

# Crest Nicholson Holdings plc

## Interim Results for 2016

14<sup>th</sup> June 2016



# Agenda

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

# Performance highlights (1)

- Strong operational and financial performance for the first half
- Housing market continues to thrive, particularly at lower price points where Help to Buy applies
- The business is growing volumes and earnings whilst retaining a strong balance sheet
- Significant increase in dividends, in line with our stated target to reduce cover to 2x by 2017
- On track to deliver on our targets of £1bn revenue in 2016 and £1.4bn in 2019



## Performance highlights (2)

Turnover of £408.1m (2015: £333.2m)	<b>+22%</b>
Operating profit of £77.8m (2015: £63.6m)	<b>+22%</b>
Profit before tax of £72.6m (2015: £58.3m)	<b>+25%</b>
Earnings per share of 23.3p (2015: 18.6p)	<b>+25%</b>
Dividend per share of 9.1p (2015: 6.4p)	<b>+42%</b>
<b>Operating profit margin of 19.1% (2015: 19.1%)</b>	

# Performance highlights (3)

Open-market ASP# of £349k (2015: £309k)  
(Legal Completions)

**+13%**

Unit completions of 1,206 units (2015: 1,124)

**+7%**

Sales per Outlet Week\* at 1.06 (2015: 1.02)

**+4%**

Sales per Outlet Week\*\* at 0.87 (2015: 0.93)

**-7%**

Forward sales at mid-June of £520.8m (2015:  
£436.4m)

**+19%**

GDV of land pipelines of £10,582m (2015:  
£10,087m)

**+5%**

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

# Current market dynamics

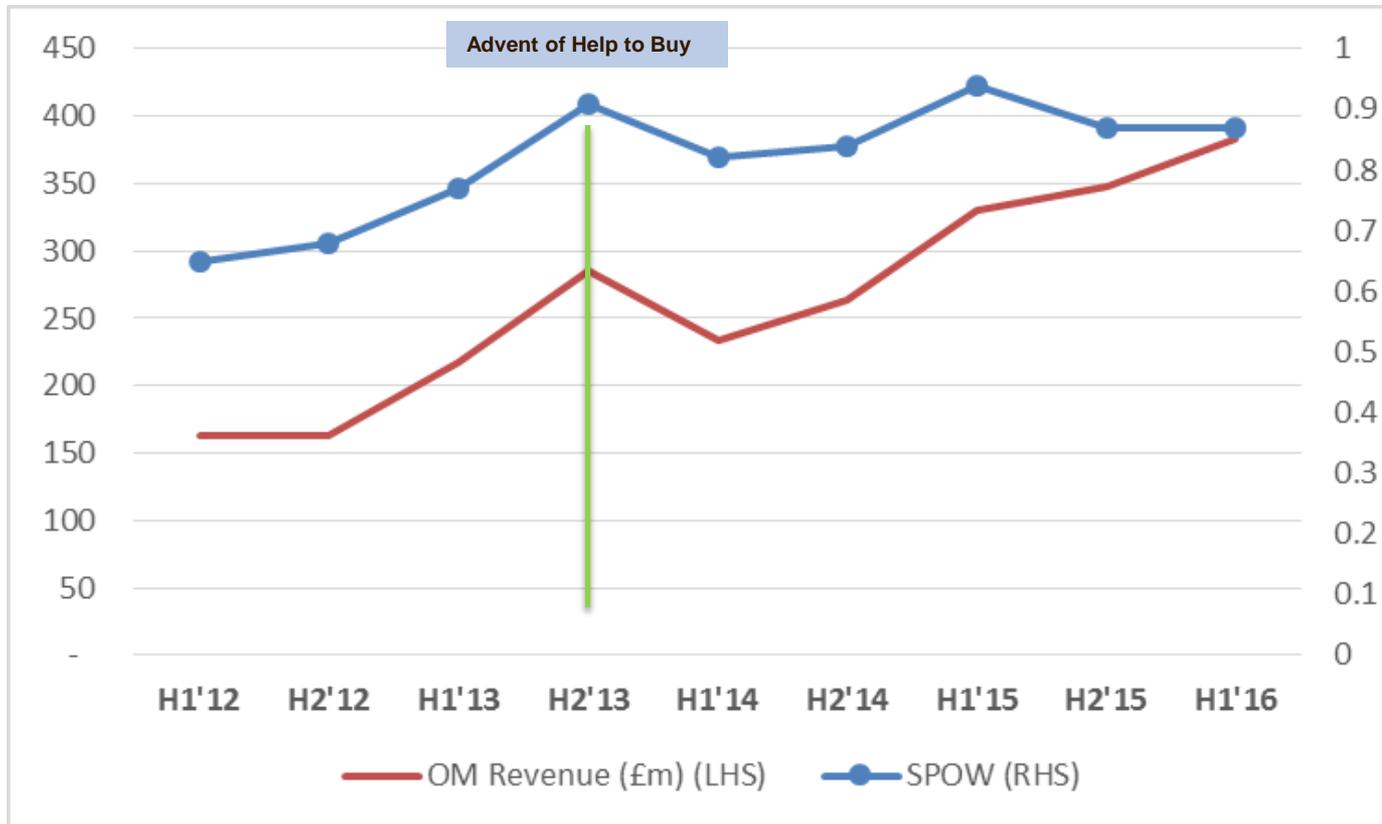
## **Fundamentals of the market remain encouraging...**

- Employment & mortgage access remain strong, underpinning demand
- Land availability continues to be good, supporting re-investment at or above our hurdle rates
- Sales and cost inflation both showing signs of moderating

## **...with a few challenges to address...**

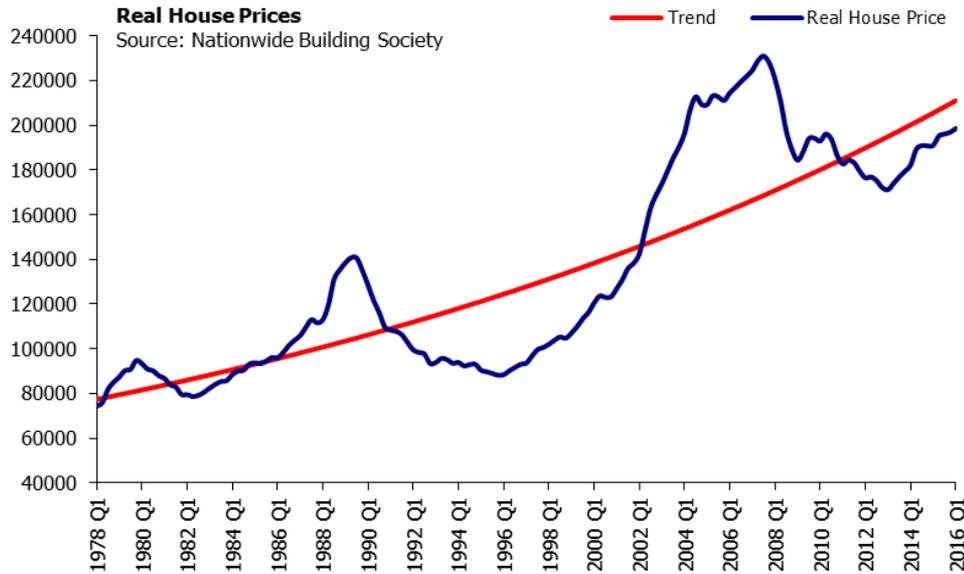
- Risk of market disturbance in the event of a 'Leave' vote
- Reaching workable solutions for the smooth introduction of Starter Homes
- Speeding up the clearance of pre-start planning conditions and securing sufficient labour resources to deliver growth plans

