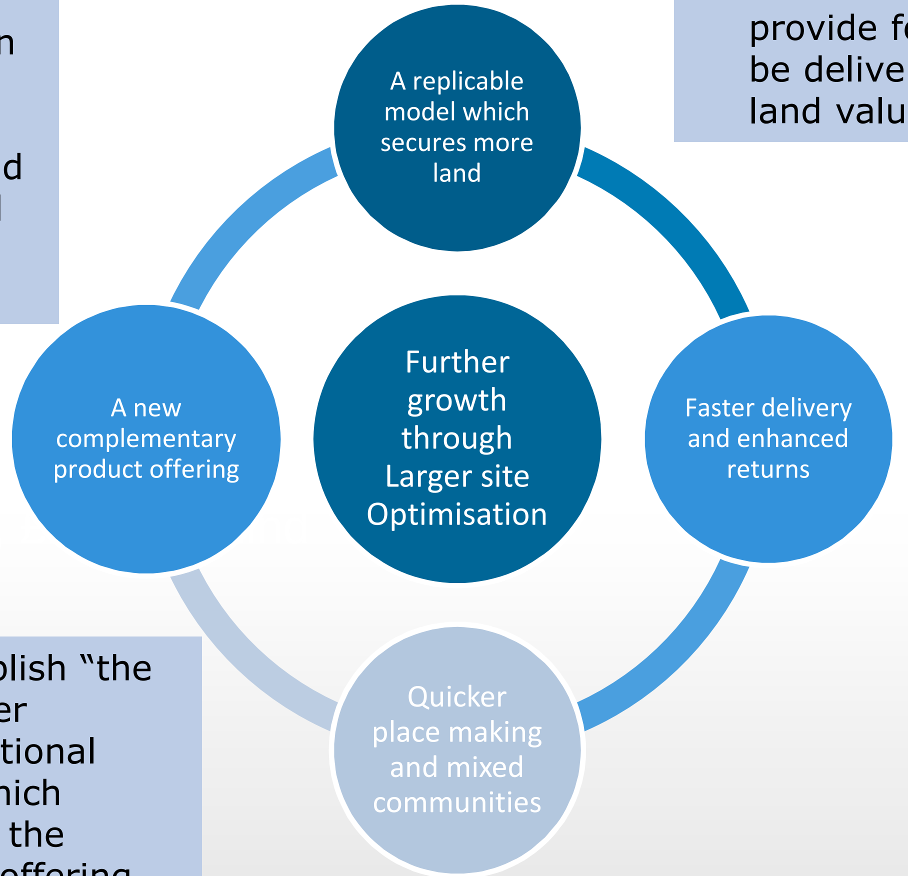
Supply variables:
- No' of households v stock
- No' of household v future stock
- No' of units in build as % of stock
- No' of consented unbuilt units

Affordability Variables:
- HPE ratio
- Mortgage payment as % income
- Rent as % income
- Buying vs renting ratio
- Gross Yield

PRS: Crest Opportunity and Objectives

- Opportunity to deliver more tailored BTR product on sub-urban and urban developments
- Significant design and build efficiencies and economies of scale can be realised

- We have already secured three public sector sites which provide for PRS to be delivered to PRS land values



- Should establish "the place" quicker
- Creates additional amenities which complement the existing OM offering
- Delivers a broader tenure base.

- Provides progressive cash flows.
- Increases delivery rate without competition
- Improves ROCE on major sites
- Incremental GM opportunity
- Reduces need to land trade and retains GM within the Group
- Potentially reduces affordable housing volumes required

PRS: The urban model is established

Centenary Quay

- 103 PRS dwellings pre sold to A2Dominion
- The first Government funded BTR scheme on public sector land
- Completions due 2016/2017

