miller homes

21 August 2019

MILLER HOMES GROUP HOLDINGS plc

2019 Interim Results for the six months ended 30 June 2019

Continued strong financial performance combined with investment for future growth

Financial highlights

- 13% increase in core and joint venture completions to 1,684 homes (H1 2018: 1,493 homes)
- 10% increase in operating profit to £77.8m (H1 2018: £71.0m)
- Operating margin of 20.0% (H1 2018: 20.0%)
- Return on underlying capital employed (ROCE) of 30.9% with c3,600 plots acquired in last 12 months
- Forward sales at record levels of £368m and 7% ahead of last year

Disciplined approach to land investment

- 5% increase in owned landbank to 9,668 plots (Dec 2018: 9,174 plots) further supported by 3,308 controlled plots (Dec 2018: 3,350 plots) resulting in an overall consented landbank of 12,976 plots (4.1 years' supply)
- 7% increase in the strategic landbank to 18,591 plots (Dec 2018: 17,331 plots)

Continued focus on build quality and employee engagement

- HBF National New Home Customer Satisfaction Survey 5 star rating awarded
- External survey confirms employee engagement of 94%

Strategy in place to continue UK geographic growth

- Launch of new Teesside region planned in second half of this year and follows new West Midlands region established 18 months ago
- On track to deliver our strategic target of 4,000 homes by 2021

Chris Endsor, Chief Executive, said:

"Miller Homes has again achieved significant levels of growth, with volumes up 13% and operating profit 10% ahead in the first half of 2019. To have delivered an operating margin of 20% demonstrates the resilience of our regional markets and the Group's disciplined approach to land buying and cost control. Customer demand has remained strong set against a backdrop of competitive mortgage rates but just as importantly an overwhelming need for many of our customers to acquire a new home.

As a further sign of our confidence in our regional markets, we invested significantly in land in the period, acquiring 12 sites at a cost of £94m. Our new Teesside region will be launched in the second half of this year, becoming fully operational from the start of 2020.

The other key focus areas for the business remain customer satisfaction and employee engagement and in relation to both, we continue to perform strongly. Our customer satisfaction score continues to exceed 90% and a recent employee survey has confirmed that 94% are positively engaged in the business.

Our regional proposition, supported by significant land investment, excellent build quality and customer service delivered by a highly engaged workforce mean that we are on track to achieve 4,000 homes by 2021."

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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 2018, Miller Homes completed a total 3,170 homes, of which 216 were from joint ventures. We operate across three divisions – Scotland (735 completions), North of England (1,199 completions) and Midlands & South England (1,236 completions).
- Achieved 5 star status in the HBF National New Home Customer Satisfaction Survey for the seventh time in the last eight years.
- Miller Homes has c1,000 employees.
- Further information is available by visiting www.millerhomes.co.uk

Chief Executive's Review

Overview

We are delighted to report that during the first six months of 2019, operating profit increased by 10% to £77.8m (H1 2018: £71.0m). Our operating margin remained at a record for a half year reporting period (H1 2018: 20.0%). The average selling price (ASP) fell from £248,000 to £243,000 and reflected the sale of lower value units in a legacy development. Excluding these units, the ASP would have been £249,000. Core and joint venture completions increased by 13% to 1,684 units (H1 2018: 1,493 units), of which 89 units relate to the aforementioned sale of a legacy development.

We have maintained our disciplined approach to land buying and all land acquired in the period was at or above the Group's hurdle rates. Our owned landbank increased by 5% to 9,668 plots (Dec 2018: 9,174 plots) and all sites which benefit from an implementable planning permission are being developed. The Group's highly experienced strategic land team has made significant progress in the period in both acquiring new sites and investing in new options. The strategic landbank has increased by 7% to 18,591 plots (Dec 2018: 17,331 plots) and serves to underpin the planned future growth of the business.

