# MILLER HOMES GROUP HOLDINGS PLC

Quarterly Financial Report for the

3 months ended 31 March 2018

£250,000,000 5.5% Senior Secured Notes due 2024

£175,000,000 Senior Secured Floating Rate Notes due 2023

# Contents

## Introduction

- In accordance with the reporting requirements of its offering of £425m Senior Secured Notes, Miller Homes Group Holdings plc ("the Group") is pleased to present its Quarterly Financial Report for the 3 months ended 31 March 2018.
- All figures presented in this report relate to the group of companies headed by the Group. The Group acquired Miller Homes Holdings Limited ('MHHL') and its subsidiaries on 5 October 2017. The 12 month underlying operating profit figures in this report reflect:
    - the results for the Group for the 6 month post acquisition period excluding one-off transaction fees and fair value adjustments reflected in the 2017 Group financial statements;
    - the pre-acquisition results for the previous 6 month period which have been extracted from the financial statements of MHHL.
- The December 2017 figures presented in this report are extracted from the audited 2017 financial statements of the Group. The figures for the 3 month periods to 31 March 2017 and 2018 are unaudited.

## Financial and operational highlights

### Trading

- EBITDA for 3 months ended 31 March 2018 of £31.1m, a 16.0% increase on 2017.
- Continued improvement in all underlying trading metrics, namely average selling price (ASP), completions and operating margin.
- 7% decrease in our private sales rate to 0.78 net reservations per site per week (Q1 2017: 0.84). The prior year comparison was unusually strong being driven by one region which delivered in excess of 1 net reservation per site per week. The YTD sales rate of 0.78 is 3% higher than the 0.76 achieved in Quarter 1 2016.
- Outlet numbers have increased, averaging 73 for the quarter (Q1 2017: 65).

### Land investment and leverage

- 5% decrease in the consented landbank to 13,061 units (2017: 13,738 units), representing 4.8 years' supply, based on last 12 months completions. This reflects an increase in the owned landbank to 8,543 plots (2017: 8,364 plots) offset by a decrease in the controlled landbank to 4,518 plots (2017: 5,374).
- 1% decrease in the strategic landbank to 16,385 units (2017: 16,561 units).
- Net LTV[1] of 58.5%, based on net inventory of £525.4m and net debt of £307.3m[2]. Net LTV has fallen from 62.6% in the previous quarter.
- Net leverage of 2.3x, based on LTM EBITDA of £135.2m and net debt of £307.3m. This compares to net leverage of 2.5x in the previous quarterly report.

### Outlook

- At 31 March 2018, forward sales for the following 12 months are £334m. This is 22% ahead of the prior year with 15% of this increase attributed to private units.

[1] LTV: Loan to value is net debt divided by net inventory (inventory less land creditors).
[2] Excludes the capitalisation of bond financing costs (£18.7m).

The key financial highlights for the 3 month period ended 31 March 2018, together with prior period comparatives, are set out below:

| *Table 1* | **3 months ended 31 Mar 2018 £m** | **3 months ended 31 Mar 2017 £m** | **% change** |
|---|---|---|---|
| Revenue | 157.1 | 155.5 | 1.0 |
| Cost of sales | (117.3) | (119.6) | (1.9) |
| Gross profit | 39.8 | 35.9 | 10.9 |
| Administrative expenses | (10.3) | (9.1) | 13.2 |
| Group operating profit | 29.5 | 26.8 | 10.1 |
| Share of result in joint ventures | 1.5 | (0.1) | 1,600.0 |
| Operating profit | 31.0 | 26.7 | 16.1 |
| Net finance costs | (11.9) | (3.0) | 296.7 |
| Profit before taxation | 19.1 | 23.7 | (19.4) |
| Taxation | (3.9) | (4.7) | (17.0) |
| **Profit for the period** | **15.2** | **19.0** | **(20.0)** |
| *Gross margin %* | *25.3%* | *23.1%* | *+2.2%* |
| *Operating margin %* | *19.7%* | *17.2%* | *+2.5%* |