# Sales Rates and Revenues (excl. PRS)

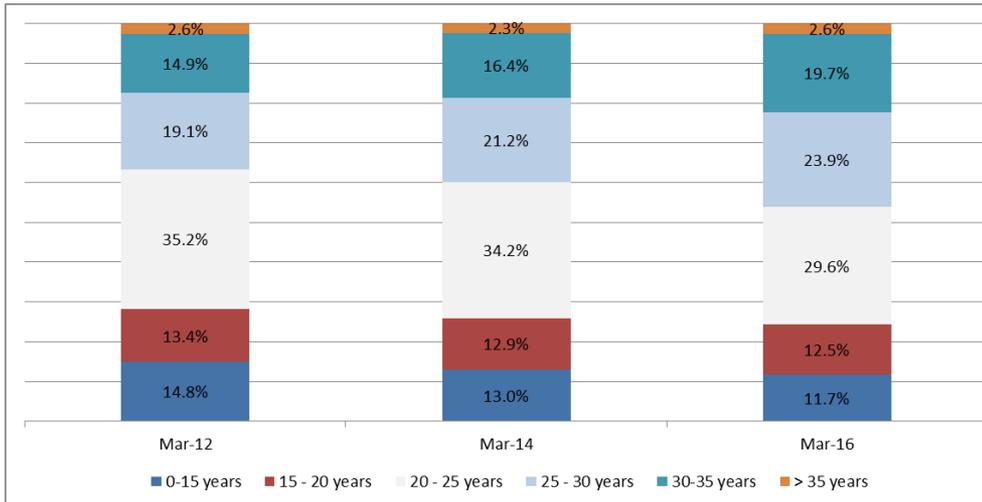


- Sales rates since introduction of Help to Buy at consistently strong level
- Policy of moving up ASP curve successful in driving top-line growth
- Migration out of central London will see ASPs settle at or about this new level

# Demand - Affordability & Mortgages

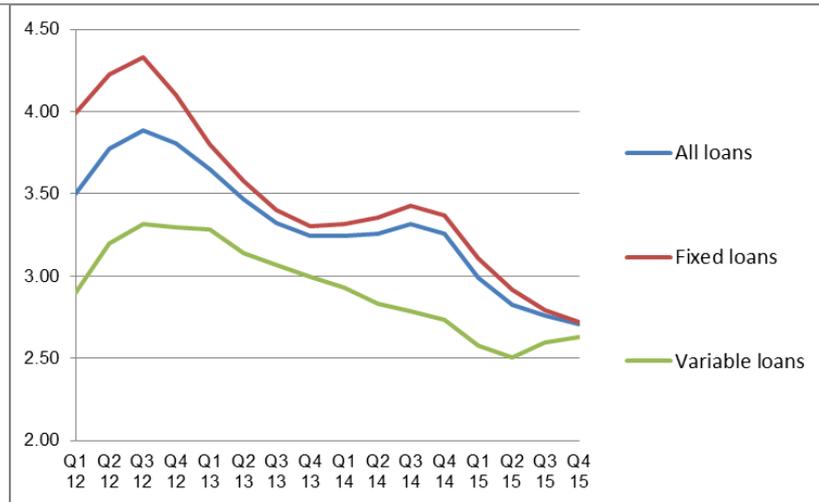


- Real house prices close to trend but below previous peaks
- Low interest rates continue to aid affordability; squeeze on spreads
- Rising proportion of longer-length mortgages aiding affordability



