MILLER HOMES GROUP HOLDINGS PLC

Quarterly Financial Report for the

3 months ended 31 March 2020

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 2020.
- The figures for the 3 month periods to 31 March 2020 and 2019 are unaudited.

Financial and operational highlights including an update on current trading

Trading

- EBITDA for 3 months ended 31 March 2020 is £30.3m, a 10% decrease on Q1 2019. The reduction reflects a combination of a one-off 89 unit disposal of a legacy development in 2019 and a current year shortfall in March 2020 as the final week of the quarter end coincided with the imposition of the Covid-19 lockdown.
- 3% increase in private net reservations with higher outlet numbers resulting in a 1% decrease in our private sales rate to 0.75 net reservations per site per week (Q1 2019: 0.76). This was against a backdrop of a strong start to the year, with the private sales rate being 10% ahead of the prior year until the middle of March.
- Average outlet numbers have increased to 82 for the 3 months ended 31 March 2020 (Q1 2019: 78).

Land investment and leverage

- 4% increase in the consented landbank to 14,124 plots (Dec 2019: 13,633 plots), representing 4.4 years' supply, based on last 12 months' completions. This reflects a decrease in the owned landbank to 10,480 plots (Dec 2019: 10,718 plots) and an increase in the controlled landbank to 3,644 plots (Dec 2019: 2,915 plots).
- Strategic landbank of 19,634 plots (Dec 2019: 20,035 plots), representing 6.1 years' supply.
- Net LTV[1] of 39.9%, based on net inventory of £732.5m and net debt of £292.3m[2]. Net LTV has increased slightly from 38.9% in the previous quarter and compares to 53.0% at 31 March 2019.
- Net leverage of 1.7x, based on LTM EBITDA of £167.6m and net debt of £292.3m. This compares to net leverage of 1.6x in the previous quarterly report and 2.3x at 31 March 2019.

Current trading

- A current trading update, incorporating the Group's response to the impact of Covid-19, is set out below.
- Our sites closed during the course of the week commencing of 23 March 2020, in response to government guidelines at that time. The cessation of construction activity led to all site based sales and production staff, as well as a minority of office based staff, being furloughed in April with the majority since returning to work in early May.
- We used the April lockdown period to plan carefully for a re-start to enable our construction working practices to be re-designed and in turn ensure that they comply with the Charter for Safe Working Practice, a joint initiative between Government and the Home Builders Federation. This charter provides guidance on social distancing and protective measures. A re-start of construction activities occurred on 11th May in England on a phased basis, with our

[1] LTV: Loan to value is net debt divided by net inventory (inventory less land payables).
[2] Excludes the capitalisation of bond financing costs (£12.9m).

Scottish developments planned to follow on 1 June in anticipation of the Scottish Government easing its lockdown restrictions on 29th May.

- The majority of office based staff have been able to continue to work effectively from home and perform their normal tasks as well as focus on business improvement opportunities to enable the Group to launch new initiatives post lockdown to benefit customers, suppliers and our workforce.
- During the lockdown period, despite our sales advisors being furloughed, we continued to maintain contact with those customers who have either reserved or exchanged contracts on a new home. We fully utilised the variety of remote selling tools at our disposal, including the ability to reserve online, in order to generate new reservations. Our sales centres in England re-opened on 21 May incorporating social distancing measures and with customers required to book an appointment in advance. Our focus is on processing new leads which averaged around 50% of the prior year figure in April but in May have rebounded to prior year levels. This is encouraging, not least because marketing spend had been curtailed over this period. As expected, new reservations have been significantly lower since the beginning of April, although we have seen an increasing trend in recent weeks. Pricing on these reservations has remained firm.
- Our order book at the end of March was 19% ahead of the prior year at £415m (2019: £349m) and through a combination of new reservations offset by cancellations, this has now increased by a further £33m. As a consequence primarily of the lost production time caused by the lockdown, our Quarter 2 volumes will be substantially lower than the prior year. Cancellations in the second quarter have been modest and are lower in absolute terms than the prior year period.
- The Group's cash balance at the end of March was £244m, which takes account of drawing down £130m of the Revolving Credit Facility (RCF) prior to the quarter end. As at 27th May, the cash balance is £204m with the decrease since the end of March reflecting the interest payment on the secured notes, land creditor payments and payment of supplier and subcontractor liabilities in respect of works undertaken in February and March. A "business as usual" approach has been taken on supplier and subcontractor payments as we recognise the importance of retaining the support and loyalty of our supply chain on re-commencement of construction activities. The Group has currently stopped all discretionary land spend, with remaining 2020 land commitments of £65m.
- On 26th May, the Group increased its RCF by £21.5m to £151.5m with its existing banking group as a precautionary measure and has no immediate plans for the additional £21.5m to be drawn.

