

# Crest Nicholson Holdings plc

## Interim Results for 2019

11<sup>th</sup> June 2019



# Agenda



- Chairman's introduction Stephen Stone
- Strategy & performance summary Chris Tinker
- Financial performance Rod Holdsworth
- Outlook & Summary Chris Tinker
- Q&A

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**Chris Tinker**



- Chairman's Introduction
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# Current Strategic Focus

## 1. Priority on cashflow and dividends

- Pause growth
- Commitment to pay ordinary dividend of 33p per share in FY19\*
- Focus on shareholder returns

## 2. Maximising portfolio value

- Generating value from our well acquired land pipeline
- Adapting portfolio to address housing affordability
- Increase use of partnership model

## 3. Operational efficiencies

- New core house types introduced
- Scale trials of Off-Site Manufacturing activities
- Adding operational resource

\* Subject to no material deterioration in current market conditions

# Half Year Performance Summary



Revenue £501.9m (HY18: £467.6m)	+7%
Sales per outlet week 0.78 (HY18: 0.78)	Maintained
Current and forward sales for FY19 £870.1m (HY18: £848.8m)	+3%
Total forward sales c/f £625.2m (HY18: £544.4m)	+15%
Operating profit margin of 14.1% (HY18: 16.8%)	-270bps
Profit before tax of £64.4m (HY18: £72.0m)	-11%
Net debt and land creditors lower by £41.3m	-14%
Dividend per share 11.2p (HY18: 11.2p)	Maintained

# Strategic Momentum

## What we set out to achieve

- Increase operational strength of the senior Executive team
- Pause growth, prioritise cash
- Increase partnership and JV opportunities
- Broaden our channels to market to de-risk reliance on OM sales
- Retain embedded value of land bank whilst working it harder
- Underpin stakeholder returns

