

Crest Nicholson Holdings plc

2014 Interim Results

17th June 2014



Agenda

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

Performance highlights (1)

Revenues of £241.1m (2013: £192.0m)

+26%

Unit completions of 1,091 units (2013: 810)

+35%

Sales per Outlet Week at 0.83 (2013: 0.77)

+8%

Forward sales at mid-June of £347.3m (2013: £330.9m)

+5%

Performance highlights (2)

Gross profit of £69.3m (2013: £53.4m)

+30%

Operating profit of £44.7m (2013: £34.8m*)

+28%

Profit before tax of £38.4m (2013: £28.1m*)

+37%

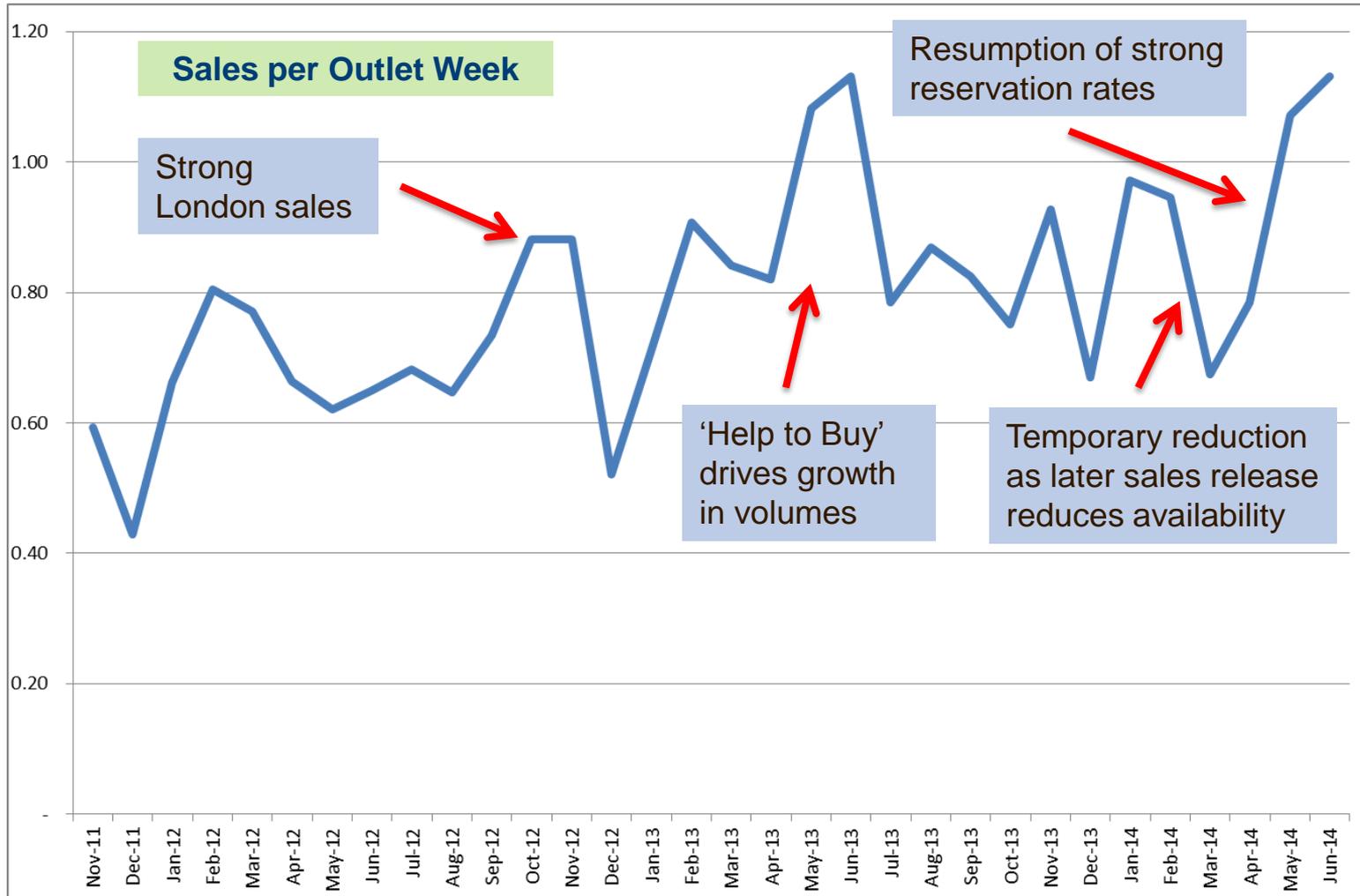
Earnings per share of 12.3p (2013: 9.3p*)

+32%

Operating profit margin of 18.5% (2013: 18.1%*)

