Crest Nicholson Holdings plc

Preliminary Results for 2015

26th January 2016




Agenda

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

Performance highlights (1)

- Another strong financial performance as the business continues on its growth trajectory
- Excellent sales environment, underpinned by high employment & good mortgage access
- Land pipeline increasing in value, whilst overall gearing reduced and dividends increased
- On track to deliver on our volume and revenue targets and continue to generate excellent returns

Performance highlights (2)

Turnover of £804.8m (2014: £636.3m) **+26%**

Operating profit of £163.3m (2014: £128.1m) **+27%**

Profit before tax of £154.0m (2014: £116.7m) **+32%**

Earnings per share of 49.3p (2014: 39.3p) **+25%**

Dividend per share of 19.7p (2014: 14.3p) **+38%**

Operating profit margin of 20.3% (2014: 20.1%)

Return on Capital Employed of 26.8% (2014: 26.0%)

Performance highlights (3)

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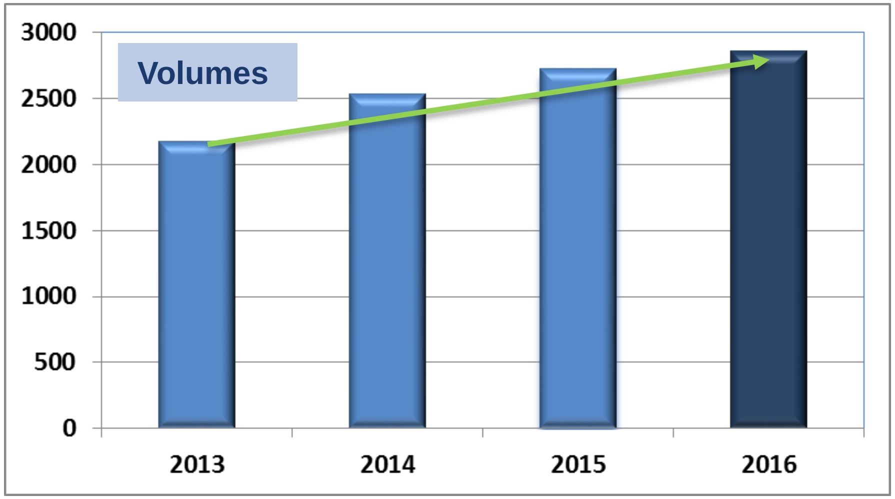
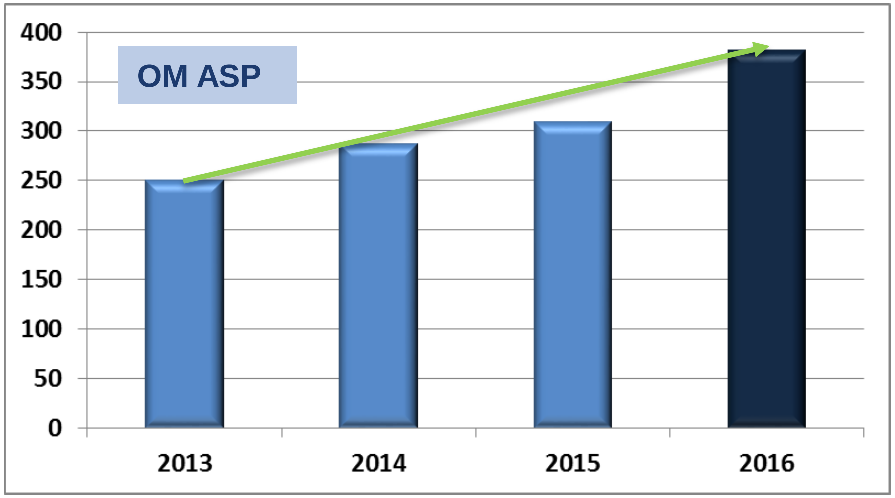
Open-market ASP# of £309k (2014: £282k)	+10%
Unit completions of 2,725 units (2014: 2,530)	+8%
Sales per Outlet Week* at 0.90 (2014: 0.82)	+10%
Forward sales at mid-January of £511.8m (2014: £399.8m)	+28%
GDV of land pipelines of £10,466m(2014: £9,342m)	+12%