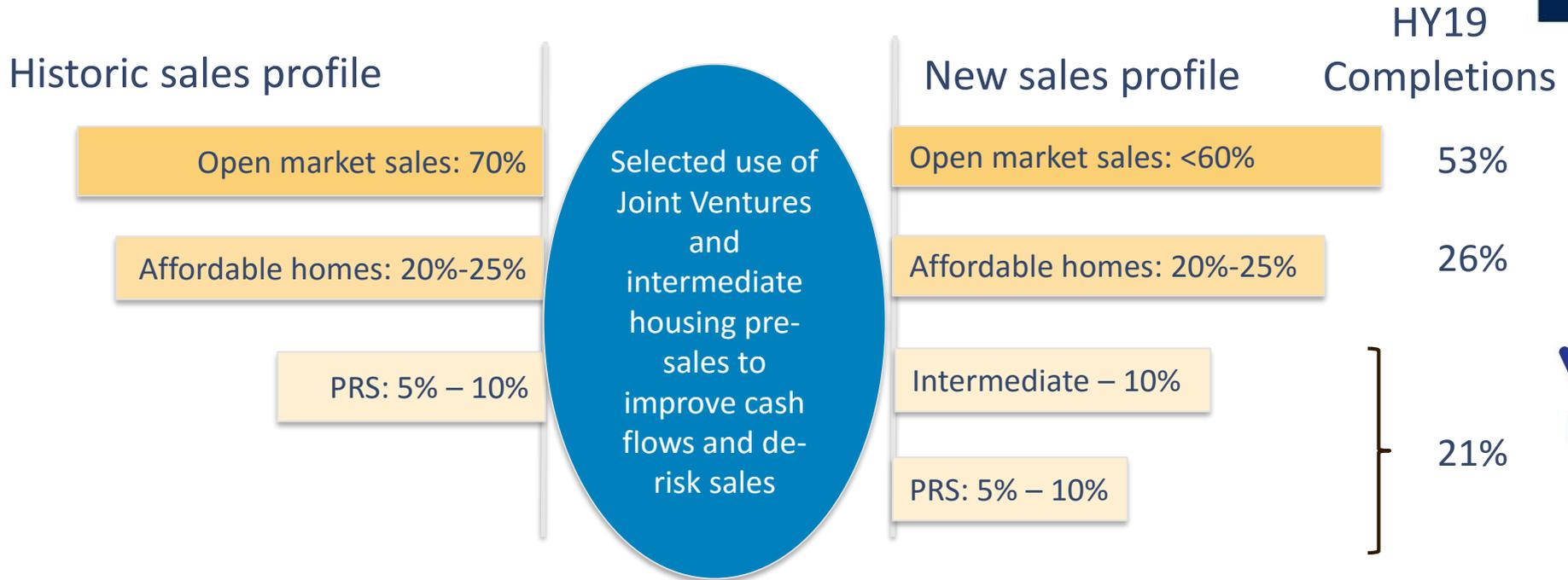
## Encouraging progress to date

- Experienced Chief Operating Officer and Group Commercial Director joined
- £41m reduced net debt/land creditors
- On track with partnership and JV opportunities
- Moved to a position where circa 45% of homes are pre-sold and total forward sales up 17% to £625.2
- Lower ASP acquisitions and increased strategic and partnership land secured
- Re-affirmed 33p per share dividend guidance for FY19

# Key Sales Metrics

		HY 2019	HY 2018	
Current and forward sales - FY19	£m	870.1	848.8	+3%
Unit completions		1,187	1,305	-9%
Outlets (half year equivalents)		58	52	+12%
Sales per Outlet Week		0.78	0.78	-
Revenue	£m	501.9	467.6	+7%
Total forward sales	£m	625.2	533.6	+17%
ASP – Open market	£k	413	384	+8%
ASP – Affordable	£k	230	159	+45%

# Broadening our channels to market



- Achieved shift to lower risk sales strategy in HY 2019 (47% of units taken to P&L pre-sold)
- *Increased partnership sales included: £73m, 205-unit pre-sale on 3 sites to Southern Housing Group for PRS, and grant funded shared ownership and affordable rent.*

# Partnership business growing

## Selected Joint Ventures

- 910 dwelling, £230m GDV JV contracted into a Crest/Sovereign Housing Group JV
- 374 unit, £145m GDV JV with A2Dominion at Walton Court, Surrey commenced delivery
- 222 unit, £80m GDV JV with A2Dominion at Bicester has delivered first completions
- 300 unit, £150m GD JV with Clarion Housing Group at London Chest Hospital has secured RTG planning



## Crest Nicholson

Strong Land bank  
Large site place making and delivery skills  
DM and PM capacity  
Sales & marketing

## Potential RP Partners

### New Strategic Homes England Partnerships

Mixed tenure model;  
- Spec housing  
- S106 affordable  
- Intermediate  
Access to £9bn support/grant

Housing infrastructure funding (HIF)  
Home Building Fund  
Public Sector Land

## Homes England

- At Harry Stoke, Circa 396 homes at £73m GDV pre-sold by JV to Sovereign Group for affordable and intermediate housing

# Operational efficiency programme continues

## Procurement benefits

New Group Contents  
Specification helping to part off-  
set build cost inflation