Market conditions

Despite unprecedented political uncertainty, the housing market in our regional markets has remained robust with demand levels remaining high for good quality new build homes. In recent years, we have seen price inflation of c3% per annum in our regional markets and this has been more subdued latterly but still remains positive. Material and labour availability is generally good with cost inflation averaging 3 to 4% per annum but being mitigated through longer term pricing agreements and efficiencies from a product review initiated in 2018. The Group's centralised procurement team has been in close dialogue with our national suppliers and plans are in place in the event of a no deal Brexit.

Financial results

Revenue for the half year to 30 June 2019 was 10% ahead of 2018 at £389.2m (H1 2018: £355.2m). This reflected a combination of a 15% increase in core completions to 1,600 units (H1 2018: 1,393 units) offset by a 2% decrease in average selling price ("ASP") to £243,000 (H1 2018: £248,000) and lower land sale revenues.

During the first six months of 2019, we have seen an 8% increase in net private reservations driven by a 14% increase in sales outlets which averaged 81 (H1 2018: 71). Our private sales rate in the period was 0.73 net reservations per site per week (H1 2018: 0.77).

We continue to utilise the Help to Buy schemes in both England and Scotland, and combined they represented 33% (H1 2018: 35%) of private completions. Sales to first time buyers were 29% (H1 2018: 29%) of private completions and we continue to have a very low exposure to the investor market at 4% of overall completions (H1 2018: 3%).

Gross profit increased by 9% to £98.0m (H1 2018: £89.6m). Gross margin in the six months ended 30 June 2019 was 25.2% (H1 2018: 25.2%). Operating profit has increased by 10% to £77.8m (H1 2018: £71.0m). Operating margin stands at 20.0% (H1 2018: 20.0%).

Net financing costs in the six month period ended 30 June 2019 decreased by £2.2m to £22.5m. The year on year reduction reflects lower debt levels in the current year.

Balance sheet

Capital employed increased to £733.8m (Dec 2018: £658.9m). This reflects higher net inventory which has risen by £77.3m to £679.3m (Dec 2018: £602.0m) and is evidence of the increased investment made in new sites in the period.

During the period, the Group acquired 12 sites adding 2,090 plots to the owned landbank, of which 3 sites and 785 plots originated from the Group's higher margin strategic landbank. The owned landbank at 30 June 2019 has increased to 9,668 plots with a gross development value of £2.6bn.

In addition to the owned landbank, all of which has a planning consent, the Group has a further 3,308 plots (Dec 2018: 3,350 plots) in its controlled landbank. This results in a consented landbank of 12,976 plots (Dec 2018: 12,524 plots) representing 4.1 years' supply.

The Group generated £118.8m (H1 2018: £117.0m) of free cash flow pre net land spend and spent £126.0m (H1 2018: £86.4m) on land commitments in the period. Net external debt stood at £324.1m (Dec 2018: £299.9m) and the Group has secure long term funding through to 2023.

Current trading and outlook

We enter the second half of 2019 with record forward sales of £368m, 7% ahead of last year. A further 14 new sites in quality locations are due to launch in the second half of 2019 providing further impetus to sales volumes. We have been encouraged by the sales market since the half year with sales rates and visitor levels comparing favourably to the same period last year. The Group remains confident in the fundamentals of its regional markets whilst continuing to review all key lead indicators in the run up to the next Brexit deadline.

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CONSOLIDATED INCOME STATEMENT
for the 6 month period ended 30 June 2019

	6 months ended 30 June 2019 £m	6 months ended 30 June 2018 £m
Revenue	**389.2**	355.2
Cost of sales	**(291.2)**	(265.6)
Gross profit	**98.0**	89.6
Other operating income	**0.8**	1.0
Administrative expenses	**(22.7)**	(21.9)
Group operating profit	**76.1**	68.7
Share of result in joint ventures	**1.7**	2.3
Operating profit	**77.8**	71.0
Finance costs	**(23.1)**	(25.8)
Finance income	**0.6**	1.1
Net finance costs	**(22.5)**	(24.7)
Profit before taxation	**55.3**	46.3
Income taxes	**(10.4)**	(8.7)
Profit for the period	**44.9**	**37.6**

Both the current and prior period results are unaudited.