miller homes

01 March 2022

MILLER HOMES GROUP HOLDINGS plc

Board Changes and Trading Update

- Stewart Lynes to be promoted to CEO
- Chris Endsor to become Executive Chairman

Miller Homes (the "Company"), one of the UK's leading homebuilders, is pleased to announce that Stewart Lynes is to be appointed as Chief Executive Officer, succeeding current CEO Chris Endsor, who will become Executive Chairman. These changes will be effective from the end of March 2022.

Stewart will assume responsibility for the overall management of the business. Having joined Miller Homes 15 years ago as Commercial Director, Stewart has held various senior positions during that time including Chief Operating Officer since 2019. He has consistently demonstrated his passion and enthusiasm along with his ability to help drive the successful delivery of the company's strategy and track record.

Chris Endsor will step up to the role of Executive Chairman, with responsibility for leadership of the Board, and work closely with Stewart to develop and support the Company's strategy for future growth.

Commenting on the changes, Chris Endsor, Executive Chairman, said: "This is a very exciting time for the business and these changes have been planned for some time as we move into the next phase of our growth strategy. Stewart is an exceptional leader, and the unanimous choice for the role of CEO and we have every confidence in him. I look forward to continuing working closely with him and all of our team as Executive Chairman as Miller enhances its position as a leading UK homebuilder of quality family homes."

"I would also like to express my sincere gratitude to John White who will step down as Chair from the end of March, for his support and commitment to Miller Homes over the last four years. I and the Board wish him well for the future."

Stewart Lynes, Chief Executive Officer, added: "It will be a privilege to be stepping up to CEO at an important time for Miller Homes. We have an exceptional team and our position as one of the country's leading homebuilders means we are well placed to continue our strong performance trajectory. I look forward to leading the business and continuing our strategy of building high quality homes in our core regional markets and creating value for all of our stakeholders."

Trading update

Miller completed 3,417 homes (2020: 2,200 homes) in the 11 months ended November 2021, which is 55% ahead of the prior year period. This comprised core completions of 3,351 homes (2020: 2,132 homes) and joint venture completions of 66 homes (2020: 68 homes). Private completions of 2,534 homes (2020: 1,646 homes) represented 76% (2020: 77%) of core completions, with the balance derived from the sale of affordable homes. Over the 12 months period to November 2021, we completed 3,837 units, comprising 2,843 private units, 920 affordable units and 74 joint venture units.

Revenue was 68% up on the prior year period at £930.7m (2020: £555.0m) which reflects (1) a 57% increase in core completions, (2) a 6% increase average selling price ("ASP") from £260,000 to £275,000 and (3) an increase in land sale revenues from £1.3m in 2020 to £7.7m in 2021.

The increase in ASP was primarily due to an increase in house prices driven by heightened consumer demand. The ASP of £275,000 (2020: £260,000) reflects a similar increase in private ASP to £319,000 (2020: £301,000) with the ASP of affordable homes increasing by 15% to £139,000 (2020: £121,000) due largely to locational mix.

Gross profit increased by 81% to £227.1m from £125.5m. Gross margin increased to 24.4% from 22.6% reflecting higher margins from new site launches and the impact of house price inflation that outpaced cost inflation. Reflected within gross profit was an exceptional charge of £5.5m (2020: £4.3m) for potential cladding costs, with the prior year item relating to non-productive site labour costs incurred whilst our site operations were closed during Quarter 2 2020.

Administrative expenses have increased by 43% to £59.7m (2020: £41.7m) primarily as a result of higher staff incentive costs and an exceptional charge of £4.0 million relating to costs associated with the strategic review undertaken during the year.

Operating profit in the period was £170.7m (2020: £87.1m). EBITDA in the period was marginally higher at £173.0m (2020: £89.6m) with EBITDA for the 12 month period being £196.6m. After adjusting for exceptional items of £9.5m, LTM EBITDA increased to £206.1m.

Sales performance

We entered 2021 with forward sales of £560m representing 2,152 units or 56% of FY21 actual completions. Supported by a private reservation rate of 0.85 reservations per site per week which is a record for the Group, we have increased our 2022 forward sales to £665m and compares to overall revenues of £1,046m for 2021. This reflects 2,507 units which compares to 3,849 units or 65% of full year completions in 2021. It was particularly pleasing to have delivered this level of forward sales whilst reducing our reliance on incentives, particularly Help to Buy. In both 2019 and 2020, Help to Buy sales represented 36% of private reservations. This fell to 10% from April 2021 due to changes to the scheme in England which saw the introduction of regional price caps and it being available exclusively to first time buyers.