* Figures for 2013 quoted pre-exceptional charges of £5.9m incurred on IPO

Sales Strategy



Demand remains strong

- Unreserved build stock at very low levels
- Production now the constraint on volume, rather than sales
- Shortages of second-hand stock contributing to enhanced demand for new-build product

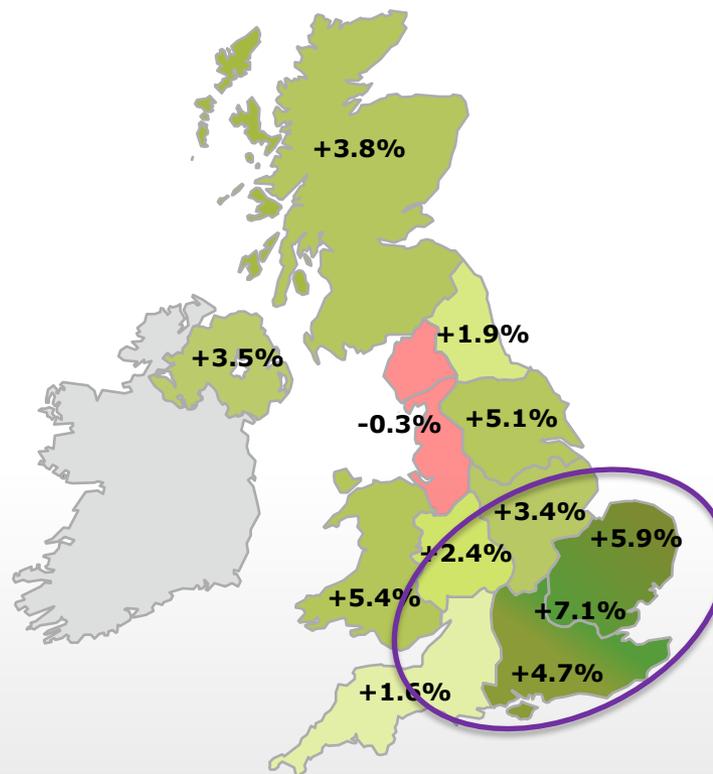
Key determinants of demand for housing remain...

- Have I got a job?
- Can I get a mortgage?

Employment – incidence and changes

Total Employment by Region (,000)

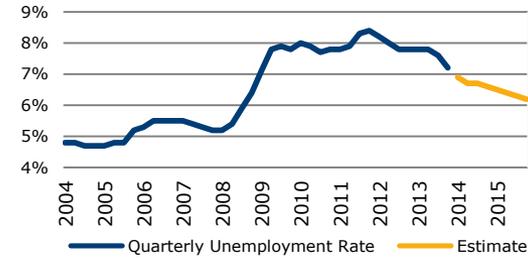
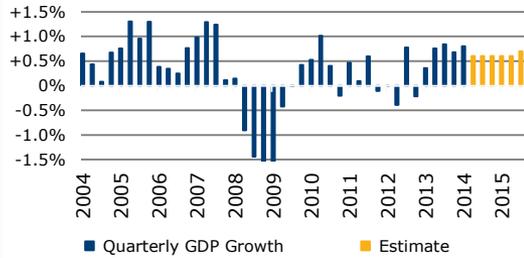
Region	2010	Q4-13	Change
East	2,796	2,961	+5.9%
East Midlands	2,096	2,166	+3.4%
London	3,738	4,001	+7.1%
North East	1,152	1,174	+1.9%
North West	3,156	3,146	-0.3%
Northern Ireland	775	801	+3.5%
Scotland	2,462	2,556	+3.8%
South East	4,167	4,362	+4.7%
South West	2,518	2,559	+1.6%
Wales	1,316	1,387	+5.4%
West Midlands	2,428	2,486	+2.4%
Yorkshire & the Humber	2,418	2,541	+5.1%
Total	29,018	30,140	+3.9%



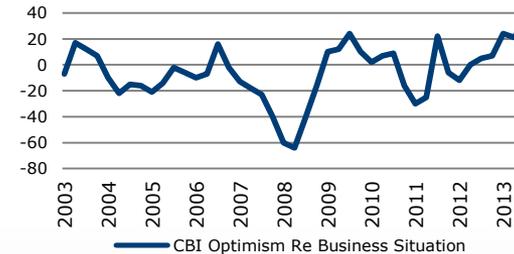
Source: ONS. Note: 2010 figure refers to average quarterly total employment figure

