25 March 2021

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MILLER HOMES GROUP HOLDINGS plc

Full year results for the year ended 31 December 2020

A strong performance and well positioned for 2021

Chris Endsor, Chief Executive, commented:

"I am immensely proud of the entire Miller team for their resilience, fortitude and professionalism in dealing with the many COVID-19 related challenges which persisted for the majority of the year. We fully supported both our own staff and our subcontractor workforce to enable us to continue to operate safely and in line with government guidance whilst simultaneously delivering high levels of customer satisfaction.

As a consequence of lower volumes caused by the first national lockdown in March, our operating profit reduced to £115m (2019: £168m). However, the market was incredibly resilient following the restart of operations in May, and our private sales rate for the second half of the year was 28% ahead of the prior year. Careful cash management, proactive digital sales and marketing campaigns, and our conservative capital structure, ensured we ended the year with a cash balance of £243m (2019: £140m) and record forward sales of £560m (2019: £328m).

Our dedicated teams and careful planning helped to mitigate the impact of both the national lockdown and the continued constraints throughout 2020, laying the foundations for an excellent financial performance in the second half of the year. This in turn has culminated in a record forward sales position for the Group, enabling us to enter 2021 with a strong pipeline of high quality land opportunities."

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2020	**Year ended 31 December 2019**	**Change**
Completions	2,620	3,498	-25%
Revenue	£665m	£841m	-21%
Gross profit (*)	£157m	£211m	-26%
Gross margin (*)	23.6%	25.0%	-140bps
Operating profit (*)	£115m	£168m	-32%
Operating margin (*)	17.3%	20.0%	-270bps
Free cash generated	£92m	£84m	+10%
Return on capital employed (*)	20.0%	31.0%	-1,170bps
Forward sales	£560m	£328m	+71%

(*) Adjusted for an exceptional item of £4.3m

- Housing completions down by 25% to 2,620 homes (2019: 3,498 homes) due to the impact of construction output ceasing during the first national lockdown in Quarter 2
- Lower completions led to a fall in operating profit to £115m (2019: £168m)
- Robust sales market despite the challenges arising from COVID-19 with the private sales rate unchanged at 0.64 (2019: 0.64)
- Free cash generated of £92m, 10% ahead of last year and a record for the Group
- Record forward sales of £560m (2019: £328m), 71% ahead of last year
- Continued investment in land and successful promotion of strategic land has led to an 8% increase in consented landbank to 14,667 plots (2019: 13,633 plots) and a 4% increase in the strategic landbank to 20,776 plots (2019: 20,035 plots)

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OPERATIONAL HIGHLIGHTS

- Working practices and workplaces re-designed as a result of the COVID-19 pandemic with construction sites operating in line with government guidance
- HBF Customer Satisfaction Survey 5-star rating awarded for 9 out of the last 10 years
- Market leading online reservation platform which accounted for 41% of 2020 private reservations
- New product range provides flexible internal layouts to support a shift in homebuyers' priorities, including home working
- New customer option range allows personalisation and can be selected and viewed by our customers in their dedicated My Miller Homes portal on the website
- Third consecutive year of improvement in our NHBC Construction Quality Reviews to 4.2
- No additional financial support received from government COVID-19 schemes, aside from the CJRS furlough scheme whereby the initial grant received has subsequently been fully repaid
- Staff continued to be paid 100% of basic salary throughout the year

Further enquiries:

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- For over 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.
- In 2020, Miller Homes completed a total of 2,620 homes. We operate across three divisions – Scotland (625 completions), North of England (1,021 completions) and Midlands & South England (974 completions).
- Achieved 5 star status in the HBF National New Home Customer Satisfaction Survey for nine of the last 10 years.
- Miller Homes has c1,000 employees.
- Further information is available by visiting www.millerhomes.co.uk

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25 March 2021

Chief Executive's Review

Our response to COVID-19

With the safety of our employees, customers and subcontractors at the forefront of our minds and following revised government guidelines on 23 March, our construction sites, sales centres and offices closed during that week. 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 re-start 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 a phased basis on 11 May in England and our Scottish sites followed on 15 June. Our sales centres re-opened on 21 May in England and 29 June in Scotland. Social distancing measures were introduced in our sales centres and show homes, with customers also required to book an appointment in advance of visiting our sales centres. Our construction sites in England and Scotland operate 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.

The vast majority of office based staff were able to continue to work effectively from home and perform their normal tasks as well as focus on business improvement opportunities, enabling the Group to launch new initiatives post lockdown benefiting customers, suppliers and our people. These included online "live chat" with customers, virtual customer meetings, a site induction app, an updated order call-off process for materials to construction sites and value engineering savings on recently acquired sites.

