

# Investor presentation

**December 2019**

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# 1. Introduction



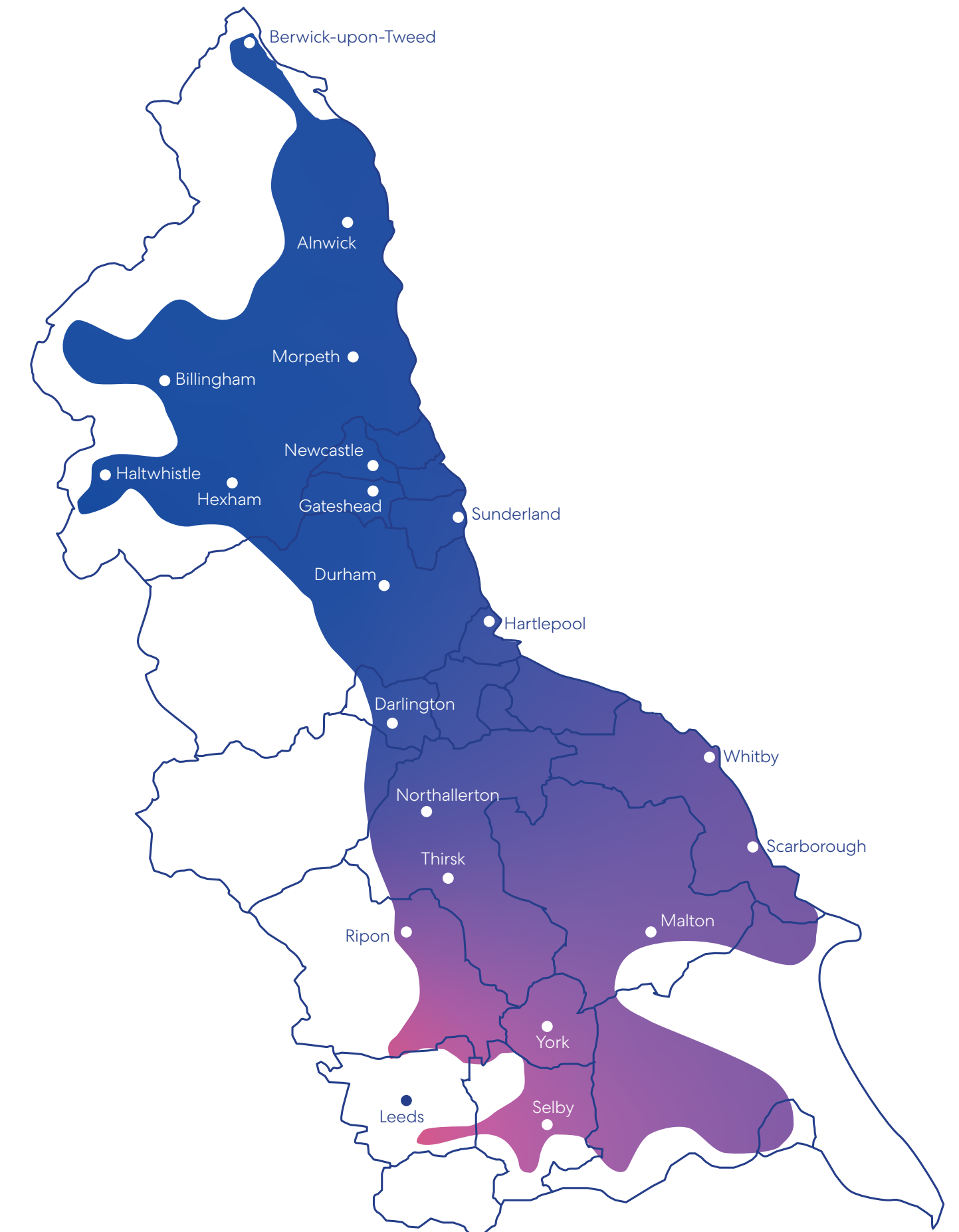
# Introduction

**Karbon's mission is to provide a strong foundation for life.**

**We aim to do this through the delivery of our three strategic aims:**

- To provide as many good quality homes as we can
- To deliver excellent service to our customers
- To shape strong, sustainable places for our communities