Resilience in earnings

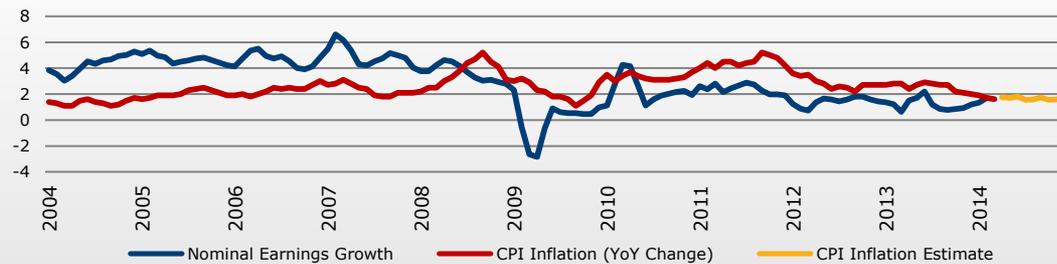
GDP & Unemployment



Business & Consumer Confidence



CPI Inflation & Nominal Earnings

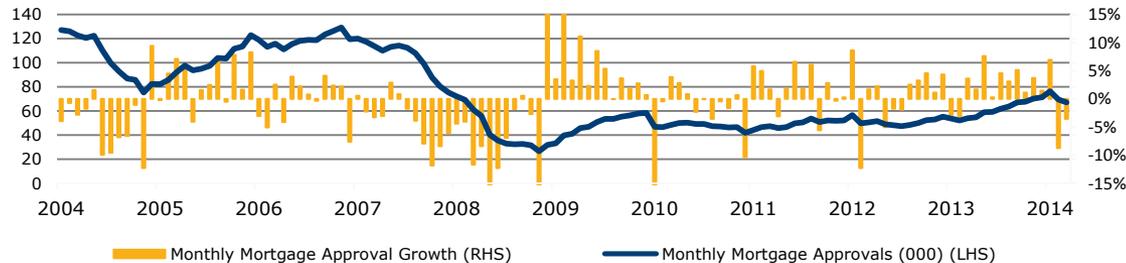


Source: OFS, GfK, CBI

Note: All estimates based on Barclays economists

Mortgage access

UK Mortgage Loans Approved



- Mortgage access has steadily improved since low of 2009 and grown strongly since last year
- Uplift in mortgage approvals has dipped recently – but shortages of stock for sale may hold key(?)
- Key hurdle in environment of rising prices and static real incomes is raising a deposit – so high LTV mortgages at affordable rates to stimulate First-Time buyers in particular very helpful.....

Help to Buy – redressing the imbalance

- Help to Buy (HTB) is recalibrating the market:-

Abnormal



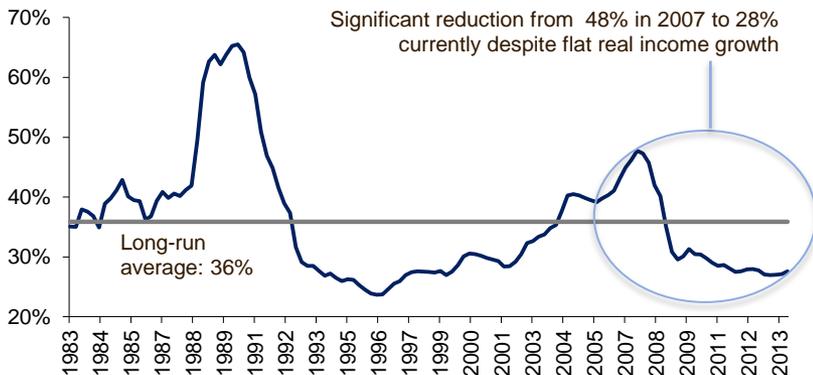
Normal



- Help where help is needed: 87.5% of all HTB transactions have been First-Time Buyers; activity in this group traditional driver of healthy housing market
- Stimulating wider organic housing market recovery & growth - HTB just 2% of housing transactions
 - Average Crest Nicholson HTB price £227K (HY14)
 - Crest FTB as proportion of HTB = 72%
 - 5% deposit still £11,350 – so ‘skin in the game’
 - HTB interest rates at low levels: c.3% - affordable start point

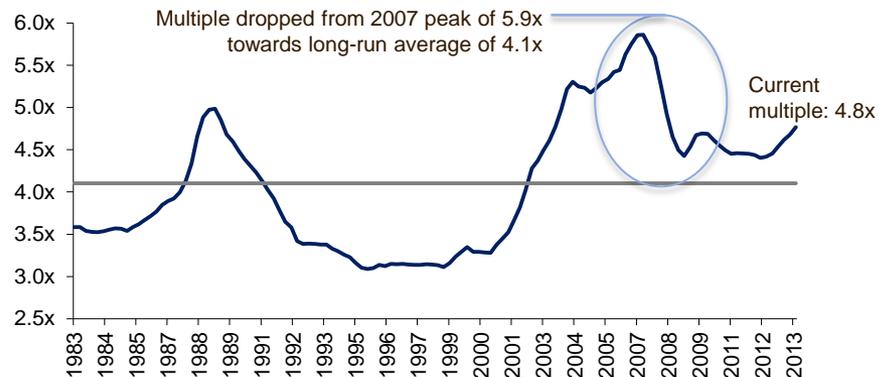
Mortgage affordability

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



Source: Halifax
 Based on UK average house prices to household earnings

The impact of interest rate rises...

