CPUK FINANCE LIMITED

Operating and financial review for the 36 weeks ended 3 January 2019

In accordance with the reporting requirements of its financing, CPUK Finance Limited is pleased to present its operating and financial review for the 36 weeks ended 3 January 2019.

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

Year-to-date: 36 weeks ended 3 January 2019

- Year-to-date revenue up 5.5% to £345.9 million (2017/18: £327.9 million) and EBITDA increased 7.0% to £174.1 million (2017/18: £162.7 million).
- Year-to-date ADR and RevPAL increased 4.4% and 4.5% to £200.11 and £196.51 respectively (2017/18: £191.74 and £188.04 respectively).
- Year-to-date revenue and EBITDA comparisons to prior year benefit from an additional peak New Year break falling in the period this year.
- Occupancy of 98.2% compared to 98.1% in the comparative prior year period.

Quarter 3: 12 weeks ended 3 January 2019

- Q3 revenue and EBITDA growth of 9.2% and 13.5% to £120.6 million and £59.7 million respectively (2017/18: £110.4 million and £52.6 million respectively).
- As noted above the current quarter revenue and EBITDA year-over-year improvement in part reflects the phasing of peak Christmas and New Year breaks.

Key performance indicators

	2018/19 Year-to-date	2017/18 Year-to-date	Variance
Revenue	£345.9m	£327.9m	+5.5%
EBITDA	£174.1m	£162.7m	+7.0%
Occupancy	98.2%	98.1%	+0.1%
ADR	£200.11	£191.74	+4.4%
RevPAL	£196.51	£188.04	+4.5%

	2018/19 Q3	2017/18 Q3	Variance
Revenue	£120.6m	£110.4m	+9.2%
EBITDA	£59.7m	£52.6m	+13.5%
Occupancy	97.5%	97.6%	-0.1%
ADR	£214.04	£193.03	+10.9%
RevPAL	£208.64	£188.47	+10.7%

Results of operations for the 36-week period ended 3 January 2019

Revenue

Revenue increased by £18.0 million, or 5.5%, to £345.9 million in the 36-week period ended 3 January 2019 compared to £327.9 million in the 36-week period ended 28 December 2017. This increase was the result of a 7.6% increase in accommodation revenue and an increase in on-village revenue of 2.4%. Year-to-date and Q3 revenue was positively influenced by the timing of the quarter-end, with the New Year breaks included in the quarter this year but excluded from the comparative period.

The number of units of accommodation at 3 January 2019 was 4,291 compared to 4,224 at 28 December 2017. The movement reflects the construction of 67 new units of accommodation in the year, including the 51 one-bedroom apartment complex at Elveden. Overall occupancy increased marginally, from 98.1% to 98.2%.

ADR increased by 4.4% to £200.11 in the 36 weeks ended 3 January 2019 compared to the 36 weeks ended 28 December 2017. This includes the benefit of the change in Christmas/New Year break phasing described above. Combined with the higher occupancy rate, RevPAL growth of 4.5% to £196.51 was delivered in the 36 weeks ended 3 January 2019.

Cost of sales

Cost of sales increased to £90.7 million in the 36 weeks ended 3 January 2019 (2017/18: £85.1 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 £81.1 million in the 36 weeks ended 3 January 2019, which was broadly in line with the prior year (2017/18: £80.1 million) and reflects continued strong cost controls.

EBITDA

As a result of the factors outlined above, EBITDA grew by £11.4 million or 7.0% in comparison to the prior year.

EBITDA for the 53 weeks ended 3 January 2019 was £239.8 million.

Depreciation and amortisation

Depreciation and amortisation for the 36 weeks ended 3 January 2019 was £38.5 million, an increase of £3.7 million compared to the prior year. This reflects the Group's ongoing capital investment programme.

Finance costs and income

On 20 November 2018 the Group issued £100.0 million of additional A4 secured notes and £379.5 million of new A5 secured notes. Part of the proceeds was used to settle £350.0 million of A3 secured notes that had an expected maturity date of 28 February 2020. Make whole costs of £6.1 million in respect of the settlement of the A3 secured notes have been recognised as an exceptional/non-underlying finance expense, together with £1.6 million of accelerated amortisation of deferred issue costs in respect of the A3 notes.

Following this refinancing, annual interest payable on the Group's secured debt is £90.6 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 £0.2 million was paid during the 36 weeks ended 3 January 2019 compared with £0.8 million in the comparative period.

Cash Flow

As at 3 January 2019 the Group had cash and cash equivalents of £54.5 million (28 December 2017: £39.3 million) and negative working capital of £97.0 million (28 December 2017: £96.3 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 £132.7 million and net cash used in investing activities was £48.1 million in the 36 weeks ended 3 January 2019 (2017/18: £132.7 million and £61.4 million respectively). Dividends of £119.6 million were declared and paid during the quarter.

Note, for information only, on 7 February 2019 Center Parcs Finance Borrower Limited, a company outside of the UK securitisation structure, drew down £185.0 million on a new loan facility. The lender in respect of this facility would rank below all secured note holders in the event of a liquidation.