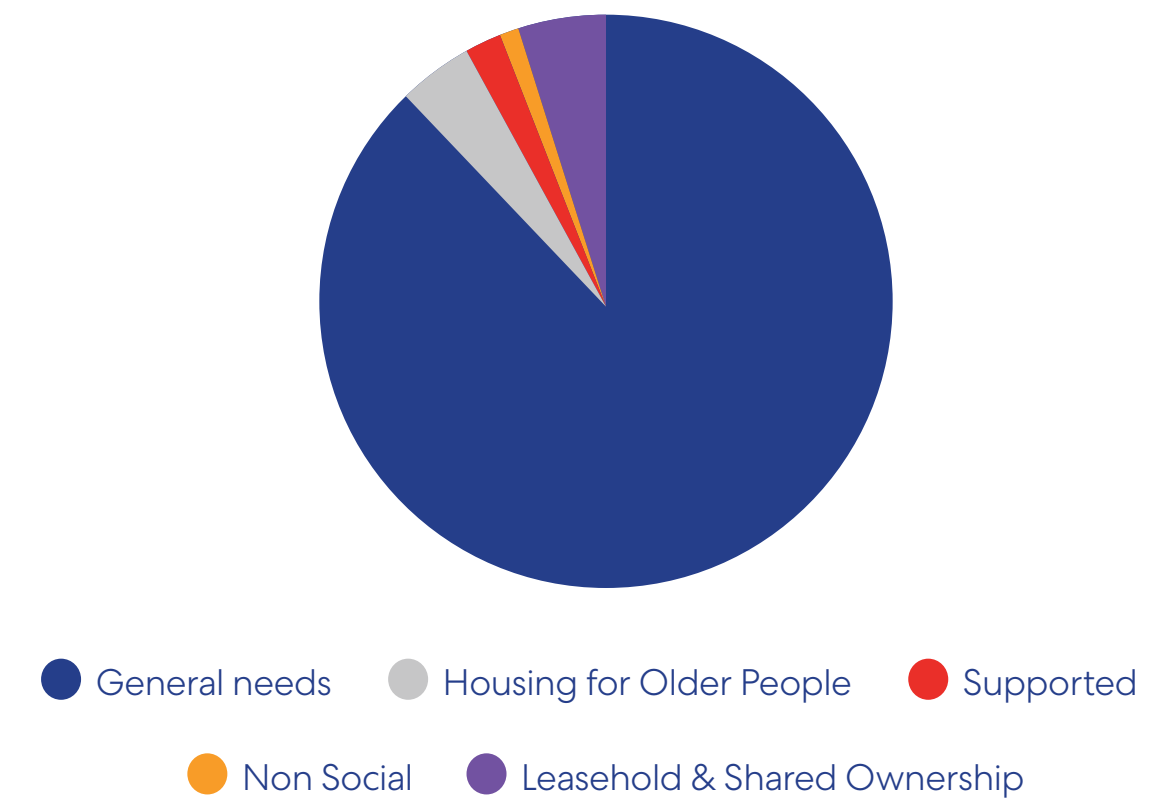
- Formed in April 2017, following the merger of three reputable North East not-for-profit landlords: Isos Housing, Cestria (CHA) and Derwentside Homes.
- York Housing Association joined the Karbon Group in December 2017 – independent.
- Guinness stock transfer of 1,300 homes in May 2018.
- G1/V1 rating from Regulator of Social Housing November 2019.
- A+ (Negative) credit rating reaffirmed from Standard & Poors in October 2019.
- Strong development programme of various tenures to suit the markets we operate in.
- Now c.27,000 homes across the Group, 800 staff, £130m turnover.



