27 July 2020

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MILLER HOMES GROUP HOLDINGS plc

Trading update for the period ended 30 June 2020

Highlights

Chris Endsor, Chief Executive, said:

"Firstly, I wish to commend my colleagues for their dedication and professionalism in responding to the challenges resulting from the Covid-19 pandemic. Our strategy, both pre and post lockdown, has been focussed on ensuring that we act in the best interests of our employees, customers and supply chain partners. Despite the restrictions imposed by the lockdown measures, our office staff continued to work effectively from home and our digital sales processes enabled customers to interact with our sales teams and reserve online.

Like many businesses, our performance in the first six months of the year has been impacted by Covid-19. However, we have remained true to our values by fully supporting our employees during lockdown and have adopted a business as usual approach to the settlement of supplier and subcontractor obligations. Our sales performance both before lockdown and on re-opening has been extremely encouraging and demonstrates strong underlying demand for our homes. The regional model we have operated now for a number of years means we are well positioned if there is a structural shift away from city centres to suburban locations as a consequence of peoples' recent lockdown experience.

Having taken a cautious view on land buying in the first quarter and due to our conservative financial policies, we entered lockdown with strong liquidity. This continued to be the case during lockdown and at 30 June, the Group had cash reserves of £92m with liquidity being further supported by a £151m undrawn RCF. On 27 July, the Group completed a private placement of £160m Senior Secured Notes due October 2024 on the same terms as our existing notes. The proceeds will be used to repay £110m Senior Secured Floating Rate Notes, with the balance used to take advantage of land opportunities which are emerging post lockdown.

The long term impact of Covid-19 is still unclear, however, our financial strength and order book[1] of £468m, which is 27% higher than the prior year, positions us well as we enter the second half of the year."

	H1 2020	H1 2019	Change
Total completions	925	1,684	-45.1%
Revenue	£217.1m	£389.2m	-44.2%
Gross profit	£51.3m	£98.0m	-47.7%
Gross margin	23.6%	25.2%	-160bps
Operating profit	£32.4m	£77.8m	-58.4%
Operating margin	14.9%	20.0%	-510bps

- Housing completions down 45% to 925 homes (H1 2019: 1,684 homes)
- Operating profit of £32.4m, down 58% (H1 2019: £77.8m)
- 3% increase in consented landbank to 14,002 plots (Dec 2019: 13,633 plots)
- Margin enhancing strategic landbank of 19,649 plots (Dec 2019: 20,035 plots)
- Rolling 12 month HBF customer care score of 92.5%
- 13 NHBC Pride in Job quality awards (2019: 11)
- Order book of £468m (H1 2019: £368m), 27% ahead of last year

[1] Reservations and exchanged contracts at 30 June 2020 on units which are due to complete in the next 12 months

Covid-19 update

With the safety of our employees, customers and subcontractors at the forefront of our minds and following revised government guidelines of 23 March 2020, our construction sites, sales centres and offices closed at that time. We used the April lockdown period to plan carefully for a re-start to enable the Group's working practices to be re-designed. Detailed restart plans were individually tailored for the different working environments of our construction sites, sales centres, offices and customer service operations.

We re-started construction activities on 11 May in England on a phased basis and our Scottish sites following on 15 June. Our construction sites in Scotland and England are operating in accordance with the charters agreed between the industry and the UK and Scottish governments respectively which provide guidance on social distancing and protective measures. A site induction app was developed in-house and launched in time to inform our returning subcontractors of our new Covid-19 compliant working practices. Day to day compliance is strictly monitored by a designated marshal on each construction site. We had estimated that social distancing based on a minimum distance of two metres could have increased build programmes by four weeks. However, with the change to the applicable guidance "one metre plus", this extension has been avoided.

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 which has enabled the Group to launch new initiatives post lockdown benefiting customers, suppliers and our workforce. These include online "live chat" with customers, virtual customer meetings, site induction app, an updated order call-off process and value engineering savings on recently acquired sites.

During the lockdown period, we fully utilised the variety of remote selling tools at our disposal, including virtual tours of showhomes and the ability to reserve online. Our sales centres re-opened on 21 May in England and 29 June in Scotland. Social distancing measures have been incorporated in our sales centres and showhomes, with customers also required to book an appointment in advance of visiting our sales centres. Our online sales capability is best encapsulated by a reservation taken following a virtual sales meeting with a member of the Armed Forces whilst serving in Afghanistan.

