

# Investor presentation December 2021

<https://www.karbonhomes.co.uk/corporate/>

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# 1. Introduction and highlights



# Presenting team

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**Paul Fiddaman**  
Group Chief Executive

Paul trained as an accountant with Price Waterhouse and qualified in 1990.

Prior to the creation of Karbon Homes, Paul served as Chief Executive of the Isos Group.

He also holds leading roles within the housing sector including Chair of the Northern Housing Consortium, a member of the North of Tyne Housing and Land Board and a board member of Placeshapers, the national network of community-based social housing providers.



**Scott Martin**  
Executive Director of Resources

Scott (FCA) started his career with KPMG before moving into senior finance and management roles in the housebuilding sector.

He spent 10 years at Barratt Homes North East as Finance Director and then Managing Director before taking the position as Group Finance Director at the £230million turnover Storey Homes.

Scott joined Karbon in February 2020, and is responsible for Finance, ICT and People and Organisational Development.

Scott is a member of the National Housing Federation's (NHF) Housing Statement of Recommended Practices (SORP) working party.



**Andrew Thompson**  
Assistant Director of Treasury

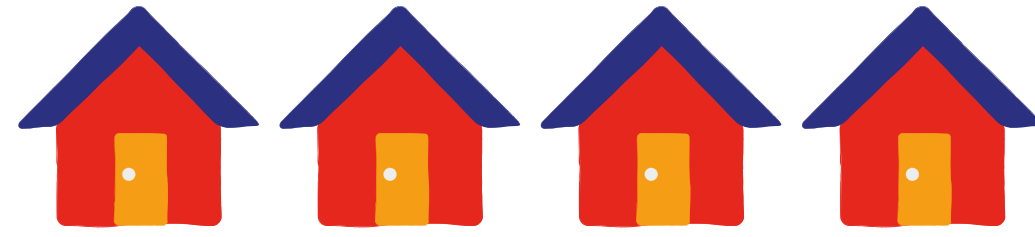
Andrew is a Chartered Certified Accountant (FCCA).

Formerly the Head of Finance at Derwentside Homes in 2015, Andrew was heavily involved in the process of amalgamation to form Karbon Homes in April 2017.

As Karbon's Assistant Director of Treasury, Andrew led on its inaugural £250m public bond, as well as the project to produce Karbon's first ESG report against The Good Economy's sustainability reporting standard.

Recently, Andrew has taken up a Board role at Durham Aged Mineworkers Homes Association, the largest aimshouse charity in the UK.

# Our impact



Own or manage  
**30,000**  
homes, housing over  
**60,000**  
people



**£142 million**  
annual turnover and  
assets worth  
**£917  
million**

**447**  
**new homes**  
completed, an  
investment of  
**£59.3 million**



We employ  
**900+**  
people who are  
all on the living  
wage or above



Identified  
**£5.4 million**  
in income gains for our  
customers



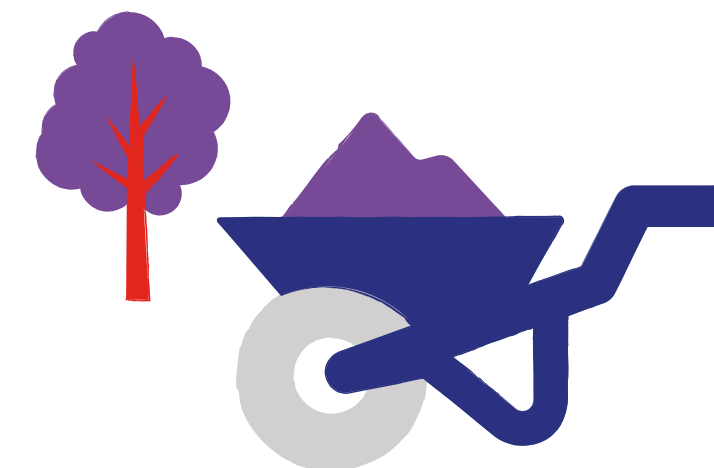
**73,487**  
home repairs completed  
**£44.2  
million**  
invested in home  
improvements

Provided  
benefit, money  
and debt advice to  
**5,618  
customers**

Supported over  
**145 residents**  
into employment and training  
in the last year



**2,200**  
**new homes**  
planned in our new  
Strategic Partnership with  
Homes England



Invested almost  
**£288,000**  
in **173 community  
projects** last year



# Environmental, Social and Governance (ESG)

We were an early adopter of the Sustainability Reporting Standard for Social Housing, recently releasing our first report in October 2021. The full report is available [here](#). Here are some of our highlights...

## Social



**Tripled the use of our telephone befriending Silver Talk Service to 300 in the last year**



Our trained Residents' Strategic Group (RSG) undertake regular scrutiny of our services and ensure the customer voice is heard at all levels



Achieved a Net Promoter Score (NPS) from our residents of +55.

**100%**

of our tenancies are assured lifetime tenancies: we believe this builds strong and stable communities



**Awarded grants to 107 customers in financial crisis**

Supported 154 customers through the Social Security Appeals process with an 86% success rate



Our rents are

**25.7%**

lower than the market rate, with an average weekly rent of £77

Our overall customer satisfaction sits at

**90.7%**



Our Money Matters Team helped 5,618 customers with money advice and support, generating income gains totalling £5.4m



## Governance

**All colleagues are paid at the Real Living Wage or above**



Retained the highest possible rating from the Regulator of Social Housing (RSH) at G1/V1

**Follow the National Housing Federation's Code of Governance 2020**



Apply a minimum of

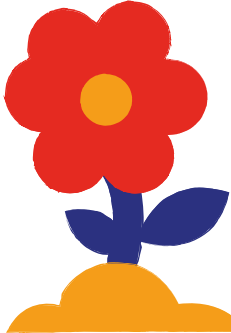
**5%**

social value weighting in our procurement processes

Focused on our colleague's development with training such as our award winning Adaptive Leader Programme



Invested heavily in a variety of colleague wellbeing initiatives, including the free use of the app Headspace and a subsidised cash health plan



## Environmental

**Ongoing investment in Modern Methods of Construction (MMC) products including the piloting of energy efficiency measures in Sunderland**

Helped customers save an average of

**£116**

per year on their energy bills

Installed

**100**

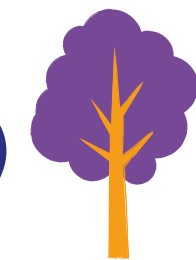
air source heat pumps to homes in rural off-grid communities



Winner of Landlord of the Year in the North East Energy Efficiency Awards

Planted

**229**



trees across urban areas and eliminated the use of pesticides within our grounds maintenance services



**All new Homes are built at EPC Rating B**



Engaged 96% of our customers on energy efficiency (SHIFT)

Developed 'Our Response to Climate Change' project group



## The story so far

- Created our Community Pledge
- Established the Byker Committee, with four tenant members, to set targets and monitor our performance against our comprehensive workplan
- Phase One modernisation programme began in June 2021: 366 properties with new bathrooms and kitchens
- Master plan for external environment upgrade, now in design stage
- Entering planning phase for 24 new homes on available land
- Improving performance across our District Heating System (DHS): costs already reduced by 11% for our customers



## Byker Community Trust colleagues

Our former BCT colleagues have settled in well: a Net promoter score of +58 from that colleague group suggests they are enjoying being part of our team.



