17 March 2020

MILLER HOMES GROUP HOLDINGS plc

Full year results for the year ended 31 December 2019

Strong financial and operational performance underpinned by investment in new sales outlets and resilient regional markets

FINANCIAL HIGHLIGHTS

	2019	2018	Change
Completions	3,498	3,170	+10%
Revenue	£841.4m	£747.0m	+13%
Gross profit	£210.7m	£192.0m	+10%
Gross margin	25.0%	25.7%	-70bps
Operating profit	£167.9m	£151.1m	+11%
Operating margin	20.0%	20.2%	-20bps
Profit before tax	£122.1m	£102.1m	+20%
Return on capital employed	31.5%	33.4%	-190bps

- A successful year of housing completions, up 10%, an increase to 3,498 homes (2018: 3,170 homes)
- Operating profit of £167.9m, up 11% (2018: £151.1m)
- c4,900 plots acquired, 1.4 times higher than 2019 consumption
- 9% increase in consented landbank to 13,633 plots (2018: 12,524 plots)
- 16% increase in the strategic landbank to 20,035 plots (2018: 17,331 plots)
- Record forward sales of £328m (2018: £292m), 12% ahead of last year

OPERATIONAL HIGHLIGHTS

- HBF Customer Satisfaction Survey 5-star rating awarded for 8 out of the last 9 years
- Upper quartile NHBC, Construction Quality Reviews (CQR)
- Staff numbers now exceed 1,000, a 50% increase over the last 5 years
- External survey confirms employee engagement of 94%
- Re-accredited with IIP Gold

OPERATIONAL INITIATIVES AND STRATEGY IN PLACE TO DRIVE FURTHER GROWTH

- MyMillerHome app launched allowing customers greater visibility of their homebuying journey
- Online reservations accounted for 17% of 2019 private reservations up from 8% in 2018
- New Teesside region launched in 2019 ahead of schedule
- Business capacity is now 5,000 units with plans to grow incrementally towards this target
- Appointments of Stewart Lynes as Chief Operating Officer and Warren Thompson as Divisional Managing Director for the North of England, to support planned growth
- New product range to be launched in 2020 driving further operational improvements
- New customer options range to be launched in 2020 with online capability

Chris Endsor, Chief Executive, said:

“I am very pleased to report record our eighth consecutive year of growth, achieved against a challenging political and economic backdrop. Our key operating metrics of operating margin and ROCE compare favourably with our listed peers at 20.0% and 31.5% respectively.

I am proud that we retained an HBF 5 star customer satisfaction rating for the eighth year out of nine and achieved our key people strategy goals in the shape of a 94% employee engagement score and retention of IIP gold status.

Complementing the strong trading performance, we invested £227m (2018: £204m) in land which was a record for the Group. With the launch of the new Teesside region we have increased our overall business capacity to 5,000 homes. To strengthen our executive leadership team, I was pleased to promote Stewart Lynes to the new role of Chief Operating Officer, as well as increasing our workforce by 11% during the year to ensure we have the skills in place to maintain our high levels of customer service and support our growth. Notwithstanding the potential impact from the effects of COVID-19, which at this stage are difficult to quantify, Miller Homes is strongly positioned to grow significantly, and we remain confident about the future."

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.
- 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

Chief Executive's Review

Summary of performance

I am pleased to present our financial performance for the year ended 31 December 2019. Our performance reflects both the resilience of the UK new homes market and the quality of the Group's developments. The significant investment in land in 2017 and 2018 led to a 17% increase in sales outlets which averaged 83 (2018: 71) during the year. Prices were broadly flat during 2019 after taking into account the use of sales incentives. We were satisfied with our sales performance during the year, notwithstanding a small reduction in our sales rate to 0.64 (2018: 0.67) net reservations per site per week.

Our customer profile and presence in Scotland, means that our proportion of Help to Buy sales is typically lower than our listed competitors. This continued to be the case in 2019, with Help to Buy sales representing 35% (2018: 33%) of private reservations and 32% (2018: 30%) of private new home revenues. A slowing second hand market meant that our use of part exchange increased to 17% (2018: 12%) of private reservations. We have strict controls on part exchange both in relation to the acquisition criteria and the onward sale of these properties. As a regional homebuilder whose primary focus is on family homes, sales to investors continue to be a very small percentage of overall sales. In 2019, sales to investors represented 2% (2018: 2%) of private reservations. In this regard, our private sales rate of 0.64 is not distorted by investor or bulk sales.

