miller homes

2019 Full Year Results Presentation

17 March 2020

the place to be®

Presenters

Chris Endsor, Chief Executive

- Appointed CEO in 2011
- Joined the Group in 2000, following the acquisition of Birch Homes, where he was a founder and Group Managing Director
- Holds a BSc in Quantity Surveying from Nottingham Trent University and is a Fellow of the Chartered Institute of Building
- 38 years of industry experience

Ian Murdoch, Chief Financial Officer

- Appointed Finance Director in 2011 and Chief Financial Officer in 2017
- Joined the Group in 2001 from KPMG as Group Financial Controller
- Holds a BA (Hons) in Accountancy from Glasgow University and is a fellow of the Institute of Chartered Accountants of Scotland
- 19 years of industry experience

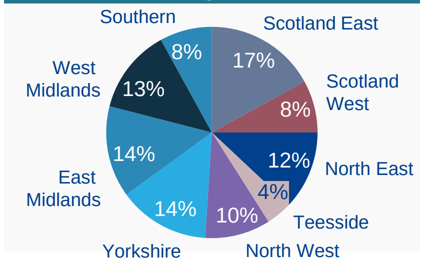
Contents

1 Overview

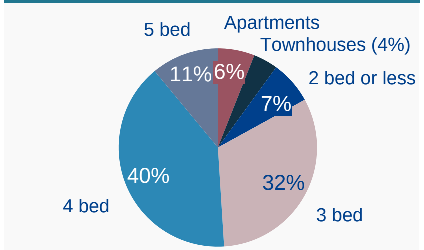
1 Overview

Business composition (by core completions, 2019)

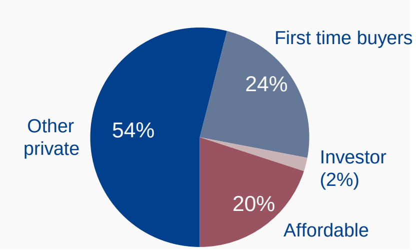
Region



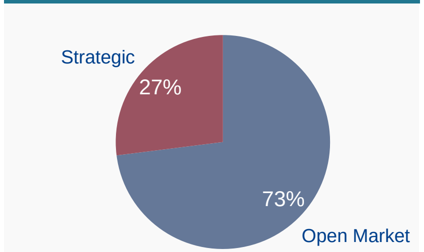
Home type (private completions)



Customers(1)



Source of land



Key Statistics (2019)

3,498 Houses sold

£249k Average selling price

£576m TGAV (2)

33,668 Plots in the landbank (3)

20.0% EBIT Margin

Operating regions

Note:
(1) Excludes NHT sale
(2) TGAV = tangible gross asset value (net assets excluding debt) at cost.
(3) c. 14k have planning permission

1 Overview

- Our regional markets were resilient despite the economic and political uncertainty in 2019
  - Private sales rate of 0.64, 4% down on 2018
  - House price inflation in 2019 was broadly flat
  - Headline cost inflation of 3%, with many new agreements deferred
  - Greater operational leverage helped to maintain operating margin at 20%
- 8th consecutive year of profitable organic growth
  - Volumes up 10%, driven by increased sales outlets
  - Operating profit of £168m, up 11% on previous year
  - ASP unchanged at £249,000
- Record year for land buying
  - 30 sites (c4,900 plots) added to the owned landbank
  - Replenishment rate of 1.4x has increased owned landbank by 17% to 10,718 plots and with a further 2,915 controlled plots, consented landbank has increased to 13,633 plots (2018: 12,524 plots)
  - Continuing to invest in strategic landbank, up 16% to 20,035 plots
- Free cash generation of £84m (2018: £82m) notwithstanding £73m increase in net land spend

1 Overview

- New Teesside region launched in 2019, increasing capacity to 5,000 units
- Continued focus on operational improvements
  - New housetype portfolio launched in early 2020
  - MyMillerHome app allows customers greater visibility of their home buying journey
  - Online customer options to be launched in 2020
- Customer satisfaction and employee engagement ratings continue at impressive levels
  - HBF Customer Satisfaction Survey 5 star rating in 8 of last 9 years
  - 94% employee engagement

2 Operational highlights

2 Operational highlights

People

- Employer brand and values refreshed
- IIP Gold awarded for the ninth year, recognised by Investors in People for 17 years
- Staff numbers now exceed 1,000, an increase of almost 50% over the last five years
- Appointment of Stewart Lynes as Chief Operating Officer, strengthens the management team to support further growth