## Investment and health and safety

- Upgraded communal lighting to 15 blocks
- Replaced 110 doors
- Aim to complete fire recommendation works by December 2021
- Converted previously unused commercial units to four new homes for affordable rent

## Supporting our customers and the community

- Customer Service Excellence accreditation
- Launched our Thriving Byker Strategy Phase Two: covering themes of pride in your area, to health and wellbeing, training and employment, digital, and greener living
- Provided 700 hours of free activities to young people and their families in Byker's Best summer ever programme
- Continued our wide range of other community work, and saw our customer net promoter score also move from -10 to +12





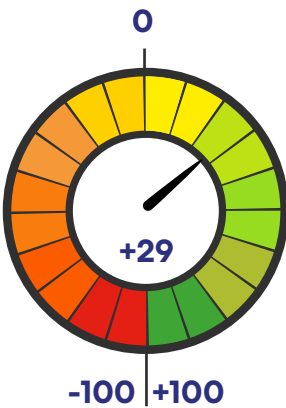
## 2. Operational performance



# Operating model

- Our strategy is to strive for excellence across our services. They will be locally responsive, easy to access and personalised where possible
- We have recently refreshed our ‘Stronger Foundations Strategy 2021-26’, and in doing so, acknowledge the huge role that housing associations play in our communities. Our strategic aims continue to be focused on ‘Homes’, ‘Customer’ and ‘Place’ and are supported by our ‘Enablers’
- We benchmark our performance using Housemark and the Sector Scorecard. We have included the headline indicators we report internally below
- The KPI’s listed below each speedometer display our 2021/22 target and YTD performance to September 2021
- Benchmark metrics cover business health, development, outcomes delivered, effective asset management and operating efficiencies

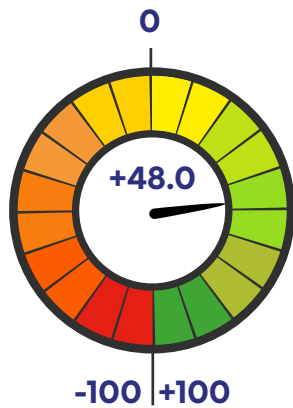
### Colleague engagement (eNPS)



Annual Target  
**+ve**

Where we are  
**+29.0**  
(Quarter 1 Performance)

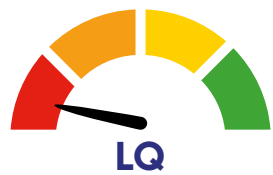
### Customer experience



Annual Target  
**+52.0**

Where we are  
**+48.0**  
(September 2021)

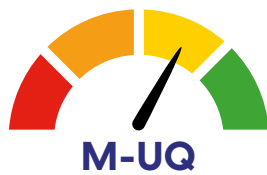
### Homes built



Year to date Target  
**172**

Where we are  
**236**  
(September 2021)

### Homes occupied



Annual Target  
**99.2%**

Where we are  
**99.2%**  
(September 2021)

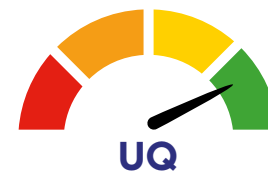
### Rent collected



Annual Target  
**99.5%**

Where we are  
**99.4%**  
(September 2021)

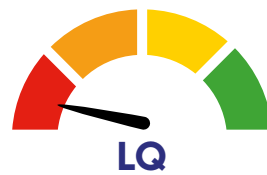
### Operating margin



Annual Target  
**26.5%**

Where we are  
**26.6%**  
(September 2021)

### Social housing cost per unit



Annual Target  
**£3,342**

Where we are  
**£3,388**  
(September 2021)



# Operational performance

- Despite very challenging circumstances, rent collection and arrears performance has remained strong.
- Our Empty Homes Project has been very successful too, bringing void rental losses and re-let times within target. This has also been helped by our performance on standard and major repairs to empty homes.
- However, there have been pressures on our internal resources and materials suppliers which has led to back-logs of compliance works on some repairs. We are therefore concentrating our efforts on gas servicing to meet our 100% target and ensure responsive repairs performance improves.

<b>Karbon Homes (Association): Performance Benchmarking</b>	<b>Measure</b>	<b>YTD Sept 2021</b>	<b>Target 21/22</b>	<b>FY 20/21</b>
Rent collected against rent debit	%	99.4%	99.5%	99.4%
Current rent arrears net housing benefit as percentage of rent debit	%	3.8%	N/A	3.8%
Void rent loss as percentage of annual rent debit (rolling 12 months)	%	1.7%	1.9%	2.0%
Average re-let time (Housemark Standard)	Days	49.7	55.0	71.2
Benefit income achieved for our customers	£	£2.4m	£5.5m	£5.6m
Responsive repairs completed to target date	%	95.9%	96.0%	96.6%
Appointments made and kept	%	98.2%	98.0%	98.2%
Average number of calendar days to complete standard void repairs (routine)	Days	9.8	14.0	12.9
Average number of calendar days to complete standard void repairs (major)	Days	28.4	35.0	28.0
Average cost of responsive repairs	£	£148	£133	£157
Homes meeting Decent Homes Standard	%	100.00%	100.00%	100.00%
Gas servicing completed against service plan	%	99.7%	100.00%	99.9%
Customers very and fairly satisfied with responsive repairs	%	90.8%	91.0%	90.9%



# Health and safety

**Compliance related spend for 21/22 and 22/23 estimated at £12m**

**Significant expenditure on fire safety totalling over £11m in last seven years**

**For the next five years, increased fire safety spend to c.£5m per year**

**Future of Fire Safety Project Team advising our board on strategic direction of fire safety within Karbon**



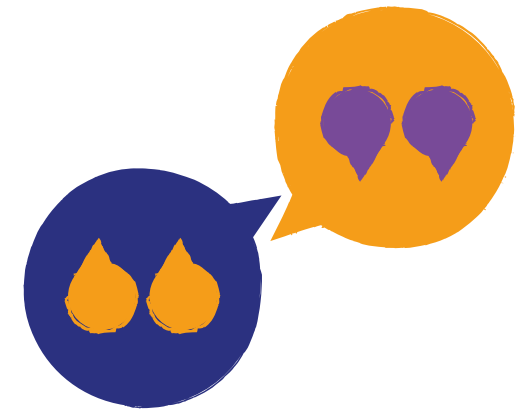
**100% of homes at Decent Homes Standard**

**Fire safety – robust response to Building and Fire Safety Bills based on holistic risk of a building, not just height**

**Target 100% compliance on all statutory measures (gas, electric, legionella, asbestos etc)**



# Delivering excellent service to our customers



**Making sure the customer voice is heard**



**Increase transparency and visibility through our resident engagement framework**



***Craig said: "I'm extremely grateful for the support Karbon and the Foundations for Life Team have given me. Thanks to them I was able to get this fantastic new job and I'm really enjoying the role and learning new skills."***

## **Craig learns new skills and lands a new job**

We helped Craig from Stanley, County Durham, to find a new job through our Foundations for Life service, which provides employability support and digital skills training.

Craig was made redundant in November 2020 and needed a range of support to help him get ready to apply for new jobs. We helped him complete a literacy and numeracy programme, and learn basic IT skills including how to set up and use email for job applications.

