CPUK FINANCE LIMITED

Operating and financial review for the 53 weeks ended 26 April 2018

In accordance with the reporting requirements of its financing, CPUK Finance Limited is pleased to present its operating and financial review for the 53 weeks ended 26 April 2018 (2017: 52 weeks ended 20 April 2017).

All figures presented in this report relate to the group of companies headed by Center Parcs (Holdings 1) Limited ("the Group"). All financial results referred to in this document exclude exceptional and non-underlying items, unless otherwise stated.

Financial highlights

53 weeks ended 26 April 2018

- Revenue up 6.5% to £469.0 million (2016/17: £440.3 million) and EBITDA up 7.2% to £228.4 million (2016/17: £213.0 million).

- Heavy snowfall in England in March 2018 caused the temporary closure of Longleat Forest, only the fourth time that a village has had to close. Had the heavy snowfall not occurred the Directors estimate EBITDA would have been £229.9 million (7.9% higher than the previous year).

- ADR and RevPAL up 3.6% and 3.8% to £184.95 and £180.46 respectively (2016/17: £178.60 and £173.80 respectively).

- Strong occupancy of 97.6%, 30bps higher than the prior year when more units of accommodation were off-line for upgrade.

- Excluding week 53, revenue and EBITDA increased by 4.9% and 6.0% respectively, while occupancy, ADR and RevPAL increased by 0.3%, 4.1% and 4.4% respectively.

Key performance indicators

	2017/18 53 weeks	2016/17 52 weeks	Variance
Revenue	£469.0m	£440.3m	6.5%
EBITDA	£228.4m	£213.0m	7.2%
Occupancy	97.6%	97.3%	0.3%
ADR	£184.95	£178.60	3.6%
RevPAL	£180.46	£173.80	3.8%

	2017/18 Q4 (17 weeks)	2016/17 Q4 (16 weeks)	Variance
Revenue	£141.1m	£127.7m	10.5%
EBITDA	£65.7m	£57.8m	13.7%
Occupancy	96.5%	98.0%	(1.5)%
ADR	£170.57	£163.93	4.1%
RevPAL	£163.93	£160.68	2.0%

	Sherwood Forest	Elveden Forest	Longleat Forest	Whinfell Forest	Woburn Forest	Central overheads	Group
FY18							
Revenue	£98.5m	£96.7m	£91.8m	£88.6m	£93.4m	-	£469.0m
EBITDA	£55.5m	£52.5m	£49.5m	£46.3m	£49.4m	£(24.8)m	£228.4m
Occupancy	97.9%	97.7%	97.3%	97.6%	97.3%	-	97.6%
FY17							
Revenue	£91.3m	£92.0m	£86.7m	£84.1m	£86.2m	-	£440.3m
EBITDA	£51.1m	£49.9m	£46.4m	£44.4m	£46.5m	£(25.3)m	£213.0m
Occupancy	97.5%	96.9%	97.1%	97.5%	97.5%	-	97.3%
Variance							
Revenue	+7.9%	+5.1%	+5.9%	+5.4%	+8.4%	-	+6.5%
EBITDA	+8.6%	+5.2%	+6.7%	+4.3%	+6.2%	(2.0)%	+7.2%
Occupancy	+0.4%	+0.8%	+0.2%	+0.1%	(0.2)%	-	+0.3%

Results of operations for the 53-week period ended 26 April 2018

Revenue

Revenue increased by £28.7 million, or 6.5%, to £469.0 million in the 53-week period ended 26 April 2018 compared to £440.3 million in the 52-week period ended 20 April 2017. This increase was the result of a 7.1% increase in accommodation revenue and an increase in on-village revenue of 5.6%.

The number of units of accommodation at 26 April 2018 was 4,227 compared to 4,123 at 20 April 2017. The movement reflects the construction of 104 new units of accommodation during the year.

Occupancy increased from 97.3% to 97.6% reflecting the lower number of units of accommodation offline for upgrade during the 53-week period. Approximately 1.5% of the Group’s accommodation was offline in the 53 weeks ended 26 April 2018, compared with approximately 2.2% in the 52 weeks ended 20 April 2017.

ADR growth continued at all five villages, and overall ADR increased by 3.6% to £184.95 in the 53 weeks ended 26 April 2018 compared to the 52 weeks ended 20 April 2017. This increase, combined with the higher occupancy rate, delivered RevPAL growth of 3.8% to £180.46 in the 53 weeks ended 26 April 2018.