*** Excluding PRS** **# Includes PRS on OM basis**

On target to reach £1bn revenue in 2016





Actual | Projected

2013

- 2,172 units
- OM ASP £250k

2016

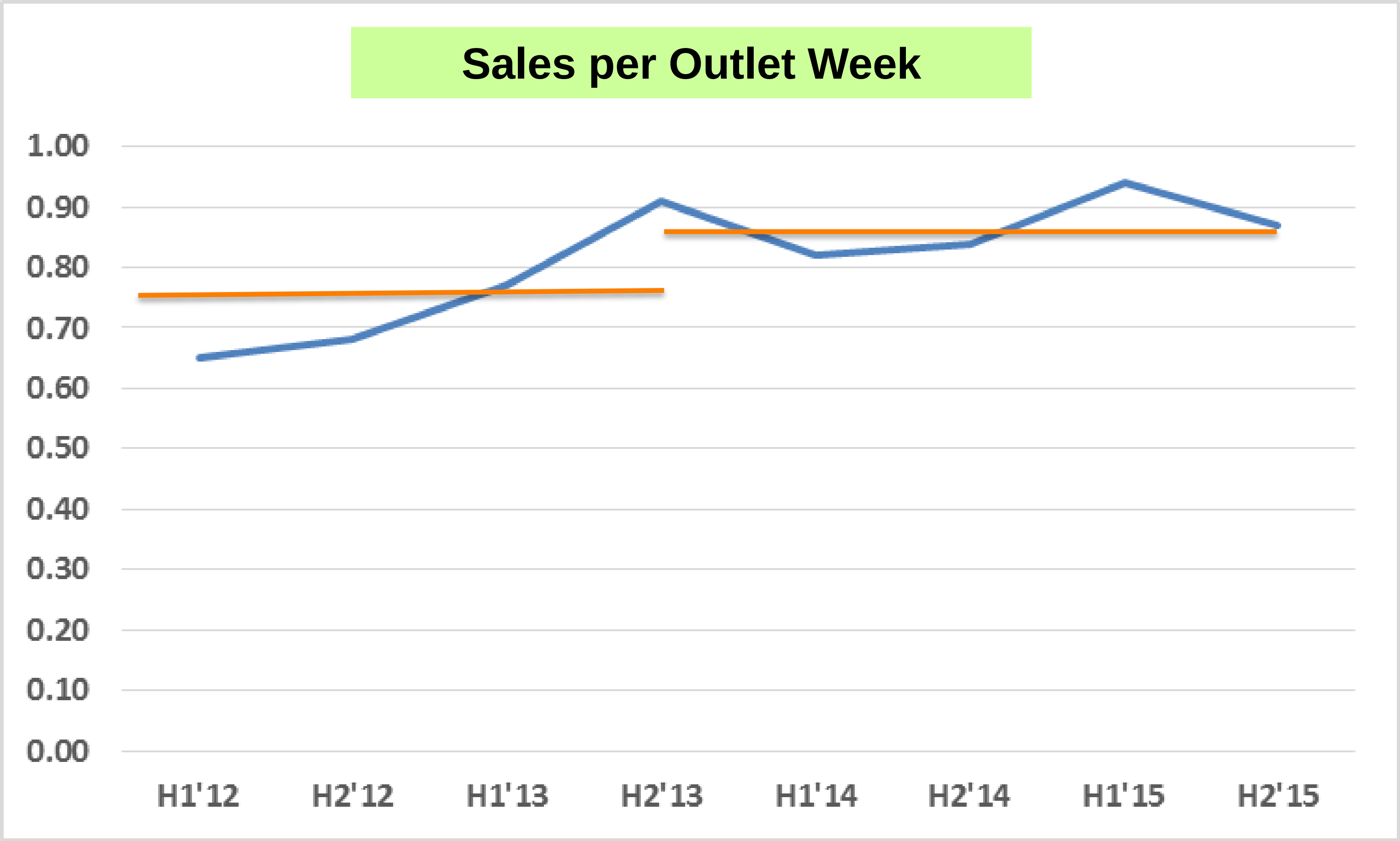
- Volumes 25%-30% higher

AND

- OM ASP 35%-40% higher

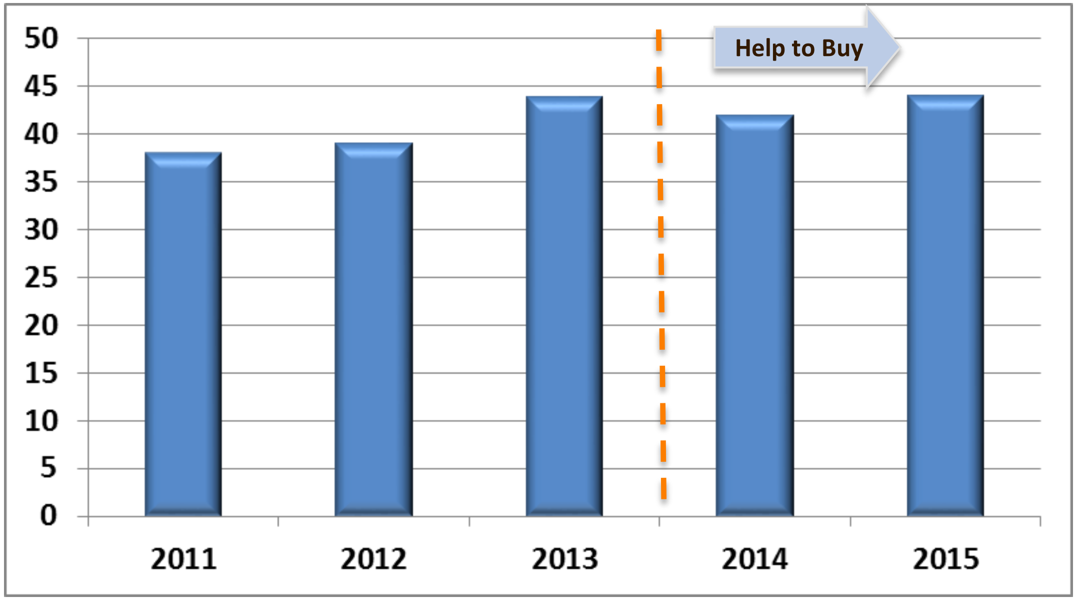
- Volumes: 25% up in two years; OM ASP: 24% ahead
- Slower start to some sales at higher values: possible impact of stamp duty levels & lack of stock in second hand market

