MILLER HOMES GROUP HOLDINGS PLC

Quarterly Financial Report for the

3 months ended 31 March 2019

5.5% Senior Secured Notes due 2024

Senior Secured Floating Rate Notes due 2023

Contents

Introduction

- In accordance with the reporting requirements of its offering of £425m Senior Secured Notes (of which £405m are currently outstanding), Miller Homes Group Holdings plc ("the Group") is pleased to present its Quarterly Financial Report for the 3 months ended 31 March 2019.
- The figures for the 3 month periods to 31 March 2019 and 2018 are unaudited.

Financial and operational highlights for the 3 months to 31 March 2019

Trading

- EBITDA for 3 months ended 31 March 2019 is £33.6m, a 7% increase on Q1 2018.
- 5% increase in private net reservations with higher outlet numbers resulting in a 3% decrease in our private sales rate to 0.76 net reservations per site per week (Q1 2018: 0.78).
- Average outlet numbers have increased to 78 for the 3 months ended 31 March 2019 (Q1 2018: 73).

Land investment and leverage

- 5% increase in the consented landbank to 13,130 plots (Dec 2018: 12,524 plots), representing 4.2 years' supply, based on last 12 months' completions. This reflects an increase in the owned landbank to 9,370 plots (Dec 2018: 9,174 plots) and an increase in the controlled landbank to 3,760 plots (Dec 2018: 3,350 plots).
- Strategic landbank of 16,952 plots (Dec 2018: 17,331 plots), representing 5.5 years' supply.
- Net LTV[1] of 53.0%, based on net inventory of £654.2m and net debt of £346.6m[2]. Net LTV has increased from 52.6% in the previous quarter and compares to 58.5% at 31 March 2018.
- Net leverage of 2.3x, based on LTM EBITDA of £153.8m and net debt of £346.6m. This compares to net leverage of 2.1x in the previous quarterly report and 2.3x at 31 March 2018.

Outlook

- At 31 March 2019, forward sales for the following 12 months are £349m, 5% ahead of the prior year.

[1] LTV: Loan to value is net debt divided by net inventory (inventory less land payables).
[2] Excludes the capitalisation of bond financing costs (£16.0m).

The key financial highlights for the 3 month period ended 31 March 2019, together with prior period comparatives, are set out below:

Table 1	**3 months ended 31 Mar 2019 £m**	**3 months ended 31 Mar 2018 £m**	**% change**
Revenue	173.7	156.7	10.8
Cost of sales	(130.5)	(117.1)	11.4
Gross profit	43.2	39.6	9.1
Other operating income	0.5	0.4	25.0
Administrative expenses	(10.9)	(10.3)	5.8
Group operating profit	32.8	29.7	10.4
Share of result in joint ventures	0.7	1.5	(53.3)
Operating profit	33.5	31.2	7.4
Net finance costs	(11.2)	(12.1)	(7.4)
Profit before taxation	22.3	19.1	16.8
Taxation	(4.4)	(3.9)	12.8
Profit for the period	**17.9**	**15.2**	**17.8**
Gross margin %	*24.9%*	*25.3%*	*-40bps*
Operating margin %	*19.3%*	*19.9%*	*-60bps*

Reconciliation of EBITDA

Table 2	**3 months ended 31 Mar 2019 £m**	**3 months ended 31 Mar 2018 £m**
Profit for the period	17.9	15.2
Taxation	4.4	3.9
Net finance costs	11.2	12.1
Depreciation	0.1	-
Amortisation of land option costs	-	0.1
EBITDA	**33.6**	**31.3**

Analysis of revenues

Table 3	**3 months ended 31 Mar 2019 £m**	**3 months ended 31 Mar 2018 £m**
Private revenue	149.0	143.5
Affordable revenue	24.2	11.0
Land sales	0.4	1.9
Other	0.1	0.3
Total revenue	**173.7**	**156.7**

Analysis of completions and ASP

Table 4	**3 months ended 31 Mar 2019 No.**	**3 months ended 31 Mar 2018 No.**
Private completions	564	524
Affordable completions	222	110
Core completions	**786**	**634**

	£000	**£000**
Private ASP	264	274
Affordable ASP	109	100
Total ASP	**220**	**244**

