CPUK FINANCE LIMITED

Operating and financial review for the 12 weeks ended 19 July 2018

In accordance with the reporting requirements of its financing, CPUK Finance Limited is pleased to present its operating and financial review for the 12 weeks ended 19 July 2018.

All figures presented in this report relate to the group of companies headed by Center Parcs (Holdings 1) Limited ("the Group").

All figures presented in this report are unaudited. All financial results referred to in this document exclude exceptional and non-underlying items, unless otherwise stated.

Financial highlights

12 weeks ended 19 July 2018

- Group revenue up 5.8% to £104.7 million (FY18: £99.0 million) and EBITDA up 7.7% to £48.7 million (FY18: £45.2 million).

- ADR and RevPAL up 3.7% and 4.2% to £174.73 and £172.42 respectively (FY18: £168.55 and £165.48 respectively), positively influenced in part by the timing of peak season holiday breaks falling into the period.

- Strong occupancy of 98.7%, 50bps higher than the comparative period in the prior year.

Key performance indicators

	FY19 12 weeks	FY18 12 weeks	Variance
Revenue	£104.7m	£99.0m	5.8%
EBITDA	£48.7m	£45.2m	7.7%
Occupancy	98.7%	98.2%	0.5%
ADR	£174.73	£168.55	3.7%
RevPAL	£172.42	£165.48	4.2%

Results of operations for the 12-week period ended 19 July 2018

Revenue

Revenue increased by £5.7 million, or 5.8%, to £104.7 million in the 12-week period ended 19 July 2018 compared to £99.0 million in the 12-week period ended 13 July 2017. This increase was the result of an 8.2% increase in accommodation revenue and an increase in on-village revenue of 2.4%.

The number of units of accommodation at 19 July 2018 was 4,281 compared to 4,123 at 13 July 2017. The movement reflects the construction of 158 new units of accommodation in the year.

Occupancy increased from 98.2% in Q1 FY18 to 98.7% in Q1 FY19. Approximately 0.7% of the Group's accommodation was offline in the 12 weeks ended 19 July 2018, compared with approximately 0.8% in the 12 weeks ended 13 July 2017.

ADR increased by 3.7% to £174.73 in the 12 weeks ended 19 July 2018 compared to the 12 weeks ended 13 July 2017. This increase was positively influenced in part by the timing of peak season holiday breaks falling into the 12 week period. Combined with the higher occupancy rate, RevPAL growth of 4.2% to £172.42 was delivered in the 12 weeks ended 19 July 2018.

Cost of sales

Cost of sales increased to £29.1 million in the 12 weeks ended 19 July 2018 (2017/18: £27.6 million). This reflects the increase in on-village revenue and the impact of the increased National Living Wage effective from 1 April 2018.

Administrative expenses

Administrative expenses were £26.9 million in the 12 weeks ended 19 July 2018, which was broadly in line with the prior year (2017/18: £26.2 million).

EBITDA

As a result of the factors outlined above, EBITDA grew by £3.5 million or 7.7% in comparison to the prior year.

EBITDA for the 53 weeks ended 19 July 2018 was £231.9 million.

Depreciation and amortisation

Depreciation and amortisation for the 12 weeks ended 19 July 2018 was £13.4 million, an increase of £0.6 million compared to the prior year. This reflects the Group's ongoing capital investment programme.

Finance costs and income

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

The Group's taxation assets and liabilities are calculated annually and hence no tax charge or credit is included in the financial statements presented in this report. Corporation tax of £nil was paid during the 12 weeks ended 19 July 2018 compared with £0.3 million in the comparative period.

Cash Flow

As at 19 July 2018 the Group had cash and cash equivalents of £43.4 million (13 July 2017: £271.7 million) and negative working capital of £138.2 million (13 July 2017: £131.1 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 £48.8 million and net cash used in investing activities was £15.3 million in the 12 weeks ended 19 July 2018 (2017/18: £50.7 million and £21.0 million respectively).

As permitted under the terms of its financing, the Group declared and paid dividends totalling £35.9 million during the quarter.

Investment Programme

Accommodation upgrades

The Group is continuing its 'Project Summer' refurbishment cycle and, following the upgrade of 27 lodges at Sherwood during Q1 FY19, 1,084 units of accommodation have been upgraded to the 'Summer' standard. The upgrade of a further 200 lodges at Sherwood and Elveden commenced in Q2 FY19. A further 209 lodges are expected to be upgraded at Longleat and Whinfell, commencing 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

The redevelopment of the old Hotel site at Elveden concluded during Q1 FY19. The site now incorporates a 51-bedroom apartment complex, nine three-bedroom Executive lodges and three Waterside lodges.

Construction was ongoing throughout Q1 FY19 in respect of three Treehouses at Woburn which were completed in early Q2 FY19, and 33 lodges at Whinfell with an anticipated completion date of Spring 2019.

Financial covenants

Classes A and B

The Class A FCF: DSCR was 4.4 times for the 53 weeks ended 19 July 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 7.6 times as at 19 July 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 19 July 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 12 weeks ended 19 July 2018 the Group spent £4.1 million (FY18: £4.0 million) on maintenance capital expenditure and £9.5 million (FY18: £14.9 million) on investment capital expenditure.

As in previous years, total capital expenditure is expected to be higher in the second half of the year.

Future outlook

As at 24 August 2018 65.8% of this financial year's capacity is now booked (2017/18: 66.8%), reflecting increased accommodation units year over year. In absolute terms, the number of bookings taken to date is 1.2% higher than at the same time last year. ADR is approximately 3% higher on these bookings.