Mortgage Terms

Source: CML Economics

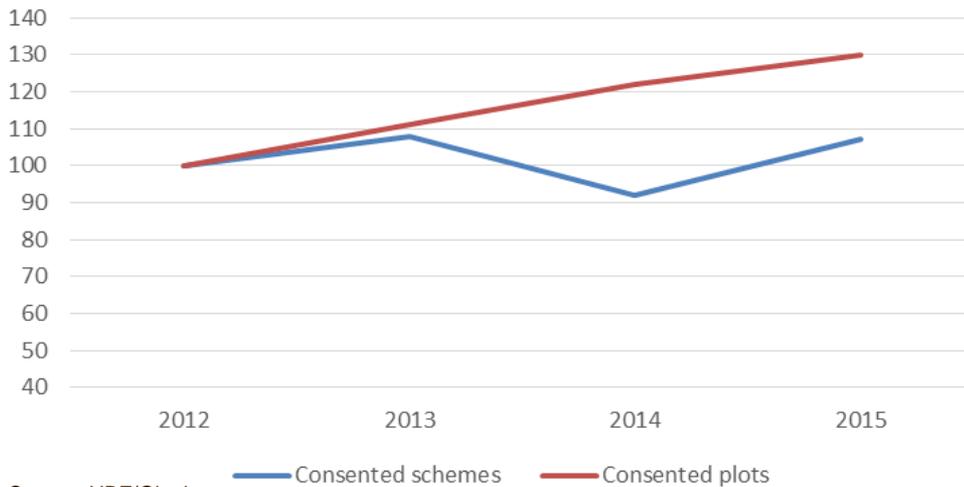


Trends in Mortgage Rates

Source: Bank of England

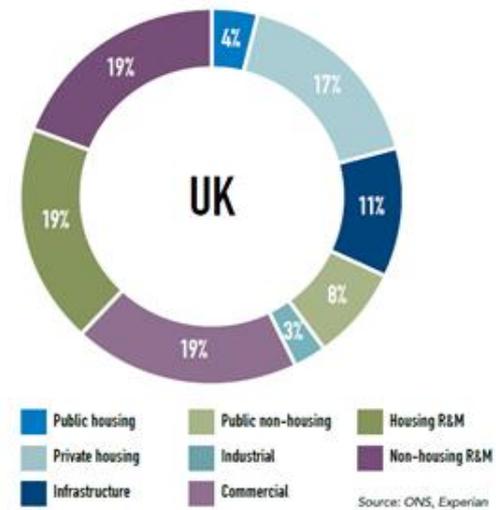
# Supply – Planning and Skills

Indexed planning permissions by sites and plots

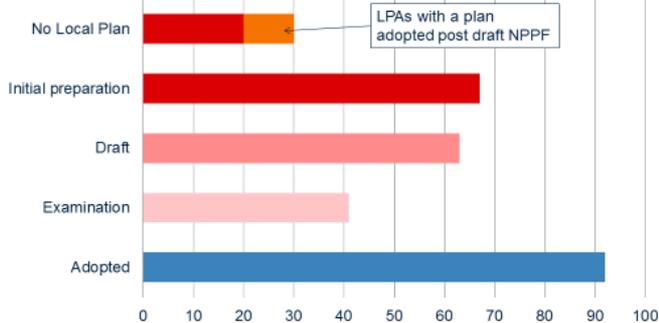


Source: HBF/Glenigan

CONSTRUCTION INDUSTRY STRUCTURE 2014 – UK



Local Plan Preparation

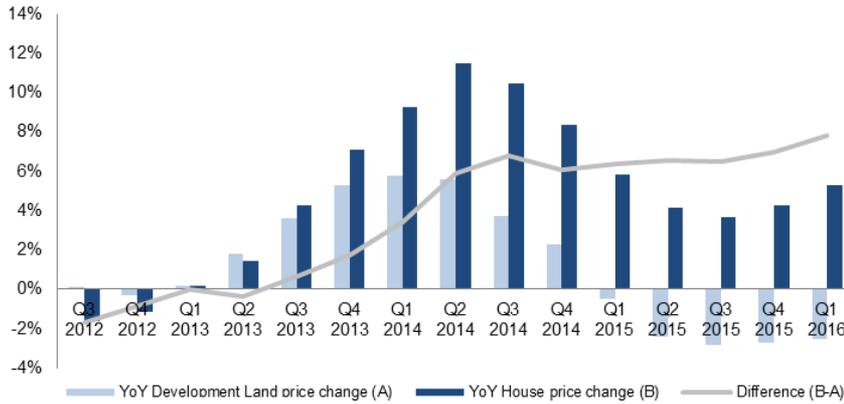


Source: Savills Research 2016

- Planning slowly getting better, but tendency to favour larger sites in Local Plans
- Progress towards having Local Plans in place for April 2017 rather slow, only 30% completed, but most LA's are underway
- Housebuilding industry 'replenishment' need is c.10,000 new recruits p.a. to 2020; significant infrastructure projects competing for workers
- Will increase pressure for productivity growth and innovation in production methodologies

# Land markets and acquisitions

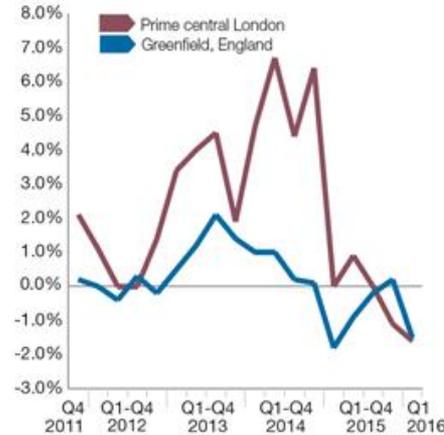
England Greenfield Development Land Index



Source: Knight Frank, Nationwide

FIGURE 1

Residential development land values, quarterly changes



Source: Knight Frank Research

Different markets exhibiting different levels of price tension

Urban schemes under higher demand from wider group of purchasers

Trend for consenting larger sites will favour larger operators

## Sites acquired to date

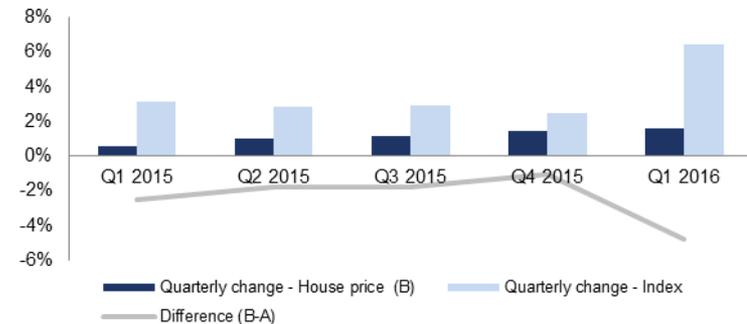
- 10 locations
- 1,147 plots
- £472m GDV

Terms agreed & solicitors instructed on similar number of sites and plots

Replenishing anticipated land usage, whilst evaluating:

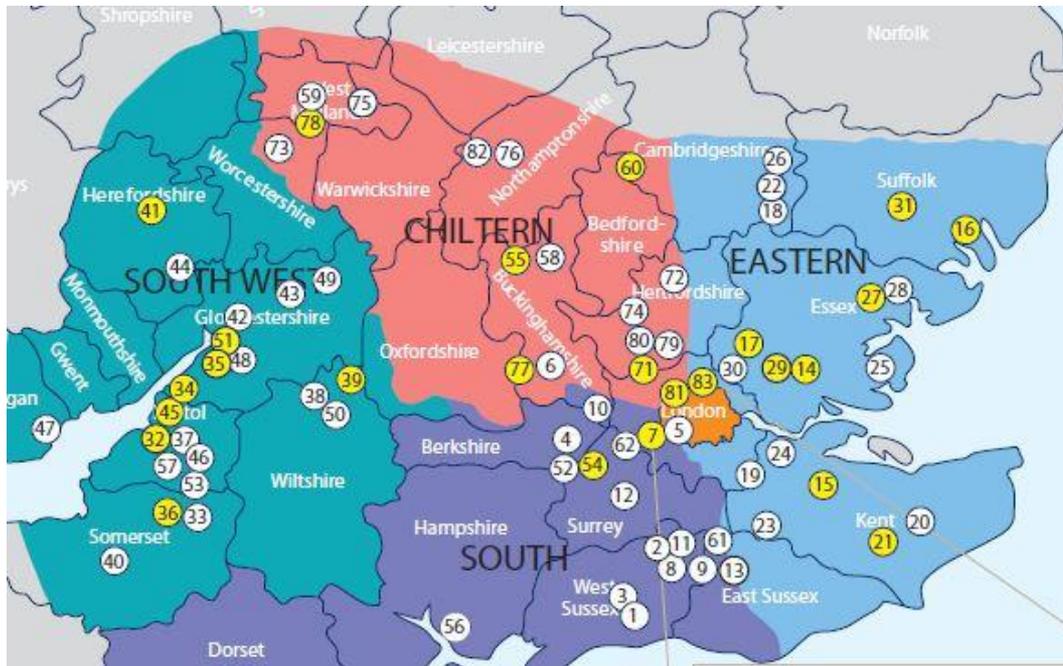
- Growth requirements
- Expectations of Strategic pull-through