With 65% of employees furloughed during the second quarter, the Group initially participated in the Government's Coronavirus Job Retention Scheme (CJRS). However, in light of the positive trading environment in the second half of the year, we made the decision in December 2020 to return 100% of the £2.2m of funds received. I would like to take this opportunity to thank all staff for their contribution in addressing the challenges arising from COVID-19. The commitment of our teams to support our customers, subcontractors and colleagues has been truly inspiring.

Summary of performance

Understandably, our financial performance was impacted by the first national lockdown which took effect from March through to May (in England) and June (in Scotland). The resultant loss of construction output during the second quarter led to a 25% reduction in new homes sold to 2,620 (2019: 3,498) which in turn meant operating profit fell by 32% to £115m (2019: £168m). Remarkably, our private sales rate as measured by net reservations per site per week was unchanged at 0.64 (2019: 0.64) and provides tangible evidence of the resilience of the market during a very challenging year.

The impact of the first national lockdown, resulted in revenue falling by 21% to £665m (2019: £841m). This was largely due to a reduction in new home revenue to £663.5m (2019: £830.0m) with other revenue also lower at £1.3m (2019: £11.4m). The fall in revenue from new home sales reflected a 24% decrease in core completions to 2,544 (2019: 3,328) which was offset by a 5% increase in ASP. Of the 784 unit reduction in core completions, just under 80% of this occurred in the second quarter when the lack of production activity prevented plots which had either been reserved or exchanged from being completed and in turn sold. Private completions fell by 26% to 1,955 (2019: 2,652) with affordable unit completions down by 13% to 589 (2019: 676).

In 2020, 58% (2019: 48%) of all private reservations were made without recourse to either part exchange or Help to Buy. Help to Buy sales represented 36% (2019: 35%) of private reservations and 36% (2019: 32%) of private new home revenues. On entering the first national lockdown, we chose to restrict the use of part exchange as an incentive. This, together with subsequent improved sentiment in the housing market, resulted in our use of part exchange falling to 6% (2019: 17%) of private reservations.

ASP increased by 5% to £261,000 (2019: £249,000). This reflected a 7% increase in the ASP of private homes to £303,000 (2019: £284,000) and a 6% increase in the ASP of affordable homes to £121,000, (2019: £114,000) offset by an increase in the proportion of affordable homes sold in the year to 23% (2019: 20%). The 7% increase in private ASP reflected a combination of a 2% increase in unit size to 1,203 sq ft (2019: 1,177 sq ft) and a greater proportion of homes sold in our Midlands and South and Scotland divisions which have above average selling prices.

Gross profit adjusted for exceptional items fell to £157m (2019: £211m) which represented a gross margin of 23.6% (2019: 25.0%). This decline was mainly driven by lower site margins due to cost inflation, lower volumes leading to less efficient absorption of site selling costs and lower profit from shared equity receivables. There was an exceptional charge of £4.3m for non-productive site labour costs incurred during the first national lockdown. These costs would normally have been capitalised in work in progress but due to our construction sites being closed and no production activity during this time, accounting standards dictate that these costs require to be expensed. These costs reflect full salary payments to staff throughout the year with no benefit received from the CJRS following the decision taken to return the grant income initially received.

Operating profit adjusted for exceptional items fell by 32% to £115m (2019: £168m) which represented an operating margin of 17.3% (2019: 20.0%).

Flexible product range supported by engagement with supply chain

A full-scale review of our product range was undertaken in 2019 with roll out in 2020 on our newer sites. As homebuyer priorities shifted during 2020 with increased demand for more flexible living, home working areas and outdoor space, the new product range was further refined to ensure it continues to meets our customers' need whilst maintaining our high standards of design and quality. Additionally, the new product range is quicker to build and more suitable for modern methods of construction, and reduces build costs and waste. To assist our customers, optional upgrades and choices are now available to select online through the My Miller Home area of our website. This improves the customer experience and enhances revenue generation opportunities for the Group.

The Group's key national suppliers are managed by the central procurement team. A key task during the year was to re-engage with suppliers following their return after the first national lockdown to ensure that all materials were delivered to our construction sites with minimal lead-times. An important part of this process was providing our supply chain with full transparency and visibility of our production programmes to give them the confidence to re-start production at levels sufficient to fulfil our orders. In addition, we undertook an extensive re-tender exercise of all 46 commodities procured centrally involving over 150 companies. This was a holistic approach with supplier selection based on quality, service and cost. Our site production teams were involved in this process using the data they provided from the supplier feedback app. We have changed eight suppliers as a result of this exercise which has reduced our cost base, maintained quality and will improve service levels.