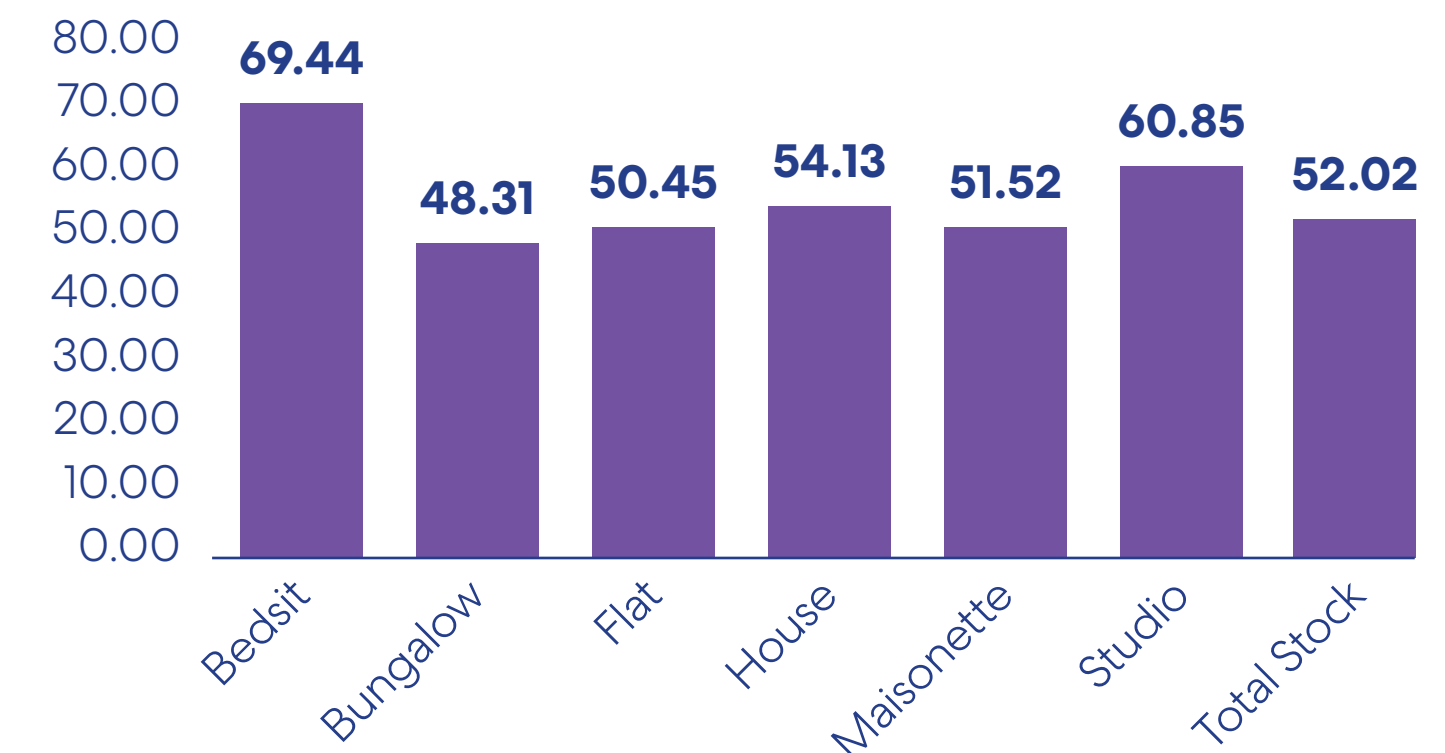
# Introduction

- A large portfolio spread across the North-East and Yorkshire with significant concentrations in County Durham and Northumberland.
- Most of our homes are within a one hour drive of our main offices.
- The average age of our homes is 52 years.
- Average general needs rent charged was £75.76 per week in 2019
- The average age of our lead tenant is 55 years.
- Our portfolio of 25,320 homes (per 2019 Karbon Homes assoc SDR) is predominantly general needs and affordable:
  - 22,204 general needs – social and affordable
  - 1,079 older persons including care
  - 491 supported
  - 320 intermediate rent and non social
  - 1,226 leasehold and shared ownership

## Karbon Homes portfolio



## Average age



# Introduction

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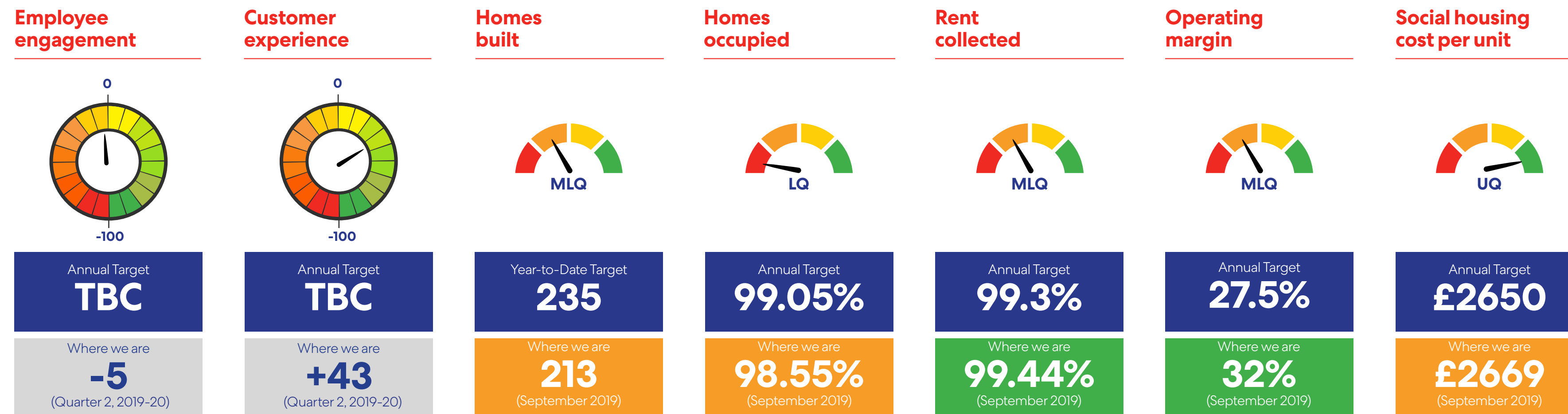


## 2. Operational performance



# Operating Model

- A key strategic aim is to deliver excellent service to our customers.
- We are moving from a traditional housing management model to a modern and digitally enabled service focussed on improving the customer experience and reducing the costs of delivery where possible.
- We benchmark using Housemark and the Sector Scorecard and our KPIs are communicated regularly to all employees.
- The below graphics show how our 2018/19 benchmarking scores compares to peers. They are a clear way for our teams to know how we are performing. The KPI's listed below each speedometer display our 2019/20 target and YTD performance to Sept 2019.
- Benchmarks cover business health, development, outcomes delivered, effective asset management and operating efficiencies.



# Operational performance

- Harmonisation of systems, processes, procedures, and teams continued during 2018/19.
- System changes have impacted on re-let times, however recovery actions are driving monthly performance back towards target levels.
- Broadly, performance has been maintained during this period of integration.