Urban Development Land Index



Source: Knight Frank, Nationwide

# Outlets



- Outlet numbers level with prior year but projected to grow c.5% by year-end
- Delays in early 2015 planning (pre-General Election) unhelpful but now resolved
- Good growth in Chiltern division with 9 sites acquired in their first 20 months of operation; London launching in Peckham and Lower Sydenham in Autumn

# Strategic land continues to progress

- A number of strategic sites are significantly advanced; would expect to see increased pull-through in 2017
- **8** planning applications either submitted or being submitted in next 6 months
- After a successful defence of a Judicial challenge to the planning consent, the residential element of the Northern site at Longcross is underway
- Outline planning application for Southern site to submit in 2017, as Local Plan progresses



	No. of sites	No. of plots	% Plots
Allocated	7	3,147	17%
In Draft Allocation	14	7,975	45%
Other	16	6,698	38%
<b>Total</b>	<b>37</b>	<b>17,820</b>	<b>100%</b>



# Maintaining our land pipeline

	Apr 2016		Apr 2015		Change %	
	Units	GDV £m	Units	GDV £m	Units	GDV £m
Short-term housing	15,377	5,143	15,857	4,717	(3%)	9%
Short-term commercial	-	248	-	231		7%
<b>Total short-term</b>	<b>15,377</b>	<b>5,391</b>	<b>15,857</b>	<b>4,948</b>	<b>(3%)</b>	<b>9%</b>
Strategic land	17,820	5,191	18,153	5,139	(2%)	1%
<b>Total under contract</b>	<b>33,197</b>	<b>10,582</b>	<b>34,010</b>	<b>10,087</b>	<b>(2%)</b>	<b>5%</b>

- Selective land replenishment focused on growing new division and maintaining outlet breadth
- Increase in gross development value (GDV) reflective of both changing mix and pricing gains
- Land pipeline maintained at over £10bn of GDV

# Financial results



# Key metrics (1)

	HY 2016	HY 2015	Inc/(Dec) %
Outlets (full year equivalents)	44	44	-
Sales per Outlet Week (OM inc-PRS)	1.06	1.02	+4%
Sales per Outlet Week (OM ex-PRS)	0.87	0.93	-7%
<b>Legal completions</b>			
Open market (ex-PRS)	909	834	+9%
PRS	173	-	
Affordable	124	290	-57%
<b>Total</b>	<b>1,206</b>	<b>1,124</b>	<b>+7%</b>

- Number of outlets level with prior year, but expected to grow in the second half of the year
- Reduction in sales rates as anticipated, given ASP movements
- Affordable housing reductions in part a timing issue with c.500 completions expected for full year 2016

# Key metrics (2)

ASPs	HY 2016	HY 2015	Inc/(Dec) %
<b>Legal completions</b>			
OM ex-PRS	372	309	+20%
OM inc. PRS on OM basis#	349	309	+13%
Affordable*	187	128	+46%
<b>OM Reservations in H1</b>			
OM ex-PRS	387	312	+24%
OM inc. PRS	345	306	+13%
<b>Forward sales</b>			
OM ex-PRS	383	315	+22%
OM inc. PRS	307	267	+15%
Affordable*	130	128	+2%

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

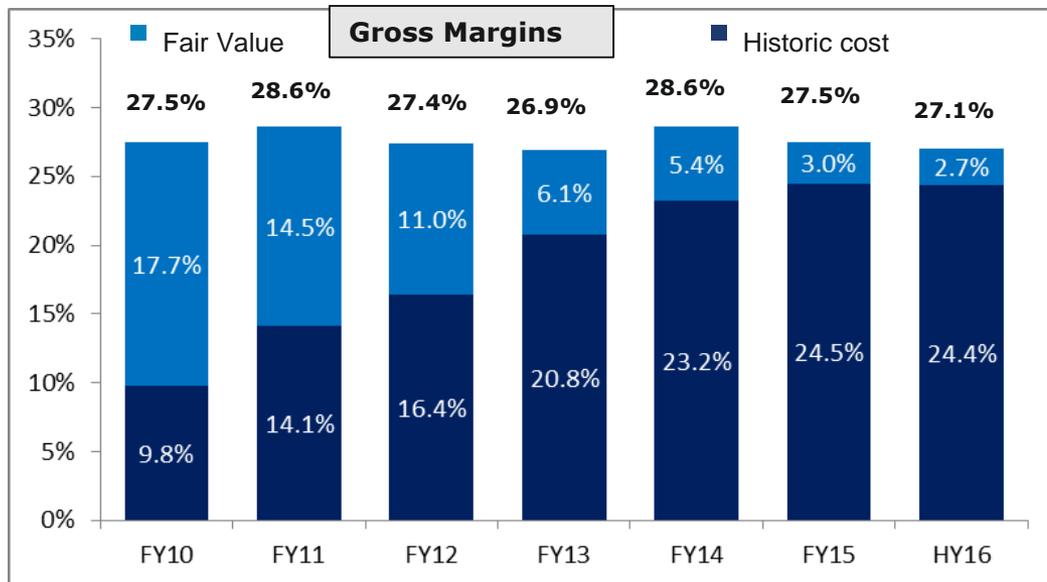
# Includes relevant proportion of PRS land sale revenues with related PRS units

# Income statement

Income statement (£m, unless stated)	HY 2016	HY 2015	Change on 2015	% increase
<b>Revenue</b>	<b>408.1</b>	<b>333.2</b>	<b>74.9</b>	<b>22%</b>
Cost of sales	(297.7)	(241.4)	(56.3)	
<b>Gross profit</b>	<b>110.4</b>	<b>91.8</b>	<b>18.6</b>	<b>20%</b>
<i>% gross profit margin</i>	<b>27.1%</b>	<b>27.6%</b>	<b>(50bps)</b>	
Administrative expenses	(32.6)	(28.2)	(4.4)	
<b>Operating profit</b>	<b>77.8</b>	<b>63.6</b>	<b>14.2</b>	<b>22%</b>
<i>% operating profit margin</i>	<b>19.1%</b>	<b>19.1%</b>	-	
Net financing costs	(4.6)	(5.3)	0.7	
Share of JVs	(0.6)	-	(0.6)	
<b>Profit before tax</b>	<b>72.6</b>	<b>58.3</b>	<b>14.3</b>	<b>25%</b>
Income tax	(13.7)	(11.6)	(2.1)	
<b>Profit after tax</b>	<b>58.9</b>	<b>46.7</b>	<b>12.2</b>	<b>26%</b>
<b>Basic Earnings per share (p)</b>	<b>23.3p</b>	<b>18.6p</b>	<b>4.7p</b>	<b>25%</b>
<b>Dividend per share (p)</b>	<b>9.1p</b>	<b>6.4p</b>	<b>2.7p</b>	<b>42%</b>