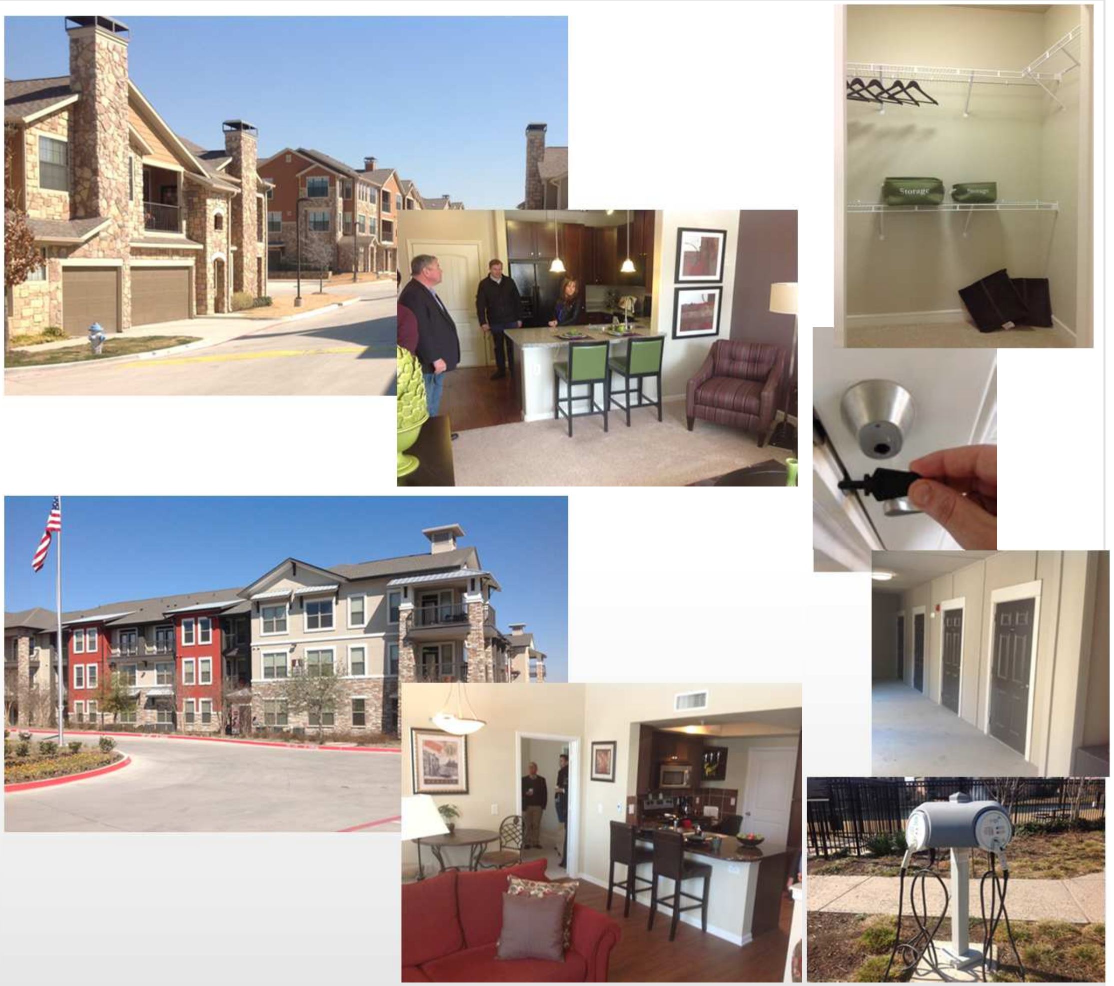
a2dominion

Bath Riverside

- 97 PRS dwellings pre sold to M&G Investments in April 2015 for £25.5m
- Delivered partly in lieu of 40 affordable housing units
- Completions due 2016
- Advanced payment of £11m received with balance upon staged completions.

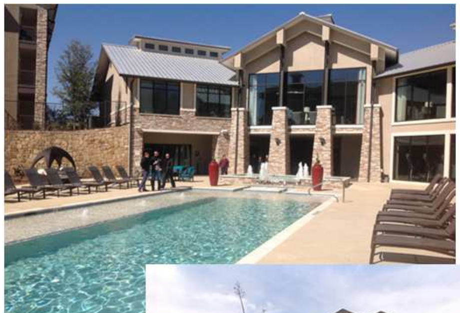
M&G REAL ESTATE

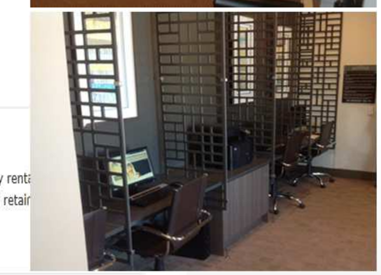
PRS: R&D for a sub-urban model



- Visits to several American multi family housing schemes
- Sized in 100 dwelling increments for management efficiency
- Scale and specification not dissimilar to UK open market housing
- Care taken to provide:
  - additional storage
  - Secure access arrangements
  - Opportunities for extra revenue streams
  - Communal facilities