New GTA's reflecting increased  
quantities and optimised  
specification

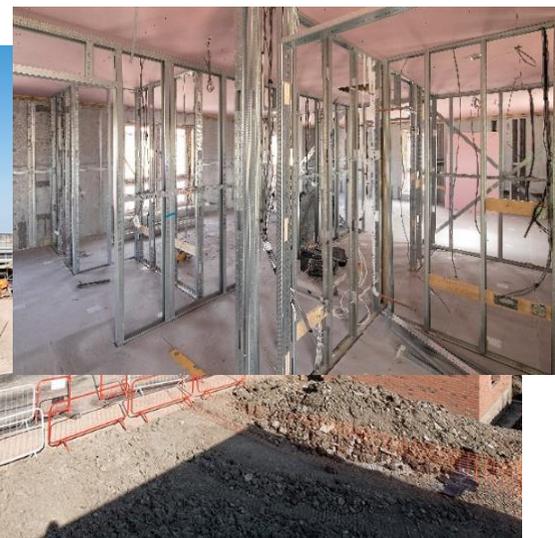
## Aurora housing range

Aurora now selling on 2 new  
outlets

19 further outlets in planning  
and pre-production phase

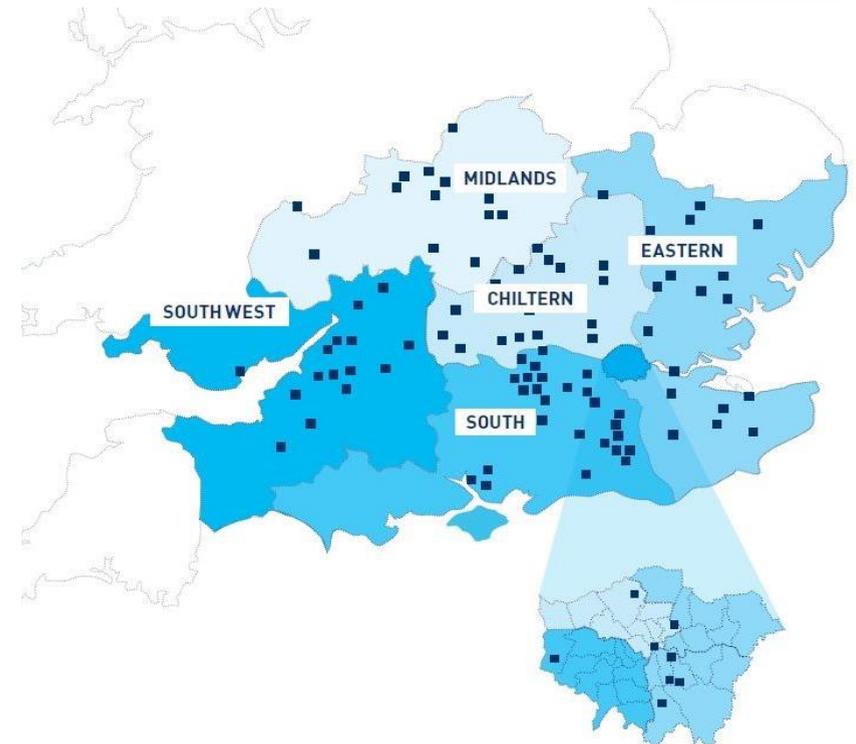
## OSM

Scale trials of circa 400 plots on  
3 outlets



# Land Pipeline Objectives

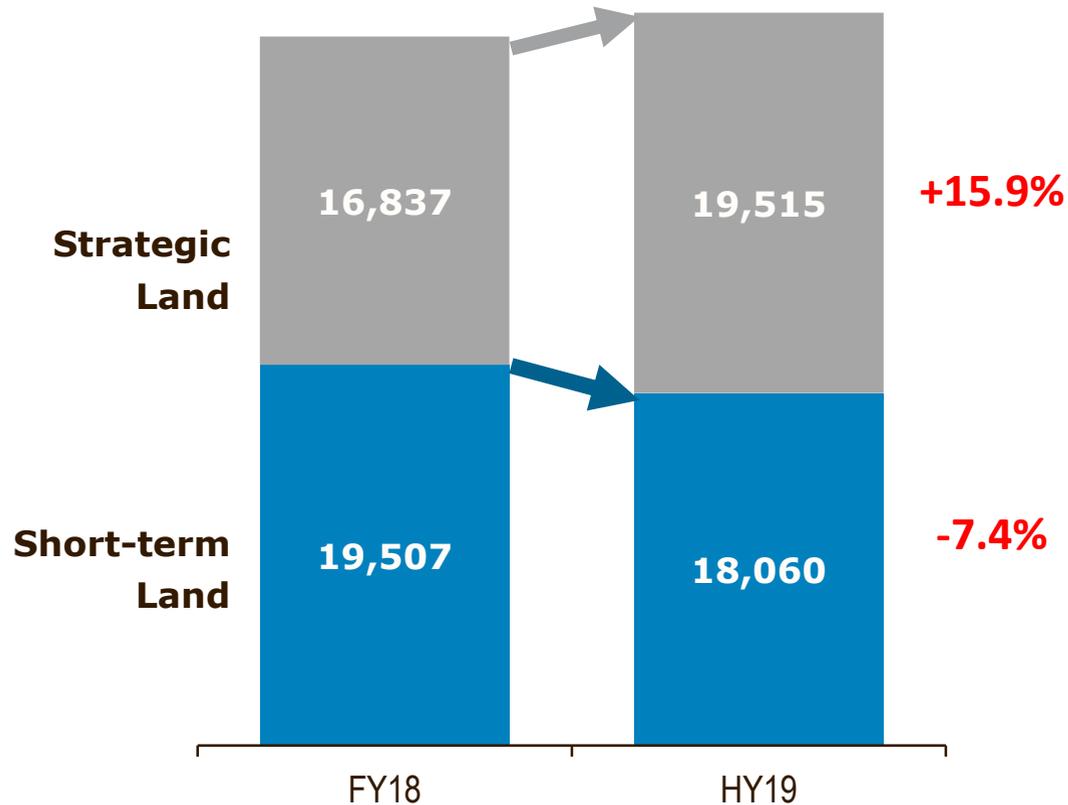
- Optimise flexible store of land bank value for the future
- Use short term portfolio to support current strategy:
  - Increased proportion of pre-sales
  - Selected JV's
- Reposition ASP's of short-term land bank
- Grow embedded value and full GM in the medium/long term land portfolio on a de-risked basis for the future



- Continue with Southern focus
- Develop out London sites through outer London divisions
- Grow Midlands to full scale operation

# Land pipeline HY19 evolution

<b>GDV</b>	•	<b>£11.9bn</b>	•	<b>£12.3bn</b>	<b>+3.4%</b>
<b>Plots</b>	•	<b>36,344</b> <sup>(1),(2)</sup>	•	<b>37,575</b> <sup>(2)</sup>	<b>+3.4%</b>
<b>ASP</b>	•	<b>£328k</b>	•	<b>£328k</b>	<b>-</b>



## Short-term land bank:

- 2,175 plots completed or traded
- 734 plots added including:
  - **Midlands new plots:**  
290 plots at ASP £299k
  - **Other lower ASP new plots:**  
325 plots at ASP £325k

## Strategic Land Bank:

- Secured 2,752 plots on 4 new sites
- Includes 1,117 plots on 2,500 unit development at Grazeley under partnership arrangement with the Englefield Estate