Customers

- Mymillerhome, a customer portal app launched 2019, providing updates to customers post reservation
- Automated lead management system introduced, filtering quality of leads and reducing workload of sales advisors
- 17% of 2019 reservations made using online capability, up from 8% in 2018
- Fully visualised / interactive online customer options to be launched in 2020
- New product portfolio to be rolled out in 2020

Focus on staff development, customer initiatives and new product portfolio

3 2019 Trading performance

3 2019 Trading performance

- 13% increase in revenue reflects a similar increase in core completions with ASP unchanged.
- 10% increase in gross profit reflects 0.7% deterioration in gross margin, driven mainly by HPI / CPI dynamic.
- Administrative expenses unchanged which reflects a lower bonus charge in 2019. Overhead % has fallen from 6.4% to 5.7%.
- Reduction in JV result reflects 21% fall in JV completions due to fewer active joint ventures.
- Operating margin of 20%, down on last year but still high relative to historic performance.
- Finance costs are lower due to the £43.5m part repayment of shareholder loans in November 2018.

	2019 £m	2018 £m	%
Revenue	841.4	747.0	13%
Gross profit	210.7	192.0	10%
Other operating income	1.4	1.9	(26%)
Administrative expenses	(47.9)	(47.9)	-
Share of joint venture result	3.7	5.1	(27%)
Operating profit	167.9	151.1	11%
Finance costs	(45.8)	(49.0)	7%
Profit before tax	122.1	102.1	20%
KPIs			
Core completions	3,328	2,954	13%
ASP (£000)	249	249	-
Gross margin (%)	25.0%	25.7%	(0.7%)
Operating margin (%)	20.0%	20.2%	(0.2%)
ROCE (%)	31.5%	33.4%	(1.9%)

miller homes

3 2019 Trading performance

Completions

- Private completions driven by 17% increase in sales outlets and NHT sale offset by reduction in sales rate.
- Affordable completions reflect aforementioned sales outlet increase and newer sites typically having a higher affordable content.
- The reduction in JV volumes reflects the number of active joint ventures falling from 5 to 4.

ASP

- Increase in private ASP reflects combination of price inflation / location with average unit size unchanged.
- Increase in affordable ASP reflects a 5% increase in the average unit size.
- Reduction in JV ASP reflects lower unit size.

	2019	2018	%
Completions			
Private	2,652	2,411	10%
Affordable	676	543	24%
Core	3,328	2,954	13%
Joint ventures	170	216	(21%)
Total	3,498	3,170	10%
ASP (£000)			
Private	284	281	1%
Affordable	114	108	6%
Core	249	249	-
Joint ventures	298	310	(4%)

4 Landbank and inventory

4 Landbank and inventory

Owned landbank

- 30 sites (2018: 28 sites) and 4,933 plots (2018: 3,886 plots) acquired.
- 8 of the 30 sites were former strategic sites, including 375 unit site in Chichester, West Sussex and 319 unit site in Bramhope, Leeds.

Strategic landbank

- 18 new options (2018: 12) added to the strategic landbank which in part reflects increased headcount in the strategic land team.

Land creditors

- £107m (2018: £98m) of the £152m (2018: £144m) creditor is payable within one year.

	2019 Plots	2018 Plots	%
Owned	10,718	9,174	17%
Controlled	2,915	3,350	(13%)
Consented	**13,633**	**12,524**	**9%**
Strategic	20,035	17,331	16%
Total	**33,668**	**29,855**	**13%**

	2019 £m	2018 £m	%
Total inventory	834	746	12%
Land creditors	(152)	(144)	(6%)
Net inventory	**682**	**602**	**13%**

Owned landbank KPIs

Plot cost (£000)	48	49
Proportion of strategic land	28%	28%
Gross development value (£m)	2,864	2,419

5 Cashflow and leverage

miller homes

5 Cashflow and leverage

Cashflow

- Free cashflow slightly ahead at £84m (2018: £82m). This masks a significant increase in net land spend which is £73m up on last year to £220m (2018: £147m).
- Free cash generated represents 49% of EBITDA (2018: 54%), with the reduction due to the aforementioned increase in net land spend.
- £20m reduction in "development spend in excess of cost of sales" reflects several large developments commencing in 2018 with meaningful completions only occurring in 2019, plus the NHT sale.

Leverage

- Both leverage metrics (net leverage and LTV) have improved significantly on last year.