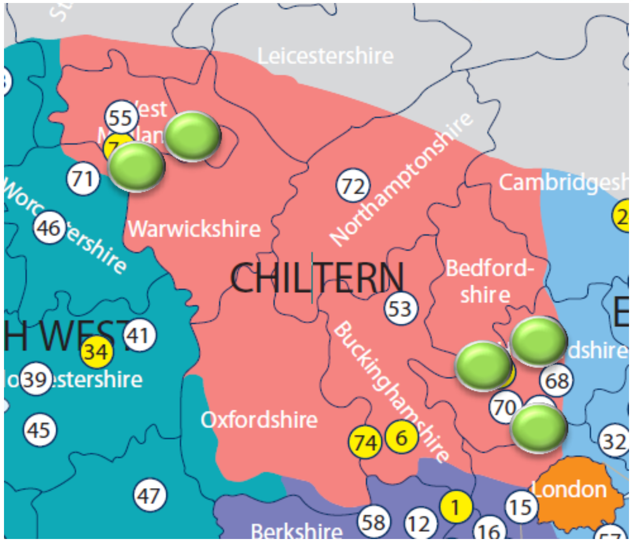
Sales rates – (excluding PRS)



- SPOW since onset of Help to Buy c.15% higher than previous ‘good’ markets
- Demonstrates importance of good access to high LTV mortgages to get on housing ladder

Outlets growing





- Outlets up 5%, although strong sales rates – particularly since onset of Help to Buy - and some pre-election planning delays slowed rate of growth
- Additional management bandwidth helpful. Five sites added in the first year of operation in Chiltern division, at St Albans, Hitchin, Bourneville, Balsall & Bushey

Strong land pipeline

	Oct 2015		Oct 2014		Change %	
	Units	**GDV £m**	**Units**	**GDV £m**	**Units**	**GDV £m**
Short-term housing	16,064	5,106	17,247	4,798	(7)%	6%
Short-term commercial	-	249	-	221		13%
Total short-term	**16,064**	**5,355**	**17,247**	**5,019**	**(7)%**	**7%**
Strategic land	17,712	5,111	16,219	4,323	9%	18%
Total under contract	**33,776**	**10,466**	**33,466**	**9,342**	**1%**	**12%**

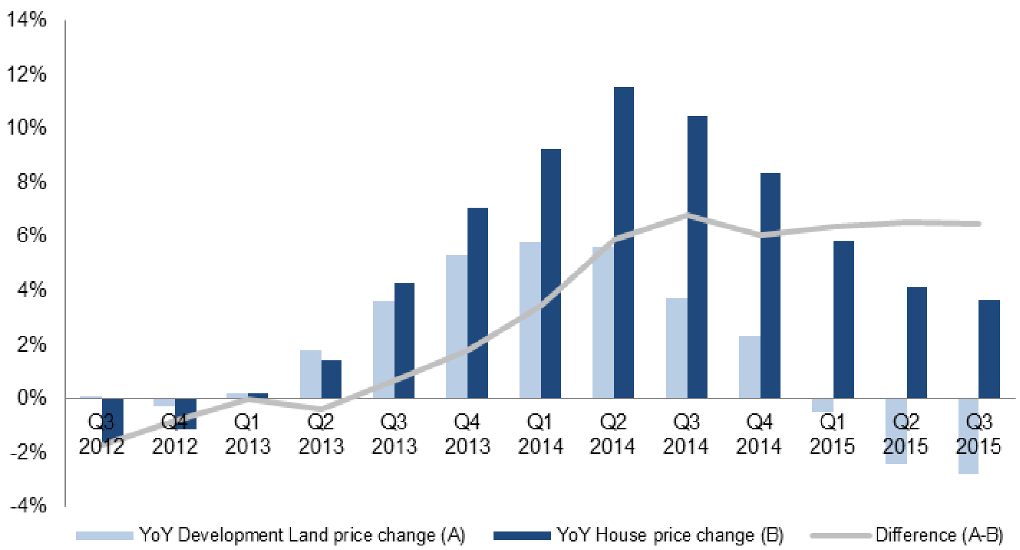
- Short term housing units lower as selective replacements made; key focus remains on adequate outlet breadth
- Increase in gross development value reflective of both changing mix and pricing gains
- Overall, units broadly level and GDV strongly ahead, underpinning future revenue projections