Financial summary

Results of operations for the 3 months ended 31 March 2019

Revenue

- Revenue for the 3 months to 31 March 2019 increased by 10.8% to £173.7m (Q1 2018: £156.7m), representing a 24.0% increase in core completions and a 9.8% decrease in ASP.
- Core completions in the 3 months to 31 March 2019 increased by 24.0% to 786 units (Q1 2018: 634 units). Private completions increased by 7.6% to 564 units (Q1 2018: 524 units) due to the sale of 89 units at Telford NHT (2011) LLP, a legacy development which was divested in January 2019.
- ASP for the 3 months to 31 March 2019 decreased by 9.8% to £220,000 (Q1 2018: £244,000). This reflects a 3.6% decrease in the private ASP to £264,000 (Q1 2018: £274,000) and a 9.0% increase in the affordable ASP to £109,000 (Q4 2018: £100,000). The decrease in private ASP is due to the sale of 89 apartments at Telford NHT which had an ASP of £146,000. Excluding these units, private ASP was £286,000, 4.4% ahead of the prior year period. The overall ASP, excluding Telford NHT, was £230,000, a decrease of 5.7% on the prior year period. This decrease is the result of an increased proportion of completions coming from affordable units in 2019. 28.2% of Q1 2019 completions came from affordable units (Q1 2018: 17.4%).

Gross profit

- Gross profit for the 3 months to 31 March 2019 increased by 9.1% to £43.2m (Q1 2018: £39.6m). Gross margin in the 3 month period was 24.9% (Q1 2018: 25.3%). This was lower than last year due to the sale of the legacy Telford NHT development which had a lower margin. Excluding this, gross margin for the 3 months to 31 March 2019 would have been 25.8%.

Administrative expenses

- Administrative expenses for the 3 months to 31 March 2019 totalled £10.9m (Q1 2018: £10.3m). The increase of £0.6m has primarily been driven by a 9% increase in headcount and annual wage inflation.

EBITDA

- EBITDA for the 3 months to 31 March 2019 increased by 7.3% to £33.6m (Q1 2018: £31.3m) reflecting the increase in gross profit being only partly offset by higher administrative expenses and a lower joint venture result which is due to lower JV volumes and mix of units sold.

Finance costs and income

- Net finance costs in the 3 month period ended 31 March 2019 were £11.2m (Q1 2018: £12.1m). The decrease of £0.9m reflects the buy back and cancellation of £20m senior secured notes in June 2018 and the repayment of £43.5m intercompany loan notes in November 2018. The interest charge includes £2.9m relating to the shareholder loan notes.

Taxation

- The tax charge of £4.4m (Q1 2018: £3.9m) excludes a further charge of £0.2m for joint ventures which is reflected within the share of result in joint ventures. The tax charge represents an effective tax rate of 20.4%, higher than the standard rate of corporation tax of 19.0% due to non-deductible interest charges. The deferred tax asset has fallen to £13.6m (Dec 2018: £15.9m).

Net debt, liquidity and cashflow

Table 5	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
Senior secured notes	(405.0)	(405.0)	(425.0)
Deferred financing costs	16.0	16.8	18.7
Other loans	-	(10.3)	(10.3)
Cash and cash equivalents	58.4	98.6	128.0
Total external net debt	**(330.6)**	**(299.9)**	**(288.6)**

Table 6	3 months ended 31 Mar 2019 £m	3 months ended 31 Mar 2018 £m
Net cash flow from operating activities	(30.0)	21.5
Net cash flow from investing activities	0.1	(5.9)
Net cash flow from financing activities	(10.3)	-
Movements in cash and cash equivalents	(40.2)	15.6
Cash and cash equivalents at beginning of period	98.6	112.4
Cash and cash equivalents at end of period	**58.4**	**128.0**

- Net cash flow from operating activities for the 3 months ended 31 March 2019 was an outflow of £30.0m compared to an inflow of £21.5m for the 3 months ended 31 March 2018. This principally reflects increased net land spend in the period which is £38.9m higher year on year.
- Net cash flow from investing activities for the 3 months ended 31 March 2019 was an inflow of £0.1m compared to an outflow of £5.9m for the 3 months ended 31 December 2018, reflecting the investment in a new joint venture in March 2018.
- Net cash outflow from financing activities for the 3 months ended 31 March 2019 was an outflow of £10.3m. This reflects the repayment of long term bank borrowings in relation to the Group's interest in Telford NHT (2011) LLP, an entity established to provide residential property for rental purposes which was divested in January 2019.