Cost inflation during 2020 was around 2%. It is anticipated that inflation for 2021 will be slightly ahead of this figure mainly as a result of above inflation increases in certain commodities, particularly timber and steel based products, with the impact being mitigated by 76% of national supply agreements having fixed prices for the next 12 months.

High levels of quality and customer service

We achieved our HBF 5 Star rating for the ninth out of the last 10 years, which is a huge credit to our customer facing teams particularly given the added challenges to both customer service and construction operations in 2020. Looking ahead, it is likely that the New Homes Ombudsman will be appointed in 2021 in parallel with the New Homes Quality Board issuing a new Code of Practice. I am supportive of these initiatives to enhance the industry's reputation and increase consumer protection to the purchasers of new homes. We are primed to make any required alterations to our existing procedures to ensure full compliance.

It was a challenging year for our customer facing teams not least due to the first national lockdown between March and May which prevented them from visiting customer homes. On re-start from lockdown, the necessary safety measures were put in place and our teams worked tirelessly to reduce the backlog of customer service orders. It was therefore highly satisfying to achieve a customer satisfaction score of 93% and retain our HBF 5 star rating. This represents the ninth time in 10 years that we have achieved a 5 star rating.

The Group measures its performance on build quality and customer service through external inspections and surveys undertaken by the NHBC. The Group uses NHBC as the provider of the 10 year customer warranty on all its developments and independent inspections are carried out at all key build stages. In addition, the NHBC undertakes an annual assessment of construction quality across a maximum of 38 build stages known as Construction Quality Reviews (CQR). Our CQR score stands at 4.2 which is 6% higher than last year and means that 77% of inspections are categorised in the Good to Outstanding categories.

Government policy

Government involvement in 2020 was concentrated on short term demand-side measures to mitigate the impact of COVID-19 and more medium term supply-side measures in response to its environmental agenda. The Government provided significant COVID-19 support measures with the SDLT holiday in July 2020 being the most welcome and further enhanced in the 2021 Budget with an extension to June 2021 and tapered relief until September 2021. This saw the temporary cessation of stamp duty on properties up to a value of £500,000, resulting in a maximum saving of £15,000. With the Group's average selling price of private homes of £303,000, this relief was available to 97% of our homes. The SDLT holiday has clearly stimulated demand although its impact was constrained by production availability.

In August, the Government published its long-awaited response to its consultation on First Homes. Properties sold as a First Home must be marketed and sold at a discount of at least 30% below market value. The scheme will be subject to price caps, income caps and restricted to local residents. These homes will be provided as part of all on-site affordable housing provision secured through the planning process and the lower selling prices will ultimately be factored into land values. The Government's Energy White Paper was published in December and confirmed the introduction of, if not the timeline for, a Future Homes Standard. Changes to Part L/F Building Regulations are likely to be introduced in 2021 which will see either a 31% reduction in emission rates for new properties constructed under this new standard.

The Government published its 'Planning for the Future' consultation which proposes to streamline and modernise the planning process and improve the supply and delivery of new homes. We are supportive of any changes aimed at accelerating planning permissions and are eager to see further details on the proposed changes to the standard methodology for housing need determination at local authority level.

Balance sheet

The Group has a robust balance sheet which is substantially underpinned by a high quality landbank. Despite the challenging year, the Group's net assets still increased by 14% to £378.6m (2019: £332.1m). Capital employed increased by £9.0m to £577.8m (2019: £568.8m) which was a result of net inventory being £27.4m higher. Net inventory represents statutory inventory net of land payable and increased by 4% to £709.7m (2019: £682.3m). The increase in net inventory reflected a decrease in inventories to £808.6m (2019: £834.3m) offset by land payables of £98.9m (2019: £152.0m). The downward movement in land payables is due to the settlement of prior year obligations which have not been fully replaced by new obligations created during the year as a result of lower investment in land following the moratorium on landbuying for part of the year.