He also went on a health and safety course with an external provider and attended one of our Money Works sessions to learn how to budget and save money so he could make the best of his income.

During lockdown, Craig was unable to contact us or continue looking for a job as he had no ICT equipment or smart phone at home. So we set up a scheme to provide IT equipment to customers like Craig most in need of support during lockdown, and provided him with a tablet to continue with his job search. As a result, he was able to take part in a video job interview with Amazon, getting a job at their new warehouse in Durham.



**Using data-led customer insight to personalise our service**



**Regularly measure our performance**



### 3. Development and assets

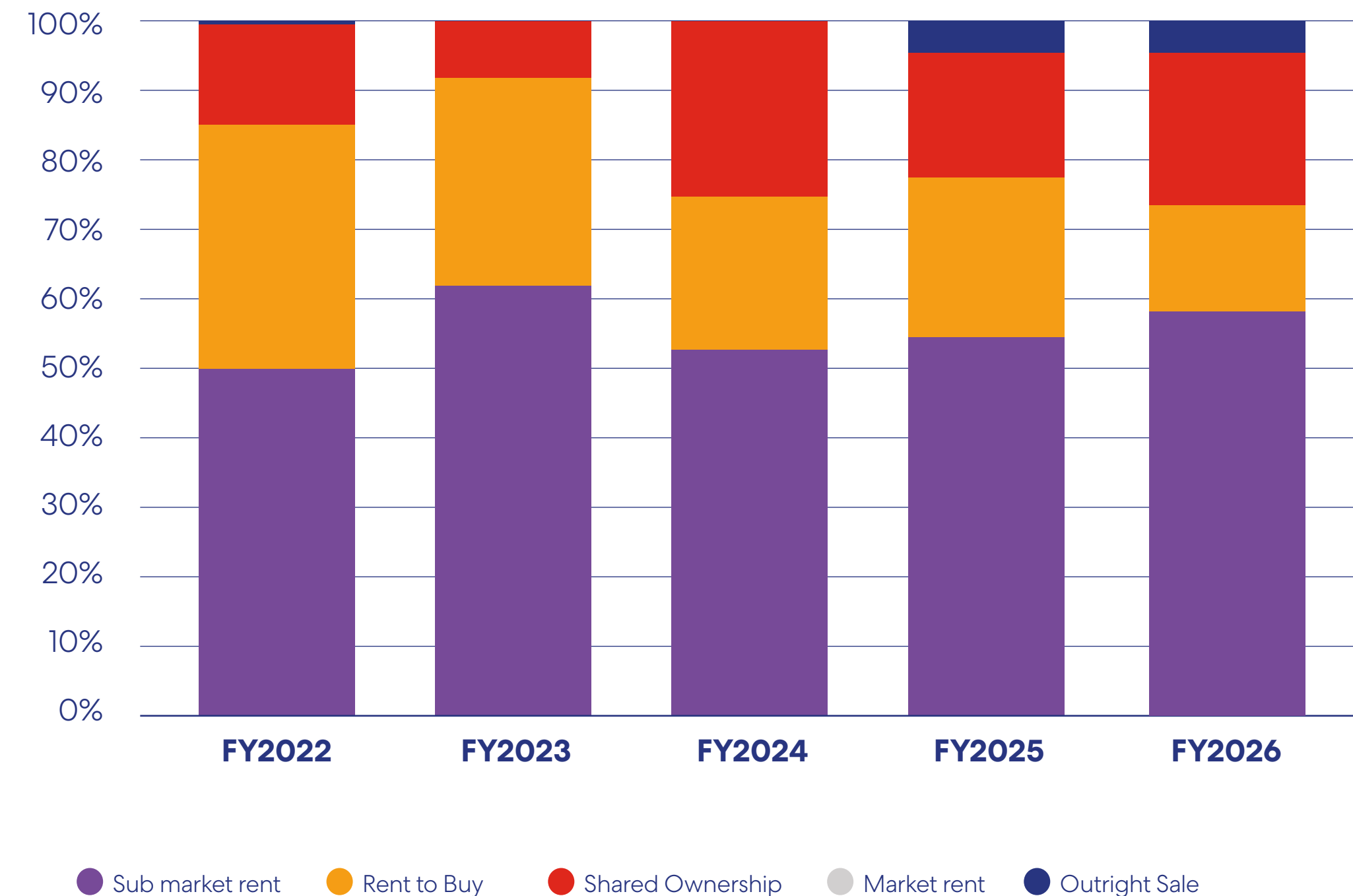


# Development strategy

Karbon Homes Group	Actual 2018/19	Actual 2019/20	Actual 2020/21	Forecast 2021/22	Business Plan 2022/23	Business Plan 2023/24	Business Plan 2024/25	Business Plan 2025/26
New homes completed	430	534	447	500	876	559	541	483

- We were successful in bidding for Strategic Partner (SP) Status with Homes England in Sept 2021
- Our SP bid was for 2,200 homes over the period to 2027/28, attracting grants of £131.5m
- This strengthens our new strategy for building 600 new homes per year
- Our focus remains on core social and affordable housing with modest amounts of commercial activity to help cross-subsidise social projects
- During 2021/22, our first Joint Venture entered the construction phase

## Annual development programme mix





# Housing investment standards

Currently developing our standard through recent pilot projects:



## Pickering - Yorkshire:

- 20 units
- Future Homes Standard - 83% energy enhancement via triple glazing, enhanced insulation, air source heat pumps and solar PV

## Thorpe Willoughby – Yorkshire:

- 70 units
- Timber frame system, air source heat pumps and electric car chargers





# College Grange, Sunderland



105 new affordable homes with 30 units using steel frame modern methods of construction (MMC).

Using a four unit pilot scheme with a view to a cost/benefit analysis scheduled for late 2022.

**Plot 1:** Current building regulations (base).

**Plot 2:** Interim building regulations 2021 – (31% improvement, fabric first approach, solar PV).

**Plot 3:** Forecast Future Homes Standard 2025 – 75% improvement, fabric first, PV and air source heat pumps.

**Plot 4:** Net zero – 100% improvement, all of the above plus mechanical ventilation with heat recovery.





# Seaham Garden Village, County Durham

- 750 home scheme to be developed over the next 7-8 years
- Developing with partners Taylor Wimpey and Miller construction
- Modern Methods of Construction (MMC) with Future Homes Standard or net zero being explored
- The site could also incorporate a specialist dementia care facility required by Durham County Council, as well as a new school, an innovation, health and wellbeing centre and some commercial units