**Reconciliation of EBITDA**

| *Table 2* | **3 months ended 31 Mar 2018 £m** | **3 months ended 31 Mar 2017 £m** |
|---|---|---|
| Profit for the period | 15.2 | 19.0 |
| Taxation | 3.9 | 4.7 |
| Net finance costs | 11.9 | 3.0 |
| Amortisation of land option costs | 0.1 | 0.1 |
| **EBITDA** | **31.1** | **26.8** |

**Analysis of revenues**

| *Table 3* | **3 months ended 31 Mar 2018 £m** | **3 months ended 31 Mar 2017 £m** |
|---|---|---|
| Private revenue | 143.5 | 117.4 |
| Affordable revenue | 11.0 | 15.3 |
| Land sales | 1.9 | 21.4 |
| Other | 0.7 | 1.4 |
| **Total revenue** | **157.1** | **155.5** |

**Analysis of completions and ASP**

| *Table 4* | **3 months ended 31 Mar 2018 No.** | **3 months ended 31 Mar 2017 No.** |
|---|---|---|
| Private completions | 524 | 453 |
| Affordable completions | 110 | 134 |
| **Core completions** | **634** | **587** |

| | **£000** | **£000** |
|---|---|---|
| Private ASP | 274 | 259 |
| Affordable ASP | 100 | 114 |
| **Total ASP** | **244** | **226** |

## Financial summary

### Results of operations

#### Revenue

- Notwithstanding an 8.0% increase in completions and an 8.0% increase in ASP, revenue of £157.1m (Q1 2017: £155.5m) was only slightly higher due to lower land sale revenues this year.
- Core completions in the 3 months to 31 March 2018 increased by 8.0% to 634 units (Q1 2017: 587 units). Private completions increased by 15.7% to 524 units (Q1 2017: 453 units) largely driven by an increase in the number of active sites to 73 (Q1 2017: 65 sites). Affordable units made up 17% of sales and have returned to more normal levels after contributing a disproportionately high amount in Q1 2017, representing 23% of completions compared to 19% for the full year.
- ASP for the 3 months to 31 March 2018 increased by 8.0% to £244,000 (Q1 2017: £226,000). This reflects a 5.8% increase in the private ASP to £274,000 (Q1 2017: £259,000) offset by a 12.3% decrease in the affordable ASP. The private ASP increase reflects a small increase in unit size combined with year on year price inflation. The affordable ASP fell to £100,000 (Q1 2017: £114,000) as a result of the location of completions together with product mix.

#### Gross profit

- Gross profit for the 3 months to 31 March 2018 increased by 10.9% to £39.8m (Q1 2017: £35.9m). Gross margin in the 3 month period was 25.3% (Q1 2017: 23.1%) with the increase reflecting a high level of land sales in the prior period which were margin dilutive.

#### Administrative expenses

- Administrative expenses for the 3 month period ended 31 March 2018 totalled £10.3m (Q1 2017: £9.1m). This largely reflects an increase in headcount and resultant salary costs which partly related to our new West Midlands region.

#### EBITDA

- EBITDA for the 3 months to 31 March 2018 increased by 16.0% to £31.1m (Q1 2017: £26.8m) reflecting the increase in gross profit and joint venture result being only partly offset by higher administrative expenses.

#### Finance costs and income

- Net finance costs in the 3 month period ended 31 March 2018 increased to £11.9m (Q1 2017: £3.0m). The year on year movement of £8.9m reflects the change in debt structure from the prior year period. The interest change includes £3.5m relating to the shareholder loan notes which is not paid in cash until the loan notes are redeemed (following payment of the senior secured notes).

## Taxation

- The tax charge of £3.9m (Q1 2017: £4.7m) represents an effective tax rate of 20.4% which is above the 19% corporation tax rate applicable for 2018 and represents an estimate of the likely full year tax rate after allowing for potentially disallowable expenses. The deferred tax asset has fallen to £24.9m (Dec 2017: £25.8m).