The next operating and financial review will be for the 24 weeks ended 11 October 2018 and we expect this report will be published in mid-November 2018.

Colin McKinlay
Chief Financial Officer

Enquiries

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Unaudited income statement for the 12 weeks ended 19 July 2018

	12 weeks ended 19 July 2018			12 weeks ended 13 July 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	**104.7**	**-**	**104.7**	**99.0**	**-**	**99.0**
Cost of sales	(29.1)	-	(29.1)	(27.6)	-	(27.6)
Gross profit	**75.6**	**-**	**75.6**	**71.4**	**-**	**71.4**
Administrative expenses	(26.9)	-	(26.9)	(26.2)	-	(26.2)
EBITDA	***48.7***	**-**	***48.7***	***45.2***	**-**	***45.2***
Depreciation and amortisation	(13.4)	-	(13.4)	(12.8)	-	(12.8)
Total operating expenses	(40.3)	-	(40.3)	(39.0)	-	(39.0)
Operating profit	**35.3**	**-**	**35.3**	**32.4**	**-**	**32.4**
Finance income	-	-	-	-	-	-
Finance expense	(20.5)	-	(20.5)	(20.8)	(26.9)	(47.7)
Profit/(loss) before taxation	**14.8**	**-**	**14.8**	**11.6**	**(26.9)**	**(15.3)**
Taxation	-	**-**	-	-	-	-
Profit/(loss) for the period attributable to equity shareholders	**14.8**	**-**	**14.8**	**11.6**	**(26.9)**	**(15.3)**

Finance expense in the 12 weeks ended 19 July 2018 includes amortisation of deferred issue costs of £0.9 million (2017/18: £1.3 million).

Exceptional and non-underlying items

The £26.9 million exceptional/non-underlying finance expense in the previous period represented make-whole costs in respect of the settlement of the B2 tranche of the Group's secured debt.

Unaudited balance sheet as at 19 July 2018

	As at 19 July 2018 £m	As at 13 July 2017 £m
Assets		
Non-current assets		
Goodwill	**157.5**	157.5
Other intangible assets	**148.7**	136.5
Property, plant and equipment	**1,471.1**	1,457.3
Right-of-use assets	**30.0**	-
Deferred tax asset	**0.8**	15.0
	1,808.1	1,766.3
Current assets		
Inventories	**3.8**	3.7
Trade and other receivables	**11.8**	13.2
Current tax asset	**3.8**	6.7
Cash and cash equivalents	**43.4**	271.7
	62.8	295.3
Liabilities		
Current liabilities		
Borrowings	**(0.3)**	(0.3)
Lease liabilities	**(0.4)**	-
Trade and other payables	**(207.2)**	(202.8)
	(207.9)	(203.1)
Net current (liabilities)/assets	**(145.1)**	92.2
Non-current liabilities		
Borrowings	**(1,748.8)**	(1,746.4)
Lease liabilities	**(31.7)**	-
Retirement benefit obligations	**(1.2)**	(3.1)
Deferred tax liability	**(92.0)**	(95.0)
	(1,873.7)	(1,844.5)
Net (liabilities)/assets	**(210.7)**	14.0
Equity		
Equity share capital	**1.0**	1.0
Share premium	**-**	74.3
Other reserve	**(154.0)**	(154.0)
Retained earnings	**(57.7)**	92.7
Total equity	**(210.7)**	14.0

Current trade and other payables include interest and capital accruals totalling £42.4 million (13 July 2017: £35.9 million) and taxation group relief creditors of £11.0 million (13 July 2017: £18.9 million).

The Group has adopted IFRS 16 ‘Leases’ for the financial year ending 25 April 2019, using the modified retrospective approach.

Unaudited cash flow statement for the 12 weeks ended 19 July 2018

	12 weeks ended 19 July 2018 £m	12 weeks ended 13 July 2017 £m
Cash flows from operating activities		
Operating profit	**35.3**	32.4
Depreciation and amortisation	**13.4**	12.8
Working capital movements	**0.1**	5.9
Difference between the pension charge and contributions	**-**	(0.1)
Corporation tax paid	**-**	(0.3)
Net cash from operating activities	**48.8**	50.7
Cash flows used in investing activities		
Purchase of property, plant and equipment	**(15.3)**	(21.0)
Net cash used in investing activities	**(15.3)**	(21.0)
Cash flows used in financing activities		
Repayment of external borrowings	**-**	(560.1)
Proceeds from external borrowings	**-**	839.5
Issue costs on secured debt	**-**	(5.6)
Break costs on secured debt	**-**	(26.9)
Interest paid	**(0.2)**	(10.5)
Repayment of lease liabilities	**(0.1)**	-
Dividends paid	**(35.9)**	(28.4)
Net cash used in financing activities	**(36.2)**	208.0
Net (decrease)/increase in cash and cash equivalents	**(2.7)**	237.7
Cash and cash equivalents at the beginning of the period	**46.1**	34.0
Cash and cash equivalents at the end of the period	**43.4**	271.7
Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash and cash equivalents	**(2.7)**	237.7
Cash inflow from movement in debt	**-**	(279.4)
Change in net debt resulting from cash flows	**(2.7)**	(41.7)
Non-cash movements and deferred issue costs	**(0.7)**	7.7
Movement in net debt in the period	**(3.4)**	(34.0)
Net debt at the beginning of the period	**(1,702.3)**	(1,441.0)
Net debt at the end of the period	**(1,705.7)**	(1,475.0)

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.

Net debt represents borrowings less cash and cash equivalents.