PRS: R&D for a sub-urban model





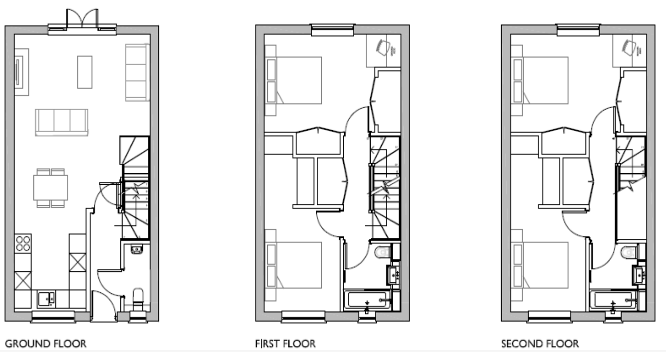
- All schemes serviced by the “club house”
- Clubhouse acts as:
  - Leasing office
  - Communal lounge
  - Gym
  - Base for other shared amenities
  - Maintenance hub
  - Post
  - Cleaning services
- Leasing and management costs significantly reduced
- Facilitated by purpose designed MFH management software

PRS: The evolving sub-urban model

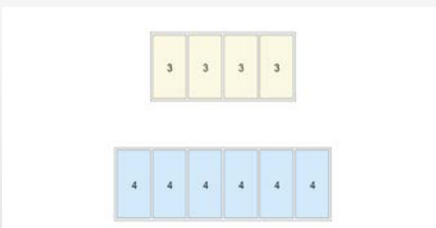
Case Study at Faygate, Crawley

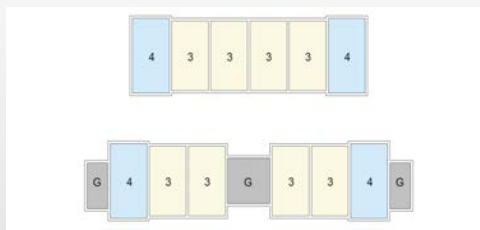
PRS: The town-homes range

3 bed
- **6 person**
- **106 sqm**
- **1145 sqft**



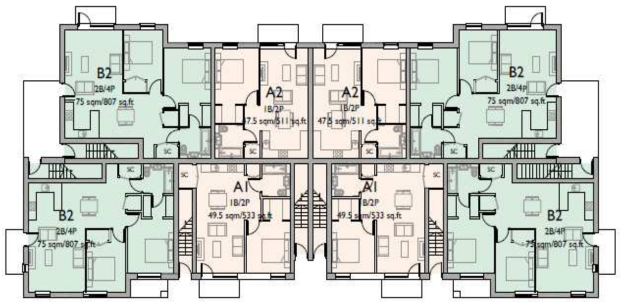
4 bed
- **8 person**
- **129 sqm**
- **1388 sqft**



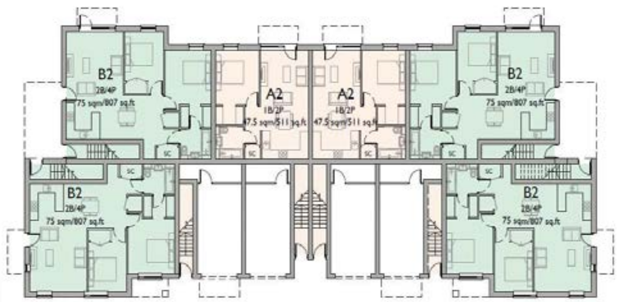


TOWN HOMES
- 100% Efficiency
- Communal Gardens
- 3 & 4 Bed Homes
- Open Plan Living
- 3 or 4 Double Bedrooms
- 2.5 or 3 Storey
- In Built Wardrobes
- Additional Storage
- Adapted from Crest Standard Halstead Type

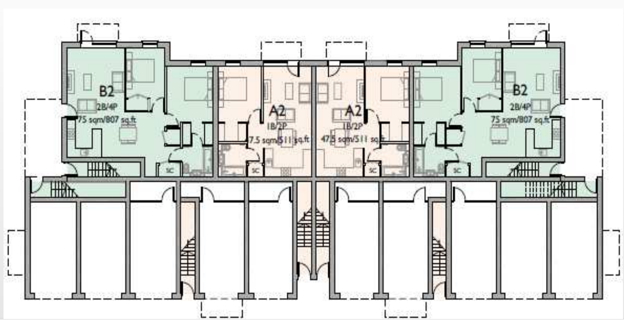
PRS: The big-house concept



16 Unit



14 Unit
4 Garage



12 Unit
10 Garage

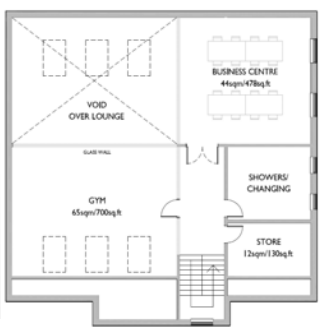
THE BIG HOUSE

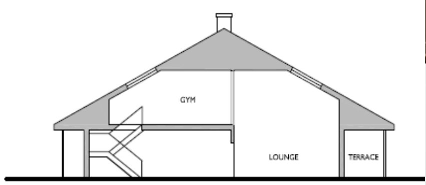
- 100% Efficiency
- Communal Gardens
- Individual Entrances
- 1 & 2 Bed Units
- Open Plan Living
- 2 Storey
- In Built Wardrobes
- Additional Storage