## Net debt, liquidity and cashflow

| *Table 5* | As at 31 Mar 2018 £m | As at 31 Dec 2017 £m | As at 31 Mar 2017 £m |
|---|---|---|---|
| Senior secured notes | (425.0) | (425.0) | - |
| Revolving credit facility | - | - | (120.0) |
| Deferred financing costs | 18.7 | 19.5 | 2.2 |
| Other loans | (10.3) | (10.3) | (10.3) |
| Cash and cash equivalents | 128.0 | 112.4 | 47.6 |
| **Total external net debt** | **(288.6)** | **(303.4)** | **(80.5)** |

| *Table 6* | 3 months ended 31 Mar 2018 £m | 3 months ended 31 Mar 2017 £m |
|---|---|---|
| Net cash flow from operating activities | 21.5 | 44.5 |
| Net cash flow from investing activities | (5.9) | (3.4) |
| Net cash flow from financing activities | - | (34.6) |
| Movements in cash and cash equivalents | 15.6 | 6.5 |
| Cash and cash equivalents at beginning of period | 112.4 | 41.1 |
| **Cash and cash equivalents at end of period** | **128.0** | **47.6** |

- Cash from operating activities for the 3 months ended 31 March 2018 decreased by £23.0m to £21.5m (Q1 2017: £44.5m). This reflected higher net land investment of £30.6m (Q1 2017: £2.3m) which was largely a function of significant land sale income in Quarter 1 2017.
- Net cash outflow from investing activities for the 3 months ended 31 March 2018 was £5.9m compared to £3.4m for the 3 months ended 31 March 2017 as a result of entering into a new joint venture.
- Net cash inflow from financing activities for the 3 months ended 31 March 2018 was £nil which compared to an outflow of £34.6m for the 3 months ended 31 March 2017. This reflected the repayment of shareholder loan notes and revolving credit loans in 2017.

| *Table 7* | 3 months ended 31 Mar 2018 £m | 3 months ended 31 Mar 2017 £m |
|---|---|---|
| **EBITDA** | **31.1** | **26.8** |
| Net land investment (in excess of)/ less than cost of sales | (4.7) | 21.6 |
| Development spend less than/ (in excess of) cost of sales | 1.6 | (10.6) |
| Change in working capital | (5.6) | 7.6 |
| Cash flows from JVs (not included in EBITDA) | (7.3) | (3.2) |
| Available for sale financial assets | 1.4 | 2.5 |
| Other | 2.0 | (1.4) |
| **Free cash flow**[1] | **18.5** | **43.3** |
| Net land spend (included in cost of sales) | 25.9 | 23.9 |
| Net land investment in excess of/ (less than) cost of sales | 4.7 | (21.6) |
| **Total net land spend** | **30.6** | **2.3** |
| **Free cash flow pre net land spend** | **49.1** | **45.6** |

Free cash flow in the 3 months ended 31 March 2018 reflects an outflow from investment in land in excess of cost of sales of £4.7m compared to an inflow of £21.6m for the three months ended 31 March 2017 which included a large land sale receipt. The outflow from working capital of £5.6m for the three months ended 31 March 2018 principally reflects VAT on land purchases not yet recovered. The inflow for the three months ended 31 March 2017 principally reflects the recovery of VAT on land spend.

We may from time to time enter into open market purchase of our notes, depending on our cash balances, reinvestment opportunities and market prices of our notes.

[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 and interest paid.

## Capital employed, inventory and landbank

***Return on underlying capital employed***

| *Table 8* | **As at and for the 12 months ended 31 Mar 2018 £m** | **As at and for the 12 months ended 31 Dec 2017 £m** | **As at and for the 12 months ended 31 Mar 2017 £m** |
|---|---|---|---|
| Net assets | 173.0 | 157.8 | 339.3 |
| Net external debt | 288.6 | 303.4 | 80.5 |
| Intercompany debt | 152.0 | 148.5 | - |
| Capital employed | 613.6 | 609.7 | 419.8 |
| *Less* | | | |
| Intangible assets | (146.2) | (146.2) | - |
| Available for sale financial assets | (20.1) | (21.3) | (25.9) |
| Deferred tax | (24.9) | (25.8) | (46.3) |
| **Underlying capital employed** | **422.4** | **416.4** | **347.6** |
| | | | |
| Operating profit | 134.4 | 130.1 | 110.8 |
| *Less* | | | |
| Credit to operating profit in respect of available for sale financial assets | (1.9) | (1.6) | (1.2) |
| **Underlying operating profit** | **132.5** | **128.5** | **109.6** |
| **Underlying ROCE (%)** | **34.4** | **33.0** | **33.6** |