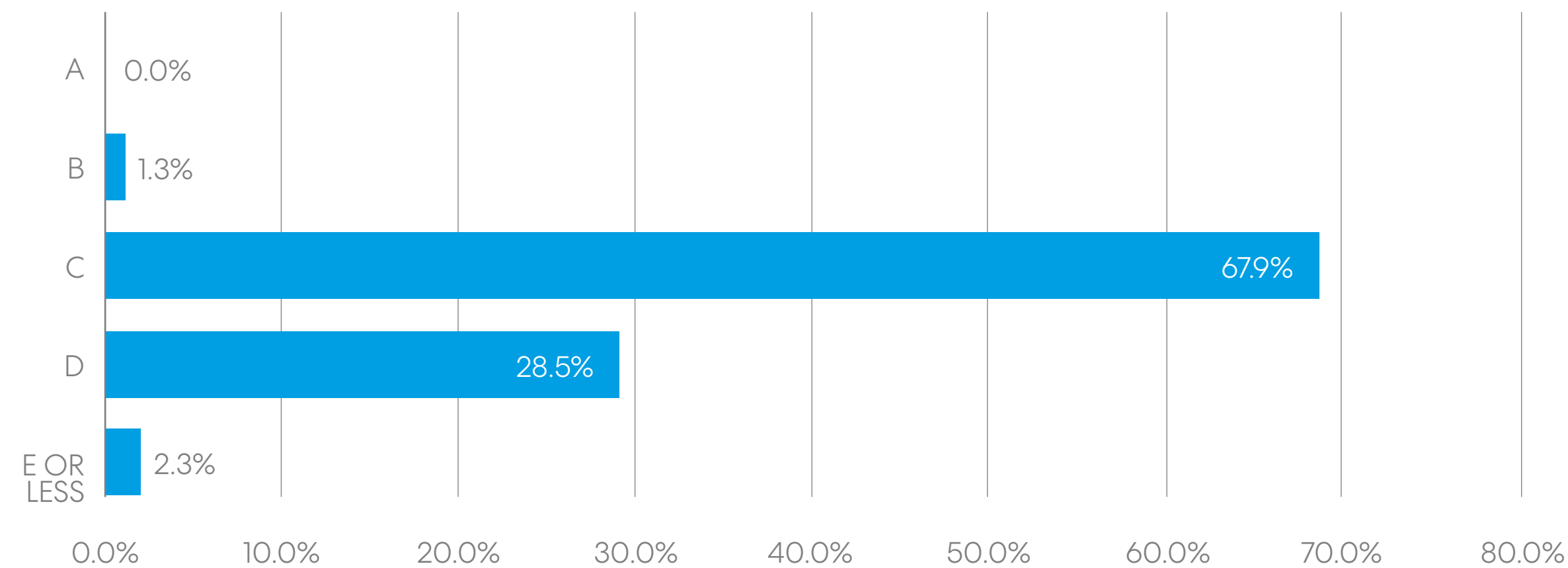




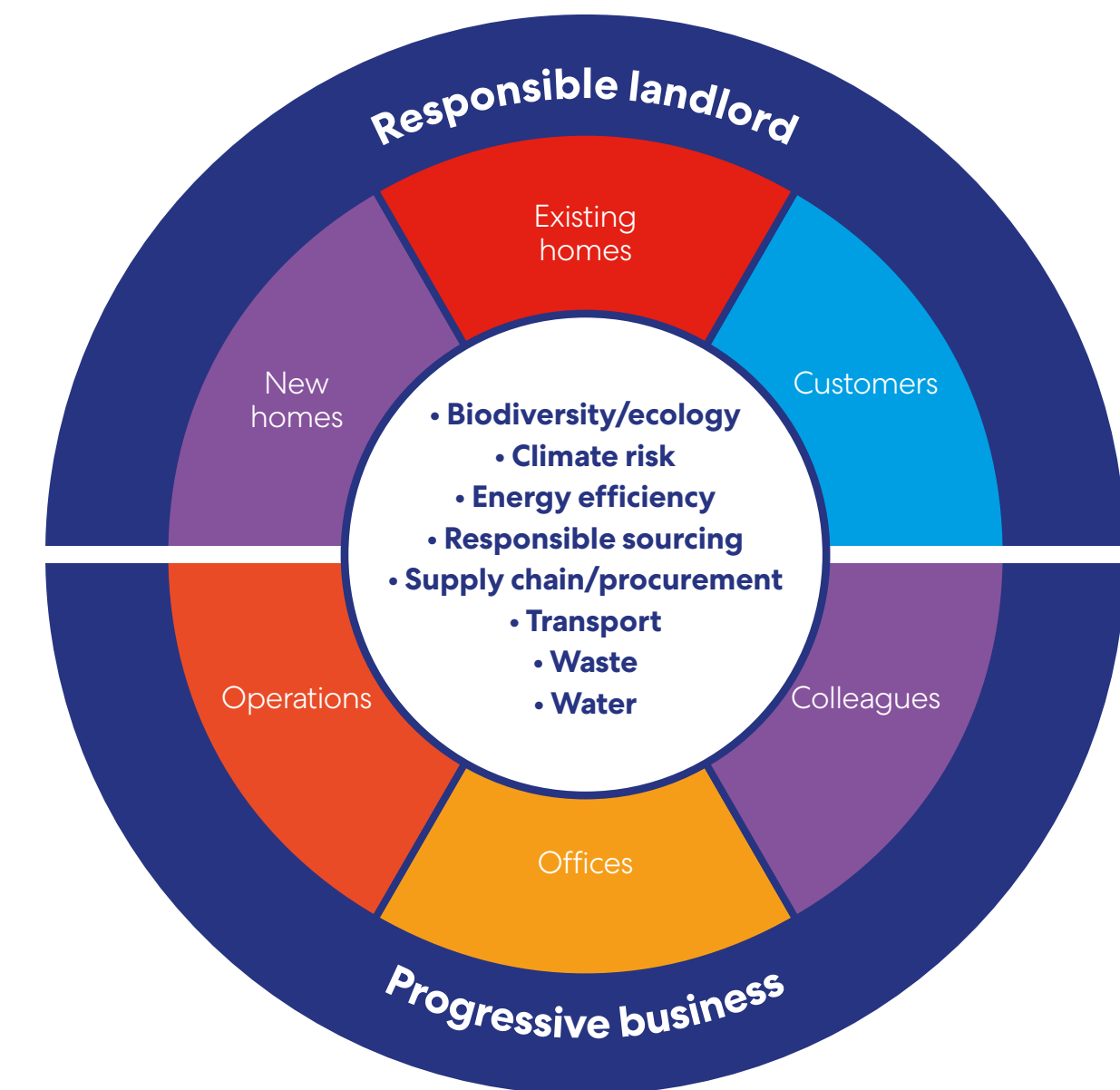
# Capital Investment, EPC and ESG

- Over the next four years we plan to invest £263m in improving our existing homes
- We set aside £20m at the beginning of 2021/22, specifically targeted to EPC upgrades in the period to 2030
- Our work to date as seen us win ‘Landlord of the Year’ at the North East Energy Efficiency Awards
- During the last 18 months, we have improved almost 1,000 homes to EPC band C

## Current Homes : EPC Ratings



## Our Response to Climate Change strategy, refreshed in 2020



- Through annual SHIFT assessments and our ESG reports, we will continue to demonstrate performance improvements
- Improving our data across these areas is a key focus of the strategy