- Strong earnings & robust outlook continue to support dividend growth

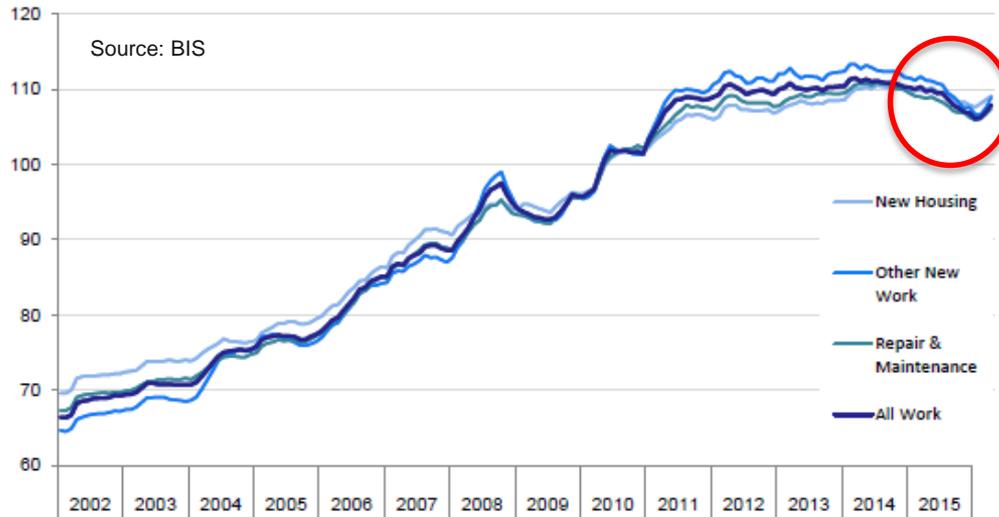
# Strong underlying margins



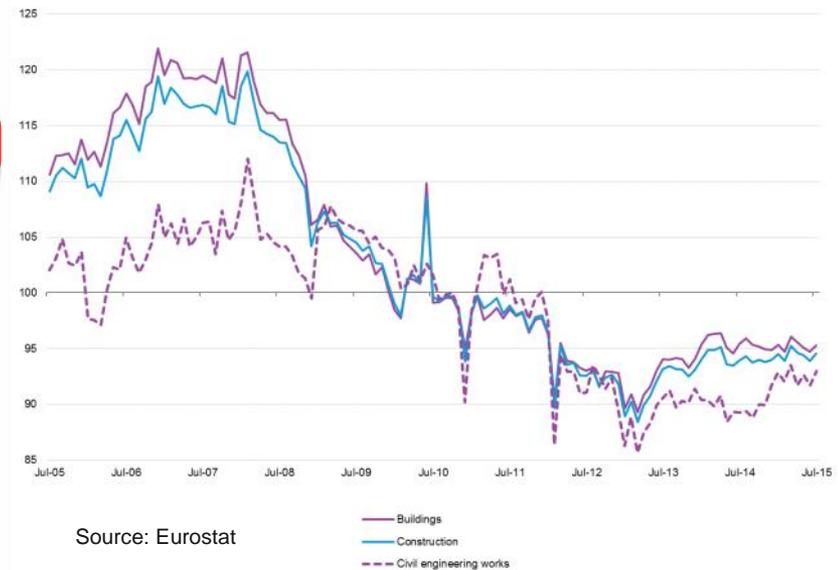
- Underlying gross margin % levelling off; headline rate lower as contribution from fair valuation provision diminishes as expected
- Margins tighter in higher-priced central London market, as there is limited sales price growth but build cost inflation has continued
- Operating margins aided by scale leverage, offsetting the modest decline in GM%

# Build costs

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



European Production 2005-2015



- Material prices showing modest increase in most recent quarter, but still below recent peaks
- Lacklustre construction activity in Europe highlights criticality of UK market
- Cost inflation of 4-5%, being accommodated within sales price uplifts

# Balance sheet

Balance sheet (£m, unless stated)	30 <sup>th</sup> April 2016	31 <sup>st</sup> October 2015	30 <sup>th</sup> April 2015	Change on Oct'15	Change on Apr'15
Non-current Assets	115.9	110.3	84.2	5.6	31.7
Inventory	940.5	904.5	850.1	36.0	90.4
Trade & other receivables/assets	61.6	50.2	54.2	11.4	7.4
Cash and cash equivalents	148.8	187.4	113.9	(38.6)	34.9
<b>Total Assets</b>	<b>1,266.8</b>	<b>1,252.4</b>	<b>1,102.4</b>	<b>14.4</b>	<b>164.4</b>
Interest bearing loans and borrowings	(174.9)	(218.0)	(174.5)	43.1	(0.4)
Land creditors	(197.0)	(160.4)	(157.2)	(36.6)	(39.8)
Retirement benefit obligations	(6.7)	(7.5)	(21.6)	0.8	14.9
Trade and other liabilities	(233.8)	(235.8)	(190.8)	2.0	(43.0)
<b>Total Liabilities</b>	<b>(612.4)</b>	<b>(621.7)</b>	<b>(544.1)</b>	<b>9.3</b>	<b>(68.3)</b>
<b>Shareholders' Equity</b>	<b>654.4</b>	<b>630.7</b>	<b>558.3</b>	<b>23.7</b>	<b>96.1</b>
Net debt/Equity	4.0%	4.9%	10.9%		
Net debt (inc. land creditors)/Equity	34.1%	30.3%	39.0%		