PRS: The "E-Urban" block

- **E-Urban**
  - **82% Efficiency**
  - **Communal Gardens**
  - **1, 2 & 3 Bed Apartments**
  - **Open Plan Living**
  - **Double Bedrooms**
  - **In Built Wardrobes**
  - **Additional Storage**

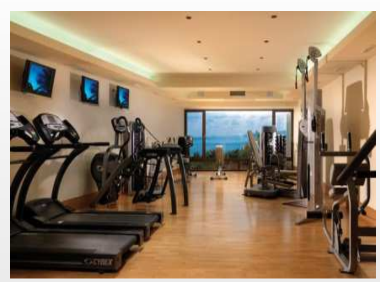
PRS: The clubhouse





Clubhouse

- Land Take 0.37a
- Inc. Tennis Court



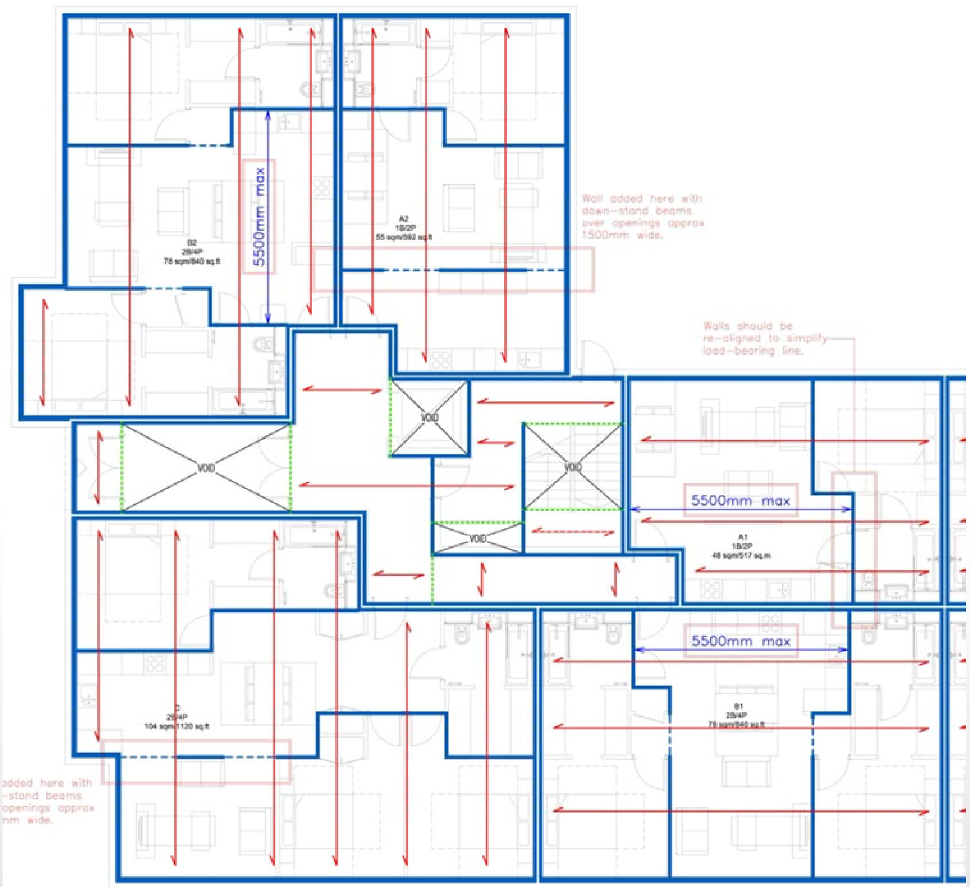
Shared amenities

- Tennis Court
- Private Courtyard with BBQ Area and Shared Landscaped Communal Gardens
- Bike & Storage Areas
- Recycling Area