Disciplined investment

Housing portfolio	Short-term pipeline		Strategic pipeline	
	Units	GDV £m	Units	GDV £m
At 31st October 2014	**17,247**	**4,798**	**16,219**	**4,323**
Additions	2,111	684	3,033	852
Strategic conversions	534	214	(534)	(214)
Legal completions	(2,725)	(751)	-	-
Land Sales, re-plans & other	(1,103)	161	(1,006)	150
At 31st October 2015	**16,064**	**5,106**	**17,712**	**5,111**

- Disciplined investments made to ensure mature divisions have an appropriate supply of replacement land and newer divisions are growing outlet numbers
- 2,111 plots acquired & 534 pulled through from strategic pipeline; short term land pipeline now 5.9 years; 16 new sites opened and 11 closed in year
- Strategic land pipeline growing in unit and value terms; RAF Wyton major addition

Benign land market continuing



Source: Source: Knight Frank Residential Development Land Index Q3 2015, Nationwide House Price Index

- Land price growth likely to continue to be moderated by:
  - Reduced number of buyers, with disciplined capital strategies
  - Growing scale of public sector land releases
  - Timetable for ‘compliance or compulsion’ on Local Plans, from April 2017
- Intake Gross margins above 26% hurdle rate support 20% EBIT margin in current market; funds both land re-investment and dividend
- Abundance of opportunities allows risk-weighted hurdle rates to be applied: price-points/technical complexity and time to delivery all taken into account

Delivering volume from large sites: Case Study

- Planning achieved in 2012 for 1,695 homes, on Garden Village principles
- Two Crest outlets: traditional and contemporary styles
- Land sold to David Wilson and Bovis; both delivering
- Investigating scope for self-build parcel & elderly care; planning underway for next phases
- Over **130** homes delivered in 2015 and **200+** homes forecast for 2016 delivery
- New Primary school open; Commercial land sale to enable Secondary Free school to open in 2018

Payment terms, multiple outlets and land disposals all contribute to a strong ROCE% performance

Key Themes for 2016

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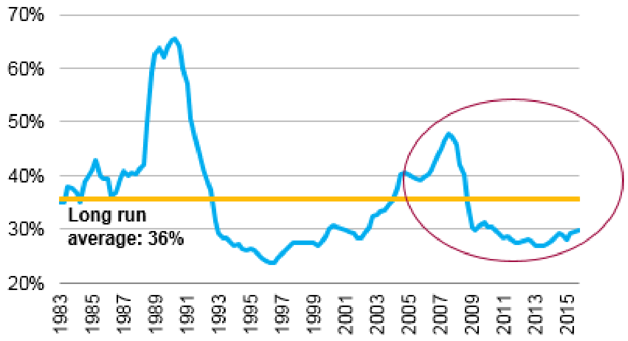
A sustainable housing market is continuing to emerge, albeit there are some unknowns

- The Housing Bill and changes to the Registered Provider operating model need to be monitored – but are underpinned by the quest for increased delivery
- Slowing sales price and build cost inflation should help keep housing affordability in reach; real incomes rising in low CPI environment; interest rate rises likely to have modest impact on demand or current home-owners, given stress-tests
- Changes to rein-in private Buy to Let should prevent overheating in that segment of the market; PRS to benefit if (as expected) SDLT exemptions granted
- Institutional PRS gaining traction; third scheme in solicitors' hands and additional schemes being brought forward on Strategic and Public Sector sites

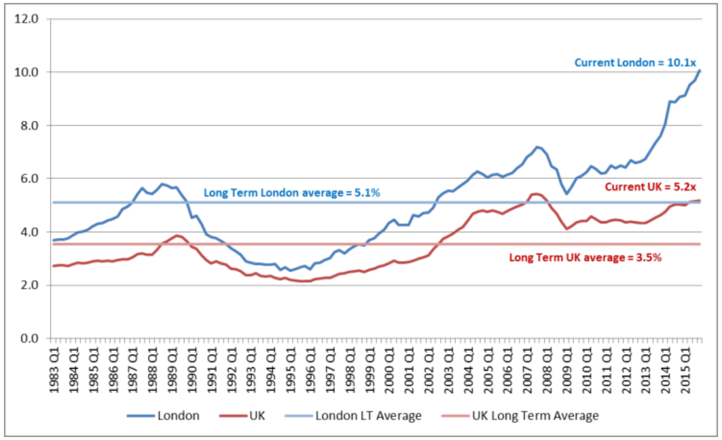
Affordability & interest rates

Mortgage costs as a proportion of income



Source: Halifax
Mortgage costs as a percentage of average disposable income Mortgage costs calculated based on average house prices and mortgage rates over the applicable period. Mortgage payments include capital and interest

UK house prices to income ratio



The impact of interest rate rises...