The key financial highlights for the 3 month period ended 31 March 2020, together with prior period comparatives, are set out below:

Table 1	**3 months ended 31 Mar 2020 £m**	**3 months ended 31 Mar 2019 £m**	**% change**
Revenue	160.9	173.7	(7.4)
Cost of sales	(122.2)	(130.5)	6.4
Gross profit	38.7	43.2	(10.4)
Other operating income	0.4	0.5	(20.0)
Administrative expenses	(10.2)	(10.9)	6.4
Group operating profit	28.9	32.8	(11.9)
Share of result in joint ventures	0.7	0.7	-
Operating profit	29.6	33.5	(11.6)
Net finance costs	(11.5)	(11.2)	(2.7)
Profit before taxation	18.1	22.3	(18.8)
Taxation	(3.4)	(4.4)	22.7
Profit for the period	**14.7**	**17.9**	**(17.9)**
Gross margin %	*24.1%*	*24.9%*	*-80bps*
Operating margin %	*18.4%*	*19.3%*	*-90bps*

Reconciliation of EBITDA

Table 2	**3 months ended 31 Mar 2020 £m**	**3 months ended 31 Mar 2019 £m**
Profit for the period	14.7	17.9
Taxation	3.4	4.4
Net finance costs	11.5	11.2
Depreciation	0.7	0.1
EBITDA	**30.3**	**33.6**

Analysis of revenues

Table 3	**3 months ended 31 Mar 2020 £m**	**3 months ended 31 Mar 2019 £m**
Private revenue	132.9	149.0
Affordable revenue	27.6	24.2
Land sales	0.4	0.4
Other	-	0.1
Total revenue	**160.9**	**173.7**

Analysis of completions and ASP

Table 4	**3 months ended 31 Mar 2020 No.**	**3 months ended 31 Mar 2019 No.**
Private completions	472	564
Affordable completions	220	222
Core completions	**692**	**786**

	£000	**£000**
Private ASP	282	264
Affordable ASP	125	109
Total ASP	**232**	**220**

Financial summary

Results of operations for the 3 months ended 31 March 2020

Revenue

- Revenue for the 3 months to 31 March 2020 decreased by 7.4% to £160.9m (Q1 2019: £173.7m), representing a 12.0% decrease in core completions offset by a 5.5% increase in ASP.
- Core completions in the 3 months to 31 March 2020 decreased by 12.0% to 692 units (Q1 2019: 786 units). Private completions decreased by 16.3% to 472 units (Q1 2019: 564 units). This reflects the prior period sale of 89 units at Telford NHT (2011) LLP in Edinburgh, a legacy development which was divested in January 2019. In addition, the Group saw some fallout in expected completion numbers for March, as completions coincided with the imposition of the Covid-19 lockdown. Around 55 units which had expected to occur did not complete, with the majority seeking to defer completion until after the lockdown.
- ASP for the 3 months to 31 March 2020 increased by 5.5% to £232,000 (Q1 2019: £220,000). This reflects a 6.8% increase in the private ASP to £282,000 (Q1 2019: £264,000) and a 14.7% increase in the affordable ASP to £125,000 (Q1 2019: £109,000). The increase in private ASP reflects the prior period sale of 89 apartments at Telford NHT which had an ASP of £146,000. Excluding these units, the 2019 private ASP would have been £286,000. The increase in the affordable ASP reflects the location of units sold.

Gross profit

- Gross profit for the 3 months to 31 March 2020 decreased by 10.4% to £38.7m (Q1 2019: £43.2m). Gross margin in the 3 month period was 24.1% (Q1 2019: 24.9%) reflecting slightly lower margins as a result of cost inflation.

Administrative expenses

- Administrative expenses for the 3 months to 31 March 2020 totalled £10.2m (Q1 2019: £10.9m). The decrease of £0.7m is despite a 7% increase in headcount and has been driven by a lower bonus charge.

EBITDA

- EBITDA for the 3 months to 31 March 2020 decreased by 9.8% to £30.3m (Q1 2019: £33.6m) reflecting the decrease in gross profit being only partly offset by lower administrative expenses.