Cost of sales

Cost of sales increased to £123.7 million in the 53 weeks ended 26 April 2018 (2016/17: £115.7 million). This is broadly in line with the increase in on-village revenue and includes the impact of the increased National Living Wage from 1 April 2017.

Administrative expenses

Administrative expenses increased to £116.9 million in the 53 weeks ended 26 April 2018 (2016/17: £111.6 million). This was driven by an increase in business rates year over year, as well as the impact of the 53rd week.

EBITDA

As a result of the factors outlined above, including the additional week of trading in FY18, EBITDA grew by £15.4 million or 7.2% in comparison to the prior year.

The heavy snowfall in England in March 2018 caused the temporary closure of Longleat Forest and restricted guest arrivals and activities at all other villages. Guests impacted by the snow were issued refunds of both their accommodation and on-site spend. This was only the fourth time that a village has had to close in over 30 years of trading. The Directors estimate that the reduction in EBITDA for the 53 weeks ended 26 April 2018 was approximately £1.5 million. As such, had the heavy snowfall not occurred, EBITDA would have been £229.9 million (7.9% higher than the previous year).

Depreciation and amortisation

Depreciation and amortisation for the 53 weeks ended 26 April 2018 was £52.7 million, an increase of £4.8 million compared to the 52 weeks ended 20 April 2017. This increase reflects the Group's ongoing capital investment programme as well as the impact of the 53rd week.

Finance costs and income

On 15 June 2017 the Group issued £100.0 million of additional A4 secured notes, £480.0 million of new B3 secured notes and £250.0 million of new B4 secured notes. Part of the proceeds was used to settle £560.0 million of B2 secured notes that had an expected maturity date of 28 August 2020. Make-whole costs of £26.9 million in respect of the settlement of the B2 secured notes have been recognised as an exceptional/non-underlying finance expense.

Following this refinancing, annual interest payable on the Group's secured debt is £82.4 million. All tranches of secured debt attract a fixed rate of interest.

Finance costs in the periods under review principally represent interest payable on the secured debt and the amortisation of associated deferred issue costs. Finance income represents bank interest receivable.

Taxation

Corporation tax of £1.0 million was paid during the 53 weeks ended 26 April 2018 compared with £1.1 million in the 52 weeks ended 20 April 2017.

Cash Flow

As at 26 April 2018 the Group had cash and cash equivalents of £46.1 million (20 April 2017: £34.0 million) and negative working capital of £137.9 million (20 April 2017: £125.2 million). Working capital is defined as the net value of the Group's inventories, trade and other receivables and current trade and other payables (excluding taxation creditors and capital and interest accruals).

Net cash from operating activities was £237.3 million and net cash used in investing activities was £85.5 million in the 53 weeks ended 26 April 2018 (2016/17: £216.9 million and £95.4 million respectively).

As permitted under the terms of its financing, the Group declared and paid a dividend of £31.2 million during the quarter, bringing the total for the year-to-date to £298.2 million.

Investment Programme

Accommodation upgrades

The Group is continuing its 'Project Summer' refurbishment cycle, and 1,057 lodges have already been upgraded to the 'Summer' standard. The upgrade of 27 lodges at Sherwood commenced in Q1 FY19 and it is anticipated that the upgrade of a further 209 lodges at Sherwood and Whinfell will commence in Q3 FY19. A further 190 lodges are expected to be upgraded at Longleat and Elveden in Q4 FY19.

As previously outlined, the Project Summer refurbishment cycle is a lighter touch refurbishment than the previous Project Spring programme, with accommodation units offline for roughly half the time and costs approximately half those of the previous upgrades.

New builds

During Q4 FY18, work continued on the redevelopment of the old Hotel site at Elveden, which now incorporates a 51-bedroom apartment complex, nine three-bedroom Executive lodges and three Waterside lodges. This project was completed in Q1 FY19.

Construction is also ongoing in respect of three Treehouses at Woburn which are expected to be completed in Summer 2018, and 33 lodges at Whinfell with an anticipated completion date of Spring 2019.

Financial covenants

Classes A and B

Covenants have been calculated on a pro-forma basis, which assumes that the current (i.e. post-15 June 2017) financing structure and cost of debt was in place for the 53 weeks ended 26 April 2018.

The Class A FCF: DSCR was 4.4 times for the 53 weeks ended 26 April 2018 (covenant: 1.1 times) and the Class B FCF: DSCR was 2.7 times (covenant 1.0 times).