- Capital employed increased to £613.6m as of 31 March 2018 (Dec 2017: £609.7m), of which £146.2m relates to intangible assets established following the acquisition by Bridgepoint. The increase in underlying capital employed to £422.4m (Dec 2017: £416.4m) reflects an increase in net inventory which has risen by £9.3m to £525.4m (Dec 2017: £516.1m). An analysis of net inventory and the landbank is set out below:

| *Table 9* | As at 31 Mar 2018 £m | As at 31 Dec 2017 £m | As at 31 Mar 2017 £m |
|---|---|---|---|
| Land | 410.1 | 382.5 | 335.1 |
| Work in progress | 232.9 | 227.9 | 202.1 |
| Part exchange properties | 10.3 | 13.0 | 9.1 |
| **Inventory** | **653.3** | **623.4** | **546.3** |
| Land creditors | (127.9) | (107.3) | (87.2) |
| **Net inventory** | **525.4** | **516.1** | **459.1** |

| **Landbank** | **Plots** | **Plots** | **Plots** |
|---|---|---|---|
| Owned / unconditional | 8,543 | 8,364 | 7,855 |
| Controlled | 4,518 | 5,374 | 5,476 |
| Consented | 13,061 | 13,738 | 13,331 |
| Strategic | 16,385 | 16,561 | 12,880 |
| **Total** | **29,446** | **30,299** | **26,211** |

- The Group acquired 5 sites during the 3 months ended 31 March 2018 adding 813 plots to the owned landbank. In the 3 months ended 31 March 2017 we acquired 4 sites and 748 plots but disposed of 2 sites and 227 plots resulting in net additions of 2 sites and 521 plots. The owned landbank at 31 March 2018 has increased to 8,543 plots (Gross development value: £2.2bn). All owned land which has a detailed planning permission is being developed.
- The owned landbank has increased principally due to the pull through of land from the controlled landbank. This has in turn resulted in a reduction in the controlled landbank and the consented landbank which has decreased by 5% to 13,061 plots (Dec 2017: 13,738 plots). Based on the last 12 months' completions of 2,745 units, this represents 4.8 years' supply (Dec 2017: 5.1 years).
- The strategic landbank has decreased marginally by 1% to 16,385 plots (Dec 2017: 16,561 plots).
- The increase in land creditors reflects the timing of contracted payments and several larger site purchases.

# MILLER HOMES GROUP HOLDINGS PLC

Group proforma condensed consolidated financial statements

3 month period ended 31 March 2018

**CONSOLIDATED INCOME STATEMENT**
***for the 3 month period ended 31 March 2018***

| | Note | 3 months ended 31 Mar 2018 £m | 3 months ended 31 Mar 2017 £m |
|---|---|---|---|
| **Revenue** | | 157.1 | 155.5 |
| Cost of sales | | (117.3) | (119.6) |
| **Gross profit** | | 39.8 | 35.9 |
| Administrative expenses | | (10.3) | (9.1) |
| **Group operating profit** | | 29.5 | 26.8 |
| Share of result in joint ventures | | 1.5 | (0.1) |
| **Operating profit** | | 31.0 | 26.7 |
| Finance costs | *4* | (12.7) | (3.8) |
| Finance income | *5* | 0.8 | 0.8 |
| Net finance costs | | (11.9) | (3.0) |
| **Profit before taxation** | | 19.1 | 23.7 |
| Income taxes | | (3.9) | (4.7) |
| **Profit for the period** | | **15.2** | **19.0** |