Table 7	3 months ended 31 Mar 2019 £m	3 months ended 31 Mar 2018 £m
EBITDA	**33.6**	**31.3**
Net land investment less than/ (in excess of) cost of sales	(40.0)	(4.7)
Development spend (in excess of)/ less than cost of sales	(15.0)	1.6
Change in working capital	(5.6)	(5.6)
Cash flows from JVs (not included in EBITDA)	(0.6)	(7.3)
Shared equity loan receivables	1.8	1.4
Other	-	1.8
Free cash flow[1]	**(25.8)**	**18.5**
Net land spend (included in cost of sales)	29.5	25.9
Net land investment in excess of cost of sales	40.0	4.7
Total net land spend	**69.5**	**30.6**
Free cash flow pre net land spend	**43.7**	**49.1**

- The business continues to be highly cash generative, with £43.7m (Q1 2018: £49.1m) of cash generated pre net land spend.
- Free cash flow in the 3 months ended 31 March 2019 was an outflow of £25.8m compared to an inflow of £18.5m in the 3 months ended 31 March 2018. This is primarily due to an outflow from investment in land in excess of cost of sales of £40.0m compared to £4.7m in the prior year period and an outflow from development spend in excess of cost of sales of £15.0m, compared to an inflow of £1.6m for the prior year period. The increase in land investment in excess of cost of sales reflects the timing of payments of land creditors and the acquisition of sites originally planned for Quarter 4 2018. The outflow from development spend in excess of cost of sales reflects work done on recently acquired sites where we have not yet started taking completions and is a function of the increased number of live sales outlets.

[1] Free cashflow represents the cash movement per the consolidated cashflow statement but excluding cashflows from financing activities, investing activities (other than movement in loans to joint ventures), corporation tax paid, interest paid and transaction costs.

Capital employed, inventory and landbank

Return on underlying capital employed

Table 8	**As at and for the 12 months ended 31 Mar 2019 £m**	**As at and for the 12 months ended 31 Dec 2018 £m**	**As at and for the 12 months ended 31 Mar 2018 £m**
Net assets	257.5	239.6	173.0
Net external debt	330.6	299.9	288.6
Intercompany debt	122.3	119.4	152.0
Capital employed	710.4	658.9	613.6
Less			
Intangible assets	(146.2)	(146.2)	(146.2)
Shared equity loan receivables	(11.8)	(13.7)	(20.1)
Deferred tax	(13.6)	(15.9)	(24.9)
Underlying capital employed	**538.8**	**483.1**	**422.4**
Operating profit	153.4	151.1	135.6
Less			
Credit to operating profit in respect of shared equity loan receivables	(0.7)	(0.8)	(3.2)
Underlying operating profit	**152.7**	**150.3**	**132.4**
Underlying ROCE (%)	**31.8**	**33.4**	**34.4**

- Capital employed increased to £710.4m as of 31 March 2019 (Dec 2018: £658.9m), of which £146.2m relates to intangible assets established following the acquisition. The increase in underlying capital employed to £538.8m (Dec 2018: £483.1m) reflects an increase in net inventory which has risen by £52.2m to £654.2m (Dec 2018: £602.0m). An analysis of net inventory and the landbank is set out on the next page.

Table 9	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
Land	451.5	448.3	410.1
Work in progress	293.7	281.2	232.9
Part exchange properties	16.5	16.0	10.3
Inventory	**761.7**	**745.5**	**653.3**
Land payables	(107.5)	(143.5)	(127.9)
Net inventory	**654.2**	**602.0**	**525.4**
Landbank	**Plots**	**Plots**	**Plots**
Owned / unconditional	9,370	9,174	8,543
Controlled	3,760	3,350	4,518
Consented	13,130	12,524	13,061
Strategic	16,952	17,331	16,385
Total	**30,082**	**29,855**	**29,446**

- The Group acquired or unconditionally contracted on 7 sites during the 3 months ended 31 March 2019 adding 982 plots to the owned landbank. In the 3 months ended 31 March 2018 5 sites and 813 plots were added to the landbank.
- The owned landbank at 31 March 2019 has increased to 9,370 plots (Gross development value: £2.5bn). All owned land which has a detailed planning permission is being developed.
- The consented landbank has increased by 5% to 13,130 plots (Dec 2018: 12,524 plots). Based on the last 12 months' completions of 3,106 units, this represents 4.2 years' supply (Dec 2018: 4.2 years).
- The strategic landbank has decreased by 2% to 16,952 plots (Dec 2018: 17,331 plots) and represents 5.5 years' supply.
- The decrease in land payables reflects the timing of contracted payments.