Class B

The Consolidated Leverage Ratio (Gross Debt: EBITDA) was 7.7 times as at 26 April 2018.

The Directors certify that the calculations of the financial covenants and ratios are undertaken accurately and that the information in this report is true and accurate in all material respects. All covenants were satisfied as at 26 April 2018.

Maintenance and Investment Capital expenditure

Under the terms of its financing, the Group is required to spend a minimum of £18.5 million per annum on maintenance capital expenditure and an average of £6 million per annum over four years on investment capital expenditure. During the 53 weeks ended 26 April 2018 the Group spent £25.7 million (2016/17: £24.6 million) on maintenance capital expenditure and £58.8 million (2016/17: £69.9 million) on investment capital expenditure, predominantly in respect of new build accommodation.

Contractual commitments and contingencies

As at 26 April 2018 the Group had capital expenditure contracted for but not provided of £22.0 million. The Group has no other material contractual commitments with the exception of the headleases on the Longleat and Woburn sites.

The Group had no material contingent liabilities or assets at 26 April 2018.

Future outlook

As at 21 June 2018, 53.1% of this financial year's capacity is now booked (2017/18: 54.5%). ADR growth on forward bookings is consistent with that seen during the 53 weeks ended 26 April 2018.

The next operating and financial review will be for the 12 weeks ended 19 July 2018 and we expect this report will be published in late August 2018.

Investor conference call

An investor conference call will be held on 3 July 2018 at 2.00pm (BST), at which the Group will present its financial results. A summary presentation will be released along with the results and will be used as the basis of the investor conference call.

Investors wishing to participate in the investor conference call need to pre-register at
http://emea.directeventreg.com/registration/7198265

Full participant information (including dial-in number) will be provided upon registration.

Colin McKinlay
Chief Financial Officer

Enquiries

Paul Mann
Group Financial Accountant
01623 821649

Colin McKinlay
Chief Financial Officer
01623 821621

Audited income statement for the 53 weeks ended 26 April 2018

	53 weeks ended 26 April 2018			52 weeks ended 20 April 2017		
	Before exceptional and non-underlying items £m	**Exceptional and non-underlying items £m**	**Total £m**	**Before exceptional and non-underlying items £m**	**Exceptional and non-underlying items £m**	**Total £m**
Revenue	**469.0**	**-**	**469.0**	**440.3**	**-**	**440.3**
Cost of sales	(123.7)	-	(123.7)	(115.7)	-	(115.7)
Gross profit	**345.3**	**-**	**345.3**	**324.6**	**-**	**324.6**
Administrative expenses	(116.9)	(2.3)	(119.2)	(111.6)	-	(111.6)
EBITDA	***228.4***	**(2.3)**	***226.1***	***213.0***	**-**	***213.0***
Depreciation and amortisation	(52.7)	-	(52.7)	(47.9)	-	(47.9)
Total operating expenses	(169.6)	(2.3)	(171.9)	(159.5)	-	(159.5)
Operating profit	**175.7**	**(2.3)**	**173.4**	**165.1**	**-**	**165.1**
Finance income	0.3	-	0.3	0.2	-	0.2
Finance expense	(88.5)	(26.9)	(115.4)	(89.6)	(5.2)	(94.8)
Profit/(loss) before taxation	**87.5**	**(29.2)**	**58.3**	**75.7**	**(5.2)**	**70.5**
Taxation	(14.0)	7.2	(6.8)	(12.3)	5.6	(6.7)
Profit/(loss) for the period attributable to equity shareholders	**73.5**	**(22.0)**	**51.5**	**63.4**	**0.4**	**63.8**

Finance expense in the 53 weeks ended 26 December 2018 includes amortisation of deferred issue costs of £4.4 million (2016/17: £3.9 million).

<u>Exceptional and non-underlying items</u>

The heavy snowfall in England in March 2018 caused the temporary closure of Longleat Forest and restricted guest arrivals and activities at all other villages. Guests impacted by the snow were issued refunds of both their accommodation and on-site spend. This was only the fourth time that a village has had to close in over 30 years of trading. The Directors estimate that the lost revenue totalled £1.6 million and the overall reduction in EBITDA for the 53 weeks ended 26 April 2018 was approximately £1.5 million. As such, had the heavy snowfall not occurred, Adjusted EBITDA would have been £229.9 million.