The sales market continued to be strong throughout the year and combined with our forward selling strategy this resulted in achieved prices being on average 5% higher than the prior year.

Supply chain and cost environment

We have around 100 national supply agreements covering all key commodities and components necessary to build our homes. These are managed diligently by our central procurement team which has a triple focus on quality, cost certainty and visibility of supply. The management of our supply chain has been a key focus area for the Group particularly over the last year**.** Despite the ongoing challenges of the pandemic in 2021, it is worth noting that our production output is c10% ahead of 2019 (ie the last year unaffected by COVID-19). To have managed the impact of staff absenteeism due to COVID-19 self-isolation guidance and longer delivery times for certain commodities is testimony to the strength and fortitude of our production and procurement teams.

The impact of cost inflation in 2021 has been similar to house price inflation at around 5%. Our cost base is such that cost inflation applies to just over 75% of our costs which equates to 55% of selling price. The remaining costs relate to land and planning gain which represent 20% of selling price. The combination of house price and cost inflation running at similar levels and the circa 2:1 relationship between selling price and costs susceptible to inflation has been accretive to margins.

In December 2021, we purchased Walker Timber Limited ("Walker Timber"), a timber manufacturing and supply company based in Bo'ness, West Lothian. Our plan is that over the next 24 months, the vast majority of timber kits for our Scotland division will be sourced from Walker Timber, in turn ensuring continuity of supply and price certainty. The initial purchase consideration was £17.8m with pro forma EBITDA of £2.5m.

Our landbank

The owned landbank at 30 November 2021 increased to 11,087 plots (Dec 2020: 10,494 plots). It has a net book value of £785m and an average plot cost of £42,000 (Dec 2020: £46,000). The reduction in our plot cost is largely a function of an increase in the proportion of land converted from the strategic landbank which at 30 November 2021 was 36% (2020: 27%). The controlled landbank comprises 3,505 plots (Dec 2020: 4,173 plots) at a net book value of £8m. The combination of the owned and controlled landbanks results in an overall consented landbank of 14,592 plots (Dec 2020: 14,667 plots), representing 3.9 years of supply.

The consented landbank is further supported by the longer term and higher margin strategic landbank of 38,787 plots representing 10.3 years of supply (Dec 2020: 20,776 plots) at a net book value of £25m. The majority of this increase is due to the acquisition of Wallace Land in May 2021 which added 17,415 to the strategic landbank.

An analysis of our consented and strategic landbanks by Division is set out below:

	Consented Landbank Plots	**Strategic Landbank Plots**
Scotland	2,333	17,034
North	5,551	9,492
Midlands & South	6,708	12,261
Total	**14,592**	**38,787**

The Group has a high value and well invested landbank which has strong cash generation potential. The owned landbank at 31 December 2021 of 12,057 plots has a GDV of £3.4bn (Dec 2020: £2.8bn). After deducting remaining estimated development costs to complete all developments in the owned landbank of £1.7bn and land payables of £0.1bn, the residual proceeds from the buildout of the owned landbank (based on December 2021 estimated revenues and costs) is £1.6bn. In addition, the net option value of the average 15% discount to market value in the Group's strategic landbank is a further £0.3 billion. In total, this comprises £1.9bn of embedded landbank value and compares to the Net Inventory figure of £746m at 31 December 2021 and £770m at 31 January 2022.

Cash and liquidity

Our net debt position at 30 November 2021 was £200.1m comprising senior secured notes (£404.0m) offset by cash (£195.6m) and deferred financing costs (£8.3m). The reduction in senior secured notes from our previously reported figure of £455m followed the repayment of all remaining floating rate notes in November 2021. As a consequence of significant land buying activity and the Walker Timber acquisition, our year end cash was lower at £161.0m and and our cash as of the date hereof may be different due to, among other things, interim trading, the timing of ordinary course land purchases, and working capital payments.