# 4. Financial performance





# Performance summary

Metric		19/20 Actual	20/21 Actual	21/22 FFR	22/23 FFR	23/24 FFR	24/25 FFR	25/26 FFR
SH as % of Turnover*	%	86.9%	84.5%	88.1%	89.2%	88.3%	89.0%	85.7%
SH Core EBIDTA margin*	%	37.2%	38.1%	39.1%	40.3%	41.2%	44.2%	42.6%
EBITDA margin	%	38.6%	40.4%	39.6%	40.5%	41.2%	43.6%	42.8%
EBITDA MRI margin	%	30.8%	30.5%	25.6%	26.6%	29.2%	22.4%	22.1%
Debt to EBITDA margin	x	9.3x	11.5x	12.4x	11.1x	9.7x	13.0x	13.4x
Gearing (Historic cost)	%	38.3%	35.8%	38.8%	39.2%	40.1%	40.6%	40.2%
EBITDA MRI ICR	%	227.4%	213.2%	194.1%	218.9%	269.3%	204.3%	199.0%
Capitalised Major Repairs	£m	10.6	14.0	21.5	21.9	20.3	37.2	39.2
Development - completions**	#	534	447	500	876	559	541	483

\* excludes surplus from first tranche shared ownership and outright sales

\*\* updated forecast for 2021/22



# Group Statutory Financials

£m	19/20 Actual	20/21 Actual	21/22 FFR	22/23 FFR	23/24 FFR	24/25 FFR	25/26 FFR
SH Core turnover	113.2	115.3	129.8	135.8	144.1	151.1	156.8
Sales and other turnover	22.7	27.1	23.5	22.5	25.5	24.5	32.7
<b>Turnover</b>	<b>135.9</b>	<b>142.4</b>	<b>153.3</b>	<b>158.3</b>	<b>169.6</b>	<b>175.6</b>	<b>189.5</b>
Cost of sales and other op. costs	(17.7)	(20.6)	(17.5)	(17.0)	(20.1)	(20.3)	(26.9)
SH Core operating costs	(83.9)	(84.8)	(94.3)	(98.0)	(102.5)	(101.6)	(106.4)
SH Core operating surplus	29.3	30.5	35.5	37.8	41.6	49.5	50.4
<b>Operating surplus</b>	<b>34.3</b>	<b>37.0</b>	<b>41.5</b>	<b>43.3</b>	<b>47.0</b>	<b>53.7</b>	<b>56.2</b>
Surplus on disposals	4.3	1.6	1.6	2.1	2.1	2.8	3.0
Net interest cost	(16.8)	(19.2)	(18.9)	(18.2)	(17.7)	(19.0)	(20.0)
Tax and other	0.3	2.7	(0.1)	0.1	(0.1)	(0.2)	(0.2)
<b>Surplus</b>	<b>22.1</b>	<b>22.1</b>	<b>24.1</b>	<b>27.3</b>	<b>31.3</b>	<b>37.3</b>	<b>39.0</b>



# Unaudited YTD: September 2021

£m	Sept 21 Actual	Sept 20 Actual
Turnover	76.6	67.9
Operating surplus	24.9	20.8
Surplus before tax	15.4	11.7

## Operating margins consistent: 31% September 2021 (31%: September 2020)

### Key movements on our income have been:

- £4.2m additional revenue from our Byker Community Trust homes now in the Group
- £2.5m additional income from newly built properties, rent increases and improvements in empty homes turnaround
- £1.4m from additional property sales and margins compared to last year

### Key movements in costs have been:

- £3.1m additional direct costs and overheads from our Byker Community Trust homes
- £1.6m in additional staffing or subcontractor costs

## Forecasted year end position to 31 March 2022:

- Group surpluses are still currently forecasted to be close to budget of £24m by the end of the financial year



A man with a beard and short dark hair, wearing a light blue button-down shirt, is smiling broadly. He is sitting at a table with blue chairs. The background is a bright, modern interior with large windows.

# 5. Funding and treasury



# Treasury overview

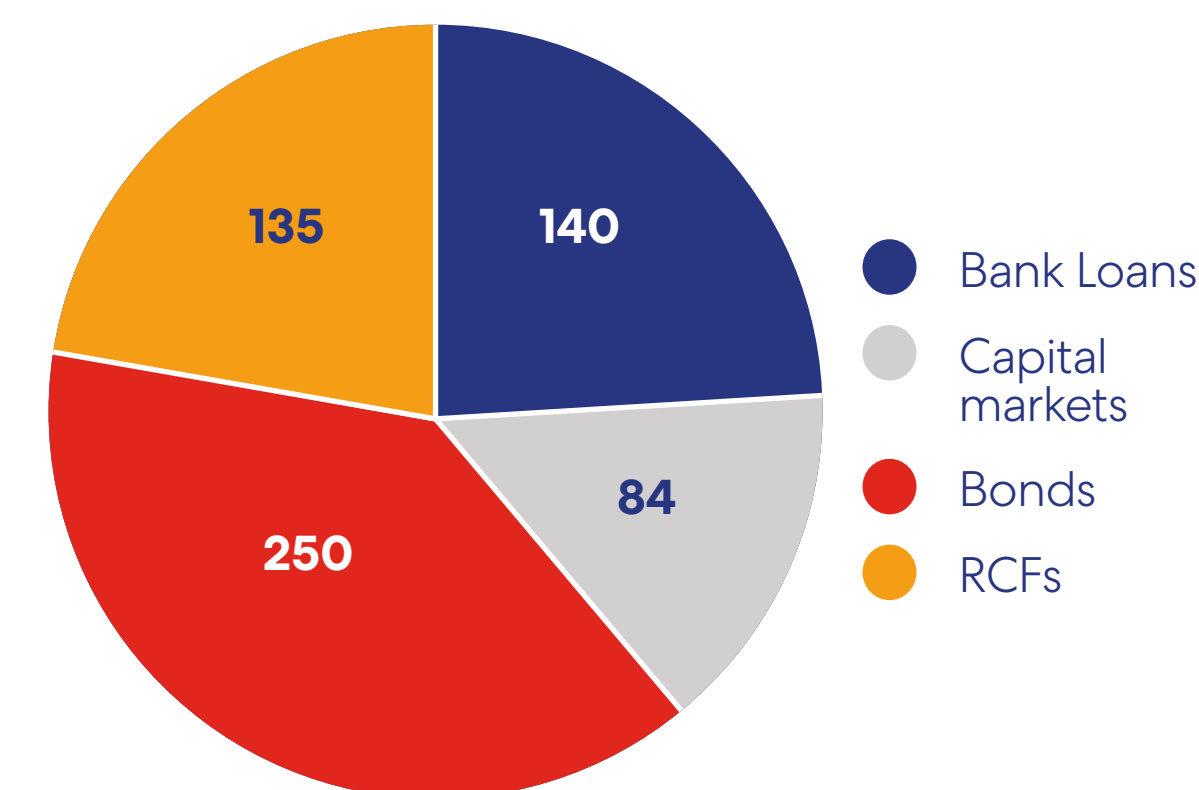
## Treasury:

- 96% of our currently drawn debt is at fixed rates of interest
- Security in place to draw on all £609m available facilities up to full utilisation
- Cash and instant access holdings of £50m at September 2021
- Deposits of £84m at September 2021
- Currently have unencumbered stock worth £201m, and excess or trustee held loan security of £130m, giving total of £331m to fund new borrowings
- Of the £136m in RCF facilities, £80.5m expire in 12 months, the remaining £55.5m expire by March 2024

