CPUK FINANCE LIMITED

Operating and financial review for the 24 weeks ended 5 October 2017

In accordance with the reporting requirements of its financing, CPUK Finance Limited is pleased to present its operating and financial review for the 24 weeks ended 5 October 2017.

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

24 weeks ended 5 October 2017

- H1 revenue up 4.4% to £217.5 million (2016/17: £208.3 million) and EBITDA up 4.0% to £110.1 million (2016/17: £105.9 million).
- H1 ADR and RevPAL up 3.4% and 4.6% to £191.10 and £187.83 respectively (2016/17: £184.89 and £179.49 respectively).
- Strong occupancy of 98.3%, 120bps higher than the comparative period in the prior year when more units of accommodation were off-line for upgrade.

12 weeks ended 5 October 2017

- Q2 revenue and EBITDA growth of 3.9% and 3.5% to £118.5 million and £64.9 million respectively (2016/17: £114.0 million and £62.7 million respectively).
- The Group's accelerated capital investment programme has continued, with 73 new lodges opening during the quarter.

Key performance indicators

	2017/18 H1	2016/17 H1	Variance
Revenue	£217.5m	£208.3m	4.4%
EBITDA	£110.1m	£105.9m	4.0%
Occupancy	98.3%	97.1%	1.2%
ADR	£191.10	£184.89	3.4%
RevPAL	£187.83	£179.49	4.6%

	2017/18 Q2	2016/17 Q2	Variance
Revenue	£118.5m	£114.0m	3.9%
EBITDA	£64.9m	£62.7m	3.5%
Occupancy	98.4%	97.9%	0.5%
ADR	£213.41	£206.77	3.2%
RevPAL	£209.98	£202.49	3.7%

Results of operations for the 24-week period ended 5 October 2017

Revenue

Revenue increased by £9.2 million, or 4.4%, to £217.5 million in the 24-week period ended 5 October 2017 compared to £208.3 million in the 24-week period ended 6 October 2016. This increase was the result of a 4.6% increase in accommodation revenue and an increase in on-village revenue of 4.1%.

The number of units of accommodation at 5 October 2017 was 4,196 compared to 4,155 at 6 October 2016. The movement reflects the net effect of new-build accommodation across the five villages and the demolition of the 88-bedroom hotel at Elveden in November 2016.

Occupancy increased from 97.1% to 98.3% reflecting the lower number of units of accommodation offline for upgrade during the 24-week period. Approximately 0.9% of the Group’s accommodation was offline in the 24 weeks ended 5 October 2017, compared with approximately 2.5% in the 24 weeks ended 6 October 2016.

ADR growth continued at all five villages, and overall ADR increased by 3.4% to £191.10 in the 24 weeks ended 5 October 2017 compared to the 24 weeks ended 6 October 2016. This increase, combined with the higher occupancy rate, delivered RevPAL growth of 4.6% to £187.83 in the 24 weeks ended 5 October 2017.

Cost of sales

Cost of sales increased to £55.8 million in the 24 weeks ended 5 October 2017 (2016/17: £53.0 million). This reflects the increase in on-village revenue and the impact of the increased National Living Wage effective from 1 April 2017.

Administrative expenses

Administrative expenses increased to £51.6 million in the 24 weeks ended 5 October 2017 (2016/17: £49.4 million) driven by a year on year increase in business rates.

EBITDA

As a result of the factors outlined above, EBITDA grew by £4.2 million or 4.0% in comparison to the prior year.

EBITDA for the 52 weeks ended 5 October 2017 was £217.2 million.

Depreciation and amortisation

Depreciation and amortisation for the 24 weeks ended 5 October 2017 was £23.6 million, an increase of £0.2 million compared to the 24 weeks ended 6 October 2016.

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.

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

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 £0.6 million was paid during the 24 weeks ended 5 October 2017 (2016/17: £0.6 million).

Cash Flow

As at 5 October 2017 the Group had cash and cash equivalents of £45.4 million (6 October 2016: £21.8 million) and negative working capital of £116.7 million (6 October 2016: £109.4 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 £100.8 million and net cash used in investing activities was £38.4 million in the 24 weeks ended 5 October 2017 (2016/17: £94.9 million and £47.9 million respectively).

On 4 August 2017, the Group paid a dividend of £223.6 million. This dividend was in line with the proposed uses of the proceeds from the June 2017 refinancing.

Investment Programme

Accommodation upgrades

The next phase of the 'Project Summer' refurbishment cycle commenced in September 2017, encompassing 191 lodges at Sherwood and Whinfell, with a further 21 lodge upgrades at Longleat commencing in November 2017. A further phase is scheduled to commence in January 2018, covering 190 lodges at Elveden and Longleat.

