PRELIMINARY RESULTS 2019 PRESENTATION

28 JANUARY 2020
WELCOME & INTRODUCTIONS

IAIN FERGUSON
CHAIRMAN
AGENDA

CHIEF EXECUTIVE OVERVIEW
PETER TRUSCOTT

FINANCIAL REVIEW
DUNCAN COOPER

STRATEGIC REVIEW AND UPDATE
PETER TRUSCOTT & TOM NICHOLSON
  • Our Updated Strategy
    – Five strategic priorities
    – Four foundations
  • Summary

Q&A
OVERVIEW

PETER TRUSCOTT
CHIEF EXECUTIVE
OVERVIEW

• A year of considerable change for Crest Nicholson
• New Executive Leadership Team now in place
• Updated strategy launched and being implemented
• Adjusted PBT in line with previous guidance at £121.1m
• Maintained full year dividend at 33.0p per share
FINANCIAL REVIEW

DUNCAN COOPER
GROUP FINANCE DIRECTOR
## INCOME STATEMENT
### IN LINE WITH GUIDANCE

### £m (unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18 restated</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,086.4</td>
<td>1,121.0</td>
<td>3% ▼</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(884.5)</td>
<td>(874.1)</td>
<td></td>
</tr>
<tr>
<td><strong>Adjusted gross profit</strong></td>
<td>201.9</td>
<td>246.9</td>
<td>18% ▼</td>
</tr>
<tr>
<td><strong>Adjusted gross profit margin</strong></td>
<td>18.6%</td>
<td>22.0%</td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(65.5)</td>
<td>(64.9)</td>
<td></td>
</tr>
<tr>
<td>Net impairment losses on financial assets</td>
<td>(3.4)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Adjusted operating profit</strong></td>
<td>133.0</td>
<td>182.0</td>
<td>27% ▼</td>
</tr>
<tr>
<td><strong>Adjusted operating profit margin</strong></td>
<td>12.2%</td>
<td>16.2%</td>
<td></td>
</tr>
<tr>
<td>Net finance expense</td>
<td>(11.0)</td>
<td>(12.0)</td>
<td></td>
</tr>
<tr>
<td>Share of joint venture results</td>
<td>(0.9)</td>
<td>(1.3)</td>
<td></td>
</tr>
<tr>
<td><strong>Adjusted profit before tax</strong></td>
<td>121.1</td>
<td>168.7</td>
<td>28% ▼</td>
</tr>
<tr>
<td>Adjusted income tax</td>
<td>(23.7)</td>
<td>(32.1)</td>
<td></td>
</tr>
<tr>
<td><strong>Adjusted profit after tax</strong></td>
<td>97.4</td>
<td>136.6</td>
<td>29% ▼</td>
</tr>
<tr>
<td>Exceptional item net of income tax</td>
<td>(14.9)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td>82.5</td>
<td>136.6</td>
<td>40% ▼</td>
</tr>
<tr>
<td><strong>Adjusted basic earnings per share (p)</strong></td>
<td>38.0</td>
<td>53.3</td>
<td>29% ▼</td>
</tr>
<tr>
<td>Dividend per share (p)</td>
<td>33.0</td>
<td>33.0</td>
<td></td>
</tr>
</tbody>
</table>

1. Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018
2. 2019 figures adjusted for the £18.4m exceptional item relating to the combustible materials charge, net of £3.5m tax credit where appropriate

- Adjusted profit before tax in £120m-£130m range
- NRV provision of £7.0m
- Future ECL on Bonner Road JV of £3.2m
- Adjusted effective tax rate of 19.6%
- Pre tax £18.4m exceptional charge for fire
  - c. £7m Crest freeholds
  - c. £11m other obligations
### VOLUME BY CHANNEL

#### ONGOING BREXIT UNCERTAINTY

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18 restated(^1)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlets (full year equivalents)</td>
<td>59</td>
<td>55</td>
<td>7%(^\uparrow)</td>
</tr>
<tr>
<td>Sales per outlet week (Open market private)</td>
<td>0.45</td>
<td>0.64</td>
<td>30%(^\downarrow)</td>
</tr>
<tr>
<td>Sales per outlet week (Open market inc-Bulk)</td>
<td>0.76</td>
<td>0.82</td>
<td>7%(^\downarrow)</td>
</tr>
</tbody>
</table>