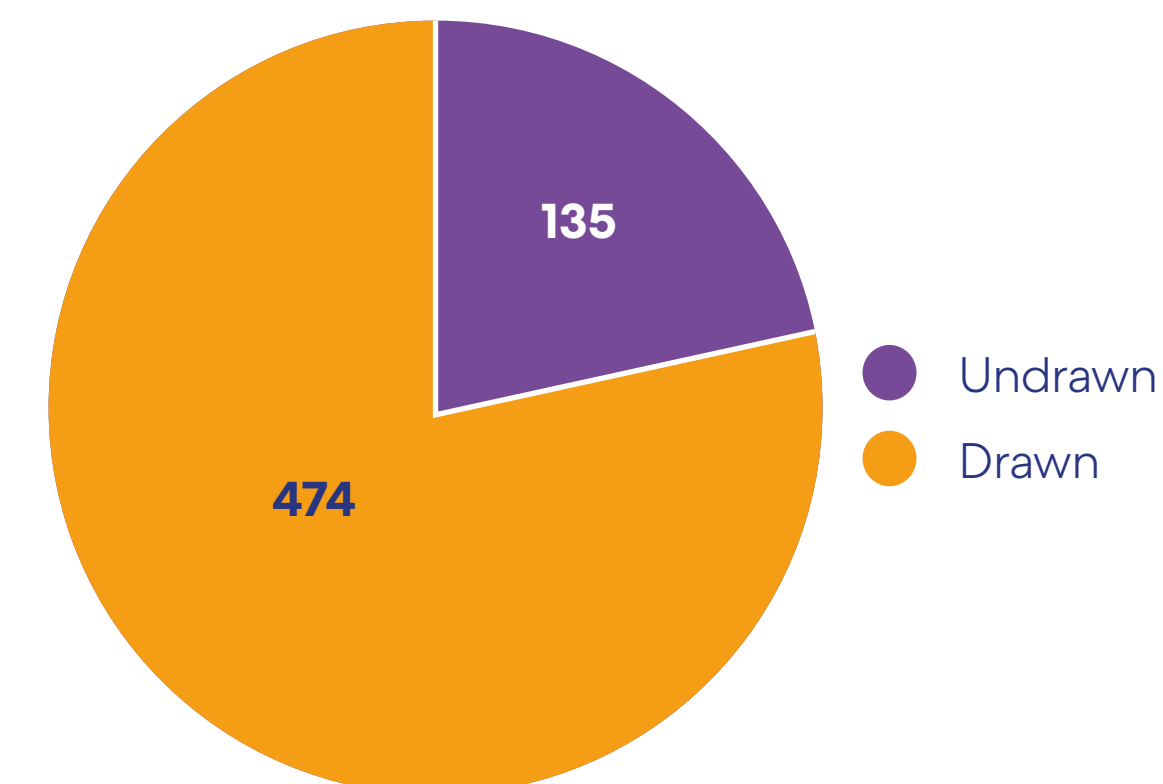
## Financial plan and funding:

- Approved financial plan 21/22 outlined new funding required by mid year three (2023/24)
- Karbon's Golden Rules outline new liquidity should be sourced at least 12 months prior to need (ie by Quarter 2 2022)
- Karbon Treasury Committee: re-constituted by Board in Sept 2021