# Cash flow

Cash flow (£m, unless stated)	HY2016	HY2015	Change
<b>Operating profit before changes in working capital and provisions</b>	<b>81.3</b>	<b>66.5</b>	<b>14.8</b>
Increase in trade and other receivables	(25.1)	(3.8)	(21.3)
Increase in inventories	(36.0)	(36.0)	-
Increase/(decrease) in trade and other payables	28.1	(41.2)	69.3
Decrease in retirement benefit obligations	(4.5)	-	(4.5)
<b>Cash generated from/(used by) operations</b>	<b>43.8</b>	<b>(14.5)</b>	<b>58.3</b>
Interest paid	(5.3)	(4.5)	(0.8)
Tax paid	(5.0)	-	(5.0)
<b>Net cash flow from operating activities</b>	<b>33.5</b>	<b>(19.0)</b>	<b>52.5</b>
Net cash flow from investing activities	4.8	3.6	1.2
Net cash flow from financing activities	(76.9)	(12.7)	(64.2)
<b>Net decrease in cash and cash equivalents</b>	<b>(38.6)</b>	<b>(28.1)</b>	<b>(10.5)</b>
Cash and cash equivalents at the beginning of the year	187.4	142.0	45.4
<b>Cash and cash equivalents at end of period</b>	<b>148.8</b>	<b>113.9</b>	<b>34.9</b>

# Forward sales

	YTD FY16	YTD FY15	FY15	FY14
Units – all years	2,336	2,102	1,680	1,499
% change on prior period	+11%		+12%	
GDV (£m) – all years	520.8	436.4	328.9	249.4
% change on prior period	+19%		+32%	
% of FY2016/15 target	75%	79%	25%	24%

- Strong growth in forward sales; GDV increase ahead of units reflects ASP growth
- Forward sales of PRS units continue to provide a meaningful contribution to visibility on future revenues
- Slightly lower proportion of target reached reflecting slower London reservations

# Summary



# Summary

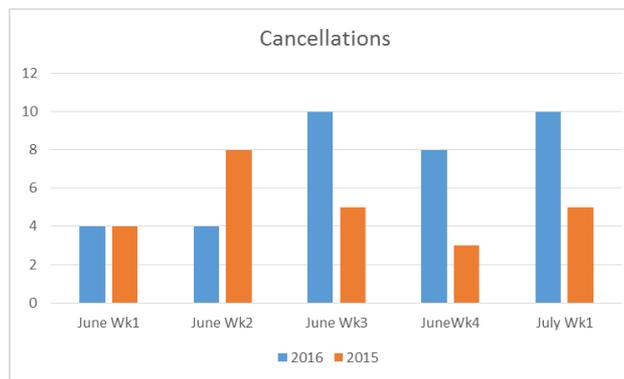
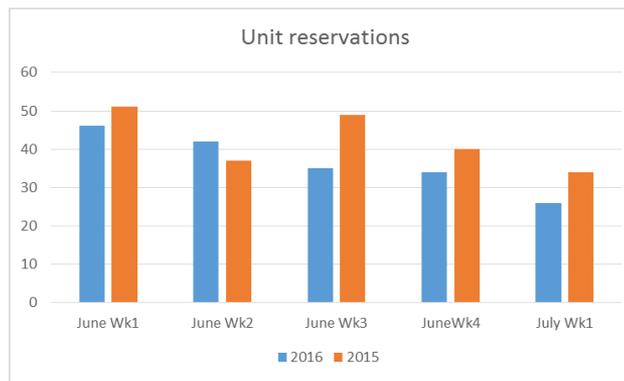
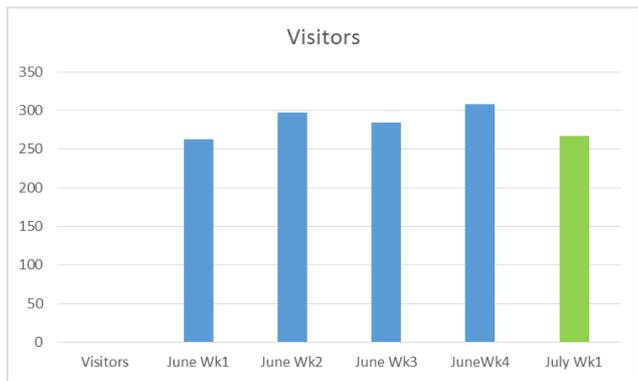
- Crest Nicholson is continuing to grow volumes and earnings, and is on track to hit our targets of £1bn turnover in 2016 and £1.4bn turnover and 4,000 units in 2019
- The housing market continues to be robust across the country, albeit sales of higher-priced Central London units are slower ahead of the EU referendum
- The government remains committed to increasing housing delivery and continues to introduce legislation in pursuit of this objective
- The business has a strong land pipeline, modest gearing and is well placed to continue growing shareholder value

# Q&A



# If a week's a long time in politics...

Stock Market reaction somewhat disconnected from Housing Market statistics – albeit limited post-vote data. Volumes rather than Price bearing initial brunt of uncertainty. Website conversions down 5.5% on prior week but level with prior year



- Unquestionably some nervousness, driving cancellations or breaking chains: Brexit theme raised by some purchasers who then go on & buy!
- Would anticipate a temporary reduction in sales in any event given levels of uncertainty; need to see how long it persists
- Production has been limiting factor not demand – so pricing not under immediate pressure, except Inner London, although £:\$ may be helpful

# Fundamentals unchanged

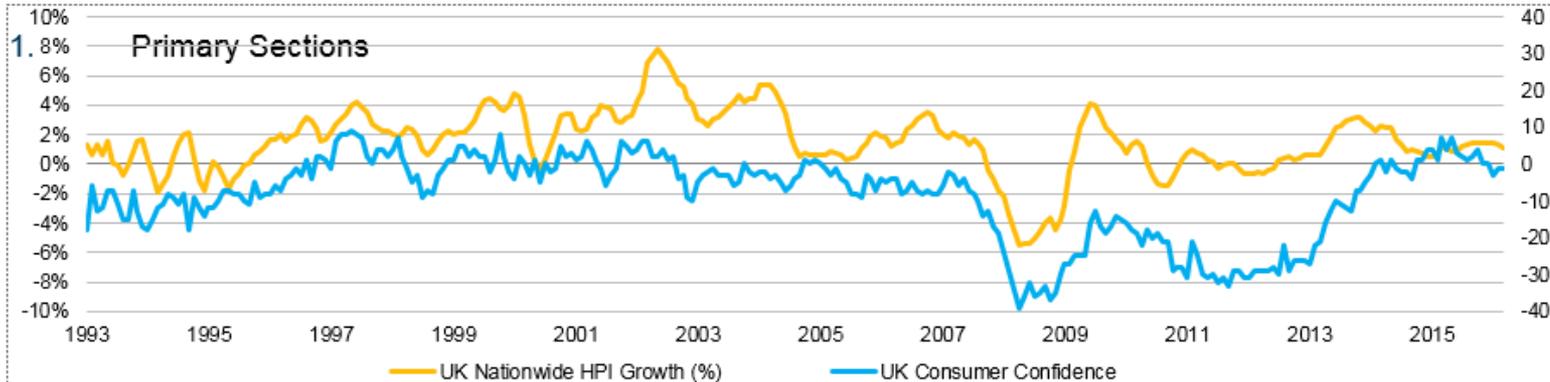
- 95% employment levels – close to ‘full employment’
- Mortgage access remains strong, with no sign of retrenching
  - Key lenders confirming appetite for business remains strong, underpinned by Help to Buy regime
- Interest rate expectations are for reductions rather than increases as risks to the downside on economic activity
- London Ripple – limited impact on wider market when on the way up will partially insulate wider market on way down; different markets with different drivers

