9 March 2017

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MILLER HOMES

FULL YEAR 2016 RESULTS

Outstanding performance on all financial metrics and delivery of organic growth strategy

Financial highlights 2016: Excellent performance delivered against all KPIs

- 44% increase in profit before tax to £89.3m (2015: £62.0m)
- 31% increase in operating profit to £103.0m (2015: £78.4m)
- 13% increase in revenue to £565m (2015: £500m) driven by an 11% increase in core completions to 2,380 units (2015: 2,153 units) and a 2% increase in average selling price (ASP) to £231,000 (2015: £227,000)
- 250 basis point improvement in operating margin to 18.2% (2015: 15.7%)
- 10% increase in underlying return on capital employed (ROCE)[1] to 30.3% (2015: 27.5%)
- 2017 forward sales 50% ahead of last year

Increased and disciplined land investment

- 13% increase in consented landbank to 13,062 plots (2015: 11,600 plots) with embedded margin increasing to 25.9% (2015: 24.3%)
- 41% increase in land investment to £178m (2015: £126m)
- Reduction in net debt to £122m (2015: £140m) despite significant increase in land spend

Update on strategy and growth plans

- 2017 operating margin target of 18% delivered one year ahead of plan
- Launch of a new region in South West Midlands, approved by the Board in December 2016 with opening planned for 2017
- The new region increases the capacity of business to 4,000 units per annum, 68% higher than 2016 output, with plans for this to be delivered by 2020
- Growth plans can be delivered from existing bank facilities
- Strategy focused on continuing to deliver long-term value for all stakeholders

Macro environment

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

Chris Endsor, Chief Executive, said:

‘2016 was an outstanding year for Miller Homes delivering operating profit in excess of £100m for the first time. We outperformed on all key financial metrics for the fifth consecutive year which confirms the strength of our regional markets, our strong customer service and the successful execution of our strategic plan.

2016 was dominated by speculation around the shape of Brexit both before and after the vote. This had no discernible impact on the business which continued to perform strongly in the second half of 2016, with sales rates 17% ahead of the prior year. Additionally, modest levels of house price inflation were delivered throughout the year.

We are currently 55% forward sold for 2017, with continued confidence on the back of our strong presence and successful operating model in our regional housing markets. A substantial land investment programme is planned in 2017, alongside the launch of a new region in the Midlands. Our organic growth strategy will deliver a 68% increase in the capacity of the business to 4,000 homes per year with plans to deliver this by 2020.’

[1] Return on underlying capital employed represents 12 month annualised operating profit divided by the average of opening and closing capital employed, adjusted for non-operating deferred tax and shared equity interests

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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 2016, Miller Homes completed a total of 2,380 homes, of which 348 were affordable homes. We operate across three divisions – Scotland (612 completions), North of England (953 completions) and Midlands & South England (815 completions).
- Miller Homes has c.790 employees.
- Further information is available by visiting www.millerhomes.co.uk

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Chief Executive's Review

Overview

2016 was an outstanding year. We delivered excellent financial results with operating profit exceeding £100m for the first time and our 18% operating margin target achieved one year ahead of plan. In addition, we acquired 4,200 plots at a cost of £178m, significantly ahead of the prior year comparatives of 2,600 plots and £126m respectively.

With targets exceeded and the launch of a second Midlands region in 2017, our strategic plan has been updated and the new targets for 2020 are:

- an increase in volumes to 4,000 units per annum; and
- operating margin to exceed 20%.

We fully recognise the role our staff play in our success and strive to create a culture and working environment where they are motivated, developed and can maximise their potential. It was therefore immensely satisfying for two independent organisations to recognise our approach to employee engagement and development during 2016. Firstly, an independent survey highlighted that 94% of our staff are positively engaged in the business and secondly we retained our Gold status from Investors in People ("IIP"), an award given to only 13% of all IIP accredited organisations.

Market conditions

Favourable market conditions were experienced throughout the year and across all three operating divisions, with sales rates and pricing unaffected by the EU Referendum vote and continuing speculation around Brexit. The key factors to a sustainable housing market – low interest rates, improved and disciplined mortgage lending, high employment – remain in place with consumer confidence levels increasing following the immediate reaction to the EU Referendum decision. In addition to this, the housing industry continues to benefit from ongoing demand and supply side government support, in the form of Help to Buy and a gradually improving planning system which has seen planning approvals at their highest level since 2008.