Chris Endsor
Executive Chairman

Consolidated and condensed income statement for the 11 months ended 30 November 2021

	11 months to 30 November 2021 £m	11 months to 30 November 2020 £m	12 months to 31 December 2020 £m
Revenue	**930.7**	555.0	664.8
Cost of sales (including 2021 exceptional items of £5.5m (Nov and Dec 2020: £4.3m))	**(703.6)**	(429.5)	(512.4)
Gross profit			
Pre-exceptional items	**232.6**	129.8	156.7
Exceptional items	**(5.5)**	(4.3)	(4.3)
	227.1	**125.5**	**152.4**
Other operating income	**1.0**	1.2	1.3
Administrative expenses (including 2021 exceptional items of £4.0m (Nov and Dec 2020: £nil))	**(59.7)**	(41.7)	(45.6)
Group operating profit			
Pre-exceptional items	**177.9**	89.3	112.4
Exceptional items	**(9.5)**	(4.3)	(4.3)
	168.4	**85.0**	**108.1**
Share of result in joint ventures	**2.3**	2.1	2.4
Operating profit			
Pre-exceptional items	**180.2**	91.4	114.8
Exceptional items	**(9.5)**	(4.3)	(4.3)
	170.7	**87.1**	**110.5**
Finance costs	**(38.8)**	(46.0)	(51.2)
Finance income	**0.7**	0.7	0.8
Net finance costs	**(38.1)**	(45.3)	(50.4)
Profit before taxation			
Pre-exceptional items	**142.1**	46.1	64.4
Exceptional items	**(9.5)**	(4.3)	(4.3)
	132.6	**41.8**	**60.1**
Income taxes (including tax credit on exceptional items of £1.8m (Nov and Dec 2020: £0.8m))	**(27.9)**	(8.6)	(12.5)
Profit for the period			
Pre-exceptional items	**112.4**	36.7	51.1
Exceptional items	**(7.7)**	(3.5)	(3.5)
	104.7	33.2	47.6

Consolidated and condensed statement of comprehensive income for the 11 months ended 30 November 2021

	11 months to 30 November 2021 £m	11 months to 30 November 2020 £m	12 months to 31 December 2020 £m
Profit for the period	**104.7**	33.2	47.6
Items that will not be reclassified to profit and loss:			
Actuarial gain/(loss) on retirement benefit obligations	**3.7**	(1.4)	(1.4)
Deferred tax (charge)/credit on actuarial movement	**(1.3)**	0.3	0.3
Total comprehensive income for the period attributable to owners of the parent	**107.1**	32.1	46.5

Consolidated and condensed statement of changes in equity

For the 11 months ended 30 November 2021	**Share capital £m**	**Retained earnings £m**	**Total £m**
Balance at 31 December 2020	151.0	227.6	378.6
Profit for the period	-	104.7	104.7
Actuarial gain on retirement benefit obligations (net of deferred tax)	-	2.4	2.4
Balance at 30 November 2021	**151.0**	**334.7**	**485.7**

For the 11 months ended 30 November 2020			
Balance at 31 December 2019	151.0	181.1	332.1
Profit for the period	-	33.2	33.2
Actuarial loss on retirement benefit obligations (net of deferred tax)	-	(1.1)	(1.1)
Balance at 30 November 2020	**151.0**	**213.2**	**364.2**

For the year ended 31 December 2020			
Balance at 31 December 2019	151.0	181.1	332.1
Profit for the year	-	47.6	47.6
Actuarial loss on retirement benefit obligations (net of deferred tax)	-	(1.1)	(1.1)
Balance at 31 December 2020	**151.0**	**227.6**	**378.6**

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Consolidated and condensed statement of financial position as at 30 November 2021

	30 November 2021 £m	31 December 2020 £m
Non-current assets		
Intangible assets	**146.2**	146.2
Property, plant and equipment	**1.3**	1.5
Right of use assets	**6.2**	6.6
Investments	**4.5**	10.3
Retirement benefit obligations	**6.1**	-
Shared equity loan receivables	**4.7**	7.0
	169.0	171.6
Current assets		
Inventories	**819.9**	808.6
Trade and other receivables	**35.1**	22.2
Cash and cash equivalents	**195.6**	242.8
	1,050.6	1,073.6
Total assets	**1,219.6**	1,245.2
Non-current liabilities		
Interest bearing loans and borrowings	**(395.7)**	(588.2)
Trade and other payables	**(38.9)**	(44.5)
Lease liabilities	**(4.7)**	(5.0)
Deferred tax	**(9.1)**	(2.3)
Retirement benefit obligations	**-**	(13.8)
Provisions and deferred income	**(12.5)**	(2.7)
	(460.9)	(656.5)
Current liabilities		
Trade and other payables	**(271.3)**	(208.4)
Lease liabilities	**(1.7)**	(1.7)
	(273.0)	(210.1)
Total liabilities	**(733.9)**	(866.6)
Net assets	**485.7**	378.6
Equity		
Share capital	**151.0**	151.0
Retained earnings	**334.7**	227.6
Total equity attributable to owners of the parent	**485.7**	378.6