Summary of half year result

We completed 925 homes (H1 2019: 1,684 homes) in the first six months of the year, which is significantly down on last year and is a direct consequence of Covid-19. At Week 11, the order book for the half year was 1,515 units, and based on this, we were anticipating half year volumes to increase to around 1,700 units. Ultimately, the outturn was significantly lower due to the suspension of construction activity, preventing homes which had been reserved or exchanged from being finished. The vast majority of sales originally anticipated to complete in Quarter 2 have now moved to Quarter 3, benefiting the order book accordingly. The reduction in half year volumes has led to operating profit falling to £32.4m (H1 2019: £77.8m), with £41.5m of this shortfall occurring in Quarter 2 which was more greatly affected by the lockdown.

Revenue was 44% down on last year at £217.1m (H1 2019: £389.2m). This reflects a 44% fall in core completions with an average selling price ("ASP") unchanged at £243,000. An increase in the proportion of lower value affordable homes sold in the period to 28% (H1 2019: 22%) was offset by an increase in private ASP to £289,000 (H1 2019: £281,000) and affordable ASP to £125,000 (H1 2019: £108,000).

Gross profit decreased to £51.3m (H1 2019: £98.0m) with gross margin falling to 23.6% (H1 2019: 25.2%). The gross margin reduction reflects a combination of cost inflation and the sales mix in Quarter 2 having a lower percentage of completions coming from higher margin sites. Administrative expenses have fallen to £20.5m (H1 2019: £22.7m) which primarily reflects the inclusion of a staff bonus cost in the prior year.

Half year sales performance

We entered 2020 with an order book which was 10% ahead of the prior year and we had built upon this strong position during the first 11 weeks of the year with the net private sales rate being 11% ahead of the comparable prior year period.

With lockdown taking effect from week 12 and our sales centres in England only re-opening on 21 May, unsurprisingly we experienced a reduction in gross reservations during this period. Demand in the eight weeks since the re-opening of our sales offices in England has been extremely positive, with net private sales rates running at 0.69 per site/week, just 3% down on last year. This is very encouraging not least because Scotland, which accounts for around 30% of the Group's private volumes, has only had its sales centres open for two of this eight week period. Cancellations are running at higher levels than in the previous year on re-opening and are reflected within the net private sales rate of 0.69. Encouragingly, 64% of these cancelled units have been re-reserved which demonstrates the underlying demand from customers returning to the housing market post lockdown. Sales prices have remained firm both pre and post lockdown.

Our landbank

We adopted a cautious approach to land buying as we assessed the impact of Covid-19 on the wider market. Accordingly, the number of site acquisitions in the first half year was down on the prior year, with only 3 sites and 445 plots (H1 2019: 12 sites and 2,090 plots) being acquired. Our net land spend in the period fell to £59m (H1 2019: £126m) and demonstrates the levers available to the Group to control land activity and associated spend. Since re-opening from lockdown, the Group has been actively pursuing a number of land opportunities.

The owned landbank at 30 June is 10,294 plots (Dec 2019: 10,718 plots) with 94 sites (Dec 2019: 99 sites) at an average plot cost of £49,000 (Dec 2019: £48,000). Together with the controlled landbank of 3,708 plots (Dec 2019: 2,915 plots) the Group has an overall consented landbank of 14,002 plots (Dec 2019: 13,633 plots). This represents 5.4 years' supply based on volumes over the preceding 12 months. The consented landbank is further supported by the longer term strategic landbank of 19,649 plots (Dec 2019: 20,035 plots) which represents 7.5 years' supply.

Cash and liquidity

The Group has for some time adopted a prudent approach to liquidity and headroom levels. On entering lockdown at the end of Quarter 1, the Group had net cash of £112m which reduced during lockdown, such that cash at 30 June is £92m. This is supported by an undrawn RCF, which was increased by £21.5m to £151.5m during Quarter 2. On 27 July, a £160m private placement was concluded, the purpose of which was to repay £110m of Senior Secured Floating Rate Notes and to take advantage of emerging land opportunities. This transaction also resulted in an extension in the maturity of our senior secured debt with the new Senior Secured Notes due in October 2024, one year later than the Senior Secured Floating Rate Notes. Our revised senior secured debt post this transaction is £404m Senior Secured Notes (due October 2024) and £51m Senior Secured Floating Rate Notes (due October 2023).

Outlook

We have been very encouraged by the level of customer interest following the re-opening of our sales centres in May, with our key lead indicators of customer leads and visitors having increased by 57% and 21% respectively on the prior year period. This level of interest is translating into higher gross reservations and an order book which is 27% higher than last year. Selling prices have continued to remain firm since re-opening. The longer term impact on consumer confidence and the UK economy arising from the Covid-19 pandemic is uncertain. However, we remain confident in the merits of our regional model focussed on quality family homes providing good internal and outdoor space in suburban locations, where relative affordability continues to remain favourable when compared to London and the South-East.