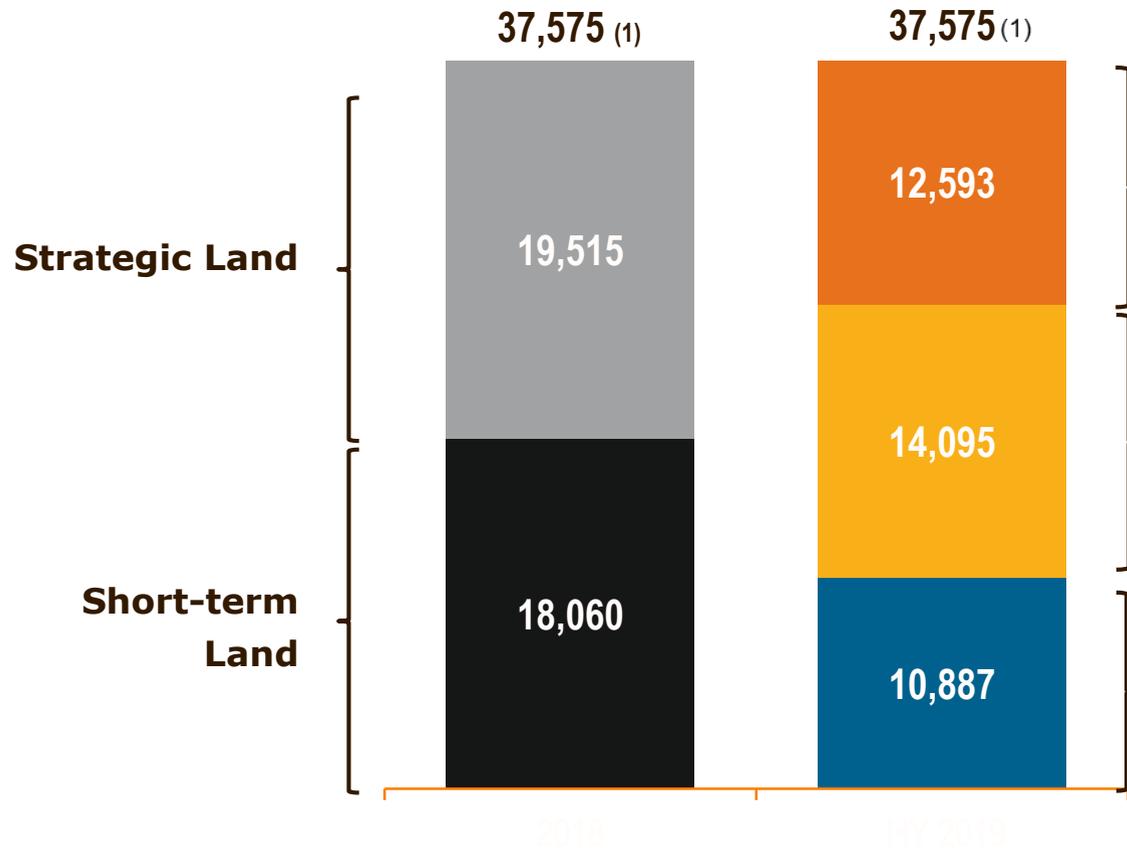
(1) Re-set to post IFRS15 level

(2) £0.25bn Commercial stock (FY18 :£0.26bn) excluded from GDV and ASP

(3) Plot numbers, GDV and ASP based on management estimates of site capacity and expected sales prices which are updated quarterly

# Embedded Value in the Land Pipeline

## HY19 Units



### Long-term strategic land

- Unallocated but controlled
- Long term options exercised and priced at point of acquisition
- Full GM when converted

### Medium-term pipeline

- Consented/allocated/draft allocation or Government GV designation
- Largely options or partnership agreements
- Ave 1% of GDV balance sheet cost

### Short-term land

- Circa 85% plots with planning consent/resolution to grant
- Delivery ongoing/to commence in 1 to 3 years

(1) Plot numbers based on management estimates of site capacity which are updated quarterly