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

Ten four-bedroom Exclusive lodges opened at Whinfell in August 2017, and 57 Executive lodges opened at Woburn during August and September. Six lodges also opened at Sherwood during the quarter.

Construction is ongoing in respect of 22 lodges at Sherwood (expected to be completed by December 2017) and three Treehouses at Woburn (expected to be complete in Summer 2018). Work also continues on the redevelopment of the old Hotel site at Elveden, which is being replaced with a new 51-bedroom apartment complex, nine three-bedroom Executive lodges and three Waterside lodges; this project is expected to be completed by Spring 2018.

The Group has also obtained planning permission to construct 34 additional lodges at Whinfell; construction will commence during 2018 with an anticipated completion date of December 2018.

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 52 weeks ended 5 October 2017.

The Class A FCF: DSCR was 4.1 times for the 52 weeks ended 5 October 2017 (covenant: 1.1 times) and the Class B FCF: DSCR was 2.5 times (covenant 1.0 times).

Class B

The Consolidated Leverage Ratio (Gross Debt: EBITDA) was 8.1 times as at 5 October 2017.

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 5 October 2017.

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 24 weeks ended 5 October 2017 the Group spent £9.5 million (2016/17: £7.3 million) on maintenance capital expenditure and £26.5 million (2016/17: £31.1 million) on investment capital expenditure, predominantly in respect of new build accommodation.

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

Future outlook

Forward bookings for the Group remain ahead of the prior year with 81.2% of this financial year's capacity booked (2016/17: 80.8%) as at 3 November 2017. ADR growth on forward bookings is in line with that seen during the 24 weeks ended 5 October 2017.

The next operating and financial review will be for the 36 weeks ended 28 December 2017 and we expect this report will be published in early February 2018.

Investor conference call

An investor conference call will be held on 20 November 2017 at 2.00pm (GMT), 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
https://eventreg3.conferencing.com/inv/reg.html?Acc=030812&Conf=373264

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

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Unaudited income statement for the 24 weeks ended 5 October 2017

	24 weeks ended 5 October 2017			24 weeks ended 6 October 2016		
	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	**217.5**	**-**	**217.5**	**208.3**	**-**	**208.3**
Cost of sales	(55.8)	-	(55.8)	(53.0)	-	(53.0)
Gross profit	**161.7**	**-**	**161.7**	**155.3**	**-**	**155.3**
Administrative expenses	(51.6)	-	(51.6)	(49.4)	-	(49.4)
EBITDA	***110.1***	**-**	***110.1***	***105.9***	**-**	***105.9***
Depreciation and amortisation	(23.6)	-	(23.6)	(23.4)	-	(23.4)
Total operating expenses	(75.2)	-	(75.2)	(72.8)	-	(72.8)
Operating profit	**86.5**	**-**	**86.5**	**82.5**	**-**	**82.5**
Finance income	0.2	-	0.2	0.1	-	0.1
Finance expense	(40.8)	(26.9)	(67.7)	(41.6)	-	(41.6)
Profit/(loss) before taxation	**45.9**	**(26.9)**	**19.0**	**41.0**	**-**	**41.0**
Taxation	-	-	-	-	-	-
Profit/(loss) for the period attributable to equity shareholders	**45.9**	**(26.9)**	**19.0**	**41.0**	**-**	**41.0**

Finance expense in the 24 weeks ended 5 October 2017 includes amortisation of deferred issue costs of £1.9 million (2016/17: £1.8 million).

Exceptional and non-underlying items

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

Unaudited income statement for the 12 weeks ended 5 October 2017

	12 weeks ended 5 October 2017			12 weeks ended 6 October 2016		
	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	**118.5**	**-**	**118.5**	**114.0**	**-**	**114.0**
Cost of sales	(28.2)	-	(28.2)	(26.9)	-	(26.9)
Gross profit	**90.3**	**-**	**90.3**	**87.1**	**-**	**87.1**
Administrative expenses	(25.4)	-	(25.4)	(24.4)	-	(24.4)
EBITDA	***64.9***	**-**	***64.9***	***62.7***	**-**	***62.7***
Depreciation and amortisation	(10.8)	-	(10.8)	(11.6)	-	(11.6)
Total operating expenses	(36.2)	-	(36.2)	(36.0)	-	(36.0)
Operating profit	**54.1**	**-**	**54.1**	**51.1**	**-**	**51.1**
Finance income	0.2	-	0.2	-	-	-
Finance expense	(20.0)	-	(20.0)	(20.9)	-	(20.9)
Profit before taxation	**34.3**	**-**	**34.3**	**30.2**	**-**	**30.2**
Taxation	-	-	-	-	-	-
Profit for the period attributable to equity shareholders	**34.3**	**-**	**34.3**	**30.2**	**-**	**30.2**