<b>Karbon Homes Association: Performance Benchmarking %</b>	<b>Measure</b>	<b>Actual 18/19</b>	<b>Target 19/20</b>	<b>YTD Sept 19</b>
Rent collected against rent debit	%	99.17%	99.30%	99.44%
Current rent arrears net housing benefit as % of rent debit	%	2.66%	1.91%	1.71%
Void rent loss as % of annual rent debit	%	1.57%	0.90%	1.82%
Average re-let time (Housemark Standard)	Days	51	32	49
Benefit income achieved for our customers	£	5.3m	£5.0m	3.4m
Responsive repairs completed to target date	%	92.58%	94.00%	94.61%
Appointments made and kept	%	98.40%	94.00%	98.58%
Average number of calendar days to complete standard void repairs	Days	16.72	14.00	15.66
Average cost of responsive repairs	£	£143.79	£132.60	£141.92
Homes Meeting Decent Homes Standard	%	100.00%	100.00%	100.00%
Gas Servicing completed against service plan	%	99.99%	100.00%	100.00%
Customers very and fairly satisfied with responsive repairs	%	91.80%	95.00%	91.53%
Operating Margin (overall)	%	24.6%	27.5%	32.0%
Headline Social housing cost per unit	£	£3,135	£2,650	£2,669

# Health and safety

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

**Compliance related budgets for 2020/21 totalling £7m+**



**Robust response to Grenfell and Hackitt Review including a detailed review of all stock**

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

**Fire safety budgets increased: Invested £1.8m in 2018/19 and a further £1.2m for 2019/20**

# Operational excellence

## Customer Experience



- Reviewed our processes to make them simpler for customers
- Introduced a new Customer Satisfaction Framework
- Co-created our desired customer behaviours
- Strategic Residents Group providing challenge, scrutiny and customer input

## Welfare reform



- 3,735 Universal Credit (UC) claimants at end of Q2 19/20
- A Karbon wide approach with one project team dedicated to welfare reform
- Key teams under single leadership: income management, money advice, employability and digital inclusion
- Impacts modelled and stress tested. Business plans are robust and current performance on target

## Development



- Enhanced team, processes, controls and commercial experience to ensure we are robustly prepared for planned growth strategy
- Strong track record across full range of tenures, including grant funded
- Growth into higher value areas through YHA partnership

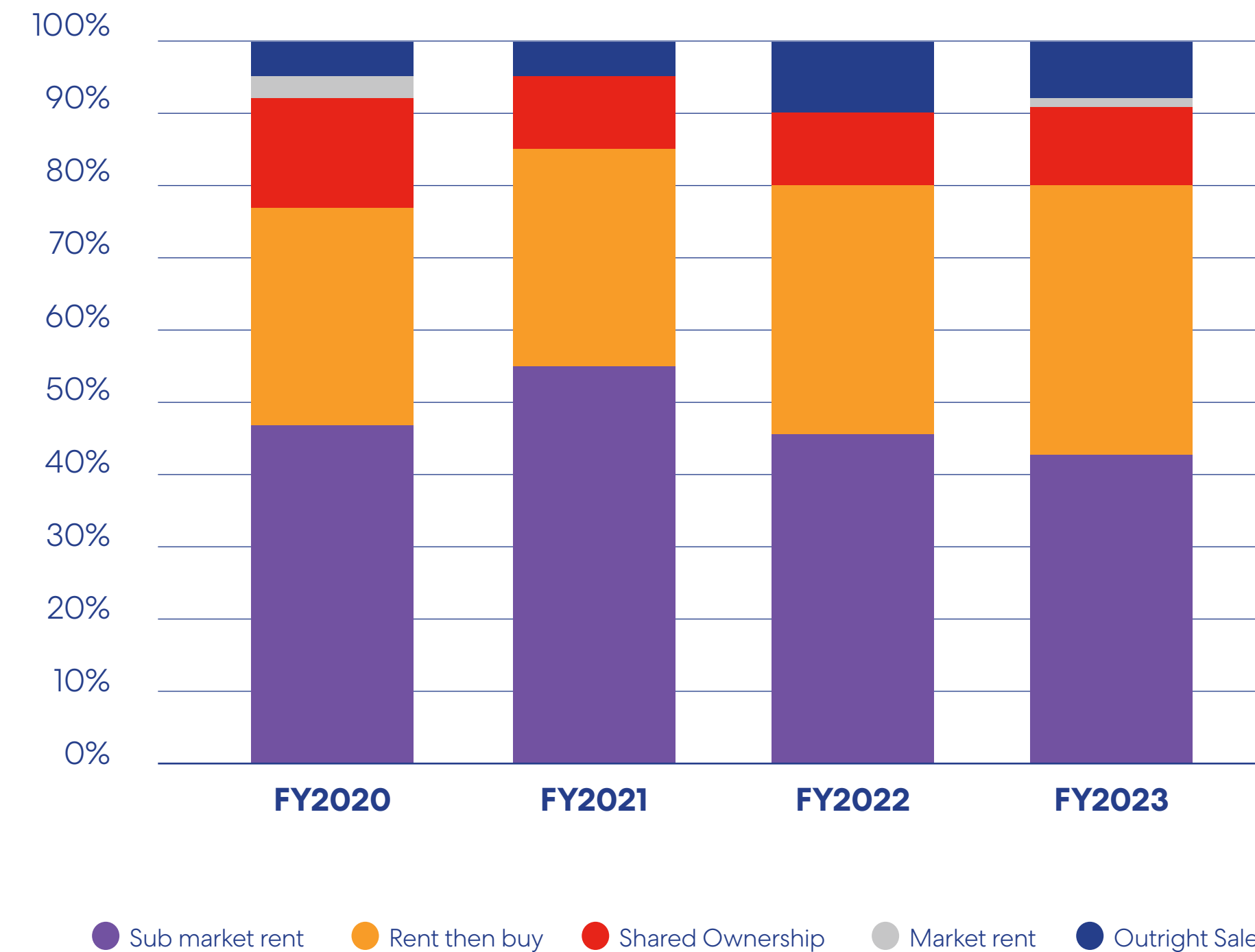


# 3. Development

# Development strategy

- Strategy to increase development to 500+ new homes per year
- Focus on core social and affordable housing
- Modest amounts of commercial activity to help increase our social housing development
- Open to Joint Ventures for larger sites