- Current household spend on mortgages is 30%
  - Assuming a 70% LTV and average rate of 2.6%
- If interest rates were to rise, this would result in....

Mortgage Rate	2.6%	3.1%	3.6%	4.1%	4.6%
Uplift	0bps	50bps	100bps	150bps	200bps
Household Spend	30%	32%	34%	37%	39%

- A 200bps rise would result in a household spend ratio to mildly above the long run average of 36%

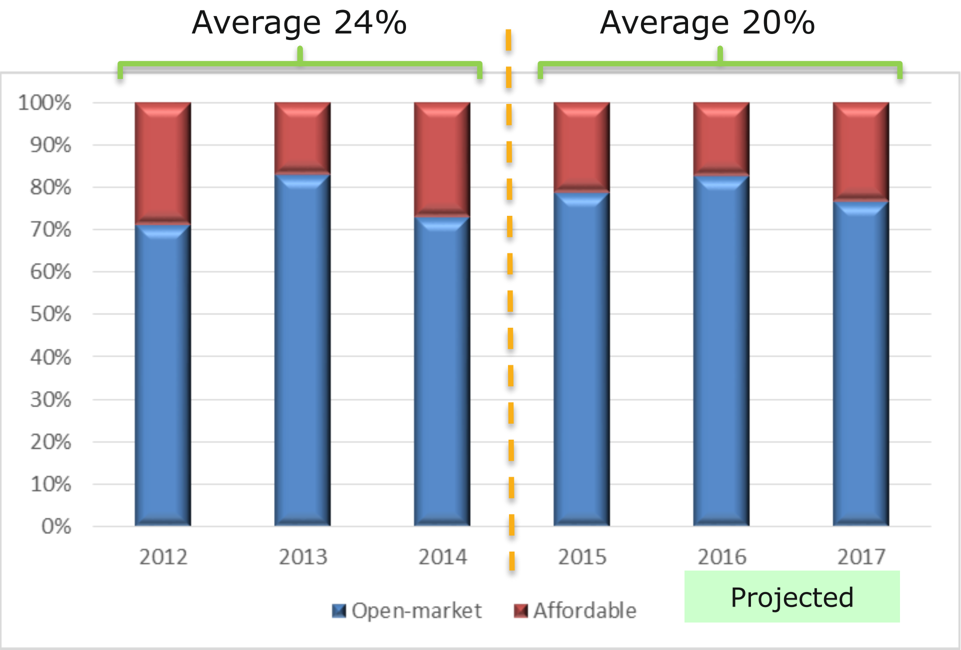
- Interest rate rises likely to be gradual when they come; probable timing continues to move back. Real incomes rising as wage and salary growth outstrips low CPI

- Household debt servicing as a proportion of income still low by long-run averages and has been stress-tested under MMR for more recent purchasers; house price:earnings more stretched but increasingly represents new normal. London prices demonstrate growing affordability issue.

Impact of Budget and Housing Bill

Budget changes to require RSLs to reduce rents by 1% p.a. have had an impact on contracts and viability

Operation of CIL alongside s.106 has also squeezed Affordable housing delivery



- The Housing Bill contains a number of measures designed to boost home ownership; impact on overall housing delivery may be more modest, as would-be purchasers simply choose best scheme available
- Starter Homes requirement to be clarified, alongside potential for Help to Buy on shared ownership
- London Help to Buy extension to 40% improves purchaser access; private buy-to-let investment case impacted by tax and SDLT changes

Growing capacity

78 apprentices employed; 9% of employees

23 graduates in dedicated rotational scheme

20 in Crest Site Manager Academy – training apprentices and others in site management

- Skills already a significant constraint in the sector – with a lead time to resolve
- Action on a number of fronts, to grow and develop our own staff and support the supply-chain in delivering growth
- Opportunities for learning and career progression in a growing Crest business aid attraction and retention
- 90% staff engagement score in staff survey; well above benchmarks

Financial results

Key metrics

	FY 2015	FY 2014	Inc/(Dec) %
Outlets (full year equivalents)	44	42	+5%
Sales per Outlet Week (OM ex-PRS)	0.90	0.82	+10%
Legal completions			
Open market	2,151	1,855	+16%
Affordable	574	675	-15%
ASP			
Open market (inc. PRS on OM basis)	309	282	+10%
Affordable	143	120	+19%