MILLER HOMES GROUP HOLDINGS PLC

Group condensed consolidated financial statements

3 month period ended 31 March 2019

CONSOLIDATED INCOME STATEMENT
for the 3 month period ended 31 March 2019

	Note	3 months ended 31 Mar 2019 £m	3 months ended 31 Mar 2018 £m
Revenue		173.7	156.7
Cost of sales		(130.5)	(117.1)
Gross profit		43.2	39.6
Other operating income		0.5	0.4
Administrative expenses		(10.9)	(10.3)
Group operating profit		32.8	29.7
Share of result in joint ventures		0.7	1.5
Operating profit		33.5	31.2
Finance costs	*4*	(11.5)	(12.7)
Finance income	*5*	0.3	0.6
Net finance costs		(11.2)	(12.1)
Profit before taxation		22.3	19.1
Income taxes		(4.4)	(3.9)
Profit for the period		**17.9**	**15.2**

The results for the 3 month periods ended 31 March 2019 and 31 March 2018 are unaudited.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
Assets				
Non-current assets				
Intangible assets (incl goodwill)	*6*	146.2	146.2	146.2
Property, plant and equipment		1.3	1.3	0.8
Investments		22.1	21.6	26.7
Shared equity loan receivables		11.8	13.7	20.1
Deferred tax		13.6	15.9	24.9
		195.0	**198.7**	**218.7**
Current assets				
Inventories	*7*	761.7	745.5	653.3
Trade and other receivables		25.8	20.0	33.1
Cash and cash equivalents		58.4	98.6	128.0
		845.9	**864.1**	**814.4**
Total assets		**1,040.9**	**1,062.8**	**1,033.1**
Liabilities				
Non-current liabilities				
Loans and borrowings	*8*	(511.3)	(507.6)	(568.6)
Trade and other payables		(33.9)	(45.2)	(36.6)
Retirement benefit obligations		(12.3)	(13.0)	(20.8)
Provisions and deferred income		(2.8)	(3.0)	(3.0)
		(560.3)	**(568.8)**	**(629.0)**
Current liabilities				
Loans and borrowings	*9*	-	(10.3)	-
Trade and other payables		(223.1)	(244.1)	(231.1)
		(223.1)	**(254.4)**	**(231.1)**
Total liabilities		**(783.4)**	**(823.2)**	**(860.1)**
Net assets		**257.5**	**239.6**	**173.0**
Equity				
Share capital		151.0	151.0	151.0
Retained earnings		106.5	88.6	22.0
Total equity attributable to owners of the parent		**257.5**	**239.6**	**173.0**

The December 2018 figures represent the audited financial statements of Miller Homes Group Holdings plc. The March 2019 and March 2018 figures are unaudited.

CONSOLIDATED CASHFLOW STATEMENT
for the 3 month period ended 31 March 2019

	3 months ended 31 Mar 2019 £m	3 months ended 31 Mar 2018 £m
Cash flows from operating activities		
Profit for the period	17.9	15.2
Depreciation	0.1	-
Amortisation of land option costs	-	0.1
Finance income	(0.3)	(0.6)
Finance cost	11.5	12.7
Share of post tax result from joint ventures	(0.7)	(1.5)
Taxation	4.4	3.9
Operating profit before changes in working capital	32.9	29.8
Working capital movements:		
Movement in trade and other receivables	0.7	(2.8)
Movement in inventories	(16.2)	(34.9)
Movement in trade and other payables	(43.4)	32.2
Cash generated from operations	(26.0)	24.3
Interest paid	(2.4)	(2.8)
Corporation tax paid	(1.6)	-
Net cash (outflow) / inflow from operating activities	**(30.0)**	**21.5**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(0.1)	(0.1)
Movement in loans with joint ventures	0.2	(5.8)
Net cash inflow / (outflow) from investing activities	**0.1**	**(5.9)**
Cash flows from financing activities		
Decrease in other long term borrowings	(10.3)	-
Net cash (outflow) / inflow from financing activities	**(10.3)**	**-**
(Decrease) / increase in cash and cash equivalents	(40.2)	15.6
Cash and cash equivalents at beginning of period	98.6	112.4
Cash and cash equivalents at end of period	**58.4**	**128.0**