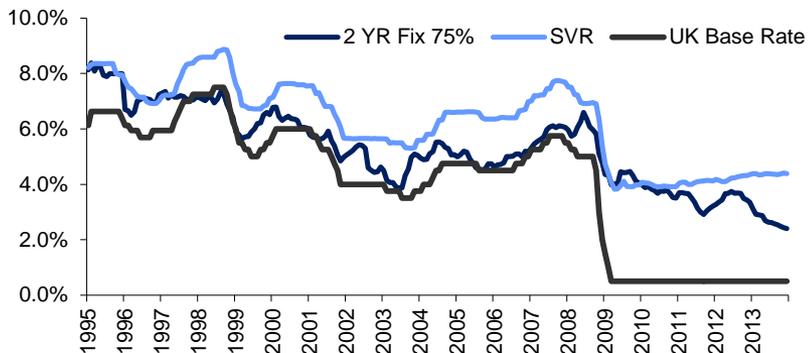
- Current household spend on mortgages is 28%
 - assuming a 70%LTV and average rate of 3.1%
- If interest rates were to rise, this would result in.....

	3.1%	3.6%	4.1%	4.6%	5.1%
Mortgage rate	3.1%	3.6%	4.1%	4.6%	5.1%
Uplift	0bps	50bps	100bps	150bps	200bps
Household spend	28%	30%	31%	33%	34%

- Limited impact on the household spending ratio – a 200bps rise would result in a household spend ratio below the long run average of 36%**

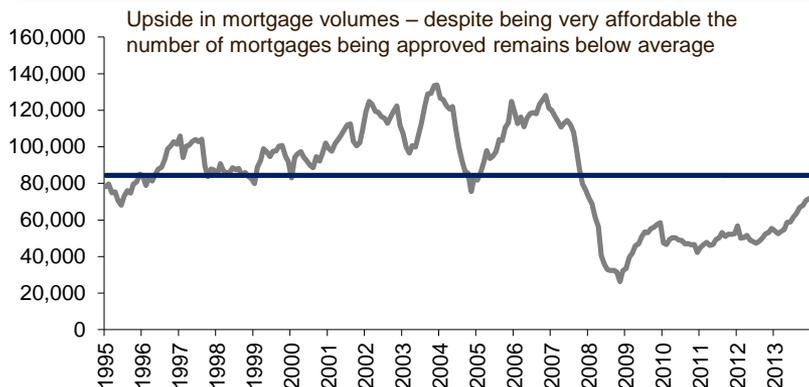
Mortgage affordability

Average mortgage / interest rates

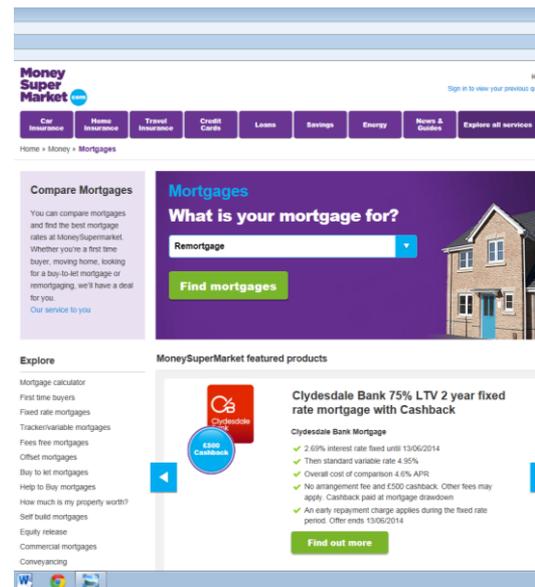


Source: Bank of England

UK mortgage volumes (house purchases)



Source: Bank of England
Mortgage volumes seasonally adjusted



The screenshot shows the Money Super Market website interface. At the top, there are navigation tabs for Car, Home, Travel, Credit Cards, Loans, Savings, Energy, News & Guides, and Explore all services. Below this, the 'Mortgages' section is highlighted. A 'Compare Mortgages' section offers a search tool with a dropdown menu set to 'Remortgage' and a 'Find mortgages' button. A featured product for Clydesdale Bank is displayed, offering a 75% LTV 2 year fixed rate mortgage with a £500 cashback. The product details include a 2.89% interest rate fixed until 13/06/2014, a 4.95% standard variable rate, and an overall cost of comparison of 4.6% APR. Other features include no arrangement fee and a £500 cashback. A 'Find out more' button is provided for the product.