Annual development programme mix



# New homes development

## New homes completed

2017/18  
Actual

**351**

2018/19  
Actual

**371**

2019/20  
Forecast

**654**

2020/21  
Business Plan

**530**

2021/22  
Business Plan

**530**

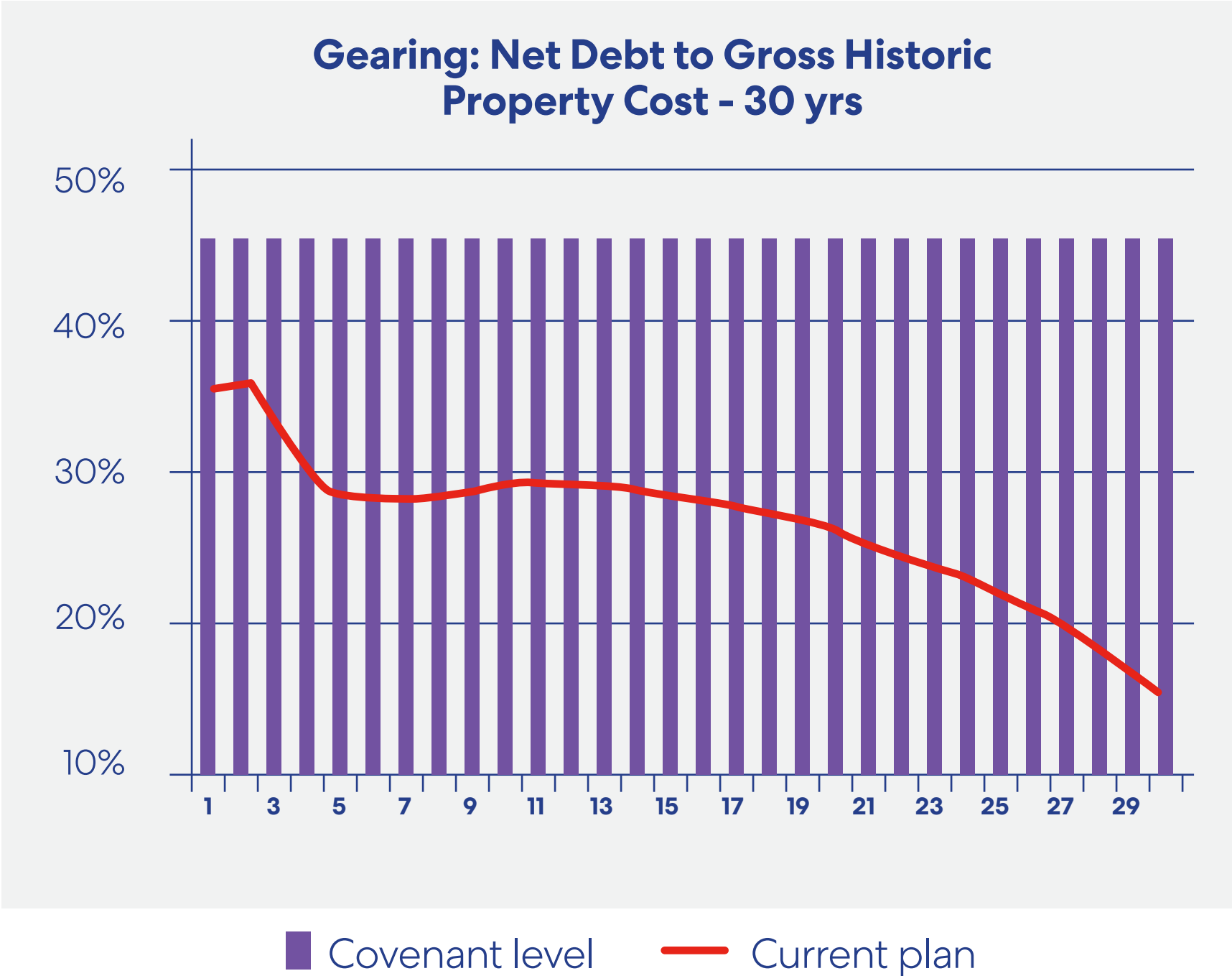
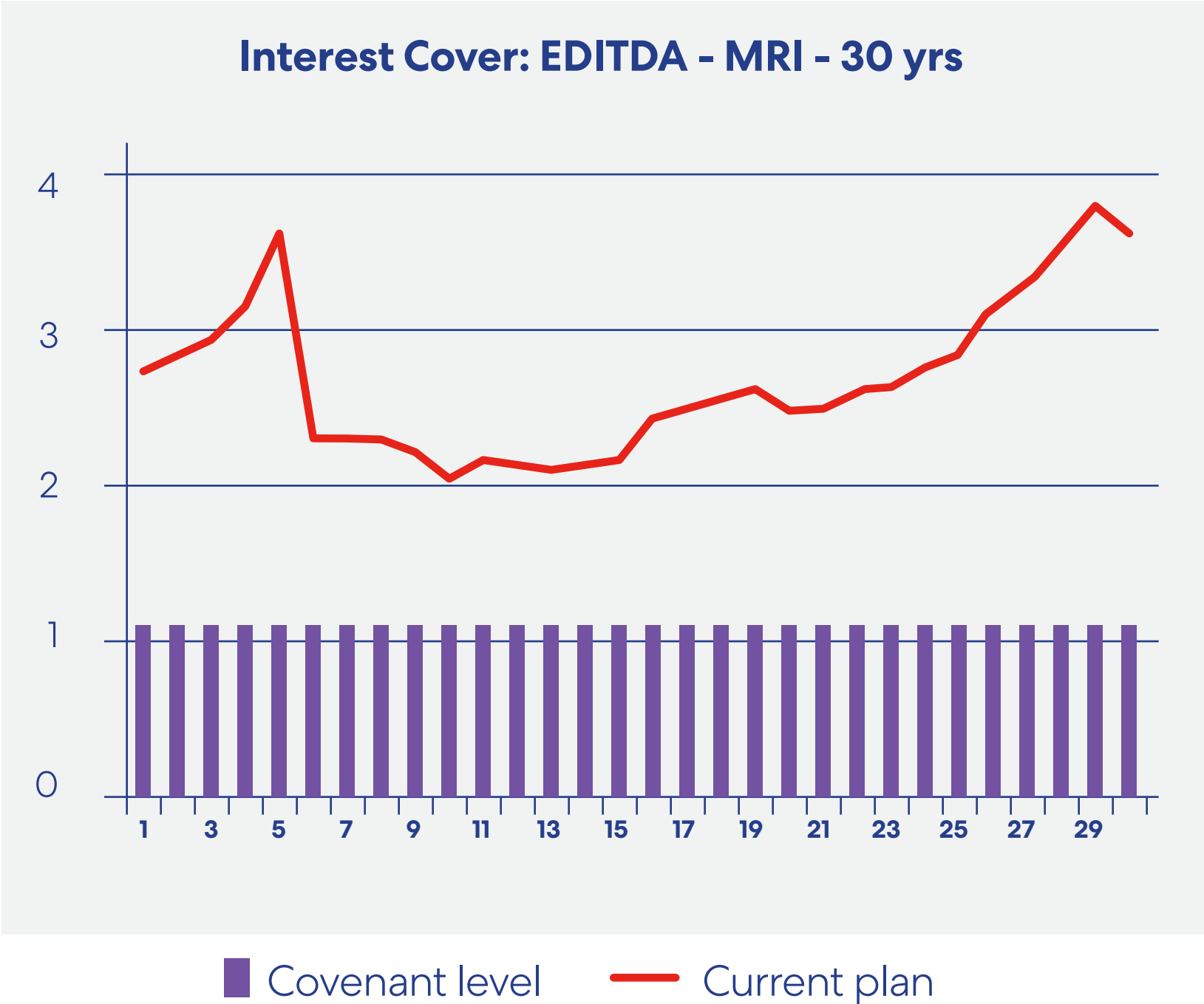
2022/23  
Business Plan