Notes to the condensed consolidated financial statements

1. Reconciliation of net cash flow to net debt

	3 months ended 31 Mar 2019 £m	3 months ended 31 Mar 2018 £m
Movement in cash and cash equivalents	(40.2)	15.6
Decrease in other long term borrowings	10.3	-
Non cash movement[1]	(3.7)	(4.3)
Movement in net debt in period	(33.6)	11.3
Net debt at beginning of period	(419.3)	(451.9)
Net debt at end of period	**(452.9)**	**(440.6)**

Net debt comprises:

	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
External net debt	(330.6)	(299.9)	(288.6)
Intercompany loans	(122.3)	(119.4)	(152.0)
Net debt at end of period	**(452.9)**	**(419.3)**	**(440.6)**

2. Reporting entity

Miller Homes Group Holdings plc is a Company domiciled in England and Wales. The condensed consolidated financial statements for the 3 month period ended 31 March 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and reflect the underlying trading results of Miller Homes Holdings Limited.

The financial statements did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 and were given an unqualified audit opinion.

3. Accounting policies

The preparation of these condensed consolidated financial statements is based on the accounting policies set out in the audited 2018 financial statements of Miller Homes Group Holdings plc.

[1] The non-cash movement for the 3 months ended 31 March 2019 represents £0.8m (Q1 2018: £0.8m) of arrangement fee amortisation and £2.9m (Q1 2018: £3.5m) of rolled up interest on the unsecured shareholder loan notes.

4.	Finance costs	3 months ended 31 Mar 2019 £m	3 months ended 31 Mar 2018 £m
	Interest payable on senior secured notes, bank loans and overdrafts	6.8	7.0
	Interest payable on amounts owed to immediate parent company	2.9	3.5
	Imputed interest on land payables on deferred terms	1.7	1.9
	Finance costs related to employee benefit obligations	0.1	0.3
		11.5	**12.7**

5.	Finance income	3 months ended 31 Mar 2019 £m	3 months ended 31 Mar 2018 £m
	Imputed interest on land receivables on deferred terms	-	0.2
	Interest on loans to joint ventures	0.2	0.2
	Other	0.1	0.2
		0.3	**0.6**

6.	Intangible assets	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
	Goodwill	92.2	92.2	92.2
	Brand value	54.0	54.0	54.0
		146.2	**146.2**	**146.2**

7.	Inventories	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
	Land	451.5	448.3	410.1
	Work in progress	293.7	281.2	232.9
	Part exchange properties	16.5	16.0	10.3
		761.7	**745.5**	**653.3**

8.	Loans and borrowings – non-current	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
	Senior secured notes	(405.0)	(405.0)	(425.0)
	Deferred financing costs	16.0	16.8	18.7
	Long term borrowings	-	-	(10.3)
	Intercompany loan (unsecured)	(122.3)	(119.4)	(152.0)
		(511.3)	**(507.6)**	**(568.6)**

9.	Loans and borrowings – current	As at 31 Mar 2019 £m	As at 31 Dec 2018 £m	As at 31 Mar 2018 £m
	Long term borrowings	-	(10.3)	-
		-	**(10.3)**	**-**

Senior secured notes: Following the Group's acquisition of Miller Homes Holdings Limited on 5 October 2017 the Group issued £425m of senior secured notes, and repaid existing bank loans. The Group bought back and cancelled £20m of its senior secured notes in June 2018 (£14m FRN, £6m fixed).

Long term borrowings: Long term borrowings related to the Group's interest in Telford NHT (2011) LLP, an entity established to provide residential property for rental purposes which was divested in January 2019.

Intercompany loan: The intercompany loan is payable to Miller Midco 2 Limited, a company ultimately controlled by Bridgepoint funds. The loan is unsecured and repayable in October 2027. On 27 November 2018, £43.5m of this loan was repaid.