Production activity has increased to match the increase in current sales rates and is being actively managed to ensure build programmes, cost budgets and quality levels are all delivered. We continue to work proactively with supply chain partners for both materials and labour supply. There are some areas with supply issues but these are not significant and did not impact on 2016 completions. Annual cost inflation in 2016 was manageable at around 2% and due to forward ordering and cost efficiencies, the effect on earnings was reduced further.

Financial results

Revenue was 13% ahead of 2015 at £565m (2015: £500m). This reflected a combination of an 11% increase in core completions to 2,380 units (2015: 2,153 units) and a 2% increase in average selling price (ASP) to £231,000 (2015: £227,000).

Higher sales rates resulted in completions of private units rising to 2,032 (2015: 1,848). Private sales rates improved by 14% to 0.67 per site/week (2015: 0.59) and boosted not only 2016 completions but also 2017 forward sales. The increase in affordable unit completions to 348 (2015: 305) is due to more recently acquired sites having a higher allocation of affordable housing when compared to older legacy sites.

The increase in ASP to £231,000 (2015: £227,000) was achieved despite an increase in the proportion of affordable housing which represented 15% (2015: 14%) of core completions and a 3% reduction in the average size of private units. The private ASP increased by 1% to £251,000 (2015: £248,000) and the ASP of affordable units increased by 14% to £116,000 (2015: £102,000).

Gross profit increased by 25% to £142.8m (2015: £114.1m). Gross margin increased by 250 basis points to 25.3% (2015: 22.8%) benefiting from higher margins on more recently acquired land. Legacy land completions fell to 17% (2015: 19%) of core completions and represent 3% of the year end owned landbank.

The combination of increased gross profit combined with improved overhead recoveries has resulted in a 31% increase in operating profit to £103.0m (2015: £78.4m). Operating margin has increased to 18.2% (2015: 15.7%) and our 18% operating margin target was delivered one year ahead of plan. Profit before tax for the year increased by 44% to £89.3m (2015: £62.0m).

Net finance costs decreased to £13.7m (2015: £16.4m) principally due to the prior year write-off of unamortised arrangement fees on the previous bank facility and lower current year borrowings.

Land: Investment for future growth

We continued to invest strongly in land with additions amounting to £178m in 2016 (2015: £126m), 41% ahead of last year. Together with planning consents being achieved for a number of controlled sites, this resulted in our consented land bank increasing to 13,062 plots (2015: 11,600 plots). The embedded margin in our consented land bank has increased to 25.9% (2015: 24.3%) with 56% of the consented landbank being land pulled through from the strategic landbank.

Although there was a significant increase in land spend in the year, net debt fell to £122m (2015: £140m). Our existing bank facilities are committed through to 2020 and provide the Group with the resources to grow output to 4,000 units by 2020. Return on capital employed increased to 30.3% (2015: 27.5%) despite the increased land investment. This demonstrates the rigorous control of work in progress in the business and success in delivering lower capital intensive strategic land allied with significant cash generation driven by the sales rate improvement in the year.

Current trading and outlook

We entered the year with our 2017 forward sales being 50% ahead of last year. We continue to experience a strong sales market and are currently 55% forward sold for 2017 (2016: 50%). Brexit negotiations are likely to commence shortly and will become part of the political, economic and social agenda for the foreseeable future. We will monitor and react to any impact on our business but we remain positive about the outlook for the regional housing markets in which we operate.

CEO’s message to the Miller team

We have great people at Miller Homes who are enthusiastic, driven and committed. I am extremely proud to lead the business and was also immensely proud of our fundraising efforts during 2016 which saw £228,000 raised for our national charity, Habitat for Humanity. I would like to thank everyone at Miller Homes and our supply chain partners for their continued support.

