14 March 2016

MILLER HOMES
FULL YEAR 2015 RESULTS

Outperformance on all financial metrics and well positioned for upper quartile EBITA growth

Financial highlights 2015: Outstanding delivery against KPIs

- 91% increase in profit before tax to £62.0m (2014: £32.5m[(1)])
- 76% increase in operating profit to £78.4m (2014: £44.5m[(1)])
- 29% increase in revenue to £500m (2014: £388m) driven by a 14% increase in core completions to 2,153 units (2014: 1,896 units) and a 14% increase in average selling price (ASP) to £227,000 (2014: £200,000)
- 420 basis point improvement in operating margin to a record 15.7% (2014: 11.5%[(1)]) due to 300 basis point increase in gross margin and improved overhead recoveries
- 71% increase in return on capital employed (ROCE) to a record 20.0% (2014: 11.7%)
- Order book currently 15% ahead of last year

(1) Before an exceptional profit of £3.9m recognised in the 2014 results

Increased and disciplined land investment

- 16% increase in consented land bank to 11,600 plots (2014: 10,012 plots) with embedded margin increasing to a record 24.3% (2014: 23.3%)
- 16,153 plots (2014: 16,383 plots) in our strategic land bank, one of the largest in the sector relative to current volumes
- 24% increase in land investment to £126m (2014: £102m)
- Reduction in net debt to £140m (2014: £158m) despite increased land spend

Plan to deliver upper quartile EBITA growth over next 2 years, when benchmarked against listed peers

- Strategic plan to build upon step change in business performance in recent years
  - Deliver operating margin of 18% by 2017
  - Deliver return on capital employed of 25% by 2017
  - Deliver 50% increase in output to 3,250 units per annum by 2019
- New £210m bank facilities with existing lenders in place through to 2020 and on improved terms
- Continued focus on customer excellence: 94% customer satisfaction
- Quality ethos: reputation for quality products and services

Macro Environment

- Key factors remain supportive of UK housing market: low interest rates; improving mortgage availability, consumer confidence and strong underlying demand.

Chris Endsor, Chief Executive, said:

'2015 was an outstanding year for Miller Homes which demonstrates the strength of our proposition, our established national footprint and reputation for excellent customer service. This resulted in us outperforming on all our key financial metrics.

Our investment in recent years, combined with new bank facilities, positions Miller Homes for further significant growth. We have the operational expertise and financial firepower to grow output by a further 50% to 3,250 units by 2019, and a business plan to deliver upper quartile EBITA growth over the next 2 years.

Against favourable market conditions and our well defined growth plans, we are extremely excited about our future.'

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- For over 80 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 2015, Miller Homes completed a total of 2,153 homes, of which 305 were affordable homes. We operate across three divisions – Scotland (554 completions), North of England (889 completions) and Midlands & Southern England (710 completions).
- Miller Homes has c.730 employees.
- Miller Homes has been awarded a 5 star rating in the National Home Builders Federation, New Home Customer Satisfaction Survey for the fifth consecutive year and, the results of independent research highlighted that, 94% of our own customers would recommend Miller Homes.
- Further information is available by visiting www.millerhomes.co.uk

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Chief Executive's Review

Overview

We delivered outstanding results, outperforming on all our financial metrics in 2015. Building upon the step change in business performance delivered in recent years, our strategic plan was updated during 2015, the key pillars of which are:

- Upper quartile EBITA growth over 2015 to 2017
- Increased operational efficiency from our existing well established regional infrastructure
- Deliver operating margin of 18% by 2017
- Deliver return on capital employed of 25% by 2017
- Planned 50% increase in output to 3,250 units per annum by 2019

We are delighted that we have not only delivered excellent financial results but have continued to demonstrate our reputation for excellent customer service. This reflects the Miller Homes business culture, stemming in part from our decision to be the first national housebuilder to publish its customer satisfaction scores back in 2005. Our current customer satisfaction rates are 94%. In addition, we retain a quality ethos and reputation for build quality and customer service with an HBF 5 star rating for the fifth consecutive year.

Macro conditions: Sustainability of housing market

The housing market has a pivotal role in the overall UK economy which is demonstrated by its prominence in the political arena, where both demand and need for quality new homes has been recognised. The key factors to a sustainable market – low interest rates, improved availability of mortgages, consumer confidence and strong underlying demand were in place to support performance in 2015. This helped to increase our private sales rates by 13% in 2015 to 0.59 sales per site per week.

We are encouraged by the proposed planning reforms which have been announced by the Government to accelerate planning decisions. On the demand side, the extension of Help to Buy through to 2021 in England and 2019 in Scotland ensures continued support for the mainstream new build market and particularly first time buyers.

Our proactive approach of engagement with our supply chain partners has helped to mitigate cost increases and labour shortages currently prevalent in the industry. Annual cost inflation in 2015 was manageable at around 4% and due to forward ordering, the effect on 2015 earnings was reduced further.