Revenue was 13% ahead of 2018 at £841.4m (2018: £747.0m). This reflected a 13% increase in core completions to 3,328 units (2018: 2,954 units). Whilst ASP was unchanged at £249,000, this reflected an increase in the proportion of affordable homes sold in the year to 20% (2018: 18%) offset by an increase in private ASP to £284,000 (2018: £281,000).

Gross profit increased by 10% to £210.7m (2018: £192.0m) despite a marginal reduction in gross margin to 25.0% (2018: 25.7%). The increased gross profit has resulted in an 11% increase in operating profit to £167.9 million (2018: £151.1 million). Operating margin fell slightly to 20.0% (2018: 20.2%) which reflects a reduction in gross margin and lower joint venture profits offset by improved overhead recoveries.

Significant investment in our consented and strategic landbanks

There continued to be sufficient land opportunities in our target markets during the year which met our financial criteria. We acquired 30 sites (2018: 28) during 2019. Against the backdrop of Brexit-related uncertainty, our land buying strategy continued to be focused on popular locations where above average sales rates were more likely to be delivered.

The consented landbank increased by 9% to 13,633 plots (2018: 12,524 plots) driven by the owned landbank which grew by 17% to 10,718 plots (2018: 9,174 plots). The acquisition of 4,933 plots (2018: 3,886 plots) at a cost of £227m (2018: £204m) was a record for the Group. The profile of purchases was weighted more to the latter half of the year which will mean that the full benefit of completions from these developments will not be seen until 2021. Our preference is to acquire land with the benefit of a detailed planning permission and 89% (2018: 94%) of the owned landbank had such a consent. All owned land with a detailed planning permission is currently being developed given our focus on capital efficiency.

In addition to the owned landbank, the Group has control over a further 2,915 plots (2018:3,350 plots) which have a minimum of an outline planning consent and are secured by either a conditional contract or option. We target an overall consented landbank of 4-5 years with the owned landbank representing 3-3.5 years' supply supplemented by the controlled landbank of 1-2 years. We believe that this strikes the appropriate balance between security of supply on the one hand and capital efficiency and risk management on the other.

The strategic landbank totals 20,035 plots (2018: 17,331 plots). During the year, we acquired eight sites from our strategic portfolio and entered into 18 new options (2018: 12) to replenish the landbank.

Maximising land efficiency and launching new product ranges

During 2019, we conducted a full-scale review of our product range to ensure it meets our customers' aspirations in relation to both specification and price-point as well as identifying opportunities to value engineer more cost effective designs and maximise land efficiency. An important part of the review was to ensure that each of our housetypes, are sufficiently differentiated from one another, particularly those housetypes with a similar price-point. The standard housetype range meets the requirements of the 62 different planning authorities with whom we have relationships across the country. This is provided by four different elevational styles which will allow our street-scenes to complement existing local housing. The new product range will continue to meet our high quality build standards.

The majority of sites acquired in 2019 will benefit from the new product range being launched during 2020. The roll-out on existing developments will be dictated by those developments with sufficient longevity to justify the changeover. Accordingly, a phased approach will be taken with an estimated 50% of 2021 completions coming from the new product range. The benefit in 2020 from the new product range will be limited to some extent but will help mitigate cost inflation, with a greater benefit coming through in 2021.

To complement our new housetypes and to enhance further our service to customers, a new range of customer options and upgrades will be available in early 2020. These will be able to be purchased online from the convenience of our customers' home and builds on the success of our online reservation offering.

Leaders in quality and customer service

The Group is committed to providing industry leading levels of build quality and customer service. I have always believed that it is incumbent upon everyone within the industry to provide customers with both the product and service that is deserving of the largest purchase in their lifetime. Publicised cases of customer complaints have led to the sector coming under increased scrutiny and I sit on the HBF committee tasked with liaising with the UK Government to agree on appropriate measures to address concerns. The new UK Government, has said that a new homes ombudsman will be appointed. I welcome this measure to drive up overall industry standards and we will continue to adapt our procedures to ensure we fully comply with any new regulations.

Our success is measured independently by the National House Building Council through our participation in the HBF National New Home Customer Satisfaction Survey in which we achieved a 93% satisfaction rating and retained our 5 star status for the eighth year out of nine.

We were the first major homebuilder to launch online reservations in 2017 and have since seen a steady increase in the utilisation of this feature which allows customers to reserve online outside the normal opening hours of sales centres. In 2019, online reservations represented 17% (2018: 8%) of all private reservations, with just under 60% of these reservations being made outside our normal opening hours.