- Limited (but positive) correlation between changes in interest rates and mortgage lending for new home purchases
- Wider spreads over base rate may cushion effect of base rate rises

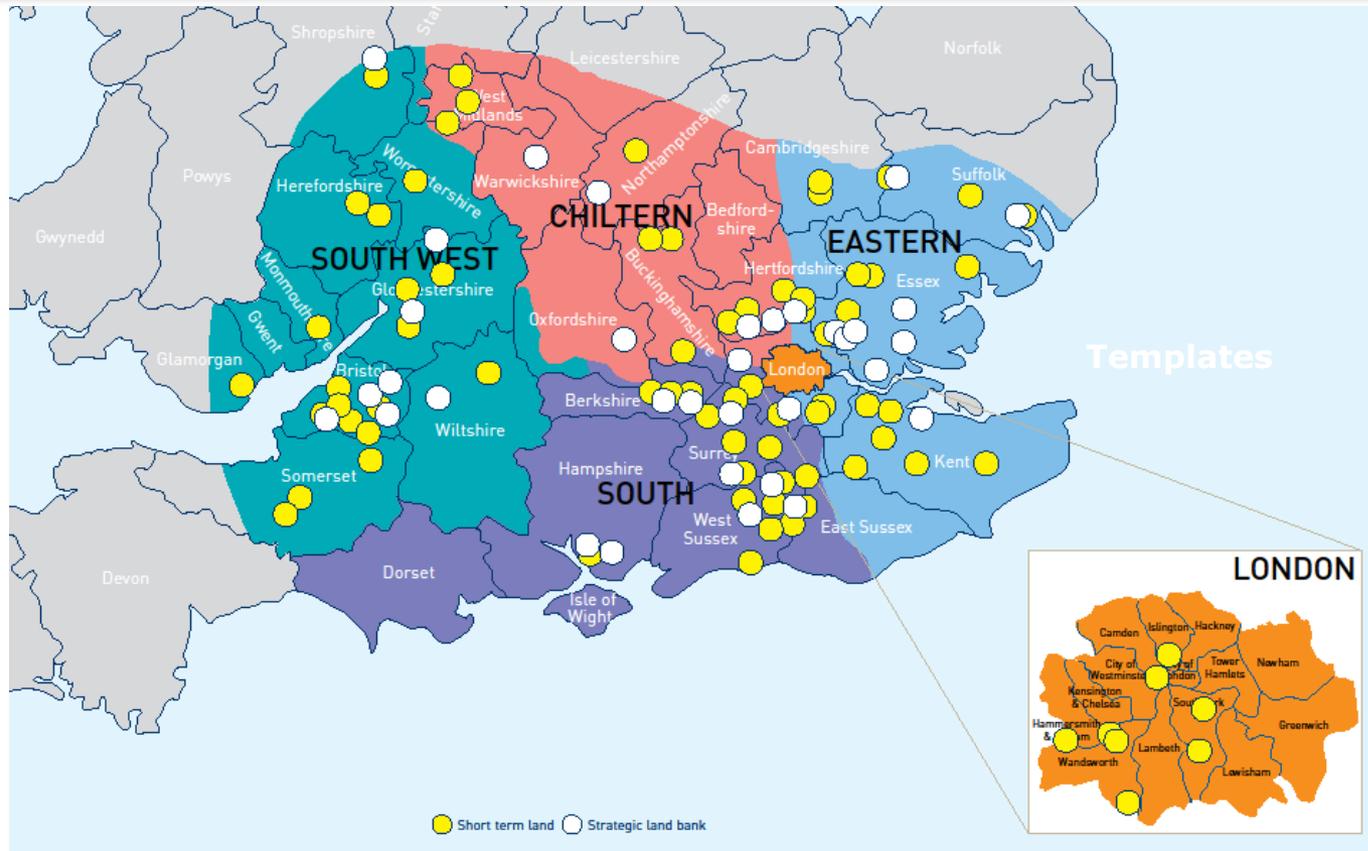
Fundamentals provide encouraging backdrop

- Good levels of employment & mortgage access
- Robust sales pricing environment
- Sufficient land supply at or above hurdle rates
- Planning gradually improving – though elections can cause delay
- Build cost pressures moderating, as supply chain adjusts to new equilibrium
- Cross-party support for increases in housing volumes likely to underpin demand