Finance costs and income

- Net finance costs in the 3 month period ended 31 March 2020 were £11.5m (Q1 2019: £11.2m). The interest charge includes £3.2m (Q1 2019: £2.9m) relating to the shareholder loan notes.

Taxation

- The tax charge of £3.4m (Q1 2019: £4.4m) excludes a further charge of £0.1m for joint ventures which is reflected within the share of result in joint ventures. The tax charge represents an effective tax rate of 19.2%. The deferred tax asset has fallen to £1.4m (Dec 2019: £4.8m).

Net debt, liquidity and cashflow

Table 5	As at 31 Mar 2020 £m	As at 31 Dec 2019 £m	As at 31 Mar 2019 £m
Senior secured notes	(405.0)	(405.0)	(405.0)
Deferred financing costs	12.9	13.7	16.0
Other loans	(129.6)	-	-
Cash and cash equivalents	242.3	139.8	58.4
Total external net debt	**(279.4)**	**(251.5)**	**(330.6)**

Table 6	3 months ended 31 Mar 2020 £m	3 months ended 31 Mar 2019 £m
Net cash flow from operating activities	(29.5)	(30.0)
Net cash flow from investing activities	2.4	0.1
Net cash flow from financing activities	129.6	(10.3)
Movements in cash and cash equivalents	102.5	(40.2)
Cash and cash equivalents at beginning of period	139.8	98.6
Cash and cash equivalents at end of period	**242.3**	**58.4**

- Net cash flow from operating activities for the 3 months ended 31 March 2020 was an outflow of £29.5m compared to £30.0m for the 3 months ended 31 March 2019, and primarily reflects investment in land in the period.
- Net cash flow from investing activities for the 3 months ended 31 March 2020 was an inflow of £2.4m compared to £0.1m for the 3 months ended 31 December 2019, reflecting the repayment of loans by joint ventures.
- Net cash flow from financing activities for the 3 months ended 31 March 2020 was an inflow of £129.6m following the drawdown of the Revolving Credit Facility in March 2020. The outflow of £10.3m in the prior period 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 2020 £m	3 months ended 31 Mar 2019 £m
EBITDA	**30.3**	**33.6**
Net land investment in excess of cost of sales	(23.7)	(40.0)
Development spend in excess of cost of sales	(23.7)	(15.0)
Change in working capital	(6.3)	(5.6)
Cash flows from JVs (not included in EBITDA)	1.7	(0.6)
Shared equity loan receivables	0.8	1.8
Other	2.5	-
Free cash flow[1]	**(18.4)**	**(25.8)**
Net land spend (included in cost of sales)	28.5	29.5
Net land investment in excess of cost of sales	23.7	40.0
Total net land spend	**52.2**	**69.5**
Free cash flow pre net land spend	**33.8**	**43.7**

- The business continues to be highly cash generative, with £33.8m (Q1 2019: £43.7m) of cash generated pre net land spend. The increased variance in development spend of £23.7m (Q1 2019: £15.0m) in comparison to last year reflects the 55 unit volume shortfall directly attributed to the lockdown.
- Free cash flow in the 3 months ended 31 March 2020 was an outflow of £18.4m compared to £25.8m in the 3 months ended 31 March 2019. This primarily reflects lower land spend in the current year period.
- We, and our affiliates, may from time to time enter into further 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, 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 2020 £m**	**As at and for the 12 months ended 31 Dec 2019 £m**	**As at and for the 12 months ended 31 Mar 2019 £m**
Net assets	346.8	332.1	257.5
Net external debt	279.4	251.5	330.6
Intercompany debt	134.6	131.4	122.3
Capital employed	760.8	715.0	710.4
Less			
Intangible assets	(146.2)	(146.2)	(146.2)
Shared equity loan receivables	(8.1)	(8.9)	(11.8)
Deferred tax	(1.4)	(4.8)	(13.6)
Underlying capital employed	**605.1**	**555.1**	**538.8**
Operating profit	164.0	167.9	153.4
Less			
Credit to operating profit in respect of shared equity loan receivables	(4.5)	(4.6)	(0.7)
Underlying operating profit	**159.5**	**163.3**	**152.7**
Underlying ROCE (%)	**27.9**	**31.5**	**31.8**

- Capital employed increased to £760.8m as at 31 March 2020 (Dec 2019: £715.0m), of which £146.2m relates to intangible assets established following the acquisition. The increase in underlying capital employed to £605.1m (Dec 2019: £555.1m) reflects an increase in net inventory which has risen by £50.2m to £732.5m (Dec 2019: £682.3m). An analysis of net inventory and the landbank is set out on the next page.