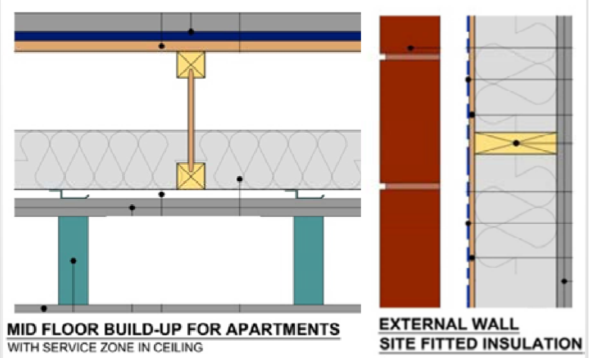
- **Clubhouse**;
  - Lounge
  - Kitchen
  - 2 x Leasing Offices
  - Business Centre
  - Gym
  - WC / Showers & Changing Rooms
  - On-site Maintenance
  - Function Room
  - WiFi Hotspot

PRS: The Faygate Scheme

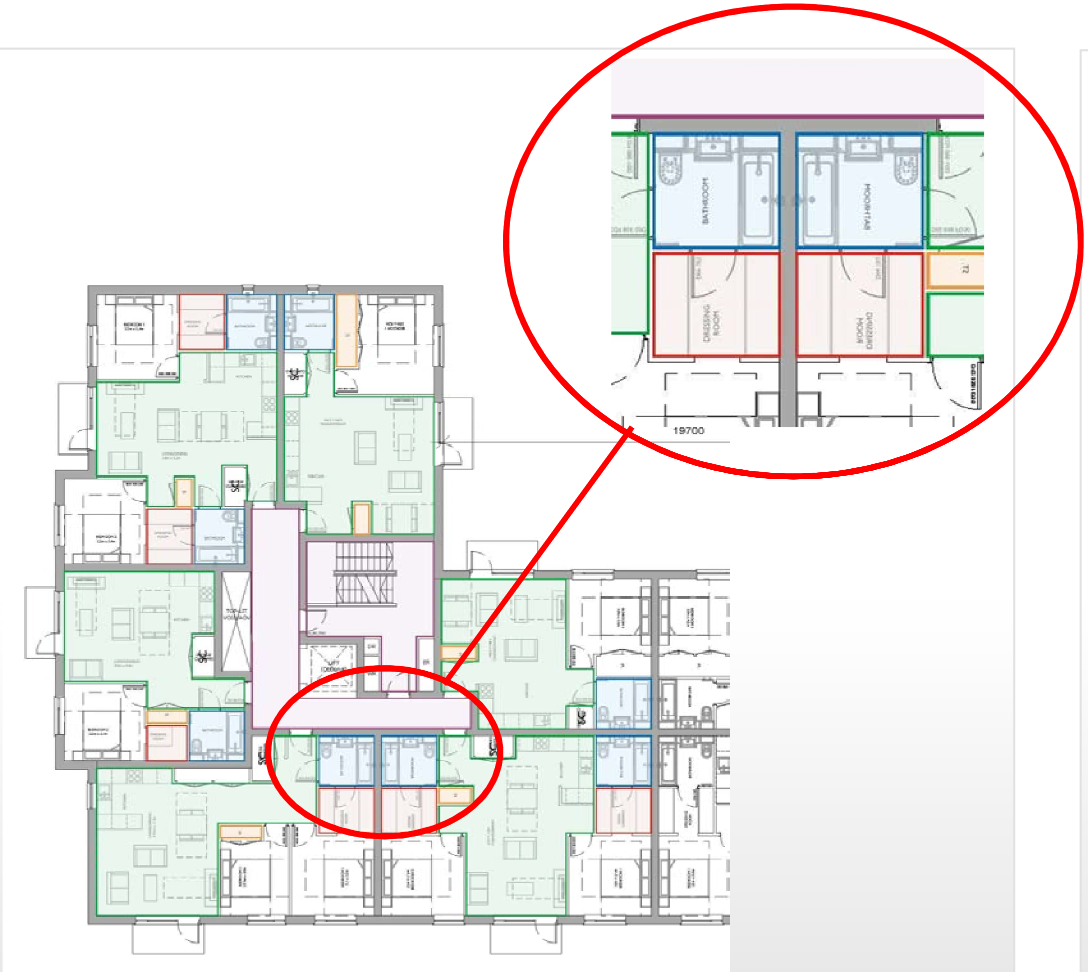
PRS: Modular design for efficiency



- Optimised around 1.2m module
- Timber frame construction for speed
- Simple structural lines
- Rationalised drainage