Chris Endsor
Chief Executive

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CONSOLIDATED INCOME STATEMENT
for the half year ended 30 June 2020

	6 months ended 30 June 2020 £m	**6 months ended 30 June 2019 £m**
Revenue	217.1	389.2
Cost of sales	(165.8)	(291.2)
Gross profit	51.3	98.0
Other operating income	0.7	0.8
Administrative expenses	(20.5)	(22.7)
Group operating profit	31.5	76.1
Share of result in joint ventures	0.9	1.7
Operating profit	32.4	77.8
Finance costs	(25.7)	(23.1)
Finance income	0.5	0.6
Net finance costs	(25.2)	(22.5)
Profit before taxation	7.2	55.3
Income taxes	(1.4)	(10.4)
Profit for the year	**5.8**	**44.9**

Completions	**Units**	**Units**
Private	640	1,247
Affordable	249	353
Core	889	1,600
Joint venture	36	84
Total	925	1,684

NET DEBT AND LEVERAGE

	30 June 2020 £m	31 March 2020 £m	30 June 2019 £m
Cash	92.2	242.3	65.7
RCF drawings	-	(129.6)	-
Senior secured notes	(405.0)	(405.0)	(405.0)
Net debt	**(312.8)**	**(292.3)**	**(339.3)**
Net leverage (net debt / LTM EBITDA)	2.5x	1.7x	2.1x
Net LTV% (net debt / net inventory)	44%	40%	50%

	£m	£m	£m
Land WIP	515.1	527.0	475.6
Development WIP	317.4	326.2	296.6
Part exchange WIP	16.0	18.3	21.2
Total inventory	848.5	871.5	793.4
Land creditors	(134.8)	(139.0)	(114.1)
Net inventory	**713.7**	**732.5**	**679.3**
Underlying ROCE	20%	28%	31%

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EBITDA TO FREE CASH FLOW RECONCILIATION

for the 12 months ended 30 June 2020

	12 months ended 30 June 2020 £m	**12 months ended 30 June 2019 £m**
EBITDA	**126.8**	**158.3**
Net land investment in excess of cost of sales	(30.9)	(59.0)
Development spend in excess of cost of sales	(60.2)	(57.7)
Change in working capital	14.4	(8.6)
Other[1]	14.1	8.5
Free cash flow[2]	**64.2**	**41.5**
Cash conversion (%)	*50.6%*	*26.2%*
Net land spend (included in cost of sales)	122.2	129.6
Net land investment in excess of cost of sales	30.9	59.0
Total net land spend	**153.1**	**188.6**
Free cash flow pre net land spend	**217.3**	**230.1**
Cash conversion pre net land spend (%)	*171.4%*	*145.4%*

[1] Includes cash flows for JVs, shared equity loan receivables, part exchange and sundry items, to the extent not already included in EBITDA

[2] 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.

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KEY SALES INDICATORS

	Pre-lockdown Wks 1-11	Shut-down Wks 12-20	Re-opening Wks 21-28	YTD 2020	YTD 2019
Average sales outlets	82	83	83	83	82
Private sales rate per outlet per week (net of cancellations)	0.83	0.16	0.69	0.57	0.72
Prior year private sales rate	0.75	0.69	0.72	0.72	
Cancellation rate	14%	45%	26%	22%	15%
Average cancellations per week (units)	12	10	20	14	10

	March 2020	June 2020	% change March 2020 to June 2020	June 2019	% change June 2019 to June 2020
Order book units (total)	2,230	2,599	+16.5%	1,941	+33.9%
Order book units (next 12 months)	1,749	1,891	+8.1%	1,611	+17.4%
Order book value (total) £m	475	560	+17.8%	409	+36.8%
Order book value (next 12 months) £m	415	468	+12.9%	368	+27.2%
% of total order book exchanged (by units)	65%	64%	(1.0%)	62%	+2.0%
% of total order book exchanged (by value)	50%	49%	(1.0%)	47%	+2.0%

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Further enquiries:

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- For 85 years, Miller Homes has established a reputation for building outstanding quality family homes and providing forward thinking customer service. The company is committed to building homes safely, in a way which is considerate to the environment.
- Miller Homes has a particular focus on suburban locations in regional markets outside London and the South-East.
- In 2019, Miller Homes completed a total of 3,498 homes, of which 170 were from joint ventures. We operate across three divisions – Scotland (841 completions), North of England (1,328 completions) and Midlands & South England (1,329 completions).
- Achieved 5 star status in the HBF National New Home Customer Satisfaction Survey for eight of the last nine years.
- Miller Homes has c1,000 employees.
- Further information is available by visiting www.millerhomes.co.uk