Unaudited balance sheet as at 5 October 2017

	As at 5 October 2017 £m	As at 6 October 2016 £m
Assets		
Non-current assets		
Goodwill	**157.5**	157.5
Other intangible assets	**137.0**	127.6
Property, plant and equipment	**1,463.0**	1,428.5
Deferred tax asset	**15.0**	12.7
	1,772.5	1,726.3
Current assets		
Inventories	**3.8**	3.8
Trade and other receivables	**12.9**	13.4
Current tax asset	**7.0**	5.9
Cash and cash equivalents	**45.4**	21.8
	69.1	44.9
Liabilities		
Current liabilities		
Borrowings	**(0.3)**	(0.3)
Trade and other payables	**(172.1)**	(146.7)
	(172.4)	(147.0)
Net current liabilities	**(103.3)**	(102.1)
Non-current liabilities		
Borrowings	**(1,746.5)**	(1,467.6)
Retirement benefit obligations	**(3.0)**	(2.0)
Deferred tax liability	**(95.0)**	(99.6)
	(1,844.5)	(1,569.2)
Net (liabilities)/assets	**(175.3)**	55.0
Equity		
Equity share capital	**1.0**	1.0
Share premium	**-**	74.3
Other reserve	**(154.0)**	(154.0)
Retained earnings	**(22.3)**	133.7
Total equity	**(175.3)**	55.0

Current trade and other payables include interest and capital accruals totalling £19.8 million (6 October 2016: £14.6 million) and taxation group relief creditors of £18.9 million (6 October 2016: £5.5 million).

Unaudited cash flow statement for the 24 weeks ended 5 October 2017

	24 weeks ended 5 October 2017 £m	24 weeks ended 6 October 2016 £m	**12 weeks ended 5 October 2017 £m**	12 weeks ended 6 October 2016 £m
Cash flows from operating activities				
Operating profit	**86.5**	82.5	**54.1**	51.1
Depreciation and amortisation	**23.6**	23.4	**10.8**	11.6
Working capital movements	**(8.5)**	(10.3)	**(14.4)**	(13.7)
Difference between the pension charge and contributions	**(0.2)**	(0.1)	**(0.1)**	-
Corporation tax paid	**(0.6)**	(0.6)	**(0.3)**	(0.2)
Net cash from operating activities	**100.8**	94.9	**50.1**	48.8
Cash flows used in investing activities				
Purchase of property, plant and equipment	**(38.6)**	(48.0)	**(17.6)**	(18.1)
Interest received	**0.2**	0.1	**0.2**	-
Net cash used in investing activities	**(38.4)**	(47.9)	**(17.4)**	(18.1)
Cash flows used in financing activities				
Repayment of external borrowings	**(560.1)**	(0.1)	**-**	-
Proceeds from external borrowings	**839.5**	-	**-**	-
Issue costs on secured debt	**(8.9)**	-	**(3.3)**	-
Break costs on secured debt	**(26.9)**	-	**-**	-
Interest paid	**(42.6)**	(43.2)	**(32.1)**	(43.2)
Dividends paid	**(252.0)**	(29.6)	**(223.6)**	(19.8)
Net cash used in financing activities	**(51.0)**	(72.9)	**(259.0)**	(63.0)
Net increase/(decrease) in cash and cash equivalents	**11.4**	(25.9)	**(226.3)**	(32.3)
Cash and cash equivalents at the beginning of the period	**34.0**	47.7	**271.7**	54.1
Cash and cash equivalents at the end of the period	**45.4**	21.8	**45.4**	21.8
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash and cash equivalents	**11.4**	(25.9)	**(226.3)**	(32.3)
Cash (inflow)/outflow from movement in debt	**(279.4)**	0.1	**-**	-
Change in net debt resulting from cash flows	**(268.0)**	(25.8)	**(226.3)**	(32.3)
Non-cash movements and deferred issue costs	**7.6**	(1.8)	**(0.1)**	(0.9)
Movement in net debt in the period	**(260.4)**	(27.6)	**(226.4)**	(33.2)
Net debt at the beginning of the period	**(1,441.0)**	(1,418.5)	**(1,475.0)**	(1,412.9)
Net debt at the end of the period	**(1,701.4)**	(1,446.1)	**(1,701.4)**	(1,446.1)

Dividends paid was included in ‘Cash flows used in investing activities’ in the prior financial period but has been presented above in ‘Cash flows used in financing activities’ to conform to the classification in the current financial period.

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.