PRS: Repetition throughout



- Open plan living areas
- Minimal internal circulation corridors
- Standardisation of bed/ bath/ wardrobe relationship
- Repeat standard bathroom modules
- Enhanced storage areas

STANDARD JACK AND JILL BATHROOM

WALK IN WARDROBE

LIVING KITCHEN DINING AREA

COMMUNAL SPACES

STORAGE

PRS: Open Market & PRS Comparison

Open market housing:

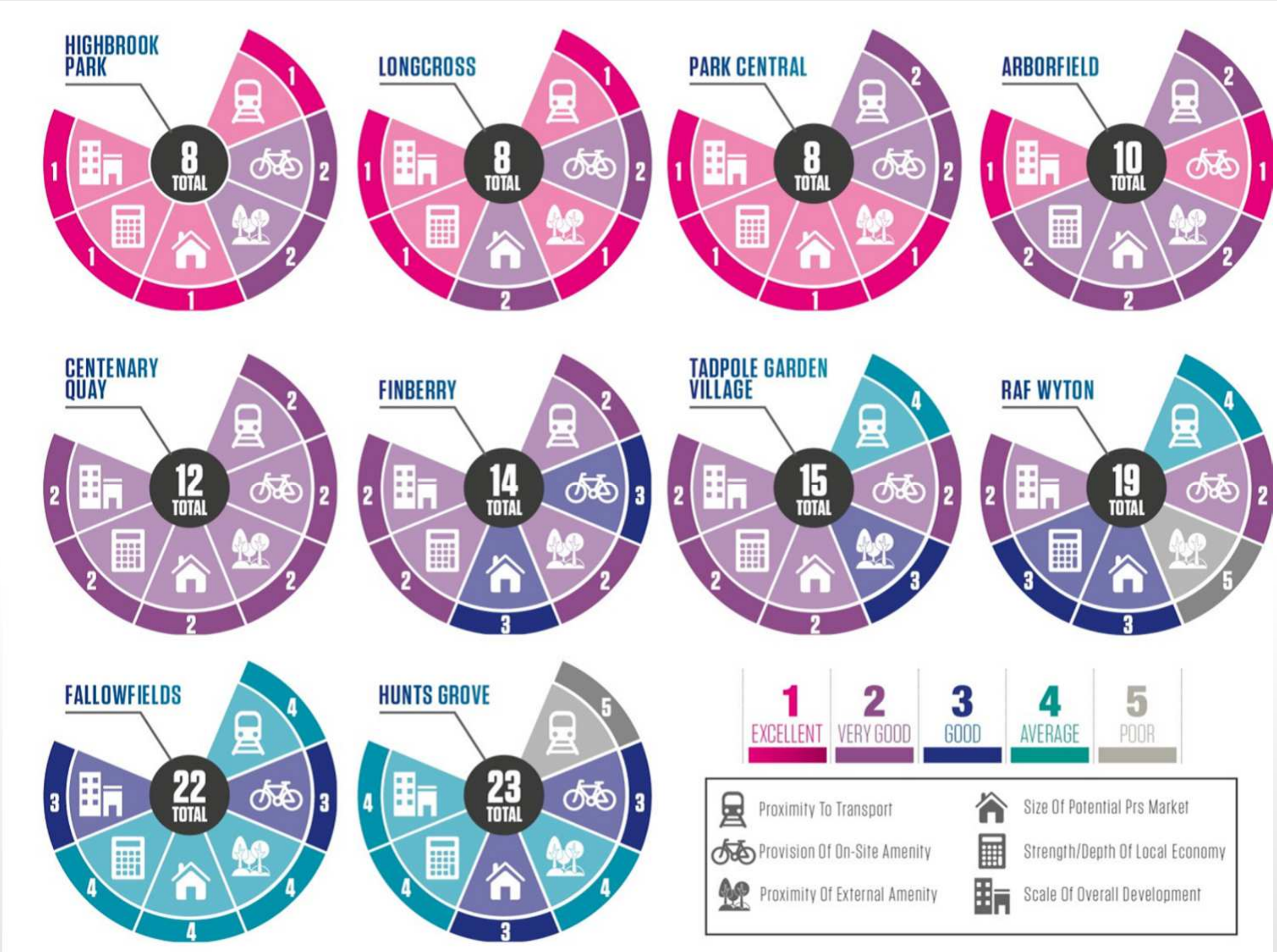
Acres;	7.29 acres
Density:	14 dpa
Net Coverage:	129,398 sqft
GDV:	£39.73m
Contribution:	£21.4m
Up font payments:	10% deposits
Delivered	2025 onwards