Table 9	As at 31 Mar 2020 £m	As at 31 Dec 2019 £m	As at 31 Mar 2019 £m
Land	527.0	517.3	451.5
Work in progress	326.2	296.4	293.7
Part exchange properties	18.3	20.6	16.5
Inventory	**871.5**	**834.3**	**761.7**
Land payables	(139.0)	(152.0)	(107.5)
Net inventory	**732.5**	**682.3**	**654.2**
Landbank	**Plots**	**Plots**	**Plots**
Owned / unconditional	10,480	10,718	9,370
Controlled	3,644	2,915	3,760
Consented	14,124	13,633	13,130
Strategic	19,634	20,035	16,952
Total	**33,758**	**33,668**	**30,082**

- The Group acquired or unconditionally contracted on 3 sites during the 3 months ended 31 March 2020 adding 445 plots to the owned landbank. In the 3 months ended 31 March 2019, 7 sites and 982 plots were added to the landbank.
- The owned landbank at 31 March 2020 has increased to 10,480 plots (Gross development value: £2.9bn). All owned land which has a detailed planning permission is being developed.
- The consented landbank has increased by 4% to 14,124 plots (Dec 2019: 13,633 plots). Based on the last 12 months' completions of 3,234 units, this represents 4.4 years' supply (Dec 2019: 4.1 years).
- The strategic landbank has decreased by 2% to 19,634 plots (Dec 2019: 20,035 plots) and represents 6.1 years' supply.

MILLER HOMES GROUP HOLDINGS PLC

Group condensed consolidated financial statements

3 month period ended 31 March 2020

CONSOLIDATED INCOME STATEMENT
for the 3 month period ended 31 March 2020

	Note	3 months ended 31 Mar 2020 £m	3 months ended 31 Mar 2019 £m
Revenue		160.9	173.7
Cost of sales		(122.2)	(130.5)
Gross profit		38.7	43.2
Other operating income		0.4	0.5
Administrative expenses		(10.2)	(10.9)
Group operating profit		28.9	32.8
Share of result in joint ventures		0.7	0.7
Operating profit		29.6	33.5
Finance costs	*4*	(11.8)	(11.5)
Finance income	*5*	0.3	0.3
Net finance costs		(11.5)	(11.2)
Profit before taxation		18.1	22.3
Income taxes		(3.4)	(4.4)
Profit for the period		**14.7**	**17.9**

The results for the 3 month periods ended 31 March 2020 and 31 March 2019 are unaudited.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 Mar 2020 £m	As at 31 Dec 2019 £m	As at 31 Mar 2019 £m
Assets				
Non-current assets				
Intangible assets (incl goodwill)	*6*	146.2	146.2	146.2
Property, plant and equipment		1.3	1.4	1.3
Right-of-use assets		7.6	8.2	-
Investments		13.9	15.6	22.1
Shared equity loan receivables		8.1	8.9	11.8
Deferred tax		1.4	4.8	13.6
		178.5	**185.1**	**195.0**
Current assets				
Inventories	*7*	871.5	834.3	761.7
Trade and other receivables		27.9	20.6	25.8
Cash and cash equivalents		242.3	139.8	58.4
		1,141.7	**994.7**	**845.9**
Total assets		**1,320.2**	**1,179.8**	**1,040.9**
Liabilities				
Non-current liabilities				
Loans and borrowings	*8*	(656.3)	(522.7)	(511.3)
Trade and other payables		(47.4)	(44.6)	(33.9)
Lease liabilities		(5.8)	(6.4)	-
Retirement benefit obligations		(15.3)	(16.5)	(12.3)
Provisions and deferred income		(2.6)	(2.6)	(2.8)
		(727.4)	**(592.8)**	**(560.3)**
Current liabilities				
Trade and other payables		(243.9)	(252.8)	(223.1)
Lease liabilities		(2.1)	(2.1)	-
		(246.0)	**(254.9)**	**(223.1)**
Total liabilities		**(973.4)**	**(847.7)**	**(783.4)**
Net assets		**346.8**	**332.1**	**257.5**
Equity				
Share capital		151.0	151.0	151.0
Retained earnings		195.8	181.1	106.5
Total equity attributable to owners of the parent		**346.8**	**332.1**	**257.5**

The December 2019 figures represent the audited financial statements of Miller Homes Group Holdings plc. The March 2020 and March 2019 figures are unaudited.