Land investment: Positioning Miller Homes for further significant growth

Land buying conditions remain attractive and we increased our investment by 24% in 2015. Importantly, our land investment continues to be undertaken in a disciplined way without compromising margins or capital returns. As we exit lower margin legacy sites and develop higher margin new sites, our operating margin and capital turn are increasing rapidly. Our return on capital employed increased to 20.0% (2014: 11.7%), with further growth anticipated from the launch of new sites acquired at a minimum 25% ROCE and the utilisation of our deferred tax asset. Relative to current volumes, we have one of the largest strategic land banks in the sector at 16,153 plots (2014: 16,383 plots).

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Financial results: Outperformance on all financial metrics

Revenue was 29% ahead of 2014 at £500m (2014: £388m). This reflected a combination of a 14% increase in core completions to 2,153 units (2014: 1,896 units) and a 14% increase in average selling price (ASP) to £227,000 (2014: £200,000).

Higher sales rates resulted in completions of private units rising to 1,848 (2014: 1,665). The increase in affordable unit completions to 305 (2014: 231) is due to more recently acquired sites having a higher allocation of affordable housing when compared to our older legacy sites.

The increase in ASP to £227,000 (2014: £200,000) was achieved despite an increase in the proportion of affordable housing which represented 14% (2014: 12%) of core completions. The private ASP increased by 15% to £248,000 (2014: £215,000) and the ASP of affordable units increased by 17% to £102,000 (2014: £87,000). All our divisions experienced growth in both volumes and ASP.

Gross profit increased by 48% to £114.1m (2014: £76.9m pre-exceptional items). Gross margin increased by 300 basis points to 22.8% (2014: 19.8%) as we continue to benefit from reducing completions of legacy land and a greater throughput of volumes from sites sourced from our strategic land bank. Legacy land completions fell to 19% (2014: 49%) of core completions with completions from strategic land increasing to 30% (2014: 20%). Legacy sites suffer from having a lower ASP and margin, the combined effect of which results in an average profit per plot which is significantly lower than the average generated on all other sites. As we continue to trade through these legacy sites and replace them with new sites, further improvements in gross margin and gross profit are anticipated.

The combination of increased gross profit combined with improved overhead recoveries has resulted in a 76% increase in operating profit to £78.4m (2014: £44.5m pre-exceptional items). We have delivered a step change in operating margin with a 420 basis point increase to 15.7% (2014: 11.5%) and are on target to deliver 18% operating margin by 2017. Profit before tax for the year increased by 91% to £62.0m (2014: £32.5m pre-exceptional items).

Overheads increased to £36.2m (2014: £32.7m) mainly due to an increase in staff costs and incentive arrangements. As a percentage of revenue, overheads have fallen to 7.2% (2014: 8.4%) and we believe that this can fall further to around 6% by 2017.

Net finance costs increased to £16.4m (2014: £12.0m) principally due to the write-off of un-amortised arrangement fees on the previous bank facility.

Land: Investment for future growth

We continued to invest strongly in land with additions of £126m (2014: £102m), 24% ahead of last year. This, together with planning consents being achieved for a number of controlled sites, resulted in our consented land bank increasing to 11,600 plots (2014: 10,012 plots). The embedded margin in our consented land bank has increased to a record 24.3% (2014: 23.3%). Relative to current volumes, we have one of the largest strategic land banks in the sector at 16,153 plots (2014: 16,383 plots).

Although there was a significant increase in land spend in the year, we reduced debt to £140m (2014: £158m) and we have in place new bank facilities with existing lenders through to 2020.

Current trading and outlook

Our 2016 order book is currently 15% ahead of last year. We are continuing to experience a strong selling market with the private sales rate for the first 10 weeks of 2016 being 7% ahead of tough prior year comparatives.

We have established a strong track record of delivery. Combined with the financial firepower to grow output by a further 50% to 3,250 units by 2019, we stand to have upper quartile EBITA growth when compared to listed peers.

With market conditions continuing to remain favourable and our well defined growth plans, we are extremely excited about our future.

CEO's message to the Miller team

We have great people at Miller Homes who are enthusiastic, driven and committed. My senior colleagues and I are extremely proud to lead the business and would like to record our thanks to all the team at Miller Homes and our supply chain partners during what was a busy and rewarding 2015.