Business growth

- New Division being established to take Crest Nicholson business back to natural scale of operation
- Supports outlet breadth and facilitates leverage of strong land pipeline
- Anticipate reaching natural scale by c.2018/19
- More widely, investment in higher ASP areas and product mix an increasingly significant revenue driver
- Continuing to engage on Private Rental Sector

New Division



- Additional Division will enable Crest Nicholson to mine known, strong areas more intensively

Legally Completed 222 units, 20 ahead

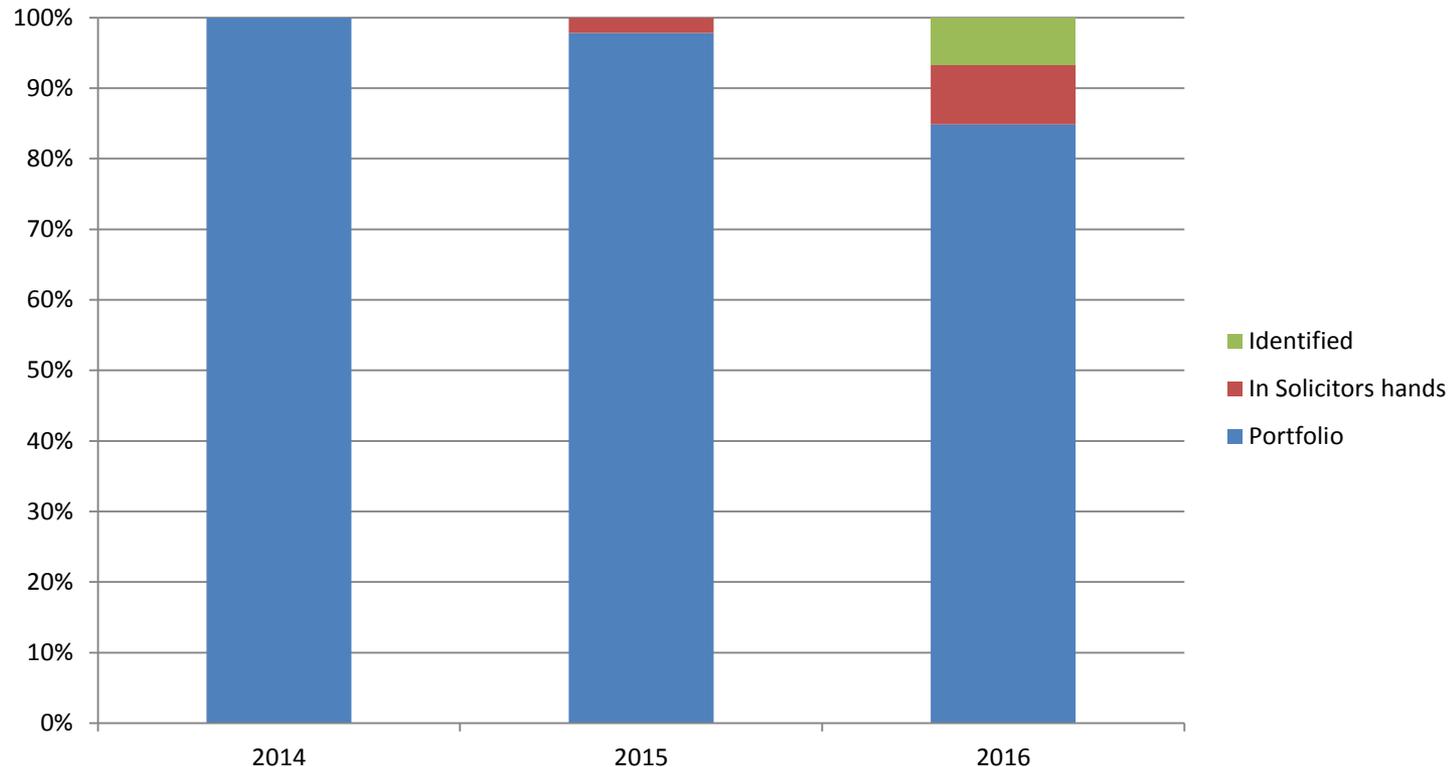
- Supports Outlet breadth and growth beyond 3,000 units

Strong land pipeline

	Apr 2014		Apr 2013		Change %	
	Units	GDV £m	Units	GDV £m	Units	GDV £m
Short-term housing	16,118	4,127	17,094	3,780	(5.7%)	9.2%
Short-term commercial	-	245	-	288		(14.9)%
Total short-term	16,118	4,372	17,094	4,068	(5.7%)	7.5%
Strategic land	15,046	3,865	13,763	3,338	9.3%	15.8%
Total under contract	31,164	8,236	30,857	7,406	1.0%	11.2%