The results for the 3 months ended 31 March 2017 are for Miller Homes Holdings Limited. Both the current and prior period results are unaudited.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 Mar 2018 £m | As at 31 Dec 2017 £m | As at 31 Mar 2017 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible assets (incl goodwill) | *6* | 146.2 | 146.2 | - |
| Property, plant and equipment | | 0.8 | 0.7 | 0.4 |
| Investments | | 26.7 | 19.4 | 24.4 |
| Available for sale financial assets | | 20.1 | 21.3 | 25.9 |
| Deferred tax | | 24.9 | 25.8 | 46.3 |
| | | **218.7** | **213.4** | **97.0** |
| **Current assets** | | | | |
| Inventories | *7* | 653.3 | 623.4 | 546.3 |
| Trade and other receivables | | 33.1 | 28.8 | 29.8 |
| Cash and cash equivalents | | 128.0 | 112.4 | 47.6 |
| | | **814.4** | **764.6** | **623.7** |
| **Total assets** | | **1,033.1** | **978.0** | **720.7** |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Interest bearing loans and borrowings | *9* | (568.6) | (564.3) | (123.1) |
| Trade and other payables | | (36.6) | (42.2) | (37.8) |
| Retirement benefit obligations | | (20.8) | (21.7) | (45.5) |
| Provisions and deferred income | | (3.0) | (3.2) | (6.4) |
| | | **(629.0)** | **(631.4)** | **(212.8)** |
| **Current liabilities** | | | | |
| Interest bearing loans and borrowings | *8* | - | - | (5.0) |
| Trade and other payables | | (231.1) | (188.8) | (163.6) |
| | | **(231.1)** | **(188.8)** | **(168.6)** |
| **Total liabilities** | | **(860.1)** | **(820.2)** | **(381.4)** |
| **Net assets** | | **173.0** | **157.8** | **339.3** |
| **Equity** | | | | |
| Share capital | | 151.0 | 151.0 | 125.0 |
| Retained earnings | | 22.0 | 6.8 | 214.3 |
| **Total equity attributable to owners of the parent** | | **173.0** | **157.8** | **339.3** |

The December 2017 figures represent the audited financial statements of Miller Homes Group Holdings plc. The March 2017 figures have been included for comparative purposes and represent the financial statements of Miller Homes Holdings Limited, the entity acquired by Miller Homes Group Holdings plc. The March 2018 and March 2017 figures are unaudited.

**CONSOLIDATED CASHFLOW STATEMENT**
***for the 3 month period ended 31 March 2018***

| | 3 months ended 31 Mar 2018 £m | 3 months ended 31 Mar 2017 £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period | 15.2 | 19.0 |
| Amortisation of land option costs | 0.1 | 0.1 |
| Finance income | (0.8) | (0.8) |
| Finance cost | 12.7 | 3.8 |
| Share of post-tax result from joint ventures | (1.5) | 0.1 |
| Taxation | 3.9 | 4.7 |
| Operating profit before changes in working capital | 29.6 | 26.9 |
| Working capital movements: | | |
| Movement in trade and other receivables | (2.6) | 3.7 |
| Movement in inventories | (34.9) | (3.3) |
| Movement in trade and other payables | 32.2 | 19.3 |
| Cash generated from operations | 24.3 | 46.6 |
| Interest paid | (2.8) | (2.1) |
| **Net cash inflow from operating activities** | **21.5** | **44.5** |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | (0.1) | (0.1) |
| Movement in loans with joint ventures | (5.8) | (3.3) |
| **Net cash outflow from investing activities** | **(5.9)** | **(3.4)** |
| **Cash flows from financing activities** | | |
| Decrease in bank borrowings | - | (9.9) |
| Decrease in other long term borrowings | - | (24.7) |
| **Net cash inflow from financing activities** | **-** | **(34.6)** |
| Movements in cash and cash equivalents | 15.6 | 6.5 |
| Cash and cash equivalents at beginning of period | 112.4 | 41.1 |
| **Cash and cash equivalents at end of period** | **128.0** | **47.6** |