**580**



# Business Plan covenants

Our currently approved 30 year Business Plan for 2019/20, shows healthy levels of compliance headroom with our two key banking loan covenants of Interest Cover and Gearing.







4.  
**Financial performance  
and business plan**

# Performance summary

Metric		18/19 Actual	19/20 FFR	20/21 FFR	21/22 FFR	22/23 FFR
SH as % of Turnover*	%	89.9%	87.4%	85.7%	86.0%	83.0%
SH Core EBITDA margin*	%	35.4%	37.6%	37.4%	38.6%	38.0%
EBITDA Margin	%	37.5%	38.5%	38.9%	39.5%	38.4%
EBITDA MRI Margin	%	30.1%	33.3%	33.4%	34.0%	33.1%
Debt to EBITDA MRI	x	10.0x	8.6x	8.8x	9.2x	8.5x
Gearing (VFM definition) **	%	43.8%	42.1%	42.5%	40.0%	37.5%
EBITDA MRI ICR	%	206.0%	253.5%	263.6%	256.3%	245.4%
Average cost of borrowing	%	4.3%	4.4%	4.5%	4.5%	4.5%
Capitalised Major Repairs	£m	9.5	7.0	7.8	8.1	8.6
Development – completions per BP	#	371	515	530	530	580

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

\*\* Gearing definition shown here is that of RSH VFM Metrics where Housing property values are net of depreciation