CONSOLIDATED CASHFLOW STATEMENT
for the 3 month period ended 31 March 2020

	3 months ended 31 Mar 2020 £m	3 months ended 31 Mar 2019 £m
Cash flows from operating activities		
Profit for the period	14.7	17.9
Depreciation	0.7	0.1
Finance income	(0.3)	(0.3)
Finance cost	11.8	11.5
Share of post tax result from joint ventures	(0.7)	(0.7)
Taxation	3.4	4.4
Operating profit before changes in working capital	29.6	32.9
Working capital movements:		
Movement in trade and other receivables	(6.5)	0.7
Movement in inventories	(38.5)	(16.2)
Movement in trade and other payables	(5.4)	(43.4)
Cash generated from operations	(20.8)	(26.0)
Interest paid	(2.4)	(2.4)
Corporation tax paid	(6.3)	(1.6)
Net cash outflow from operating activities	**(29.5)**	**(30.0)**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-	(0.1)
Movement in loans with joint ventures	2.4	0.2
Net cash inflow from investing activities	**2.4**	**0.1**
Cash flows from financing activities		
Increase / (decrease) in other long term borrowings	129.6	(10.3)
Net cash inflow / (outflow) from financing activities	**129.6**	**(10.3)**
Increase / (decrease) in cash and cash equivalents	102.5	(40.2)
Cash and cash equivalents at beginning of period	139.8	98.6
Cash and cash equivalents at end of period	**242.3**	**58.4**

Notes to the condensed consolidated financial statements

1. Reconciliation of net cash flow to net debt

	3 months ended 31 Mar 2020 £m	3 months ended 31 Mar 2019 £m
Movement in cash and cash equivalents	102.5	(40.2)
(Increase) / decrease in other long term borrowings	(129.6)	10.3
Non cash movement[1]	(4.0)	(3.7)
Movement in net debt in period	(31.1)	(33.6)
Net debt at beginning of period	(382.9)	(419.3)
Net debt at end of period	**(414.0)**	**(452.9)**

Net debt comprises:

	As at 31 Mar 2020 £m	As at 31 Dec 2019 £m	As at 31 Mar 2019 £m
External net debt	(279.4)	(251.5)	(330.6)
Intercompany loans	(134.6)	(131.4)	(122.3)
Net debt at end of period	**(414.0)**	**(382.9)**	**(452.9)**

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 2020 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 2019 financial statements of Miller Homes Group Holdings plc.

[1] The non-cash movement for the 3 months ended 31 March 2020 represents £0.8m (Q1 2019: £0.8m) of arrangement fee amortisation and £3.2m (Q1 2019: £2.9m) of rolled up interest on the unsecured shareholder loan notes.

4.	Finance costs	3 months ended 31 Mar 2020 £m	3 months ended 31 Mar 2019 £m
	Interest payable on senior secured notes, bank loans and overdrafts	6.9	6.8
	Interest payable on amounts owed to immediate parent company	3.2	2.9
	Imputed interest on land payables on deferred terms	1.5	1.7
	Finance costs related to employee benefit obligations	0.1	0.1
	Imputed interest on lease liabilities	0.1	-
		11.8	**11.5**

5.	Finance income	3 months ended 31 Mar 2020 £m	3 months ended 31 Mar 2019 £m
	Interest on loans to joint ventures	0.1	0.2
	Other	0.2	0.1
		0.3	**0.3**

6.	Intangible assets	As at 31 Mar 2020 £m	As at 31 Dec 2019 £m	As at 31 Mar 2019 £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 2020 £m	As at 31 Dec 2019 £m	As at 31 Mar 2019 £m
	Land	527.0	517.3	451.5
	Work in progress	326.2	296.4	293.7
	Part exchange properties	18.3	20.6	16.5
		871.5	**834.3**	**761.7**

8.	Loans and borrowings – non-current	As at 31 Mar 2020 £m	As at 31 Dec 2019 £m	As at 31 Mar 2019 £m
	Senior secured notes	(405.0)	(405.0)	(405.0)
	Deferred financing costs	12.9	13.7	16.0
	Long term borrowings	(129.6)	-	-
	Intercompany loan (unsecured)	(134.6)	(131.4)	(122.3)
		(656.3)	**(522.7)**	**(511.3)**

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 relates to the Group's Revolving Credit Facility which was drawn down in March 2020.

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.