Press release

17 October 2018

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (596/2014)

Crest Nicholson Holdings plc
Pre Close Trading Update

Crest Nicholson Holdings plc ("Crest Nicholson" or the "Company"), a leading residential developer operating in the Southern half of England, today issues a Pre-Close Trading Update ahead of schedule.

Overview

- The market environment for new homes in London and at higher price points in the South of England is more difficult than previously anticipated, where sales have not picked up during the traditionally stronger early Autumn selling season
- The Company now expects that Profit Before Tax for the year to 31st October 2018 to be in the range of £170m to £190m, subject to the timing of completion of some individually significant transactions
- During the second half of the year, management actions to mitigate sales volume reductions underpinned revenue and receipts, but impacted margin; now expected to be lower than the previous guidance of 18%
- The new strategy will focus on shareholder returns by prioritising cashflow and dividends, maximising value in the land and development portfolio and improving operational efficiencies
- The Board has asked Stephen Stone, Executive Chairman, to lead the business in the implementation of the new strategy, supported by Patrick Bergin, Chief Executive. Robert Allen, Chief Financial Officer, is stepping down from the Board and will leave the Company after a short handover period
- The Board remains confident in the Company's strong land pipeline and robust business operations to drive strong shareholder returns in the long term

Stephen Stone, Executive Chairman, said: "The usual Autumn pick up in sales volumes has not been evident during September and October, with many customers putting off decisions to buy whilst current political and economic uncertainties persist.

Mindful of the current uncertain market environment, our new strategy will focus on shareolder returns by prioritising cash flow and dividends, maximising the value in our portfolio, and improving operational efficiency."

Performance to date

The first half of the year was characterised by generally strong trading volumes, albeit the business experience of flat pricing in an environment of continuing build cost inflation had an adverse impact on margins.

Sales volumes reduced in July and August, as potential purchasers were subject to traditional seasonal distractions. The business expected activity to increase as it entered the traditionally stronger early Autumn selling season, but in a number of locations and at higher price-points, sales have remained subdued. Product which addresses a more aspirational market has suffered from a lack of confidence among discretionary buyers, who cite economic and political uncertainty as a disincentive to transact.

Reservation levels at our London sites have slowed significantly and we have experienced some downward pressure on pricing in areas where affordability is most stretched.

Furthermore, sales at higher price points have suffered from reduced transaction levels in the second-hand market, resulting in lengthy property chains which take longer to assemble and are more vulnerable to failing to complete.

The business has taken decisive action to mitigate the loss of sales volumes by accelerating bulk sales to Registered Providers and PRS investors, selected land sales on long tail sites, and slowing build programmes to reflect current sales rates. These measures, taken together with pricing pressures in London, are having an impact on the EBIT margin achieved in the year, which we now expect to be lower than the previous guidance of 18%.

As a consequence of the reduction in sales volumes and the impact of incentivisation on margin, the Company now expects that PBT for the year ended 31st October 2018 will be in the range of £170m to £190m.

New strategy

Against this market backdrop, the new strategy will focus on shareholder returns by prioritising cashflow and dividends, maximising value in the portfolio, and improving operational efficiency and reflects a more challenged operating environment.

The adjusted strategy is based on three core areas:

1. Prioritise cashflow and dividends

As our new business strategy increases cash generation, we are committed to maintaining financial discipline and a strong balance sheet. We are committed to:

a) Pay an ordinary dividend of 33p for 2018 and, subject to no material deterioration in current market conditions, 2019

b) Generate a cash reserve

c) Allocate the cash reserve to maximise shareholder returns subject to market conditions

2. Maximise value in our portfolio

Our land and development pipeline remains a signficant store of value with strong embedded margins, including approximately £1.6bn of Gross Margin in the short term land pipeline. In order to preserve this value, the Company is pausing its growth ambitions to align with current market conditions, slowing down build rates and reducing land expenditure. We believe that by maintaining current levels of output from our high-quality land pipeline rather than driving for revenue growth, we will improve the level of free cash flow generated by the business.

The Company has made good progress in growing our sub-£600k homes by recycling capital from more challenging areas and price points and good unit conversions from our strategic land pipeline which is also driving lower ASPs.

Our major project portfolio provides opportunities to drive strategic partnerships to accelerate delivery and where appropriate to secure further land sales. The business anticipates that such transactions will form a growing proportion of its overall activity, facilitating multiple channels to market and generating an increased proportion of pre-sold revenue streams.

3. Drive operational efficiencies

Action has already been taken to reduce costs and hurdle rates have recently been increased to ensure that these cost reduction benefits are retained in the future.

We are working on implementing a number of strategic initiatives to improve both the resilience of the business and our returns.

The new core housing range has been launched, the adoption of which will drive efficiency savings in a number of areas and help to offset current margin pressures. New Core housing range is targeted to apply to 50% of sites within three years.

We are engaging in off-site methods (OSM) of construction and scale trials are underway for houses, apartments and PRS to prove the business case for OSM.

The Company is currently in the process of adding senior operational resource.

In addition, the closure of the London division is now complete and current London sites are now managed by existing Divisions based in the Home Counties. We have postponed the opening of our new South East division whilst current market uncertainties continue.

Management changes

The Board of Crest Nicholson has asked Stephen Stone, Executive Chairman, to lead the business in the implementation of the new strategy.

Patrick Bergin will continue to work closely with Stephen in his current role as CEO.

Robert Allen, Chief Financial Officer, is stepping down from the Board and will leave the Company after a short handover period.

While Crest Nicholson is recruiting a replacement, Patrick Bergin will take on the responsibilities of the finance function.

Summary

Our ambition is to maintain profitability for 2019 at FY18 levels, despite market uncertainty.

We are committed to paying an ordinary dividend of 33p per share for FY18 and, subject to no material deterioration in current market conditions, FY19.

We are confident that our new strategy, focusing on cashflow and dividends, maximising the value in our portfolio and operational efficiency will position the business appropriately for the current environment, whilst making best use of our quality land assets and securing the long term delivery capability of the business.

Analyst webcast

Executive Chairman, Stephen Stone and Chief Executive Officer, Patrick Bergin will be presenting to analysts and investors via webcast at 9am on Wednesday 17 October 2018. The presentation will be available live and as a replay via the following link:

https://webcasts.eqs.com/crestnicholson20181017

A conference call facility is available for Q&A. The details are as follows:

Dial-in: +44 (0)330 336 9411
Confirmation code: 5220928
Title: Crest Nicholson

The presentation can be viewed via the following link:

https://webcasts.eqs.com/crestnicholson20181017/no-audio

For further information, please contact:

Crest Nicholson Holdings plc +44 (0) 1932 580555
Stephen Stone
Patrick Bergin

Finsbury +44 (0) 20 7251 3801
Faeth Birch
Philip Walters
Caroline Seton

The person arranging release of this announcement on behalf of the Company is Patrick Bergin, Chief Executive Officer.

Forward-looking statements
This release may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "continues", "estimates", "plans", "projects", "seeks", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. These forward-looking statements include all matters that are not historical or current facts. They appear in a number of places throughout this release and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward-looking statements contained in this release. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this release, those developments may not be indicative of developments in subsequent periods. A number of factors could cause developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, changes in its business strategy, political and economic uncertainty. Any forward-looking statements made in this release speak only as of the date they are made. Save as required by Financial Conduct Authority, the London Stock Exchange PLC, or applicable law or regulation, the Company is under no obligation and makes no commitment to revise or to update the information contained in this release. Past performance cannot be relied on as a guide to future performance.