# Notes to the condensed consolidated financial statements

## 1. Reconciliation of net cash flow to net debt

| | 3 months ended 31 Mar 2018 £m | 3 months ended 31 Mar 2017 £m |
|---|---|---|
| Movement in cash and cash equivalents | 15.6 | 6.5 |
| Decrease in bank loans | - | 9.9 |
| Decrease in long term borrowings | - | 24.7 |
| Non cash movement[1] | (4.3) | - |
| Movement in net debt in period | 11.3 | 41.1 |
| Net debt at beginning of period | (451.9) | (121.6) |
| **Net debt at end of period** | **(440.6)** | **(80.5)** |

## 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 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and reflect the underlying trading results of Miller Homes Holdings Limited.

Comparative annual figures as at 31 December 2017 set out within this report have been extracted from the 2017 financial statements of Miller Homes Group Holdings Plc. 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.

[1] The non-cash movement represents £0.8m of arrangement fee amortisation and £3.5m of rolled up interest on the £148.5m of unsecured shareholder loan notes.

## 3. Accounting policies

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

| **4. Finance costs** | **3 months ended 31 Mar 2018 £m** | **3 months ended 31 Mar 2017 £m** |
|---|---|---|
| Interest payable on secured notes, bank loans and overdrafts | 7.0 | 1.7 |
| Interest payable on amounts owed to immediate parent undertaking | 3.5 | 0.6 |
| Imputed interest on land payable on deferred terms | 1.9 | 1.2 |
| Finance costs related to employee benefit obligations | 0.3 | 0.3 |
| | **12.7** | **3.8** |

| **5. Finance income** | **3 months ended 31 Mar 2018 £m** | **3 months ended 31 Mar 2017 £m** |
|---|---|---|
| Imputed interest on available for sale financial assets | 0.3 | 0.4 |
| Interest on loans to joint ventures | 0.2 | 0.2 |
| Imputed interest on land receivables on deferred terms | 0.2 | 0.2 |
| Other | 0.1 | - |
| | **0.8** | **0.8** |

| **6. Intangible assets** | **As at 31 Mar 2018 £m** | **As at 31 Dec 2017 £m** | **As at 31 Mar 2017 £m** |
|---|---|---|---|
| Goodwill | 92.2 | 92.2 | - |
| Brand value | 54.0 | 54.0 | - |
| | **146.2** | **146.2** | **-** |

| 7. | Inventories | As at 31 Mar 2018 £m | As at 31 Dec 2017 £m | As at 31 Mar 2017 £m |
|---|---|---|---|---|
| | Land | 410.1 | 382.5 | 335.1 |
| | Work in progress | 232.9 | 227.9 | 202.1 |
| | Part exchange properties | 10.3 | 13.0 | 9.1 |
| | | **653.3** | **623.4** | **546.3** |

| 8. | Interest bearing loans and borrowings - current | As at 31 Mar 2018 £m | As at 31 Dec 2017 £m | As at 31 Mar 2017 £m |
|---|---|---|---|---|
| | Bank loans (secured) | - | - | (5.0) |

| 9. | Interest bearing loans and borrowings – non-current | As at 31 Mar 2018 £m | As at 31 Dec 2017 £m | As at 31 Mar 2017 £m |
|---|---|---|---|---|
| | Bank loans (secured) | - | - | (115.0) |
| | Senior secured notes | (425.0) | (425.0) | - |
| | Deferred financing costs | 18.7 | 19.5 | 2.2 |
| | Long term borrowings | (10.3) | (10.3) | (10.3) |
| | Intercompany loan (unsecured) | (152.0) | (148.5) | - |
| | | **(568.6)** | **(564.3)** | **(123.1)** |

**Senior secured notes:** Following the Group's acquisition of Miller Homes Holdings Limited on 5 October 2017 the Group issued £425m of Senior Secured Loan notes, and repaid existing bank loans.

**Long term borrowings:** Long term borrowings relate to the Group's interest in Telford NHT (2011) LLP (£10.3m), an entity established to provide residential property for rental purposes.

**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.