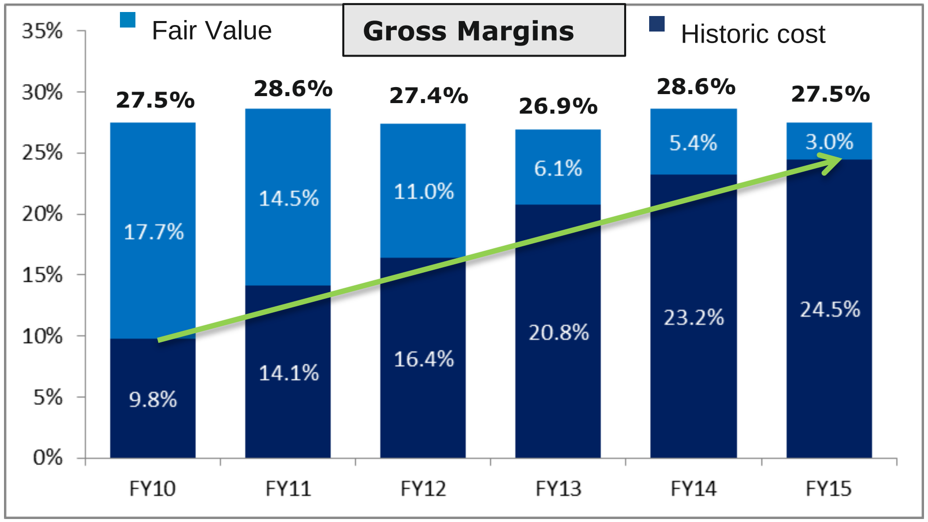
- Outlets growing as benefit of additional division come through
- Open-market completions include PRS units where applicable
- Affordable housing reductions a structural outcome of squeeze from other tenures and demands

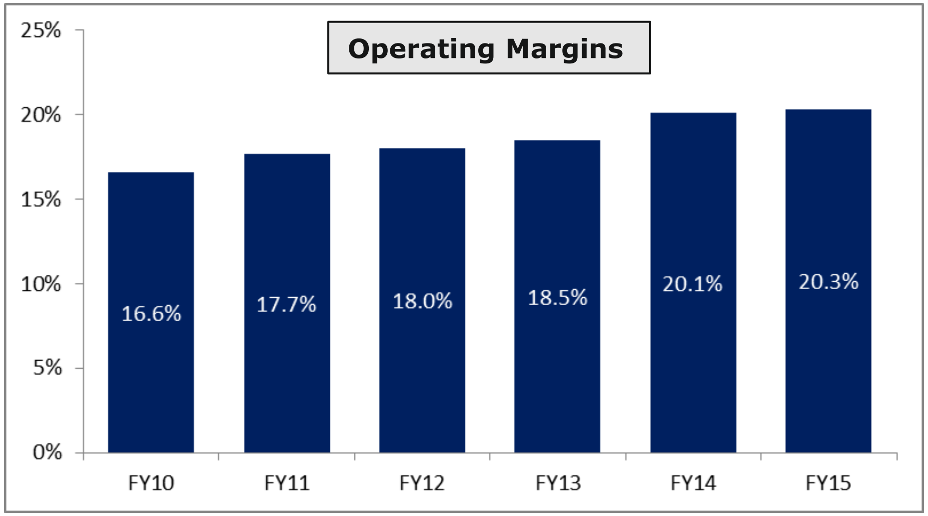
Income statement

Income statement (£m, unless stated)	FY 2015	FY 2014	Change on 2014	% increase
Revenue	**804.8**	**636.3**	**168.5**	**26%**
Cost of sales	(583.5)	(454.3)	(129.2)	
Gross profit	**221.3**	**182.0**	**39.3**	**22%**
% gross profit margin	***27.5%***	***28.6%***	***(110bps)***	
Administrative expenses	(58.0)	(53.9)	(4.1)	
Operating profit	**163.3**	**128.1**	**35.2**	**27%**
% operating profit margin	***20.3%***	***20.1%***	***20bps***	
Net financing costs	(9.5)	(11.4)	1.9	
Share of JVs	0.2	-	0.2	
Profit before tax	**154.0**	**116.7**	**37.3**	**32%**
Income tax	(29.9)	(17.9)	(12.0)	
Profit after tax	**124.1**	**98.8**	**25.3**	**26%**
Earnings per Share (p)	**49.3p**	**39.3p**	**10.0p**	**25%**
Dividend per share (p)	**19.7p**	**14.3p**	**5.4p**	**38%**

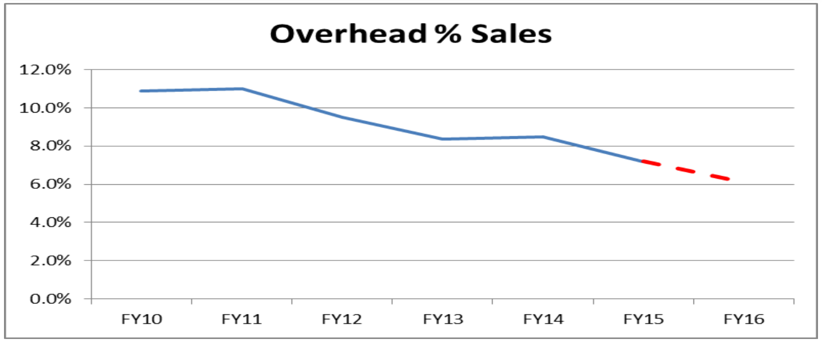
- Strong earnings & robust outlook supporting dividend growth ahead of earnings as cover reduces