# Agenda

## Rod Holdsworth

- Chairman's Introduction
- Performance highlights
- Strategy & Progress
- **Financial performance**
- Outlook & Summary
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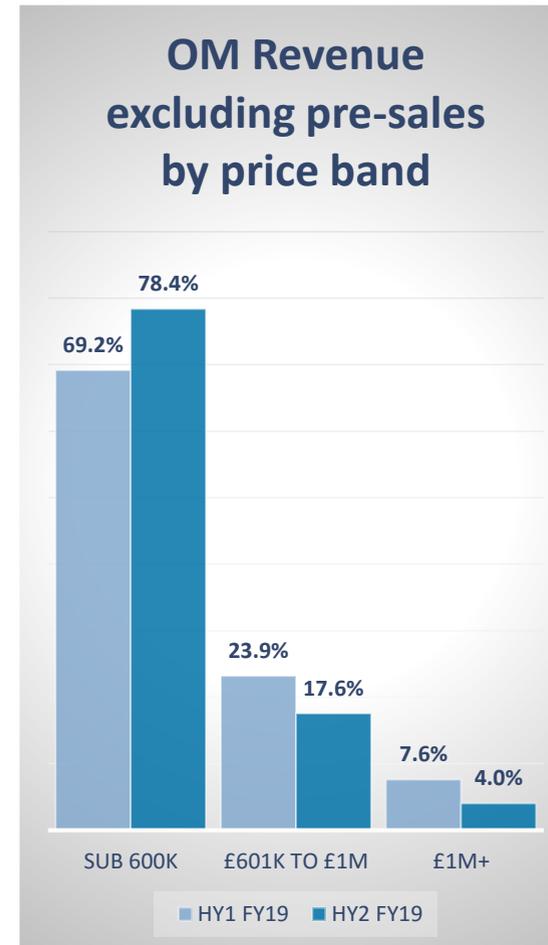
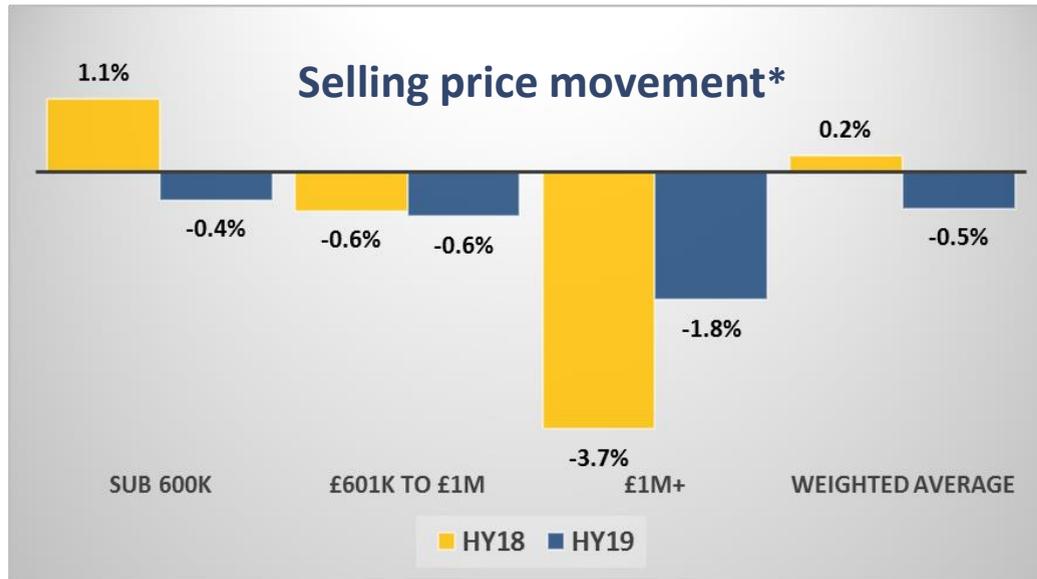


# Income statement

Income statement (£m, unless stated)	HY 2019	HY 2018*	Change	% change
<b>Revenue</b>	<b>501.9</b>	<b>467.6</b>	<b>34.3</b>	<b>7%</b>
Cost of sales	(401.6)	(358.6)	(43.0)	
<b>Gross profit</b>	<b>100.3</b>	<b>109.0</b>	<b>(8.7)</b>	<b>-8%</b>
<i>% gross profit margin</i>	<b>20.0%</b>	<b>23.3%</b>	<b>(330bps)</b>	
Administrative expenses	(29.5)	(30.4)	0.9	
<b>Operating profit</b>	<b>70.8</b>	<b>78.6</b>	<b>(7.8)</b>	<b>-10%</b>
<i>% operating profit margin</i>	<b>14.1%</b>	<b>16.8%</b>	<b>(270bps)</b>	
Net financing costs	(5.3)	(5.8)	0.5	
Share of JVs	(1.1)	(0.8)	(0.3)	
<b>Profit before tax</b>	<b>64.4</b>	<b>72.0</b>	<b>(7.6)</b>	<b>-11%</b>
Corporation tax	(12.5)	(13.3)	0.8	
Profit after tax	51.9	58.7	(6.8)	
<b>Basic Earnings per share</b>	<b>20.2p</b>	<b>22.9p</b>	<b>(2.7)p</b>	<b>-12%</b>
<b>Dividend per share</b>	<b>11.2p</b>	<b>11.2p</b>	-	-