Investment Programme

Accommodation upgrades

The Group is continuing its 'Project Summer' refurbishment cycle and 1,314 units of accommodation had been upgraded to the 'Summer' standard as at 3 January 2019. The upgrade of a further 209 lodges at Longleat and Whinfell commenced 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 project to construct an additional 33 lodges at Whinfell continued during the quarter, with seven completed as at 3 January 2019. The remaining 26 lodges are expected to be completed in Spring 2019.

Planning permission has been received to construct four Treehouses at Whinfell and an apartment complex consisting of 30 two-bedroom Executive Apartments at Longleat. These are expected to be completed during 2021.

Financial covenants

Classes A and B

Covenants have been calculated on a pro-forma basis, which assumes that the current (i.e. post-20 November 2018) financing structure and cost of debt was in place for the 53 weeks ended 3 January 2019.

The Class A FCF: DSCR was 3.8 times for the 53 weeks ended 3 January 2019 (covenant: 1.1 times) and the Class B FCF: DSCR was 2.4 times (covenant 1.0 times).

Class B

The Consolidated Leverage Ratio (Gross Debt: EBITDA) was 7.9 times as at 3 January 2019.

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 3 January 2019.

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 36 weeks ended 3 January 2019 the Group spent £17.0 million (FY18: £15.3 million) on maintenance capital expenditure and £27.9 million (FY18: £40.6 million) on investment capital expenditure.

Future outlook

As at 10 February 2019 93.3% of this financial year's capacity is now booked (2017/18: 93.6%). ADR is approximately 2.7% higher on these bookings on a 52-week like-for-like basis. Forward bookings and ADR for the next financial year are ahead of the prior year, with the underlying trends consistent with those seen in FY19.

As outlined above the Q3 FY19 EBITDA result benefitted from the timing of quarter-end, with the New Year breaks included in the 36 weeks ended 3 January 2019 but excluded from the comparative period. This benefit will negatively impact the Q4 result.

The next operating and financial review will be for the full financial year ended 25 April 2019 and we expect this report will be published in early July 2019.

It should be noted that FY19 consists of 52 weeks whereas the prior year to 26 April 2018 included 53 weeks of trading. The Full Year FY19 operating and financial review will therefore present comparisons to prior year on both a reported 53-week basis and a like-for-like 52-week basis.

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Unaudited income statement for the 36 weeks ended 3 January 2019

	36 weeks ended 3 January 2019			36 weeks ended 28 December 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	**345.9**	**-**	**345.9**	**327.9**	**-**	**327.9**
Cost of sales	(90.7)	-	(90.7)	(85.1)	-	(85.1)
Gross profit	**255.2**	**-**	**255.2**	**242.8**	**-**	**242.8**
Administrative expenses	(81.1)	-	(81.1)	(80.1)	-	(80.1)
EBITDA	***174.1***	**-**	***174.1***	***162.7***	**-**	***162.7***
Depreciation and amortisation	(38.5)	-	(38.5)	(34.8)	-	(34.8)
Total operating expenses	(119.6)	-	(119.6)	(114.9)	-	(114.9)
Operating profit	**135.6**	**-**	**135.6**	**127.9**	**-**	**127.9**
Finance income	0.1	-	0.1	0.2	-	0.2
Finance expense	(61.6)	(7.7)	(69.3)	(60.3)	(26.9)	(87.2)
Profit/(loss) before taxation	**74.1**	**(7.7)**	**66.4**	**67.8**	**(26.9)**	**40.9**
Taxation	-	-	-	-	-	-
Profit/(loss) for the period attributable to equity shareholders	**74.1**	**(7.7)**	**66.4**	**67.8**	**(26.9)**	**40.9**

Finance expense in the 36 weeks ended 3 January 2019 includes amortisation of deferred issue costs of £2.5 million (2017/18: £2.5 million).

Exceptional and non-underlying items

The £7.7 million exceptional/non-underlying finance expense in the current period consists of £6.1 million of make-whole costs paid on the settlement of the A3 tranche of the Group’s secured debt and £1.6 million of accelerated amortisation of deferred issue costs in respect of the A3 tranche. 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 income statement for the 12 weeks ended 3 January 2019

	12 weeks ended 3 January 2019			12 weeks ended 28 December 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	**120.6**	**-**	**120.6**	**110.4**	**-**	**110.4**
Cost of sales	(32.0)	-	(32.0)	(29.3)	-	(29.3)
Gross profit	**88.6**	**-**	**88.6**	**81.1**	**-**	**81.1**
Administrative expenses	(28.9)	-	(28.9)	(28.5)	-	(28.5)
EBITDA	***59.7***	**-**	***59.7***	***52.6***	**-**	***52.6***
Depreciation and amortisation	(12.8)	-	(12.8)	(11.2)	-	(11.2)
Total operating expenses	(41.7)	-	(41.7)	(39.7)	-	(39.7)
Operating profit	**46.9**	**-**	**46.9**	**41.4**	**-**	**41.4**
Finance income	-	-	-	-	-	-
Finance expense	(20.9)	(7.7)	(28.6)	(19.5)	-	(19.5)
Profit/(loss) before taxation	**26.0**	**(7.7)**	**18.3**	**21.9**	**-**	**21.9**
Taxation	-	-	-	-	-	-
Profit/(loss) for the period attributable to equity shareholders	**26.0**	**(7.7)**	**18.3**	**21.9**	**-**	**21.9**