Strong underlying margins



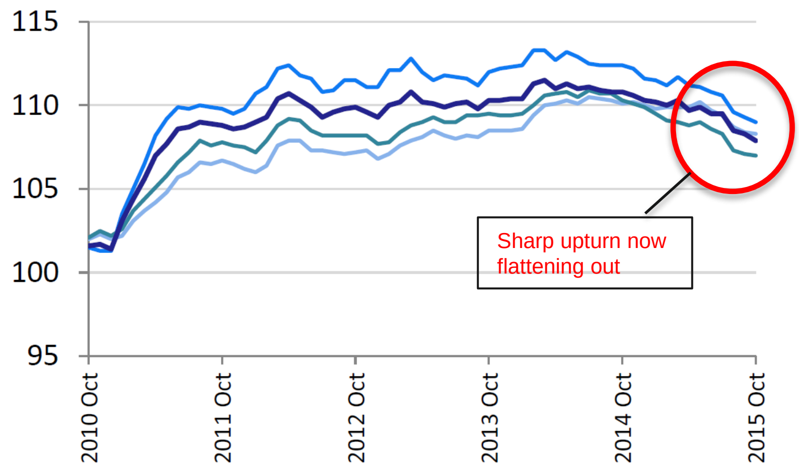


- Underlying margins continue to improve. Contribution from fair valuation provision diminishing as expected; c.1.5% forecast for 2016
- Strategic land pull-through, pricing gains and higher achieved acquisition margins all contributing to GM% improvement
- Operating margins aided further by scale leverage and rising ASPs

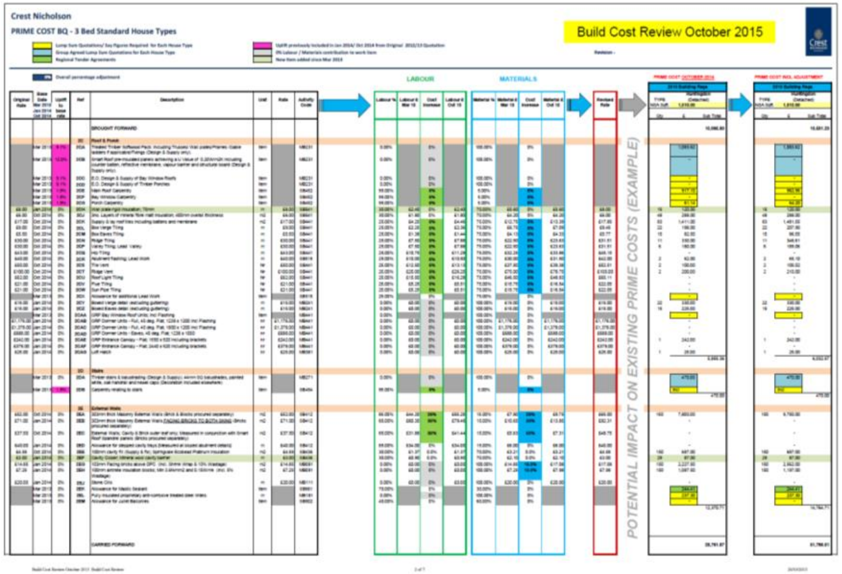


Build costs

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



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



- Material prices showing modest increases and some reductions; increased capacity and low haulage costs reducing price tension
- Labour rates principal source of cost inflation, as scarcity only addressable over time
- More evidence of sub-contractors picking their projects and partners i.e. more qualitative assessments being made