\* Adjusted for the impact of IFRS15.

# Sales profile and pricing



- Selling prices holding up
- Growing proportion of sales sub £600k

\* Selling price movements after sales incentives.

## Half year margins under revised strategy



Half year gross margin 330bps lower

- Average selling price reductions of c.0.7% over last 12 months
- Increased proportion of pre-sold units has traded c. 1.5% for increased cash flow and lower risk
- Ongoing build cost inflation of 3% to 4% p.a. mitigated by ongoing operational efficiencies

# Balance sheet

£m, unless stated	30 <sup>th</sup> April 2019	30 <sup>th</sup> April 2018*	
Non-current Assets	116.6	100.5	
Inventory	1,183.9	1,215.8	
Trade & other receivables/assets	131.5	121.5	
Cash and cash equivalents	185.4	101.9	
<b>Total Assets</b>	<b>1,617.4</b>	<b>1,539.7</b>	<b>+5%</b>
Interest bearing loans and borrowings	(253.7)	(180.4)	
Land creditors	(192.1)	(223.2)	
Retirement benefit obligations	(1.2)	(2.1)	
Trade and other liabilities	(309.6)	(312.4)	
<b>Total Liabilities</b>	<b>(756.6)</b>	<b>(718.1)</b>	<b>+5%</b>
<b>Shareholders' Equity</b>	<b>860.8</b>	<b>821.6</b>	<b>+5%</b>
Net debt	68.3	78.5	-13%
<b>Average net debt</b>	<b>136.8</b>	<b>170.5</b>	<b>-20%</b>
Net debt and land creditors	260.4	301.7	-14%

\* Adjusted for the impact of IFRS15.

# Cash flow

Cash flow (£m, unless stated)	HY 2019	HY 2018*	Change
<b>Operating profit before changes in working capital and provisions</b>	<b>71.2</b>	<b>80.9</b>	<b>-9.7</b>
(Increase)/decrease in trade and other receivables	(26.6)	1.2	
Decrease/(increase) in inventories	29.3	(128.8)	
(Decrease)/increase in trade and other payables	(78.8)	15.9	
Contribution to retirement benefit obligations	(4.5)	(4.5)	
<b>Cash used by operations</b>	<b>(9.4)</b>	<b>(35.3)</b>	<b>+25.9</b>
Interest paid	(5.0)	(5.0)	
Tax paid	(11.2)	(17.9)	
<b>Net cash used by operating activities</b>	<b>(25.6)</b>	<b>(58.2)</b>	<b>+32.6</b>
Net cash flow from investing activities	0.6	2.8	
Net cash flow from financing activities	26.1	(17.9)	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1.1</b>	<b>(73.3)</b>	<b>+74.4</b>
Cash and cash equivalents at the beginning of the year	184.3	175.2	
<b>Cash and cash equivalents at end of period</b>	<b>185.4</b>	<b>101.9</b>	<b>+83.5</b>

\* Adjusted for the impact of IFRS15.