**Home completions (units)**

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open market (private)</td>
<td>1,463</td>
<td>1,849</td>
<td>21%(^\downarrow)</td>
</tr>
<tr>
<td>Affordable</td>
<td>741</td>
<td>677</td>
<td>9%(^\uparrow)</td>
</tr>
<tr>
<td>Bulk(^2)</td>
<td>708</td>
<td>522</td>
<td>36%(^\uparrow)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,912</td>
<td>3,048</td>
<td>4%(^\downarrow)</td>
</tr>
</tbody>
</table>

- Open market performance impacted in H2
  - Customer verbatims
  - Elevated cancellation rates
  - Volatile visitor numbers and interest
- Good Bulk performance
  - Consistent delivery across 2019

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1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018
2 Bulk completions reflect sales to Private Rented Sector (PRS), Registered Providers (exc. S106) and private investors
### AVERAGE SELLING PRICE AND FORWARD SALES BY CHANNEL

<table>
<thead>
<tr>
<th>£'000</th>
<th>FY19</th>
<th>FY18 restated</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home completions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open market (private)</td>
<td>437</td>
<td>429</td>
<td>2% ▲</td>
</tr>
<tr>
<td>Open market (inc-Bulk)</td>
<td>388</td>
<td>396</td>
<td>2% ▼</td>
</tr>
<tr>
<td>Affordable</td>
<td>187</td>
<td>166</td>
<td>13% ▲</td>
</tr>
<tr>
<td><strong>Total housing ASP (weighted average)</strong></td>
<td>337</td>
<td>345</td>
<td>2% ▼</td>
</tr>
<tr>
<td><strong>Open Market reservations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open market (private)</td>
<td>426</td>
<td>433</td>
<td>2% ▼</td>
</tr>
<tr>
<td>Open market (inc-Bulk)</td>
<td>354</td>
<td>404</td>
<td>12% ▼</td>
</tr>
<tr>
<td><strong>Forward sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open market (private)</td>
<td>401</td>
<td>458</td>
<td>12% ▼</td>
</tr>
<tr>
<td>Affordable</td>
<td>149</td>
<td>141</td>
<td>6% ▲</td>
</tr>
</tbody>
</table>

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018

- OM (private) ASPs increase due to mix
  - Strong Bulk performance on lower-priced segment
  - London effect continuing to unwind
- OM (inc-Bulk) ASP continuing to reduce
- Forward sales for 2020 also down
### CASH FLOW

**GOOD CASH CONVERSION IN SLOW MARKET**

<table>
<thead>
<tr>
<th>£m</th>
<th>FY19</th>
<th>FY18 restated¹</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit before changes in working capital and provisions</td>
<td>116.7</td>
<td>186.4</td>
<td>69.7 ▼</td>
</tr>
<tr>
<td>Increase in trade and other receivables</td>
<td>(11.5)</td>
<td>-</td>
<td>11.5 ▼</td>
</tr>
<tr>
<td>Decrease / (increase) in inventories</td>
<td>62.1</td>
<td>(125.9)</td>
<td>188.0 ▲</td>
</tr>
<tr>
<td>Increase in trade and other payables</td>
<td>2.2</td>
<td>57.1</td>
<td>54.9 ▼</td>
</tr>
<tr>
<td>Contribution to retirement benefit obligations</td>
<td>(9.0)</td>
<td>(9.0)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>160.5</td>
<td>108.6</td>
<td>51.9 ▲</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(11.1)</td>
<td>(10.3)</td>
<td>0.8 ▼</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(24.2)</td>
<td>(36.0)</td>
<td>11.8 ▲</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td>125.2</td>
<td>62.3</td>
<td>62.9 ▲</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>(14.8)</td>
<td>3.9</td>
<td>18.7 ▼</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>(124.1)</td>
<td>(57.1)</td>
<td>67.0 ▼</td>
</tr>
<tr>
<td><strong>Net (decrease) / increase in cash and cash equivalents</strong></td>
<td>(13.7)</td>
<td>9.1</td>
<td>22.8 ▼</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the year</td>
<td>184.3</td>
<td>175.2</td>
<td>9.1 ▲</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>170.6</td>
<td>184.3</td>
<td>13.7 ▼</td>
</tr>
</tbody>
</table>