## **Case Study: Evoco, London Borough of Bromley**

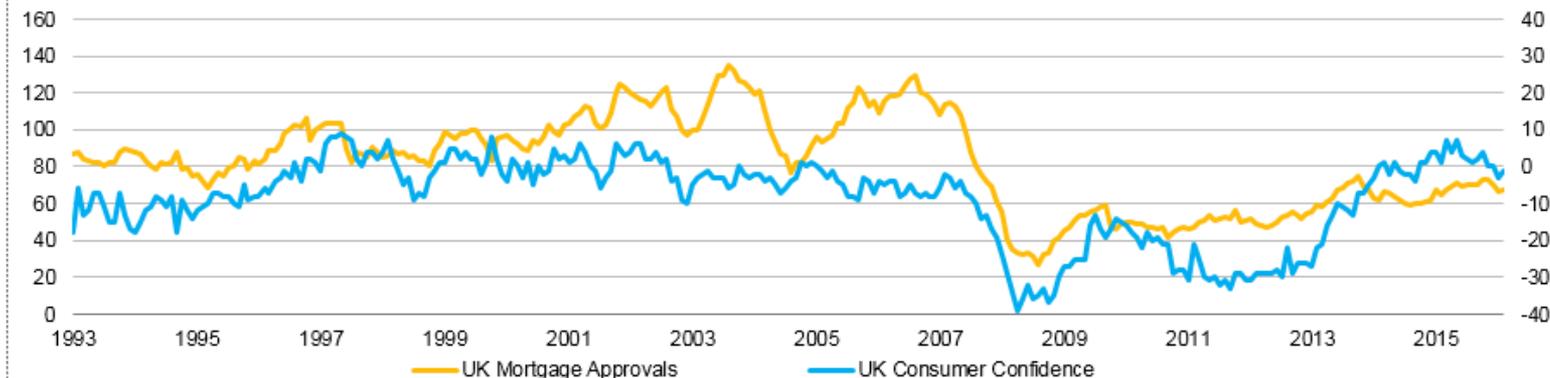
- 33 out of 54 reserved in 18 weeks
- 11 reserved in June, 4 in pipeline since vote
- Pricing ahead of investment appraisal values

# Confidence key – all other factors in place

## UK Consumer Confidence vs. UK Nationwide House Prices



## UK Consumer Confidence vs. UK Mortgage Approvals



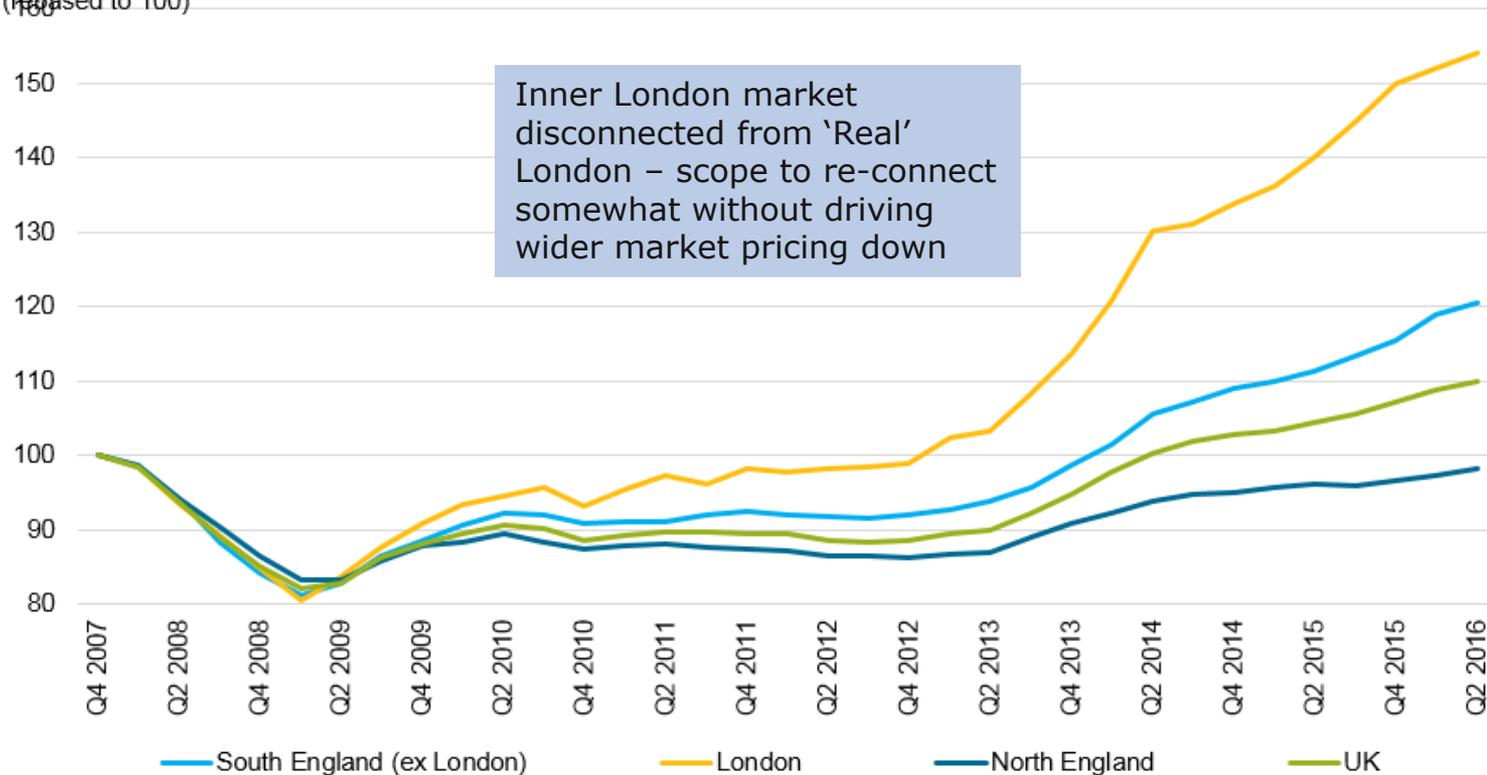
Source: Nationwide, GfK Consumer Confidence as of 30<sup>th</sup> June 2016. HPI Growth represents quarter on quarter seasonally adjusted change