PRS Scheme:

Acres;	7.29 acres
Density:	30.5 dpa
Net Coverage:	166,908 sqft
GDV:	£47.26m**
Contribution	£21.6m
Up front payments:	£14.75m
Delivered	2017/2018

**Supported by institutional offer

PRS: Wider larger site assessment



PRS: Anticipated levels of contribution

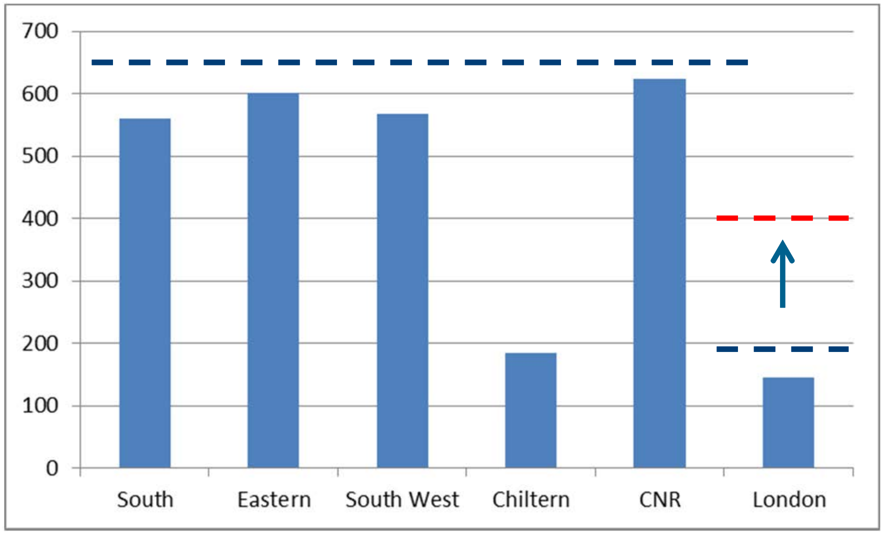
		Anticipated Years of Unit Completions					
Initial Sites	**Plots**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Faygate	200						
Swindon	150						
Finbury	150						
Arborfield	200						
Bristol	300						
Wyton	200						
Total PRS	1200						

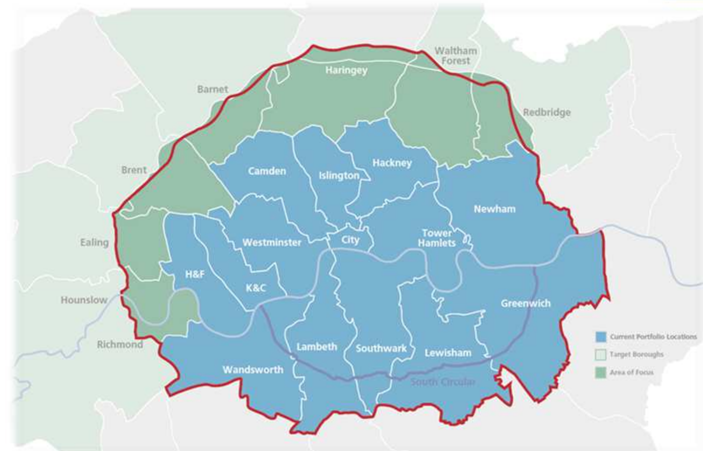
To optimise commercial returns to Crest we need to:

- Design the schemes in concept
- Secure planning approval to density and parking
- Negotiate affordable housing away or substitute an element of sub-market rent.
- Take schemes to the institutional market or established partners
- Anticipate delivery at average of 200 to 300 units per annum.