Balance sheet

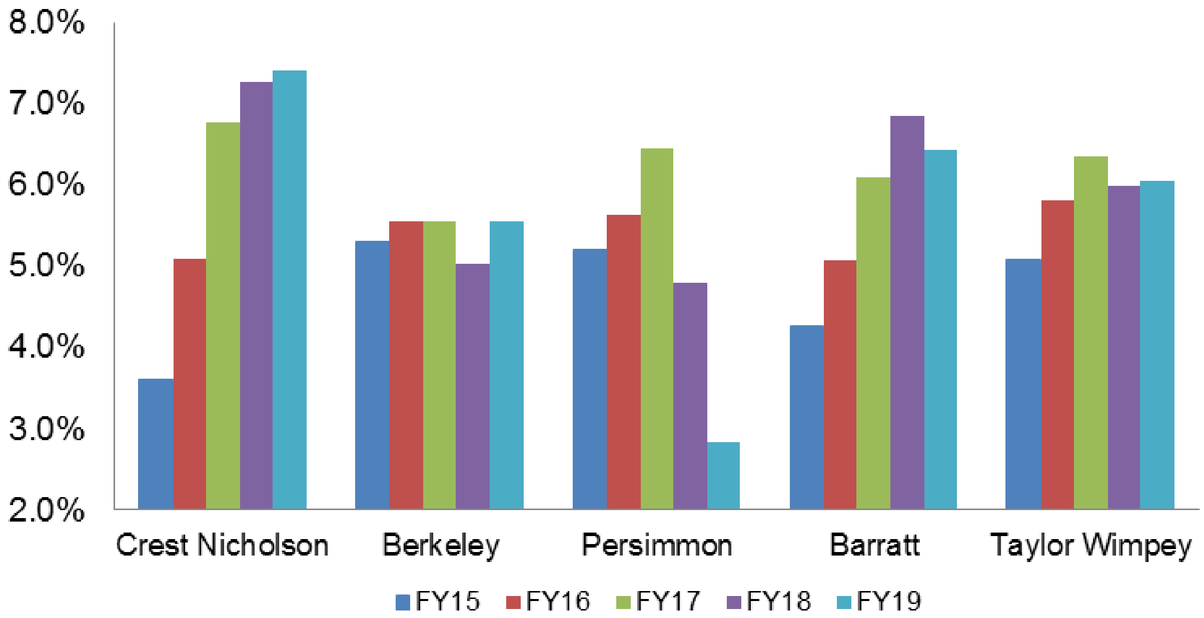
Balance sheet (£m, unless stated)	31st October 2015	31st October 2014	Change on Oct'14
Non-current Assets	110.3	100.1	10.2
Inventory	904.5	814.1	90.4
Trade & other receivables	50.2	48.1	2.1
Cash and cash equivalents	187.4	142.0	45.4
Total Assets	**1,252.4**	**1,104.3**	**148.1**
Interest bearing loans and borrowings	(218.0)	(161.3)	(56.7)
Land creditors	(160.4)	(186.8)	26.4
Retirement benefit obligations	(7.5)	(23.7)	16.2
Trade and other liabilities	(235.8)	(196.0)	(39.8)
Total Liabilities	**(621.7)**	**(567.8)**	**(53.9)**
Shareholders' Equity	**630.7**	**536.5**	**94.2**
Net debt/Equity	4.9%	3.6%	
Net debt (inc. land creditors)/Equity	30.3%	43.6%	

- Inventory increase consistent with rate of business growth
- Modest year-end gearing: net debt of £30.6m (2014: £19.3m)
- Debt inclusive of land creditors at 30.3% well within target range of max.40-50%
- 18% increase in shareholders' equity

Cash flow

Cash flow (£m, unless stated)	FY2015	FY2014	Change
Operating profit before changes in working capital and provisions	**169.5**	**133.0**	**36.5**
(Increase)/decrease in trade and other receivables	(35.3)	0.1	(35.4)
Increase in inventories	(90.4)	(236.4)	146.0
(Decrease)/increase in trade and other payables	(4.9)	72.8	(77.7)
Increase in other financial assets	-	(0.2)	0.2
Cash generated from/(used by) operations	**38.9**	**(30.7)**	**69.6**
Interest paid	(8.9)	(8.1)	(0.8)
Tax paid	(6.5)	-	(6.5)
Net cash flow from operating activities	**23.5**	**(38.8)**	**62.3**
Net cash flow from investing activities	7.6	6.4	1.2
Net cash flow from financing activities	14.3	49.9	(35.6)
Net increase in cash and cash equivalents	**45.4**	**17.5**	**27.9**
Cash and cash equivalents at the beginning of the year	142.0	124.5	17.5
Cash and cash equivalents at end of period	**187.4**	**142.0**	**45.4**

Progressively returning cash



Cash return as a % of 14th January Market Capitalisation:

Fiscal Years 2015-2019

Crest Nicholson	30.1%
Berkeley	27.0%
Persimmon	24.9%
Barratt	28.7%
Taylor Wimpey	29.3%

Source: Bloomberg & Factset. Consensus figures & share prices on 15th January 2016

- Strong growth and disciplined investment underpins cash generation
- Land pipelines increasing in value and year-end gearing at modest levels
- Crest's progression to 2x dividend cover returning cash in line with alternative Cash Return models

Forward sales

	YTD FY16	YTD FY15	FY15	FY14
Units – all years	2,368	2,099	1,680	1,499
% change on prior period		+13%	+12%	
GDV (£m) – all years	511.8	399.8	328.9	249.4
% change on prior period		+28%	+32%	
% of FY2016/15 target	37%	41%	25%	24%

- Strong forward sales overall; higher OM and lower Affordable content
- GDV increase reflects both higher OM ASPs and higher OM proportion of total units

Summary

Summary

- Business is delivering volume and earnings growth, supporting a growing dividend and is on track to hit key financial and volume targets for 2016 and 2019
- A benign land market and moderating inflation continue to support a sustainable housing market, further aided by political support for housing delivery and robust economic fundamentals
- Housing Bill seeking to unlock further housing delivery and gradual improvements in planning to come as Local Plan deadline looms
- Crest focusing on disciplined growth and developing the talent needed to seize the many opportunities emerging
- On track to continue to grow shareholder value

Q&A

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