# Statutory financials

£m	17/18 Actual	18/19 Actual	19/20 FFR	20/21 FFR	21/22 FFR	22/23 FFR
SH Core turnover	102.8	111.3	111.5	117.1	123.3	128.9
Sales and other turnover	23.9	18.1	21.8	25.7	26.2	32.7
Turnover	126.7	129.4	133.3	142.8	149.5	161.6
Cost of sales and other Op. costs	-17.3	-11.2	-15.5	-18.1	-18.6	-23.6
SH Core Operating Costs	-80.9	-86.4	-82.1	-85.6	-88	-90.2
SH Core Operating Surplus	21.9	24.9	29.4	31.5	35.3	38.7
Operating surplus	28.5	31.8	35.7	39.1	42.9	47.8
Surplus on disposals	2.8	1.7	1.8	1.8	1.9	2.1
Net interest cost	-12.4	-17.7	-17.4	-17.8	-18.7	-18.5
Tax and Other	3.6	-9.8	-0.1	-0.1	-0.2	-0.3
Surplus	22.6	6.0	20.0	23.0	25.9	31.1

# Unaudited YTD: September 19

	Sept 19 Actual £m	Sept 18 Actual £m
<b>Turnover</b>	63.7	62.6
<b>Operating surplus</b>	20.3	19.7
<b>Surplus</b>	12.0	13.0

- Operating margins up: 32% Sept 19 (31%: Sept 18)
- Net surpluses are down £1m due to combination of:
  - Some additional property sales surpluses, off-set with additional interest costs

## Forecasted year end position to 31 March 2020:

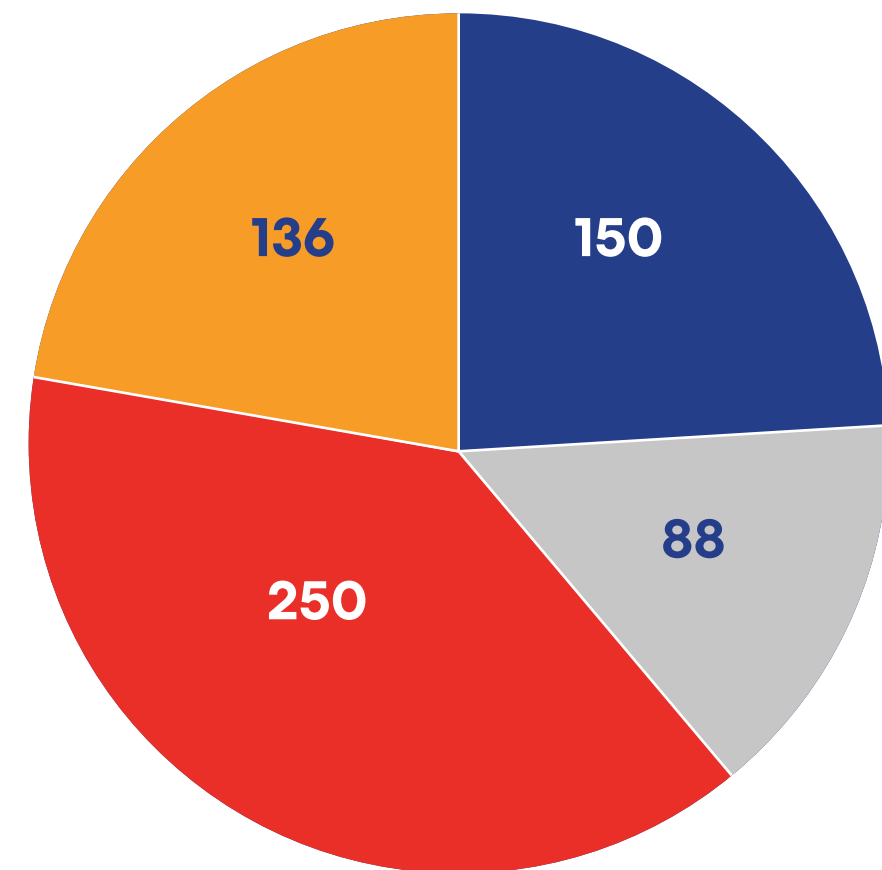
- Group surpluses currently forecasted to be close to budget at £20-£21m

A photograph of two women sitting at a table, focused on a craft project. They are surrounded by numerous small, colorful pieces of fabric in various colors like yellow, blue, red, and purple. The woman on the left has long brown hair and is wearing a patterned top and a red lanyard with a 'karbon homes' badge. The woman on the right has long blonde hair, wears glasses, and a light pink top. A tattoo is visible on her left forearm. The background is a plain, light-colored wall.