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Consolidated and condensed cash flow statement for the 11 months ended 30 November 2021

	11 months to 30 November 2021 £m	11 months to 30 November 2020 £m	12 months to 31 December 2020 £m
Cash flows from operating activities			
Profit for the period	**104.7**	33.2	47.6
Depreciation	**2.3**	2.5	2.7
Finance income	**(0.7)**	(0.7)	(0.8)
Finance cost	**38.8**	46.0	51.2
Share of post tax profits from joint ventures	**(2.3)**	(2.1)	(2.4)
Taxation	**27.9**	8.6	12.5
Operating profit before changes in working capital	**170.7**	87.5	110.8
Working capital movements:			
Movement in trade and other receivables	**(10.3)**	1.7	0.3
Movement in inventories	**(0.4)**	9.6	21.3
Movement in trade and other payables and provisions	**49.3**	(35.4)	(48.5)
Cash generated from operations	**209.3**	63.4	83.9
Interest paid	**(26.2)**	(24.7)	(24.8)
Corporation tax paid	**(19.5)**	(9.9)	(12.2)
Net cash inflow from operating activities	**163.6**	28.8	46.9
Cash flows from investing activities			
Acquisition of Wallace Land	**(17.2)**	-	-
Acquisition of property, plant and equipment	**(0.4)**	(0.8)	(0.7)
Loan repayments and distributions from joint ventures	**8.1**	7.0	7.7
Net cash (outflow)/inflow from investing activities	**(9.5)**	6.2	7.0
Cash flows from financing activities			
(Repayment) / issue of senior secured notes (net of deferred financing costs)	**(51.0)**	49.1	49.1
Repayment of shareholder loan notes	**(150.9)**	-	-
Net cash (outflow)/inflow from financing activities	**(201.9)**	49.1	49.1
Movement in cash and cash equivalents	**(47.8)**	84.1	103.0
Cash acquired with Wallace Land	**0.6**	-	-
Cash and cash equivalents at beginning of period	**242.8**	139.8	139.8
Cash and cash equivalents at end of period	**195.6**	223.9	242.8

Net Inventory

	30 November 2021 £m	31 December 2020 £m
	£m	**£m**
Land	**487.7**	490.6
Development WIP	**331.9**	311.8
Part exchange properties	**0.3**	6.2
Total inventory	**819.9**	808.6
Land payables	**(104.0)**	(98.9)
Net inventory	**715.9**	709.7

Return on Capital Employed

	30 November 2021 £m	31 December 2020 £m
Net assets	**485.7**	378.6
Net debt	**200.1**	345.4
Add/(less)		
Intangible assets	**(146.2)**	(146.2)
Deferred tax liability on intangible assets	**13.5**	10.3
Capital employed	**553.1**	588.1
Operating profit	**194.1**	110.5
ROCE (%)	**33.9**	19.0

(a)

EBITDA To Free Cash Flow Reconciliation

	12 months ended 30 November 2021 £m	11 months ended 30 November 2021 £m	11 months ended 30 November 2020 £m
EBITDA	**196.6**	**173.0**	**89.6**
Net land investment in excess of cost of sales	(12.9)	(2.5)	(22.7)
Development spend less than / (in excess of) cost of sales	4.3	1.3	(16.2)
Change in working capital	12.6	9.9	(2.7)
Cashflows from joint ventures not included in EBITDA	6.2	5.8	4.9
Shared equity loan receivables	2.4	2.3	1.8
Other[1]	12.2	10.4	15.7
Free cash flow[2]	**221.4**	**200.2**	**70.4**
Net land spend included in cost of sales	171.2	153.0	98.8
Net land investment in excess of cost of sales	12.9	2.5	22.7
Total net land spend	**184.1**	**155.5**	**121.5**
Free cash flow pre net land spend	**405.5**	**355.7**	**191.9**

[1] Includes primarily cash flows from part exchange properties.

[2] Free cashflow represents the cash movement per the consolidated cashflow statement but excluding cashflows from financing activities, investing activities (other than the acquisition of Wallace Land and movement in loans to joint ventures), corporation tax paid and interest paid.

ENDS

Media enquiries:

TB Cardew (Financial PR Adviser) miller@tbcardew.com

Ed Orlebar 07738 724 630

Shan Willenbrock 07775 848 537

About Miller Homes

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. The company has achieved 5-star status in the HBF National New Home Customer Satisfaction Survey for nine of the last 10 years. Further information is available by visiting www.millerhomes.co.uk.