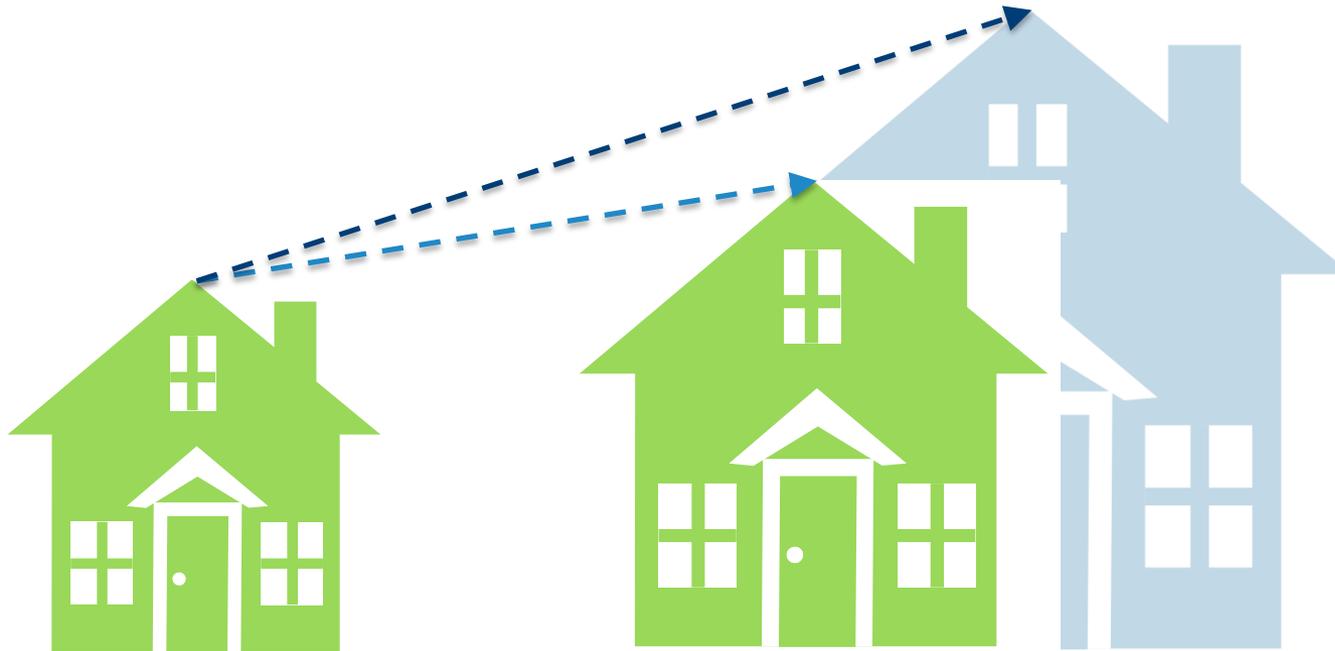
- Short-term portfolio; ASP increase of 16% drives GDV up 9%
- Replenishment of Strategic plots continues, after run of conversions in prior years
- Total land bank growing in unit and GDV terms

Unprecedented forward visibility



- Land for next three year's production largely owned or controlled
- Underpins confidence in ASP forecasts and land input costs

Revenue growth of 70-80% in three years



2013

- 2,172 units
- OM ASP £250k

2016

- Volumes 25%-30% higher
- **AND**
- OM ASP 35%-40% higher

Bath Riverside

- Waterside phase in a World Heritage City
- Villas designed by Alison Brooks
- Part of wider Bath Riverside scheme of up to 2,000 plots
- 26 plots on this phase
- Completions by 2015

OM ASP of **£809k**



The Avenue, Sunbury

- Former London Irish rugby ground
- Club relocation due to complete in summer 2014
- 206 plots including Affordable
- Completions from 2015

OM ASP of **£550k**



Tileman House, Putney

OM ASP of **£780k**

- Prime site on Upper Richmond Road
- 68 plots; 56 open-market
- Ground floor retail and first floor offices in addition
- Foundations underway
- Completions in 2016



Mulberry Grove, Wokingham

- Site acquired under strategic option
- Greenfield development of family housing
- 274 plots on this phase
- Completions from 2014

OM ASP of **£390k**





Financial results

Key metrics

	HY 2014	HY 2013	Inc/(Dec) %
Outlets	42	43	-2%
Sales per Outlet Week (Open market)	0.83	0.77	+8%
Legal completions			
Open market	769	699	+10%
Affordable	322	111	+190%
ASP			
Open market	269	241	+12%
Affordable*	105	161	-35%