The £2.3 million exceptional/non-underlying administrative expenses in the current period represent £1.6 million of costs relating to legal claims and associated settlements, together with £0.7m of one-off restructuring and reorganisation costs. Taxation on these expenses has also been treated as an exceptional/non-underlying item.

The £26.9 million exceptional/non-underlying finance expense in the period represents the premium paid on the settlement of the B2 tranche of the Group's secured debt. Taxation on this expense has also been treated as an exceptional/non-underlying item.

A taxation credit of £1.9 million in respect of a one-off adjustment to group relief has also been treated as an exceptional/non-underlying item.

The £5.2 million exceptional/non-underlying finance expense in the prior period represented accelerated amortisation of deferred costs in respect of the B2 tranche of secured notes. Taxation on this expense was also treated as an exceptional/non-underlying item, as was the impact of the change in applicable deferred tax rate from 18% to 17%.

Unaudited income statement for the 17 weeks ended 26 April 2018

	17 weeks ended 26 April 2018			16 weeks ended 20 April 2017		
	Before exceptional and non-underlying items £m	**Exceptional and non-underlying items £m**	**Total £m**	**Before exceptional and non-underlying items £m**	**Exceptional and non-underlying items £m**	**Total £m**
Revenue	**141.1**	**-**	**141.1**	**127.7**	**-**	**127.7**
Cost of sales	(38.6)	-	(38.6)	(34.7)	-	(34.7)
Gross profit	**102.5**	**-**	**102.5**	**93.0**	**-**	**93.0**
Administrative expenses	(36.8)	(2.3)	(39.1)	(35.2)	-	(35.2)
EBITDA	***65.7***	***(2.3)***	***63.4***	***57.8***	***-***	***57.8***
Depreciation and amortisation	(17.9)	-	(17.9)	(15.5)	-	(15.5)
Total operating expenses	(54.7)	(2.3)	(57.0)	(50.7)	-	(50.7)
Operating profit	**47.8**	**(2.3)**	**45.5**	**42.3**	**-**	**42.3**
Finance income	0.1	-	0.1	-	-	-
Finance expense	(28.2)	-	(28.2)	(27.5)	(5.2)	(32.7)
Profit/(loss) before taxation	**19.7**	**(2.3)**	**17.4**	**14.8**	**(5.2)**	**9.6**
Taxation	(14.0)	7.2	(6.8)	(12.3)	5.6	(6.7)
Profit for the period attributable to equity shareholders	**5.7**	**4.9**	**10.6**	**2.5**	**0.4**	**2.9**

Audited balance sheet as at 26 April 2018

	As at 26 April 2018 £m	As at 20 April 2017 £m
Assets		
Non-current assets		
Goodwill	**157.5**	157.5
Other intangible assets	**148.7**	135.8
Property, plant and equipment	**1,470.8**	1,451.9
Deferred tax asset	**0.8**	15.0
	1,777.8	1,760.2
Current assets		
Inventories	**3.8**	3.7
Trade and other receivables	**9.8**	7.9
Current tax asset	**3.7**	6.4
Cash and cash equivalents	**46.1**	34.0
	63.4	52.0
Liabilities		
Current liabilities		
Borrowings	**(0.3)**	(0.3)
Trade and other payables	**(187.2)**	(181.3)
	(187.5)	(181.6)
Net current liabilities	**(124.1)**	(129.6)
Non-current liabilities		
Borrowings	**(1,748.1)**	(1,474.7)
Retirement benefit obligations	**(1.2)**	(3.2)
Deferred tax liability	**(92.0)**	(95.0)
	(1,841.3)	(1,572.9)
Net (liabilities)/assets	**(187.6)**	57.7
Equity		
Equity share capital	**1.0**	1.0
Share premium	**-**	74.3
Other reserve	**(154.0)**	(154.0)
Retained earnings	**(34.6)**	136.4
Total equity	**(187.6)**	57.7

Current trade and other payables include interest and capital accruals totalling £24.7 million (20 April 2017: £25.6 million) and taxation group relief creditors of £11.0 million (20 April 2017: £18.9 million).