Impact of leaving the EU

Around 90% of the housebuild materials sourced by our central procurement team are manufactured in the UK with the main exceptions being garage doors, ceramic tiles and kitchen appliances. A comprehensive review of our supply chain was undertaken to identify any indirect exposure to imports arising from our supply chain purchasing its raw materials from abroad. The key risk identified was timber based components such as roof trusses, chipboard flooring, joists and internal doors. For those suppliers identified as having the greatest Brexit exposure, discussions took place to understand stock levels and contingency plans. Advance ordering and purchasing was initiated on a limited basis. A further Brexit related issue is the extent of any loss of labour stemming from the UK leaving the EU. The majority of our production labour is supplied via subcontractors and as a national homebuilder with a non-London / limited South-East presence, we believe that our reliance on EU labour is low at c10%, with the vast majority of the subcontract workforce being UK nationals.

Supportive housing policy

The Government has confirmed that it remains committed to delivering at least one million new homes in the next five years, making further progress towards its target of 300,000 new homes a year by the mid-2020s. This is to be achieved by the continued use of Help to Buy through to 2023, tackling inefficiencies in the planning system and through the introduction of the First Home Scheme, under which homes will be sold at a 30 per cent discount to local first-time buyers. This scheme is to be implemented through changes to the National Planning Policy Framework with the discount offered to local first-time buyers being locked into the property in perpetuity.

Balance sheet

Capital employed increased to £715.0m (2018: £658.9m), of which £146.2m relates to intangible assets. The increase in capital employed reflects higher net inventory (after deduction of land payables) which has risen by £80.3m to £682.3m (Dec 2018: £602.0m).

During the year, the Group added 30 sites and 4,933 plots to the owned landbank. The owned landbank at 31 December 2019 increased by 17% to 10,718 plots (2018: 9,174) plots with a gross development value of £2.9bn (2018: £2.4bn). All owned land with a detailed planning permission is being developed. In addition, the Group has a further 2,915 plots under its control which leads to an overall consented landbank of 13,633 plots (2018: 12,524 plots) and represents 4.1 years' supply.

The Group generated £84.0m (2018: £81.7m) of free cash flow which resulted in the year end cash balance increasing to £139.8m (2018: £98.6m) notwithstanding a significant increase in net land spend to £220.4m (2018: £147.0m). Net external debt fell by 16.1% to £251.5m (2018: £299.9m) and the Group continues to have secure long term funding through to 2023.

Covid-19 (Coronavirus)

The welfare of our employees and our customers is paramount, and to that end we are closely monitoring government guidance on the appropriate response to coronavirus, and taking action accordingly. As of mid-March we have not discerned any notable impact on our business – from the perspective of visitor levels and sales rates. However, we are well aware that this is an evolving and uncertain situation.

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Our people

2019 was a year of political and economic disruption but one in which the qualities of our business shone through. We delivered on various fronts including customer satisfaction, build quality, land investment and trading performance. A company cannot grow without investment in training and developing its people. We have introduced a new internal employee common purpose “We create great places where people prosper” and we support, encourage and are committed to training and investing in the growth of our teams. 2019 was a great team effort and I am genuinely proud to lead this business. I would like to thank all our staff and all other stakeholders for their valued contribution and look forward to delivering further growth in 2020.

Chris Endsor
Chief Executive

miller homes

17 March 2020

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Revenue		841.4	747.0
Cost of sales		(630.7)	(555.0)
Gross profit		210.7	192.0
Other operating income		1.4	1.9
Administrative expenses		(47.9)	(47.9)
Group operating profit		164.2	146.0
Share of result in joint ventures		3.7	5.1
Operating profit		167.9	151.1
Finance costs	*1*	(46.9)	(51.1)
Finance income		1.1	2.1
Net finance costs		(45.8)	(49.0)
Profit before taxation		122.1	102.1
Income taxes		(23.1)	(19.2)
Profit for the year		**99.0**	**82.9**

Notes

1. Finance costs	**2019 £m**	**2018 £m**
Interest payable on senior secured notes, bank loans and overdrafts	27.4	28.2
Interest payable on amounts owed to immediate parent company	12.0	14.4
Imputed interest on land payables on deferred terms	6.8	8.0
Finance costs related to employee benefit obligations	0.3	0.5
Imputed interest on lease liabilities	0.4	-
	46.9	**51.1**