Chris Endsor
Chief Executive

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CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2015

Notes		2015 £m	2014 £m
	Revenue	**499.6**	387.5
	Cost of sales	**(385.5)**	(310.6)
1	Exceptional cost of sales	**-**	3.9
	Gross profit	**114.1**	80.8
	Administrative expenses	**(36.2)**	(32.7)
	Group operating profit	**77.9**	48.1
	Share of profit in joint ventures	**0.5**	0.3
	Operating profit		
	- recurring	**78.4**	44.5
1	**- exceptional**	**-**	3.9
		78.4	48.4
	Finance costs	**(18.8)**	(15.1)
	Finance income	**2.4**	3.1
	Net finance costs	**(16.4)**	(12.0)
	Profit before taxation		
	- recurring	**62.0**	32.5
1	**- exceptional**	**-**	3.9
		62.0	36.4
	Income taxes	**(13.1)**	12.0
	Profit for the year	**48.9**	48.4

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	2015 £m	2014 £m
Profit for the year	**48.9**	48.4
Items that will not be reclassified to profit and loss:		
Change in fair value of financial instruments	**(0.2)**	-
Change in fair value of available for sale financial assets	**-**	(0.6)
Actuarial loss on retirement benefit obligations	**(0.9)**	(6.5)
Deferred tax on actuarial loss	**0.2**	1.4
Total comprehensive income for the year attributable to owners of the parent	**48.0**	42.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2014	125.0	93.4	218.4
Profit for the year	-	48.9	48.9
Change in fair value of financial instruments	-	(0.2)	(0.2)
Actuarial loss on retirement benefit obligations (net of deferred tax)	-	(0.7)	(0.7)
Balance at 31 December 2015	**125.0**	**141.4**	**266.4**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	2015 £m	2014 £m
Assets		
Non-current assets		
Property, plant and equipment	**0.2**	0.2
Investments	**14.3**	4.6
Available for sale financial assets	**34.2**	41.5
Deferred tax	**65.0**	78.1
	113.7	124.4
Current assets		
Inventories	**441.8**	406.4
Trade and other receivables	**27.7**	17.0
Cash and cash equivalents	**8.6**	29.5
	478.1	452.9
Total assets	**591.8**	577.3
Liabilities		
Non-current liabilities		
Interest bearing loans and borrowings	**(148.8)**	(158.6)
Trade and other payables	**(12.5)**	(22.3)
Retirement benefit obligations	**(29.7)**	(30.7)
Provisions and deferred income	**(5.2)**	(1.4)
	(196.2)	(213.0)
Current liabilities		
Interest bearing loans and borrowings	**-**	(28.8)
Trade and other payables	**(129.2)**	(117.1)
	(129.2)	(145.9)
Total liabilities	**(325.4)**	(358.9)
Net assets	**266.4**	218.4
Equity		
Shared capital	**125.0**	125.0
Retained earnings	**141.4**	93.4
Total equity attributable to owners of the parent	**266.4**	218.4

CONSOLIDATED CASH FLOW STATMENT
for the year ended 31 December 2015

	2015 **£m**	2014 £m
Cash flows from operating activities		
Profit for the year	**48.9**	48.4
Depreciation	**0.1**	0.1
Amortisation of land option costs	**0.6**	0.7
Finance income	**(2.4)**	(3.1)
Finance cost	**18.8**	15.1
Share of post tax profit from joint ventures	**(0.5)**	(0.3)
Taxation	**13.1**	(12.0)
Operating profit before changes in working capital	**78.6**	48.9
Working capital movements:		
Movement in trade and other receivables	**(1.0)**	4.2
Movement in inventories	**(38.2)**	(49.8)
Movement in trade and other payables	**2.3**	40.9
Cash generated from operations	**41.7**	44.2
Interest paid	**(14.8)**	(12.2)
Corporation tax received	**0.2**	-
Net cash inflow from operating activities	**27.1**	32.0
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(0.2)**	(0.1)
Movement in loans with joint ventures	**(9.2)**	0.3
Net cash (outflow)/inflow from investing activities	**(9.4)**	0.2
Cash flow from financing activities		
(Decrease)/increase in bank borrowings	**(60.1)**	155.5
Increase in other long term borrowings	**21.5**	-
Decrease in loans from parent company	**-**	(191.0)
Net cash outflow from financing activities	**(38.6)**	(35.5)
Movements in cash and cash equivalents	**(20.9)**	(3.3)
Cash and cash equivalents at beginning of year	**29.5**	32.8
Cash and cash equivalents at end of year	**8.6**	29.5

1. Exceptional cost of sales

	2015 £m	2014 £m
Writeback of land and work in progress	**-**	3.9

2. Reconciliation of net cash flow to net debt

	2015 £m	2014 £m
Movement in cash and cash equivalents	**(20.9)**	(3.3)
Decrease/(increase) in bank loans	**60.1**	(155.5)
Increase in long term borrowings	**(21.5)**	-
Cash movement in loans from fellow subsidiary companies	**-**	191.0
Non cash movement in loans from fellow subsidiary companies	**-**	100.0
Movement in net debt in year	**17.7**	132.2
Net debt at beginning of year	**(157.9)**	(290.1)
Net debt at end of year	**(140.2)**	(157.9)

3. Basis of Preparation

The financial information set out above is an extract from Miller Homes Holdings Limited audited statutory accounts for the years ended 31 December 2014 or 2015.