- Treasury have been working with the board on strategy for 2022/23
- Karbon draft budget and financial plans 22/23 suggest new funding profile of (cumulatively):
  - £80m (by March 2024) • £94m (by March 2025)
  - £147m (by March 2026) • £239m (by March 2027)

Funding facilities of £609m



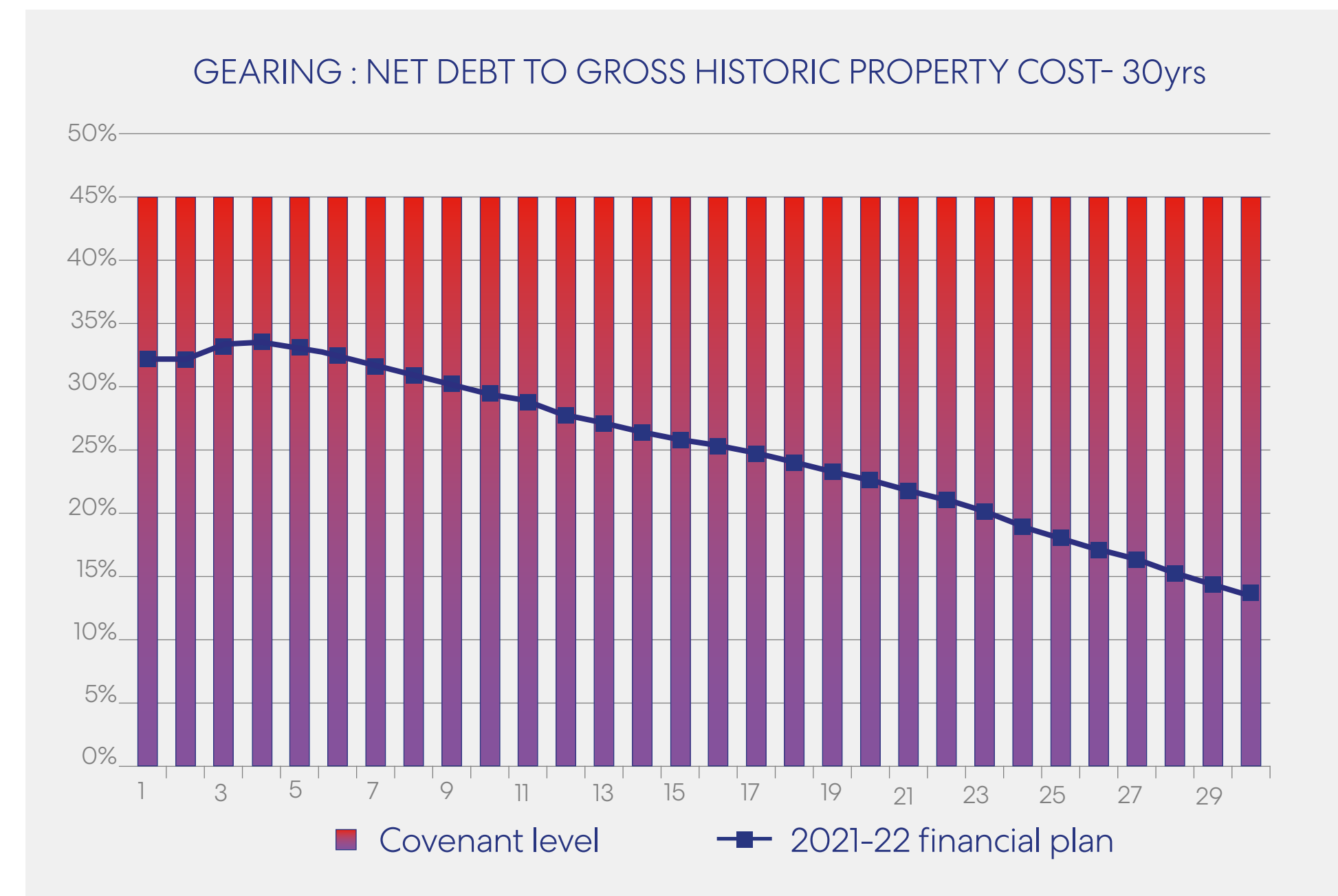
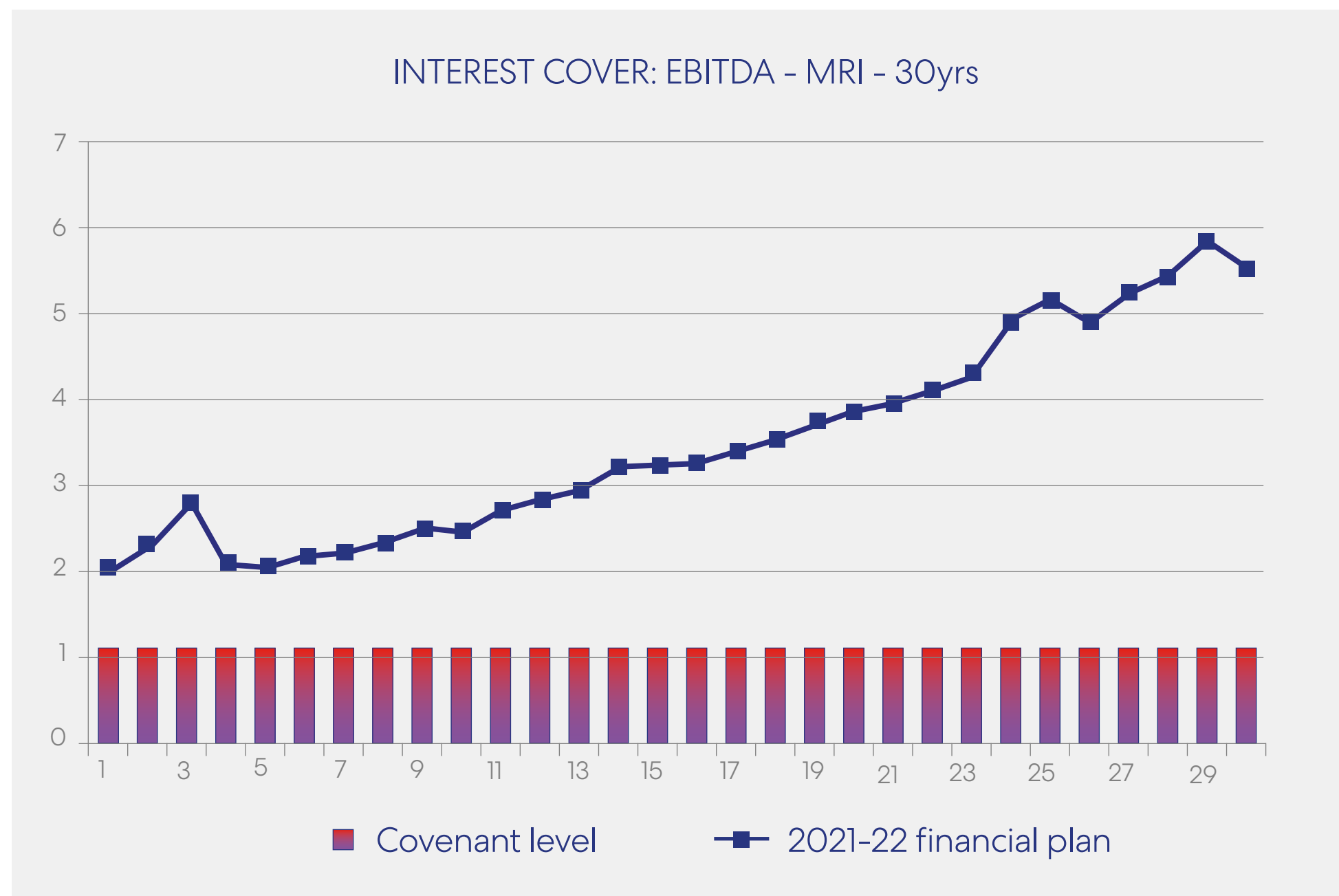
Drawn vs undrawn facilities (£609m)