Unaudited balance sheet as at 3 January 2019

	As at 3 January 2019 £m	As at 28 December 2017 £m
Assets		
Non-current assets		
Goodwill	**157.5**	157.5
Other intangible assets	**148.7**	135.9
Property, plant and equipment	**1,477.5**	1,473.0
Right-of-use assets	**30.7**	-
Deferred tax asset	**0.8**	15.0
	1,815.2	1,781.4
Current assets		
Inventories	**4.1**	4.1
Trade and other receivables	**15.1**	13.9
Current tax asset	**3.9**	7.2
Cash and cash equivalents	**54.5**	39.3
	77.6	64.5
Liabilities		
Current liabilities		
Borrowings	**(0.3)**	(0.3)
Lease liabilities	**(0.3)**	-
Trade and other payables	**(167.9)**	(168.7)
	(168.5)	(169.0)
Net current liabilities	**(90.9)**	(104.5)
Non-current liabilities		
Borrowings	**(1,877.5)**	(1,747.4)
Lease liabilities	**(33.2)**	-
Retirement benefit obligations	**(0.9)**	(2.9)
Deferred tax liability	**(92.0)**	(95.0)
	(2,003.6)	(1,845.3)
Net liabilities	**(279.3)**	(168.4)
Equity		
Equity share capital	**1.0**	1.0
Other reserve	**(154.0)**	(154.0)
Retained earnings	**(126.3)**	(15.4)
Total equity	**(279.3)**	(168.4)

Current trade and other payables include interest and capital accruals totalling £40.7 million (28 December 2017: £35.5 million) and taxation group relief creditors of £11.0 million (28 December 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 36 weeks ended 3 January 2019

	36 weeks ended 3 January 2019 £m	36 weeks ended 28 December 2017 £m	**12 weeks ended 3 January 2019 £m**	12 weeks ended 28 December 2017 £m
Cash flows from operating activities				
Operating profit	**135.6**	127.9	**46.9**	41.4
Depreciation and amortisation	**38.5**	34.8	**12.8**	11.2
Working capital movements	**(40.9)**	(28.9)	**(32.3)**	(20.4)
Difference between the pension charge and contributions	**(0.3)**	(0.3)	**(0.2)**	(0.1)
Corporation tax paid	**(0.2)**	(0.8)	**(0.2)**	(0.2)
Net cash from operating activities	**132.7**	132.7	**27.0**	31.9
Cash flows used in investing activities				
Purchase of property, plant and equipment	**(48.3)**	(61.6)	**(18.6)**	(23.0)
Interest received	**0.2**	0.2	**0.1**	-
Net cash used in investing activities	**(48.1)**	(61.4)	**(18.5)**	(23.0)
Cash flows (used in)/from financing activities				
Repayment of external borrowings	**(350.1)**	(560.1)	**(350.0)**	-
Proceeds from external borrowings	**482.7**	839.5	**482.7**	-
Issue costs on secured debt	**(3.6)**	(8.9)	**(3.6)**	-
Break costs on secured debt	**(6.1)**	(26.9)	**(6.1)**	-
Interest paid	**(43.5)**	(42.6)	**(1.8)**	-
Repayment of lease liabilities	**(0.1)**	-	**-**	-
Dividends paid	**(155.5)**	(267.0)	**(119.6)**	(15.0)
Net cash (used in)/from financing activities	**(76.2)**	(66.0)	**1.6**	(15.0)
Net increase/(decrease) in cash and cash equivalents	**8.4**	5.3	**10.1**	(6.1)
Cash and cash equivalents at the beginning of the period	**46.1**	34.0	**44.4**	45.4
Cash and cash equivalents at the end of the period	**54.5**	39.3	**54.5**	39.3
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash and cash equivalents	**8.4**	5.3	**10.1**	(6.1)
Cash inflow from movement in debt	**(132.6)**	(279.4)	**(132.7)**	-
Change in net debt resulting from cash flows	**(124.2)**	(274.1)	**(122.6)**	(6.1)
Non-cash movements and deferred issue costs	**3.2**	6.7	**4.6**	(0.9)
Movement in net debt in the period	**(121.0)**	(267.4)	**(118.0)**	(7.0)
Net debt at the beginning of the period	**(1,702.3)**	(1,441.0)	**(1,705.3)**	(1,701.4)
Net debt at the end of the period	**(1,823.3)**	(1,708.4)	**(1,823.3)**	(1,708.4)

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.