

Miller Homes Group (Finco) PLC

Trading update for the year ended 31 December 2022

Miller Homes Group (Finco) PLC (previously known as Castle UK Finco PLC) is issuing a trading update for the year ended 31 December 2022 ahead of the publication of its annual results on 28 March 2023.

Highlights

Stewart Lynes, Chief Executive, said:

“Against a more recent challenging economic backdrop, we have delivered both a record number of completions and operating profits in 2022. This was achieved despite a weakening sales market in the second half of the year and in particular the final quarter.

A cautious approach to land-buying was taken as the year progressed, which resulted in the acquisition of 3,008 plots (2021: 5,475 plots) with net land spend falling to £155m (2021: £219m). Resulting from the increased completions and the proactive steps taken on land investment, the year-end cash balance was £190m.

We enter 2023 with forward sales of £481m (2021: £665m) and will continue to manage the business in a prudent manner being cognisant of the current market and wider economic uncertainty in the UK.”

The key highlights for the year are as follows:

- Housing completions increased by 3% to a record 3,970 homes (2021: 3,849 homes). Combined with a 4% increase in Average Selling Price (“ASP”) to £286,500 (2021: £274,600), this has led to a 12% increase in revenue to £1,169m (2021: £1,046m).
- Operating profit¹ is anticipated to be in the range of £213-£218m.
- 2022 sales rate of 0.62 (0.85 in 2021) was impacted by weaker performance in the second half of the year with a sales rate of 0.40 (0.74 in 2021).
- The decline in sales rate in the second half of 2022 has led to a reduction in forward sales² to £481m (2021: £665m) albeit it is still higher than the pre-pandemic level (2019: £328m).
- A cautious approach to land purchases in the second half of 2022, combined with record completions, has resulted in a year-end cash balance of £190m.
- On track to retain 5 Star rating in the HBF customer satisfaction survey for the 2021/2022 survey year, which would be 11th time in the last 12 years that we have achieved this recognition.
- ESG strategy was updated during 2022 with measurable targets added to facilitate delivery. A Better Place, our sustainability strategy that focuses on Places, People and Planet, will be launched in March 2023.
- Chris Endors, who served as Executive Chairman for the last year, has transitioned to non-executive Chairman of the Group at the start of 2023.

¹ The 2022 figures have been prepared on a pro forma basis and reflect the 12 month results of Miller Homes Group Limited, an entity acquired by the Company on 31 March 2022. Accordingly, these pro forma results include the pre-acquisition results for the 3 month period ended 31 March 2022, but exclude associated transaction costs and purchase price accounting adjustments. In addition, the pro forma results exclude an exceptional item that is specifically related to potential costs with respect to cladding and fire safety issues.

² Refers to the number of unit reservations and contracts exchanged that we anticipate will result in core completions and joint venture completions in the following twelve-month period.

Trading

We have delivered revenue of £1,169m (2021: £1,046m), an increase of 12% as compared to the prior year. The increase in revenue mainly reflects (i) a 4% increase in core completions to 3,921 homes (2021: 3,775 homes), (ii) a 4% rise in overall ASP to £286,500 (2021: £274,600) and (iii) £19m revenue generated from Walker Timber following its acquisition in December 2021. Completions were comprised of 2,887 private homes (2021: 2,823), 1,034 affordable homes (2021: 952) and 49 joint venture homes (2021: 74). The increased overall ASP reflects a 5% increase in private ASP to £337,700 (2021: £320,200) and a 3% increase in affordable ASP to £143,600 (2021: £139,200). The proportion of affordable homes has increased slightly to 26% (2021: 25%) of core completions. Based on the above, we anticipate operating profit before interest, tax and exceptional items to be in the range of £213m to £218m (2021: £204m).

Building safety

At the end of 2021, a provision of £9.7m had been booked for all known cladding and fire safety issues at that time. This was in line with the scope of the Developer Pledge signed in April 2022, an initiative under which the major UK housebuilders have undertaken to remediate all life critical fire safety issues. The current draft contract with government and the Building Safety Act has expanded homebuilders' liability beyond what was included in the Developer Pledge to also include legacy buildings and therefore we might be liable for developments that had been constructed before being acquired by the Group. As a result of such regulatory changes, several legacy properties have been identified with potential fire safety issues and investigations are underway which is likely to result in a further exceptional charge in the final FY22 accounts.

Our landbank

We adopted a more cautious and selective approach to land investment as the economic outlook deteriorated during the second half of the year. Accordingly, the number of site acquisitions was down on the prior year, with 19 sites and 3,008 plots (2021: 28 sites and 5,475 plots) being acquired. Our net land spend in the same period decreased to £155m (2021: £219m), reflecting the Group's discretion and flexibility to control and timely adjust its land purchase activity and associated spend.

There are 10,724 plots (2021: 12,057 plots) across 90 sites (2021: 97 sites) at an average plot cost of £44,100 (2021: £44,900) in the Group's owned landbank. Together with the controlled landbank of 3,190 plots (2021: 3,112 plots), the Group has a consented landbank of 13,914 plots (2021: 15,169 plots), representing 3.5 years' supply based on the completion rate over the preceding 12 months. The consented landbank is further supported by the strategic landbank of 39,203 plots (2021: 39,222 plots), which represents 10.0 years' supply.

Cash and liquidity

The Group has two key sources of liquidity: cash generated from operations and capacity under the revolving credit facility ("RCF"). The cash balance at 31 December 2022 was £190m (2021: £161m), which was higher than anticipated at the halfway point of the year due to the conservative decisions taken on land purchases in the second half of the year. The Group has a £180m RCF that remained undrawn (other than in respect of an outstanding avalised promissory note of £10m related to deferred payments on a land acquisition that occurred in December 2021 and a working capital facility for an aggregate amount of approximately £0.4m).

Construction quality and customer service

The HBF customer satisfaction survey for the current year closes on 17 February. Our current score suggests that we will retain our 5 star rating, making this the 11th time in the last 12 years that we will have achieved this accolade. We are signatories to the New Home Quality Code and have comprehensively reviewed our processes through the whole customer journey enabling full registration and accreditation from 3 January 2023 with the aim of delivering improved experience and reassurance for our customers.

Outlook

Looking ahead to 2023, we recognise that there is significant uncertainty in the UK economy due to increased interest rates and abnormally high levels of inflation. This has impacted consumer confidence albeit employment levels remain high.

We enter 2023 with lower forward sales but a higher cash balance. We intend to maintain a disciplined approach to land purchases with a focus on site quality, intake margin and capital efficiency.

The longer-term impact on consumer confidence is uncertain and it is too early to predict when demand will re-bounce. However, we remain confident in the merits of our regional business model focused on quality family homes in selected locations that are more affordable when compared to London and the South-East.

Stewart Lynes

Chief Executive

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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 10 of the last 11 years. Further information is available by visiting www.millerhomes.co.uk.