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

Income statement

Income statement (£m, unless stated)	HY 2014	HY 2013 Pre-exceptional	Exceptional costs	HY 2013 Total	Change (pre-exceptional)	
Revenue	241.1	192.0		192.0	49.1	26%
Cost of sales	(171.8)	(138.6)		(138.6)	(33.2)	
Gross profit	69.3	53.4		53.4	15.9	30%
<i>% gross profit margin</i>	28.7%	27.8%		27.8%	90bps	
Administrative expenses	(24.6)	(18.6)	(5.9)	(24.5)	(6.0)	
Operating profit	44.7	34.8	(5.9)	28.9	9.9	28%
<i>% operating profit margin</i>	18.5%	18.1%		15.1%	40bps	
Net financing costs	(6.4)	(6.5)		(6.5)	0.1	
Share of JV	0.1	(0.2)		(0.2)	0.3	
Profit before tax	38.4	28.1	(5.9)	22.2	10.3	37%
Income tax	(7.5)	(6.2)		(6.2)	(1.3)	
Profit after tax	30.9	21.9	(5.9)	16.0	9.0	41%
Earnings per Share (p)	12.3p	9.3p	(2.5)p	6.8p	3.0p	32%

Balance sheet

Balance sheet (£m, unless stated)	30 th April 2014	31 st Oct 2013	30 th April 2013	Change on Oct'13	Change on Apr '13
Non-current Assets	116.9	127.0	136.4	(10.1)	(19.5)
Inventory	706.4	577.7	542.3	128.7	164.1
Trade & other receivables	40.4	44.0	39.4	(3.6)	1.0
Cash and cash equivalents	89.0	124.5	79.1	(35.5)	9.9
Total Assets	952.7	873.2	797.2	79.5	155.5
Interest bearing loans and borrowings	(149.6)	(82.0)	(89.2)	(67.6)	(60.4)
Land creditors	(135.0)	(120.4)	(107.6)	(14.6)	(27.4)
Retirement benefit obligations	(20.0)	(21.5)	(31.3)	1.5	11.3
Trade and other liabilities	(164.4)	(179.0)	(153.2)	14.6	(11.2)
Total Liabilities	(469.0)	(402.9)	(381.3)	(66.1)	(87.7)
Shareholders' Equity	483.7	470.3	415.9	13.4	67.8
Net debt/Equity	12.5%	n/a	2.4%		
Net debt (inc. land creditors)/Equity	40.4%	16.6%	28.3%		

Cash flow

Cash flow (£m, unless stated)	HY2014	HY 2013	Change
Operating profit before changes in working capital and provisions	46.6	29.5	17.1
Decrease in trade and other receivables	3.6	2.1	1.5
Increase in inventories	(128.7)	(72.9)	(55.8)
(Decrease)/increase in trade and other payables	(5.1)	19.4	(24.5)
Cash outflow from operations	(83.6)	(21.9)	(61.7)
Interest paid	(4.1)	(6.2)	2.1
Tax paid	-	-	-
Net cash flow from operating activities	(87.7)	(28.1)	(59.6)
Net cash flow from investing activities	3.6	(2.1)	5.7
Net cash flow from financing activities	48.6	(40.8)	89.4
Net decrease in cash and cash equivalents	(35.5)	(71.0)	35.5
Cash and cash equivalents at the beginning of the year	124.5	150.1	(25.6)
Cash and cash equivalents at end of period	89.0	79.1	9.9

Forward sales

	YTD FY14	YTD FY13	FY13	FY12
Units – all years	1,779	1,877	1,360	837
% change on prior period	-5%		+62%	
GDV (£m) – all years	347.3	330.9	230.1	129.6
% change on prior period	+5%		+78%	
% of FY2014/13 target	87%	88%	34%	25%

- YTD 2013 figure includes 148 unit/£25.3m PRS reservations
- Balance between securing reservations and capturing sales price uplifts

Cash flows and Dividend

- Investment in higher ASP sites and in opening up strategic sites consuming cash in 2014
- Anticipate net debt at year-end in line with current levels
- Stronger cash generation as business grows to natural scale over next 3-4 years
- Dividend cover of 3x, balancing current growth with long-term earnings potential of the business

Outlook and Summary



Outlook

- Fundamentals of Housing Market are sound; strength based on economic recovery and mortgage access, aided by 'Help to Buy'
- Interest rate movements should not derail momentum; may impact size of purchase rather than purchasing decision
- Improving supply of consented land underpins returns
- Broad political consensus on need for increased housing supply and a stable housing market

Summary

- Delivering further strong growth in a good market
- Excellent land pipeline and high levels of purchaser demand at good prices
- Move to higher ASP product and locations a strong driver of future revenues
- Additional division to return Crest Nicholson to its natural scale
- Well positioned to continue to grow shareholder value



Q&A

Disclaimer

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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.