Audited cash flow statement for the 53 weeks ended 26 April 2018

	53 weeks ended 26 April 2018 £m	52 weeks ended 20 April 2017 £m	**17 weeks ended 20 April 2018 £m**	16 weeks ended 20 April 2017 £m
Cash flows from operating activities				
Operating profit	**173.4**	165.1	**45.5**	42.3
Depreciation and amortisation	**52.7**	47.9	**17.9**	15.5
Working capital movements	**12.7**	5.5	**41.6**	39.9
Profit on disposal of property, plant and equipment	**(0.2)**	(0.2)	**(0.2)**	(0.2)
Difference between the pension charge and contributions	**(0.3)**	(0.3)	**-**	(0.1)
Corporation tax paid	**(1.0)**	(1.1)	**(0.2)**	(0.2)
Net cash from operating activities	**237.3**	216.9	**104.6**	97.2
Cash flows used in investing activities				
Purchase of property, plant and equipment	**(74.7)**	(87.3)	**(13.1)**	(14.0)
Purchase of intangible assets	**(11.3)**	(8.5)	**(11.3)**	(8.5)
Sale of property, plant and equipment	**0.2**	0.2	**0.2**	0.2
Interest received	**0.3**	0.2	**0.1**	-
Net cash used in investing activities	**(85.5)**	(95.4)	**(24.1)**	(22.3)
Cash flows used in financing activities				
Repayment of external borrowings	**(560.3)**	(0.3)	**(0.2)**	(0.2)
Proceeds from external borrowings	**839.5**	-	**-**	-
Issue costs on secured debt	**(9.3)**	-	**(0.4)**	-
Break costs on secured debt	**(26.9)**	-	**-**	-
Interest paid	**(84.5)**	(86.4)	**(41.9)**	(43.0)
Dividends paid	**(298.2)**	(48.5)	**(31.2)**	(11.4)
Net cash used in financing activities	**(139.7)**	(135.2)	**(73.7)**	(54.6)
Net increase/(decrease) in cash and cash equivalents	**12.1**	(13.7)	**6.8**	20.3
Cash and cash equivalents at the beginning of the period	**34.0**	47.7	**39.3**	13.7
Cash and cash equivalents at the end of the period	**46.1**	34.0	**46.1**	34.0
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash and cash equivalents	**12.1**	(13.7)	**6.8**	20.3
Cash (inflow)/outflow from movement in debt	**(279.2)**	0.3	**0.2**	0.2
Change in net debt resulting from cash flows	**(267.1)**	(13.4)	**7.0**	20.5
Non-cash movements and deferred issue costs	**5.8**	(9.1)	**(0.9)**	(6.4)
Movement in net debt in the period	**(261.3)**	(22.5)	**6.1**	14.1
Net debt at the beginning of the period	**(1,441.0)**	(1,418.5)	**(1,708.4)**	(1,455.1)
Net debt at the end of the period	**(1,702.3)**	(1,441.0)	**(1,702.3)**	(1,441.0)

Definitions

EBITDA (Earnings before interest, taxation, depreciation and amortisation) is before exceptional/non-underlying items.

Occupancy is the average number of units of accommodation occupied as a percentage of the total number available.

ADR (Average Daily Rate) is the average daily rent (excluding VAT) achieved based on total accommodation income divided by the total number of lodge nights sold.

RevPAL (Rent per available lodge night) is the average daily rent (excluding VAT) achieved based on the total accommodation income divided by the total available number of lodge nights.

Critical accounting policies

The following accounting policies are considered to be critical for an understanding of the financial information presented in this document. A full list of accounting policies applied by the Group are presented in the Annual Report of Center Parcs (Holdings 1) Limited.

Revenue

Revenue relates to accommodation rental income on holidays commenced during the period, together with other related income that primarily arises from on-village leisure, retail and food and beverage spend.

Revenue relating to accommodation is recognised on a straight-line basis over the period of the holiday. Non-rental income is recognised when the related product or service is provided to the guest. All revenue is recorded net of VAT.

Payment for accommodation rental income is received in advance of holidays commencing, and is recorded as 'payments on account' within Trade and other payables until the holiday commences.

A number of trading units on each holiday village are operated by concession partners. Revenue due in respect of such units is recognised on an accruals basis.

All revenue arises in the United Kingdom.

Property, plant and equipment

The Group carries property, plant and equipment at cost rather than current valuation. As such, no increases in the value of the Group's property, plant and equipment are recognised in the financial statements. Any impairment to the carrying value of these assets is recognised in the income statement.

Maintenance expenditure

It is the policy of the Group to maintain its land and buildings to a high standard. Where maintenance expenditure increases the benefits that property, plant and equipment is expected to generate, this expenditure is capitalised. All other maintenance costs are charged to the income statement as incurred.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.