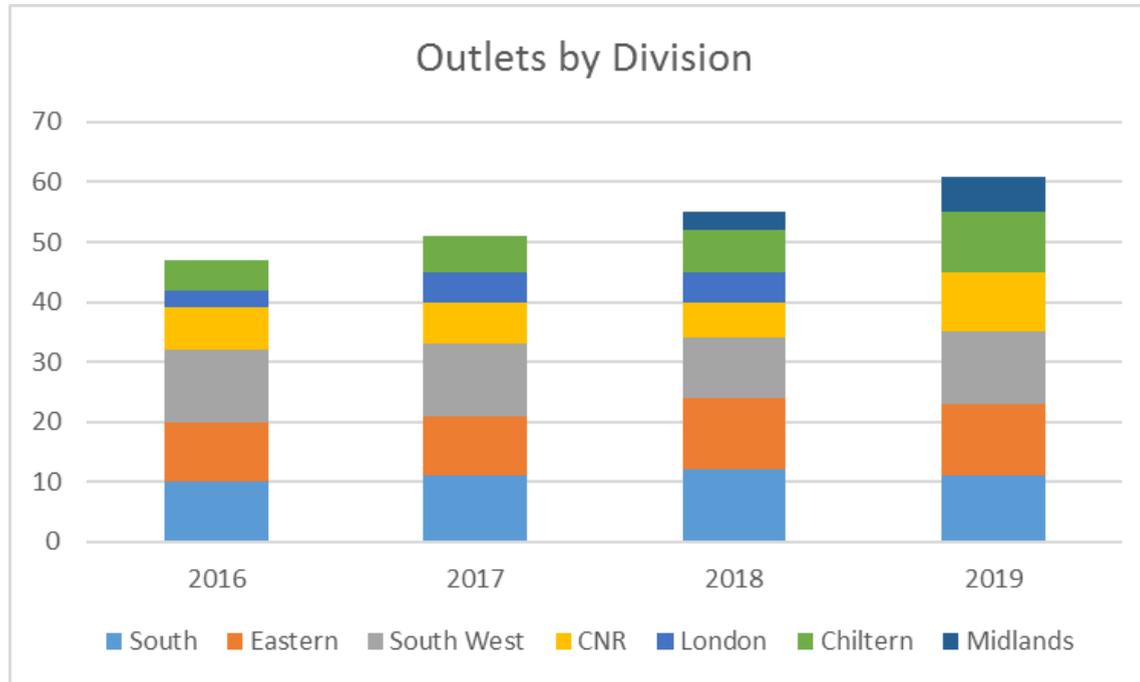
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# Outlook: Outlets and ASP's profile



- Enter 2<sup>nd</sup> half 2019 with 58 outlets and will average 60
- London absorbed into the outer London Divisions
- ASP Evolution:
  - FY19: After good HY1 higher ASP sales, HY2 ASP circa 5% below HY1
  - FY20: Further 5% reduction anticipated as lower ASP sites pull through
- Total forward sales increase of 15% to £625.2m de-risking future years

# Outlook

- Short term demand outlook remains uncertain due to the ongoing political turbulence
- Current and forward sales of £870.1m underpins FY19 revenue, demonstrating merit of new channels to market despite near term reduction in operating profit margin
- Stable pricing assumed for HY2 OM sales on lower ASP's with similar overall unit completions to last year.
- Continuation of 40%+ pre-sale strategy to de-risk plan
- Ongoing build cost inflation of 3% to 4% partially mitigated by operational efficiencies, suppressing GM of short-term land
- Board remains confident in prospects for the remaining part of the year and earnings guidance remains unchanged
- Cash positive by year end taking into account payment of full year 33p dividend

# Summary

- Encouraging first half trading performance
- Have strengthened senior Operational and Financial leadership team
- Business operations resilient and operational efficiency programmes making planned progress
- Have successfully implemented large parts of the revised strategy and on track to continue during HY2
- Partnerships with Investors, RP's and Homes England strong
- £12.3bn land pipeline retains significant asset value and full margin strategic and partnership land at low balance sheet cost

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