¹ Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018
BALANCE SHEET
ROBUST AND WELL-FINANCED

• Net cash £37.2m (2018: £14.1m)
• Average net debt £144.2m (2018: £193.4m)
• Net debt and land creditors £179.3m (2018: £195.6m)
• Inventories £1,151.1m (2018: £1,213.2m)
  - Higher completed units due to sales rate
  - Lower WIP mainly due to lower land spend
• Pension deficit £6.2m (2018: £2.5m surplus)
• £250m RCF facility extended to June 2024
  - £35m drawn at year end (2018: £70m)
CURRENT LAND PORTFOLIO
A CAPITAL-EFFICIENT STORE OF FUTURE VALUE

Short term land
- 2,912 home completions
- 1,290 plots sold through land sales
  - 419 to JV with Sovereign Housing Association
- 1,655 plots added
  - 647 in growing Midlands division – ASP of £308k
  - 197 plots transferred in from Strategic portfolio
  - Balance of lower than PY ASPs and re-plans

Strategic land
- Secured 3,774 plots on 8 sites

1 Plot numbers based on management estimates of site capacity which are updated quarterly
2 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018
UNDERLYING PROFITABILITY
STRUCTURAL AND SELF-INFLICTED OPERATIONAL DE-LEVERAGE

FY17 to FY19 MARGIN WATERFALL

- Open market business in decline
- Increasing land sales – not always accretive to rate
- One-offs recognised in FY18
- No reduction in overheads
REBUILDING PROFITABILITY IN 2020
COST-LED RECOVERY

FY19 to FY20 MARGIN WATERFALL

- London effect and other low margin sites continue to unwind
- Lower land sale contribution
- NRV/ECL not repeated
- Cost initiatives start to contribute
- Market conditions improvement an overlay
SUMMARY

• Robust balance sheet and adequate liquidity
  – Significant working capital opportunity

• £12.1bn of GDV in flexible land portfolio
  – Lower future land sale contribution

• Open market decline continues into 2020

• Cost-led recovery

• FY20 PBT guidance of £110m-£120m
STRATEGIC REVIEW AND UPDATE

PETER TRUSCOTT
CHIEF EXECUTIVE
MARKET CONTEXT

• Political certainty helpful but future EU relationship still unclear

• Good market fundamentals remain
  - Imbalance of supply and demand
  - Low interest rate environment
  - Stable employment levels

• Encouraging early signs this year
FIRST IMPRESSION

- Visited all the sites and divisions
- Passionate, enthusiastic people
- Strong land portfolio and great placemaking
- Bespoke on design and specification
  - Pricing premium difficult to sustain
- Failure to achieve procurement scale and benefits
- Unsustainable levels of operating costs and overheads
- Complex organisational structure

A business of many strengths but not realising its potential
A BUSINESS MODEL THAT HAS RELIED ON INFLATION

OPERATING MARGIN OF UK LISTED HOUSEBUILDERS¹ AND HPI² (%)

Operating margin (%)

Help to Buy Scheme Introduced

HPI (%)

UK HPI

Crest Nicholson

South East HPI

Average

1 Last reported results – company compiled
2 ONS: https://www.gov.uk/government/collections/uk-house-price-index-reports
DETAILED STRATEGY REVIEW

• Retain and build on our strong brand and placemaking

• Realise maximum value from land portfolio
  - Grow outlet capacity for Crest Nicholson
  - Clear prioritisation of development options

• Much greater focus on operational efficiency
  - New standardised housing range
  - Full specification review
  - Sales-related costs and overheads reduced