	2019 £m	2018 £m	Variance £m
EBITDA	171	151	20
Net land spend in excess of cost of sales	(70)	(26)	(44)
Development spend in excess of cost of sales	(23)	(43)	20
Working capital	(3)	(7)	4
JV cash not in EBITDA	6	(2)	8
Shared equity receivables	5	8	(3)
Other	(2)	1	(3)
Free cash flow	**84**	**82**	**2**
Net land spend in cost of sales	150	121	29
Net land spend in excess of cost of sales	70	26	44
Net land spend	220	147	73
Free cash flow pre net land spend	**304**	**229**	**75**
Net external debt [1]	(265)	(317)	
Net leverage [2]	1.6x	2.1x	
LTV [3]	39%	53%	

(1) Excluding deferred financing costs
(2) Net external debt (excluding deferred financing costs) divided by EBITDA
(3) Net external debt (excluding deferred financing costs) divided by net inventory

6 Supply chain: Brexit / Coronavirus

6 Supply chain: Brexit / Coronavirus

Brexit planning

- 107 formal supply contracts across c50 category groups with c90 suppliers, all managed by the Group Procurement team. This accounts for 77% of the material content in a house.
- Importation of finished products is limited to garage doors, electrical appliances and ceramic tiles, with all other materials manufactured in the UK.
- A Supply Chain Risk Assessment was undertaken in Q4 2018 which, other than the three products manufactured overseas, highlighted timber products as the main risk item (i.e., roof trusses, internal doors, joists, chipboard flooring). All manufacturers are holding excess stock levels and are confident that disruption to manufacturing would be minimal.

Coronavirus

- The Chinese-related supply chain is reasonably extensive with 30+ key raw material components identified. Generally, stock levels are 3+ months. It would appear that most Chinese factories are returning to work and dual sourcing from other countries is also being considered by certain suppliers.

7 Conclusions

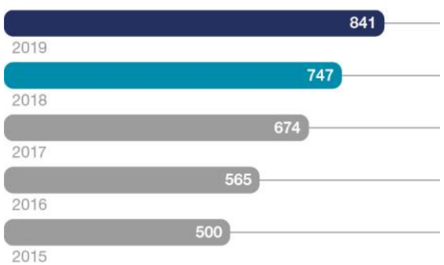
7 Conclusions

- Successfully navigated the 2019 political / economic uncertainty, hitting main targets of volume / profit growth, land investment and cash generation.
- Enter 2020 with a record order book of £328m, 12% up on last year.
- Year to date trading is encouraging with impact from the Coronavirus being carefully monitored. Lead indicators will continue to be reviewed to identify any signs of customer drop-off. Supply chain risk will also be proactively monitored.
- Rollout of new product range in 2020 will help at least to mitigate inflationary pressures, with greater benefit to be seen in 2021.
- Maintain focus on customer satisfaction / build quality and refine processes for new consumer code / ombudsman.

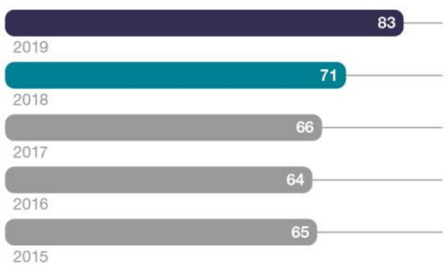
8 Appendix 1: 5 year summary

8 Appendix 1: 5 year summary

Revenue (£m)

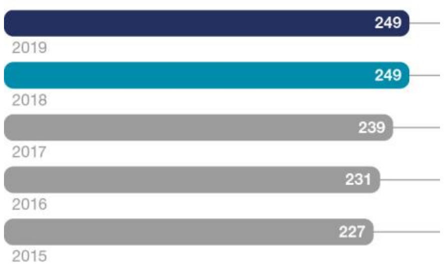


Sales outlets

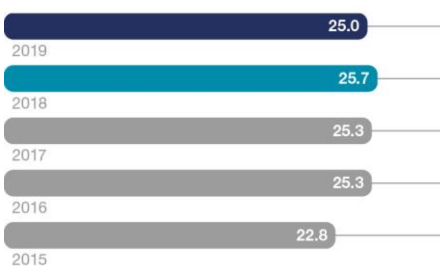


Private sales rate (per site per week)

Average selling price (£000)

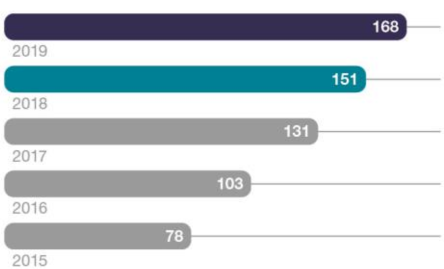


Gross margin (%)



Overhead %

Operating profit (£m)



Operating margin (%)