# 30 Year Business Plan covenants

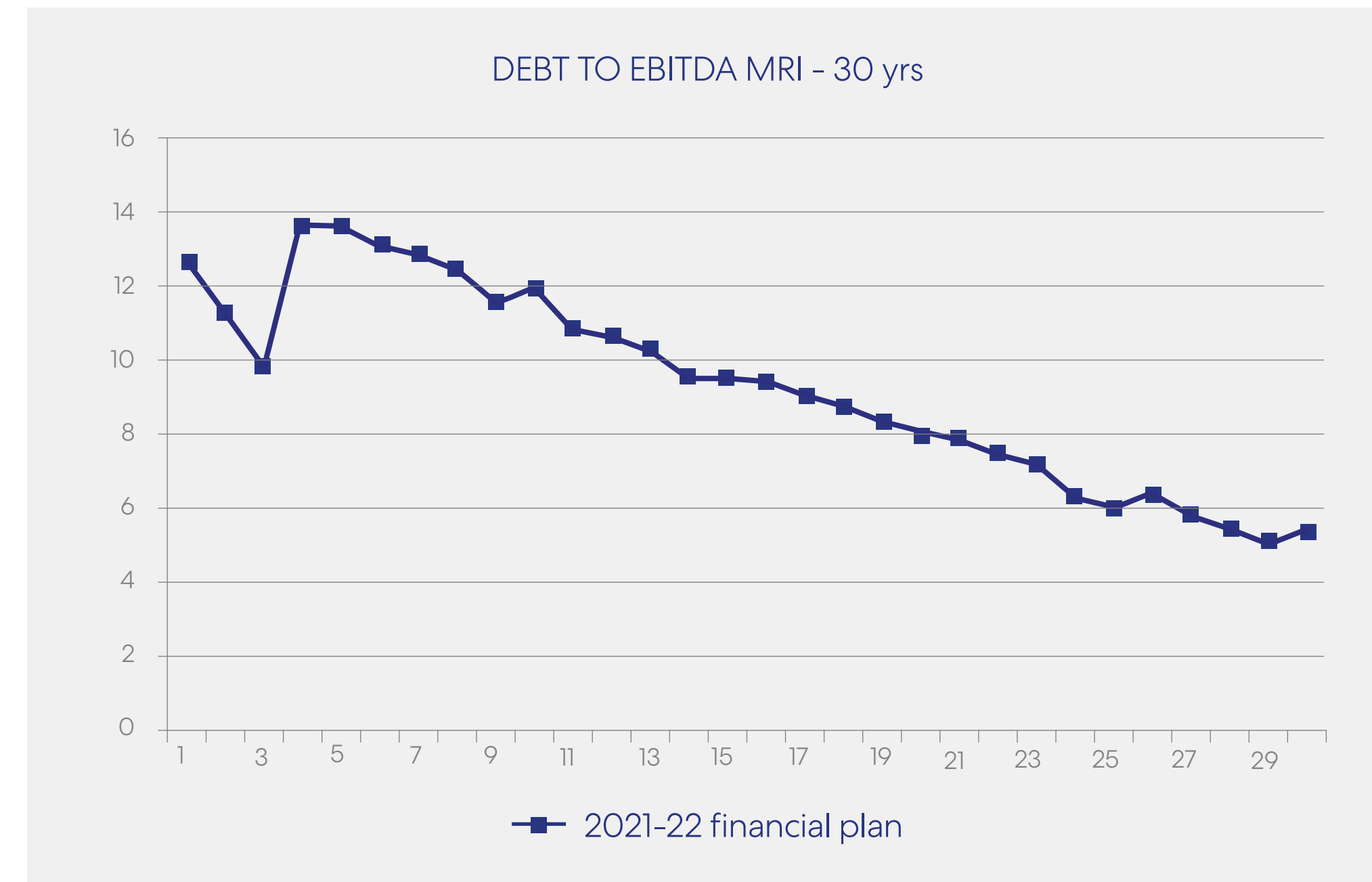
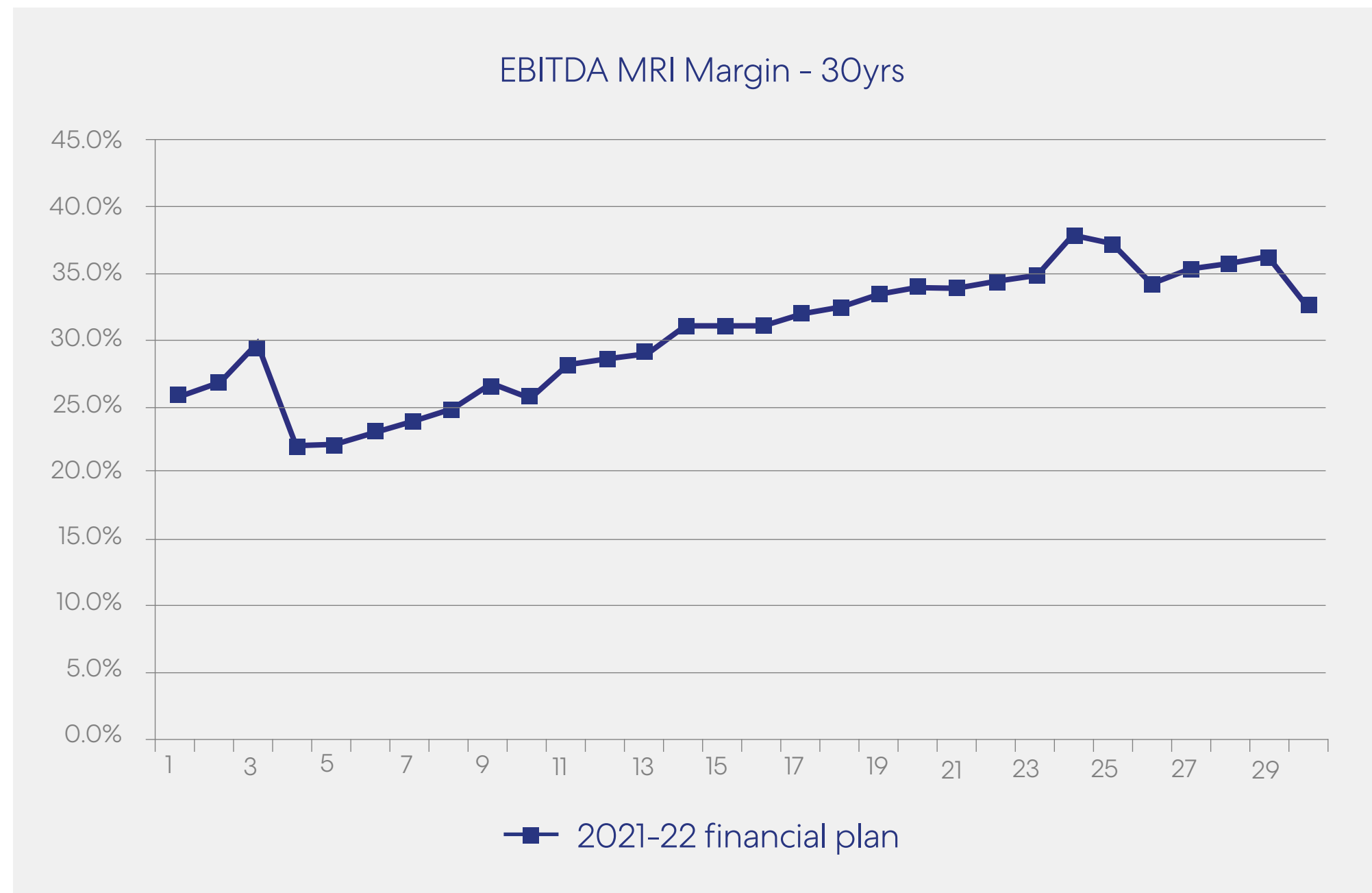
Our currently approved 30 year financial plan for 2021/22 shows healthy levels of compliance headroom with our two key banking loan covenants of Interest Cover and Gearing.





# 30 Year financial plan and our credit rating

Since receiving our S&P rating we have tracked our performance against other stakeholder metrics, such as EBITDA MRI Margin and Debt to EBITDA MRI.



- Developed our shadow rating model for our board to use in strategic modelling
- Our aim is to maintain our A (stable) rating



# Credit highlights

## 1. Credit profile

Strong investment grade (A rated, S&P), c. 30,000 homes, regionally focussed housing association, with a deep rooted history in local communities

## 2. Merger track record

Proven track record of successful merger integration, with sustained financial performance

## 3. Development focus on social housing

Low risk business model with core social housing strategy. Turnover from social housing lettings represents 85% of total turnover

## 4. Robust financial metrics

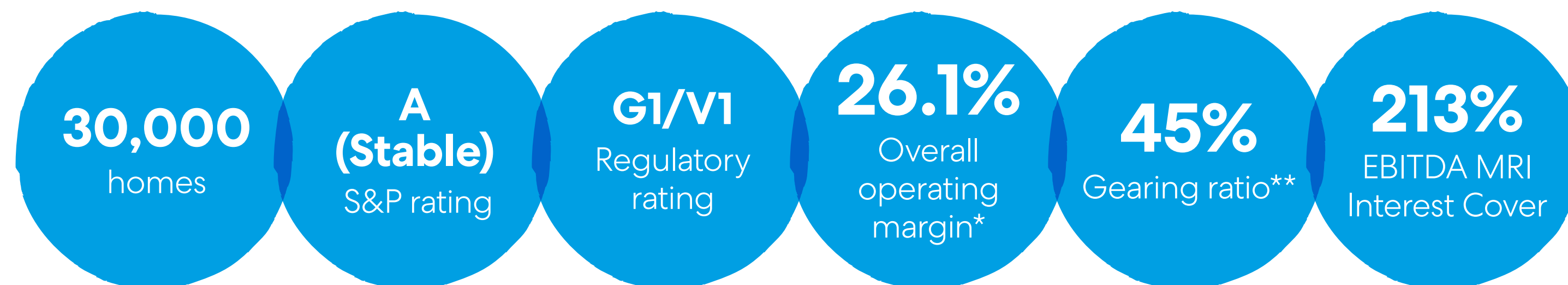
Strong operating margins, high income generation and low levels of gearing

## 5. Excellent governance

Skilled and experienced Board, reflected in consistent G1/V1 rating and M&A track record

## 6. Strong ESG foundations

Committed to achieving EPC Band C across existing homes by 2030. Now reporting ESG using the Sustainability Reporting Standard for Social Housing



Source: Metrics from Karbon Homes audited Financial Statements year ended 31 March 2021. \*Overall operating margin, excluding asset sales. \*\*Regulator of Social Housing (RSH) gearing definition.



**Any questions?**