Strategy, Outlook and Summary

Natural scale in a strong market

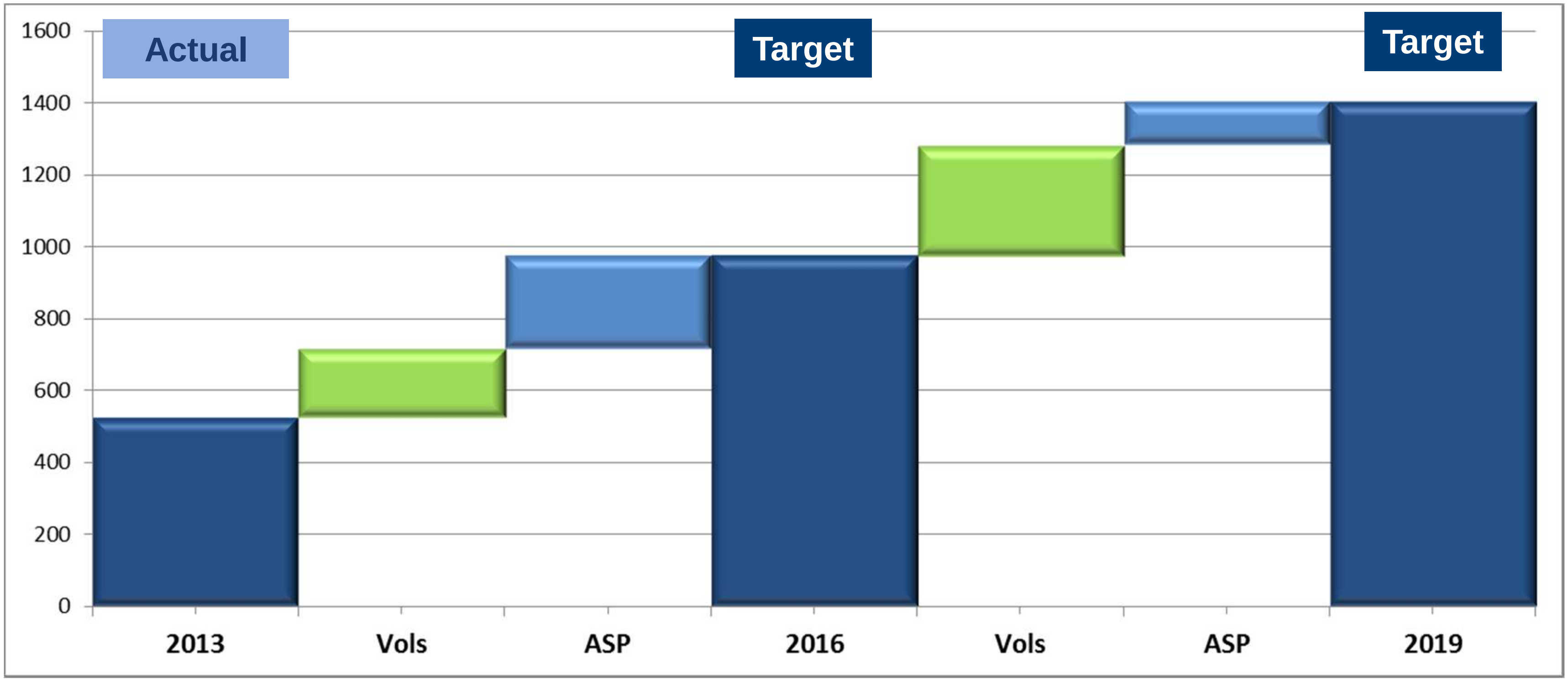




- Previously articulated as c.3,500 units with incremental contribution from PRS; strong market can support higher delivery
- Re-focusing London on areas of greater affordability; including outer London boroughs with strong commuter links; more units delivered for comparable capital employed
- Additional contribution from PRS at c.200-300 units per annum
- Combination of refocused London with PRS implies overall volume capacity nearer 4,000 units

Target revenues from current operations

Revenues - £m



- Initial three year forecast grows revenues to c.£1bn by 2016
- Move up ASP curve significant contributor & on track
- Growth beyond 2016 primarily volume driven, from Chiltern, London & PRS

Delivering disciplined growth

- Strategy for medium term is delivering:
  - New divisions contributing well & growing
  - Movement up the ASP curve on target
  - Incremental PRS opportunity being cemented
  - Progression to 2x Dividend cover on schedule
- Revenue growth towards £1bn by 2016 & £1.4bn by 2019
- Longer-term, continuing to focus on key strategic themes:
  - Evolution of product & place to meet changing customer needs
  - New channels to market, including PRS
  - Supply chain & partnerships
  - Skills & leadership
  - Responsible resource management

Outlook

- Strong sales rates look set to continue; confirmation of extension of Help to Buy helpful, albeit expected
- Production capacity likely to be key determinant of rate of growth in near term
- Land conditions remain benign and planning should ease once more after the election hiatus
- Sales price inflation and build cost inflation likely to both increase as the market struggles to satisfy demand

Summary

Sustainable growth

- Election outcome provides for certainty and continuity
- Support from Help to Buy and other initiatives underpins demand; challenge is now on supply side
- Land inputs plentiful; key constraints are now around labour force, which needs to grow after years of low activity, and the perennial challenge of planning
- Economic fundamentals and better regulation should make for a more buoyant – but not over-exuberant – market
- Strong backdrop against which Crest Nicholson can continue to prosper and grow towards 4,000 units

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Q&A

Disclaimer

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