Investment in land fell by 5% to £490.6m (2019: £517.3m) which is due to a 2% increase in the owned and unconditional landbank to 10,494 plots (2019: 10.718 plots) and a 3% decrease in the average plot cost to £46,900 (2019: £48,300). The decrease in plot cost was principally due to the purchase of two partnership sites, the cost of which was borne by our housing association partners. As a percentage of ASP, the plot cost is slightly lower than last year at 17.7% (2019: 18.1%). Work in progress has increased by 5% to £310.1m (2019: £296.4m) and reflects increased activity in the final quarter of the year as we seek to monetise the higher forward sales position for 2021. Part exchange inventories have fallen significantly to £6.2m (2019: £20.6m) which reflects a reduction in the intake of new properties as this incentive was used on a more limited basis in the second half of the year.

Land payables represent creditors due in respect of land acquired on deferred terms and occasionally where contracts have been exchanged and the conditions have been satisfied. Land contracts which have been exchanged and where the conditions have yet to be satisfied, represent off-balance sheet contractual obligations to make certain payments if the conditions were satisfied. The estimated value of these contracts is £27.7m (2019: £21.0m). Shared equity loan receivables represent the Group's investment in shared equity loans which were issued during the period 2008 to 2013. Redemptions in the year resulted in the investment in these assets falling to £7.0m (2019: £8.9m). The Group prudently carries its shared equity assets at fair value with a provision of £8.2m (2019: £9.5m) being held against the initial carrying value of £15.2m (2019: £18.4m).

Our people

We measure employee engagement through a triennial external survey and participation in the Investors in People scheme (IIP). In relation to both, we have a 94% positive engagement score and IIP Gold status. The response to challenges created by COVID-19 provided tangible evidence of the commitment, loyalty and dedication of our people. Everyone had to adapt to new working practices irrespective of whether they worked on our construction sites, sales offices or regional offices. At the same time, they had to cope with many personal challenges which they and their families were facing due to COVID-19, whilst looking after our customers, subcontractors and their colleagues. In summary, our employees were truly phenomenal during the last 12 months. I was also delighted that we were able to continue to pay all employees, including those furloughed during the first national lockdown, 100% of base salary throughout the year despite all the challenges.

We quickly recognised the importance of increased staff communication during 2020 in order to keep everyone informed of the changing events during the year as well as being mindful of the many staff who were working from home. We fully utilised our intranet, providing staff with regular updates of business performance as well as the many staff volunteering initiatives to assist with COVID-19. In September, we delivered our first ever Group webinar. Over 550 members of staff attended this live event with an opportunity to put questions to the Executive team. We developed a comprehensive Mental Health strategy in 2019 with around 100 people designated as Mental Health First Aiders. Their support to colleagues was invaluable during the year as many people faced the various challenges created by COVID-19. A flexible working from home policy for our regional offices will be announced in 2021 to coincide with the eventual easing of COVID-19 restrictions.

25 March 2021

Outlook

Despite the challenging year, underlying demand for new homes remained strong and this has ensured that we enter 2021 with record forward sales, a strong pipeline of quality land opportunities and a robust balance sheet.

It will take time to understand the impact of COVID 19 on the housing market. The initial signs are that people are re-evaluating their housing needs, which include city centre versus suburban living as well as a re-assessment of indoor and outdoor space. As a company that sells the vast majority of our homes in regional, edge of urban locations, we are well placed to take advantage of increased consumer demand.

Whilst there is clearly the potential for more uncertainty during 2021, the flexibility of our business model and the decision making of the Board provide assurance in our ability to react appropriately to changing market conditions.

Chris Endsor
Chief Executive

25 March 2021

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2020

	Pre exceptional items 2020 £m	Exceptional items (note 2) 2020 £m	Total 2020 £m	2019 £m
Revenue	**664.8**	**-**	**664.8**	841.4
Cost of sales	**(508.1)**	**(4.3)**	**(512.4)**	(630.7)
Gross profit	**156.7**	**(4.3)**	**152.4**	210.7
Administrative expenses	**(45.6)**	**-**	**(45.6)**	(47.9)
Other operating income	**1.3**	**-**	**1.3**	1.4
Group operating profit	**112.4**	**(4.3)**	**108.1**	164.2
Share of profit in joint ventures	**2.4**	**-**	**2.4**	3.7
Operating profit	**114.8**	**(4.3)**	**110.5**	167.9
Finance costs	**(51.2)**	**-**	**(51.2)**	(46.9)
Finance income	**0.8**	**-**	**0.8**	1.1
Net finance costs	**(50.4)**	**-**	**(50.4)**	(45.8)
Profit before taxation	**64.4**	**(4.3)**	**60.1**	122.1
Income taxes	**(13.3)**	**0.8**	**(12.5)**	(23.1)
Profit for the year	**51.1**	**(3.5)**	**47.6**	99.0