Chris Endsor
Chief Executive

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CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2016

	2016 £m	2015 £m
Revenue	**565.3**	499.6
Cost of sales	**(422.5)**	(385.5)
Gross profit	**142.8**	114.1
Administrative expenses	**(40.2)**	(36.2)
Group operating profit	**102.6**	77.9
Share of profit in joint ventures	**0.4**	0.5
Operating profit	**103.0**	78.4
Finance costs	**(16.2)**	(18.8)
Finance income	**2.5**	2.4
Net finance costs	**(13.7)**	(16.4)
Profit before taxation	**89.3**	62.0
Income taxes	**(17.9)**	(13.1)
Profit for the year	**71.4**	48.9

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 £m	2015 £m
Profit for the year	**71.4**	48.9
Items that will not be reclassified to profit and loss:		
Change in fair value of financial instruments	**(0.8)**	(0.2)
Actuarial loss on retirement benefit obligations	**(20.6)**	(0.9)
Deferred tax on actuarial loss	**3.9**	0.2
Total comprehensive income for the year attributable to owners of the parent	**53.9**	48.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2015	125.0	141.4	266.4
Profit for the year	-	71.4	71.4
Change in fair value of financial instruments	-	(0.8)	(0.8)
Actuarial loss on retirement benefit obligations (net of deferred tax)	-	(16.7)	(16.7)
Balance at 31 December 2016	**125.0**	**195.3**	**320.3**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	2016 £m	2015 £m
Assets		
Non-current assets		
Property, plant and equipment	**0.3**	0.2
Investments	**21.2**	14.3
Available for sale financial assets	**28.0**	34.2
Deferred tax	**51.0**	65.0
	100.5	113.7
Current assets		
Inventories	**544.4**	441.8
Trade and other receivables	**31.0**	27.7
Cash and cash equivalents	**41.1**	8.6
	616.5	478.1
Total assets	**717.0**	591.8
Liabilities		
Non-current liabilities		
Interest bearing loans and borrowings	**(157.7)**	(148.8)
Trade and other payables	**(33.4)**	(12.5)
Retirement benefit obligations	**(46.4)**	(29.7)
Provisions and deferred income	**(6.5)**	(5.2)
	(244.0)	(196.2)
Current liabilities		
Interest bearing loans and borrowings	**(5.0)**	-
Trade and other payables	**(147.7)**	(129.2)
	(152.7)	(129.2)
Total liabilities	**(396.7)**	(325.4)
Net assets	**320.3**	266.4
Equity		
Shared capital	**125.0**	125.0
Retained earnings	**195.3**	141.4
Total equity attributable to owners of the parent	**320.3**	266.4

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CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2016

	2016 £m	2015 £m
Cash flows from operating activities		
Profit for the year	**71.4**	48.9
Depreciation	**0.1**	0.1
Amortisation of land option costs	**0.5**	0.6
Finance income	**(2.5)**	(2.4)
Finance cost	**16.2**	18.8
Share of post tax profit from joint ventures	**(0.4)**	(0.5)
Taxation	**17.9**	13.1
Operating profit before changes in working capital	**103.2**	78.6
Working capital movements:		
Movement in trade and other receivables	**4.5**	(1.0)
Movement in inventories	**(109.2)**	(38.2)
Movement in trade and other payables	**36.7**	2.3
Cash generated from operations	**35.2**	41.7
Interest paid	**(9.9)**	(14.8)
Corporation tax received	**-**	0.2
Net cash inflow from operating activities	**25.3**	27.1
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(0.2)**	(0.2)
Movement in loans with joint ventures	**(7.7)**	(9.2)
Distributions from joint venture	**1.2**	-
Net cash outflow from investing activities	**(6.7)**	(9.4)
Cash flow from financing activities		
Increase/(decrease) in bank borrowings	**10.7**	(60.1)
Increase in other long term borrowings	**3.2**	21.5
Net cash inflow/(outflow) from financing activities	**13.9**	(38.6)
Movements in cash and cash equivalents	**32.5**	(20.9)
Cash and cash equivalents at beginning of year	**8.6**	29.5
Cash and cash equivalents at end of year	**41.1**	8.6

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1. Reconciliation of net cash flow to net debt

	2016 £m	2015 £m
Movement in cash and cash equivalents	**32.5**	(20.9)
(Increase)/decrease in bank loans	**(10.7)**	60.1
Increase in long term borrowings	**(3.2)**	(21.5)
Movement in net debt in year	**18.6**	17.7
Net debt at beginning of year	**(140.2)**	(157.9)
Net debt at end of year	**(121.6)**	(140.2)

2. 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 2015 and 2016.