• Five-Star customer service aspiration

• Develop multi-channel, multi-tenure capability
  - Build on reputation as a trusted partner
  - Diversify income streams with capital efficiency
CREST NICHOLSON REGENERATION RESTRUCTURED

• Now becomes two businesses
  - Crest Nicholson Southern Counties (CNSC)
  - Crest Nicholson Partnership and Regeneration (CNPR)

• CNSC – focused on building and selling dwellings in its own geographical area

• CNPR – a business development function only

• Four areas of focus
  1. Major projects procurement
  2. Partnerships and relationships
  3. Sales facilities for PRS and RPs
  4. Commercial development

New leadership in place
OUR UPDATED STRATEGY
A CLEAR PLAN TO BECOME A LEADING HOUSE BUILDER
PLACEMAKING AND QUALITY

- Creating attractive and vibrant communities
- Distinctive design and focus on sustainability
- Maintain reputation for build quality and specification
- Focus investment where customers value it
LAND PORTFOLIO

- Strong land portfolio offering flexible opportunities
- Strategic land capability a differentiator
- Clear prioritisation of development options:
  1. Develop as a Crest Nicholson outlet
  2. Create an additional Crest Nicholson outlet
  3. Partner with Private Rented Sector (PRS) or Registered Providers (RPs)
  4. Joint venture
  5. Outright land sale
Visibility of controlled land is desirable

Land portfolio needs to be capital efficient

Short-term land portfolio GM at 24.4%
  - Before selling expenses and overheads
OPERATIONAL EFFICIENCY

TOM NICHOLSON
CHIEF OPERATING OFFICER
OPERATIONAL EFFICIENCY

• Significant opportunity for self-help

• £9m reduction in sales-related costs and overheads realised

• Detailed review of housing range and specification

• Introduction of best-practice disciplines across all divisions
  - Delivery process
  - Build times and rates
  - Stock management
  - WIP control

• New Southern Counties Division to maximise assets in the region
OPERATIONAL EFFICIENCY
SALES-RELATED COSTS & OVERHEADS

• Standardised team structures and job role
  – Headcount reductions

• Group-led approach to procurement of materials and resources
  – Creative agency costs
  – Brochure costs

• Sales office costs reduced

• Central overheads streamlined
  – Entertaining & sponsorship
  – Travel

• Further savings identified
OPERATIONAL EFFICIENCY
UNIFORM PROCESSES AND BEST PRACTICE

• Five new divisional MDs
• Leading point-of-sale presentation and materials
• Investment in training and development across the divisions
• Operational forums setting clear targets:
  – Build times including earlier outlet and show home openings
  – £ per sq ft build
  – Reduced professional fees
  – Increased number of tenders to achieve best price
• Greater focus on cash management and work-in-progress
OPERATIONAL EFFICIENCY
NEW STANDARDISED SPECIFICATION

- Detailed specification review completed
- Enhanced specification at lower cost
  - Solus kitchen supplier
  - Wardrobe specification
  - Enhanced white goods package
- Significant opportunity taken to drive greater quality and buying power
- Strategic supplier relationships through consolidation
- New specification guidelines implemented across sites
OPERATIONAL EFFICIENCY
NEW STANDARDISED HOUSING RANGE

• Customer feedback on the Aurora range
  - Aim of 40 types – finished with 128
  - Open-plan living arrangements

• Flexible, high-quality range with no deviations
  - 24 core house types
  - A defined ‘toolkit’ of 14x houses
  - 7 common structure depths
  - 5 flexible internal layouts
  - 17 choices of 2, 2½, 3-storey capability

• Target 80% new house types for future planning applications
OPERATIONAL EFFICIENCY CAN BE ELEVATED TO SUIT LOCATION
OPERATIONAL EFFICIENCY
NEW STANDARDISED HOUSING RANGE - PLOTTING EFFICIENCY

PREVIOUSLY APPROVED SCHEME

CURRENT PLANNING APPROVED SCHEME

<table>
<thead>
<tr>
<th></th>
<th>Previously Approved Scheme</th>
<th>Planning Approved Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total units</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Number of house types</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Average Private Unit size</td>
<td>1,370 sq ft</td>
<td>1,409 sq ft</td>
</tr>
</tbody>
</table>