House price variation in previous periods of uncertainty has been in a fairly narrow band

# Southern focus provides resilience

Regional house price performance: Q4 2007 (UK peak) to date

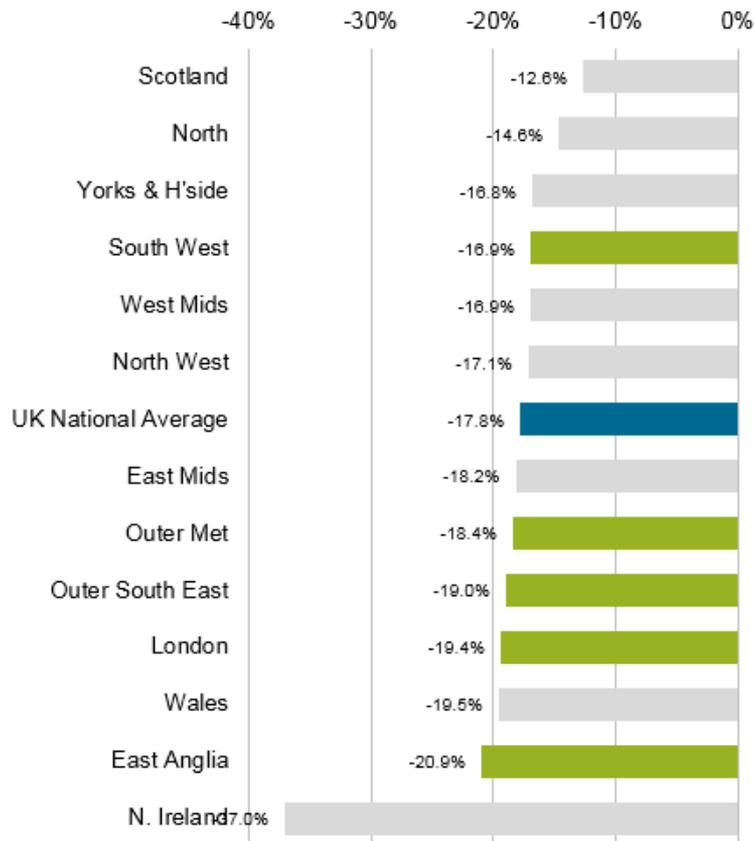
Seasonally adjusted house price index (rebased to 100)



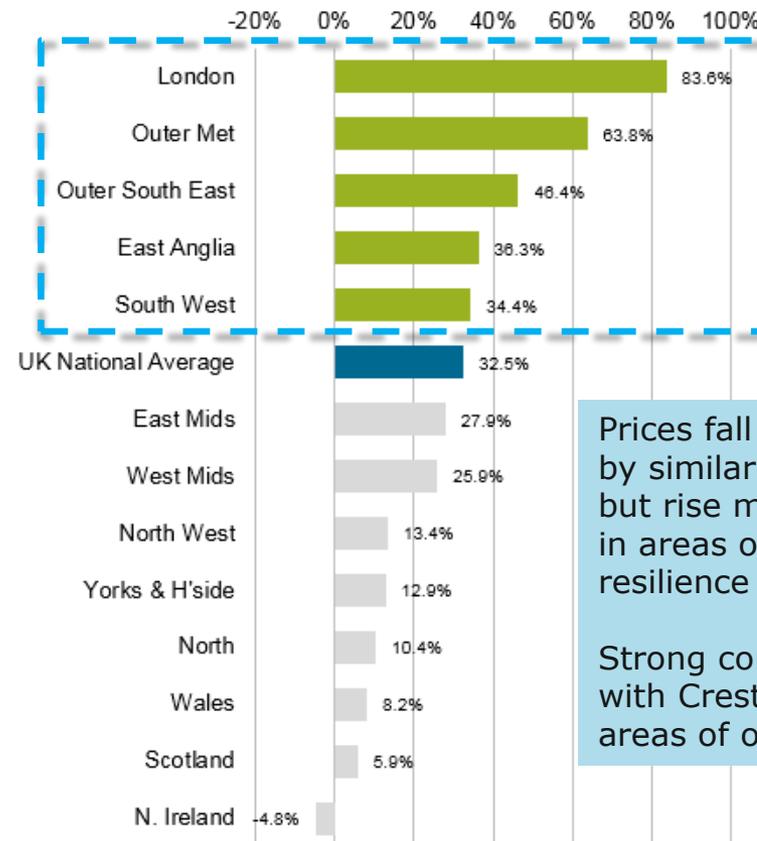
Source: Nationwide as of 30<sup>th</sup> June 2016. South England (ex London) comprises an unweighted average of East Anglia, Outer South East, Outer Metropolitan and South West segments. North England comprises an unweighted average of North, Yorkshire & Humberside, North West, East Midlands and West Midlands segments.

# Pricing resilience by region

Regional split: Q4 2007 (UK peak) to Q1 2009 (UK low)



Regional split: Q1 2009 (UK low) to current



Crest Nicholson areas of operation

Prices fall everywhere by similar amounts but rise more strongly in areas of economic resilience

Strong correlation with Crest Nicholson areas of operation

Source: Nationwide as of 30<sup>th</sup> June 2016

# Strong land pipeline enables pause

- Virtually all of FY17 and over 80% of FY18 land is in hand; modest impact on FY19 target if short pause on land acquisitions
- Two-fold purpose of pause on land buying:
  - Conserve cash in event of less buoyant market
  - Seek to negotiate lower land prices given uncertainties & fewer buyers in land market; maintain/enhance returns
- Business c.80% forward sold for FY16 against target of £1bn revenue
- Other precautionary measures underway whilst we assess purchaser & lender responses: build cash & discretionary recruitment
- Declared dividends to be paid as planned in October; reduced land acquisitions support Final dividend payment in April 2017, even if receipts fall – downside scenarios modelled

## Disclaimer

You should note that the financial projections and other statements regarding Crest Nicholson's intentions, beliefs or current expectations referred to in this document are forward looking and do not relate solely to historical or current facts.

These statements are provided on a confidential basis and are based on the current expectations of management and are naturally subject to uncertainty and changes in circumstances. In addition, they are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in such financial projections.

These projections and statements are based on financial, economic, market and other conditions, and the information available to the management, at the date of preparation. No liability is assumed by Crest Nicholson or any of its advisers for such projections or statements and no reliance should be placed on such projections or statements.