- Same number of plots – all detached
- More variety in street scene
- Increased coverage
- £400k GM improvement
OPERATIONAL EFFICIENCY

DIVISIONAL RESTRUCTURE

• Creation of new Crest Nicholson Southern Counties (CNSC) division
  - Based out of Hampshire
• Rebalances capacity from other divisions
• Better alignment with our land portfolio
• Target 550-600 homes per division pa
• Opportunity to enter new geographies in the longer-term
FIVE-STAR CUSTOMER SERVICE

- Ambition to be Five-Star
- Group Production Director is leading
- Detailed process review completed
- Increased focus from site teams on delivery of product, service and aftercare
- Improved link to remuneration
- Currently trending above 2018 level
MULTI-CHANNEL APPROACH
BUILDING A MORE RESILIENT BUSINESS

• Buying land
  – Strategic
  – Major projects
  – Open market

• Selling homes
  – Individual sales
  – PRS
  – RPs / Affordable
MULTI-CHANNEL APPROACH
BUILDING A MORE RESILIENT BUSINESS

- Major project capabilities
  - Working with partners to procure major projects
- Management of key relationships: Government, DIO, PRS funds and RPs
- Responsibility for specialist sales
  - PRS
  - RPs /Affordable
- Commercial development capacity
MULTI-CHANNEL APPROACH
PRIVATE RENTED SECTOR

- Fastest growing sector of the residential property industry
- Driven by affordability issues of home ownership

CASE STUDY

- Arborfield
  – owned by M&G Real Estate Investment
- Two schemes providing 1 and 2 bedroom homes
- Professionally managed on behalf of M&G
SAFETY, HEALTH & ENVIRONMENT
FOUR FOUNDATIONS

• Number one priority
• AllR of 372 (2018: 342) including one fatality
• Executive oversight from Group Production Director
• Thorough process review and benchmarking
  – Increased number of site tours
  – Restructure to drive best practice from Group
  – New training and induction process
  – Improved communications and reporting
• Continued link to remuneration
SUSTAINABILITY & SOCIAL VALUE
FOUR FOUNDATIONS

• Area of strength for Crest Nicholson

• Significant regulatory changes coming:
  − Future Homes
  − Biodiversity
  − Climate change
  − New building and planning regulations
  − Design codes
  − OSM agenda

• Active engagement influencing political agenda

• Controlled investment in OSM
PEOPLE
FOUR FOUNDATIONS

- Strong track record of developing people
- Diversity and inclusion a key priority
- Pay at or above National Living Wage
- New values launched

Work as One Crest

Investing in our people

Committed to success

Considered decision making

A positive legacy for our customers and communities
FINANCIAL TARGETS
A CLEAR PLAN TO BECOME A LEADING HOUSE BUILDER

**FY19**

**Home completions (units)**
2,912

**Outlets**
59

**Adjusted operating profit margin**
12.2%

**Admin expenses as % of sales**
6%

**ROCE**
15.9%

**Net cash**
£37.2m

**Dividend per share**
33.0p

**FY22**

**Home completions (units)**
>3,500

**Outlets**
>70

**Adjusted operating profit margin**
Minimum of 250bps growth by FY22

**Admin expenses as % of sales**
5%

**ROCE**
>20.0%

**Net cash**
Strong cash surplus to invest or return

**Dividend per share**
33.0p + RPI from FY21

Broadening our channels to market

**HISTORIC**

- Multi-channel sales contribution
  - Private 70%
  - Affordable 20-25%
  - Bulk 5-10%

**FUTURE**

- Diversify income at better ROCE
  - Private 60%
  - Affordable 20-25%
  - Bulk 15-20%

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1 Based on average trading units for the period 1 November 2014 to 31 October 2017
SUMMARY AND OUTLOOK

- Good early progress on updated strategy
- New senior team now in place
- Decisive political outcome welcome
- Green shoots on footfall and visitors
- Understand we must rebuild trust
  - Opportunity to outperform beyond self help measures
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.