# 5. Funding and treasury

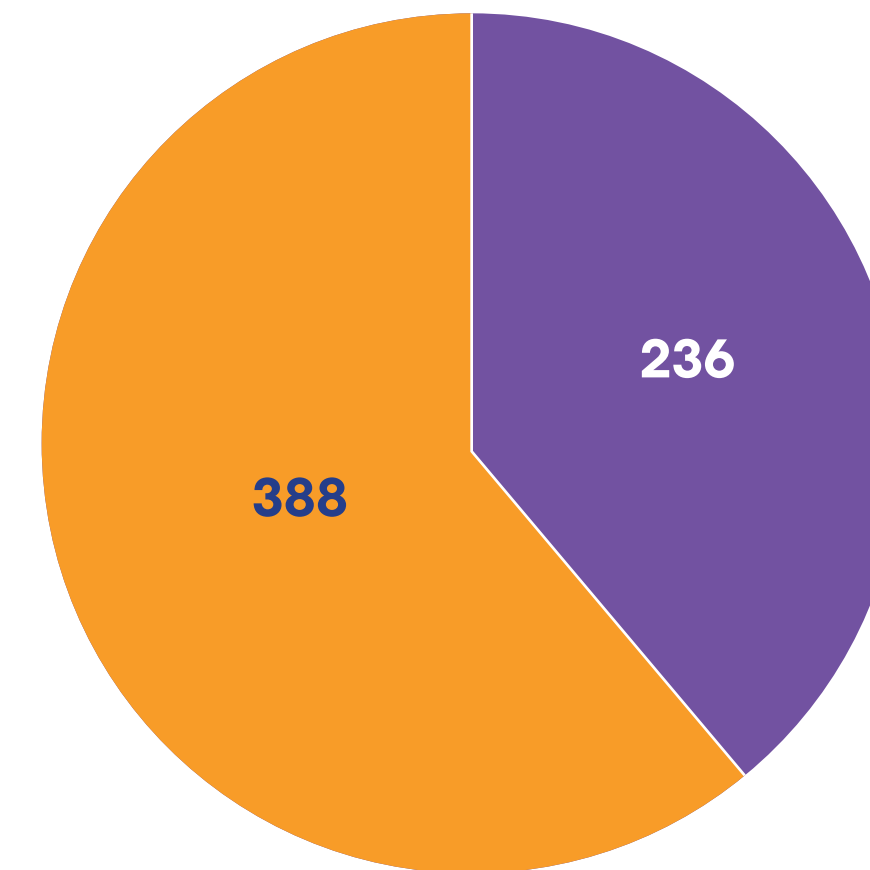
# Treasury overview

## Funding facilities of £624m



● Bank Loans ● Capital markets ● Bonds ● RCFs

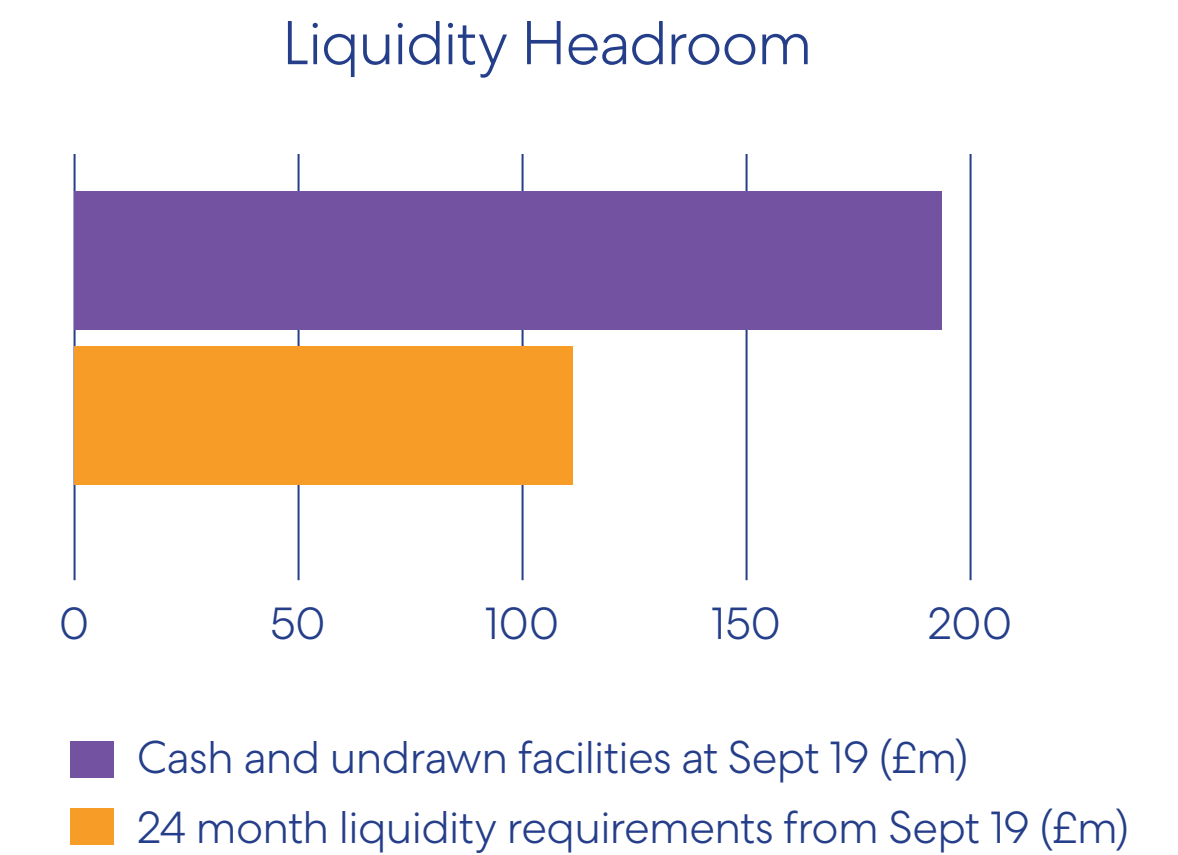
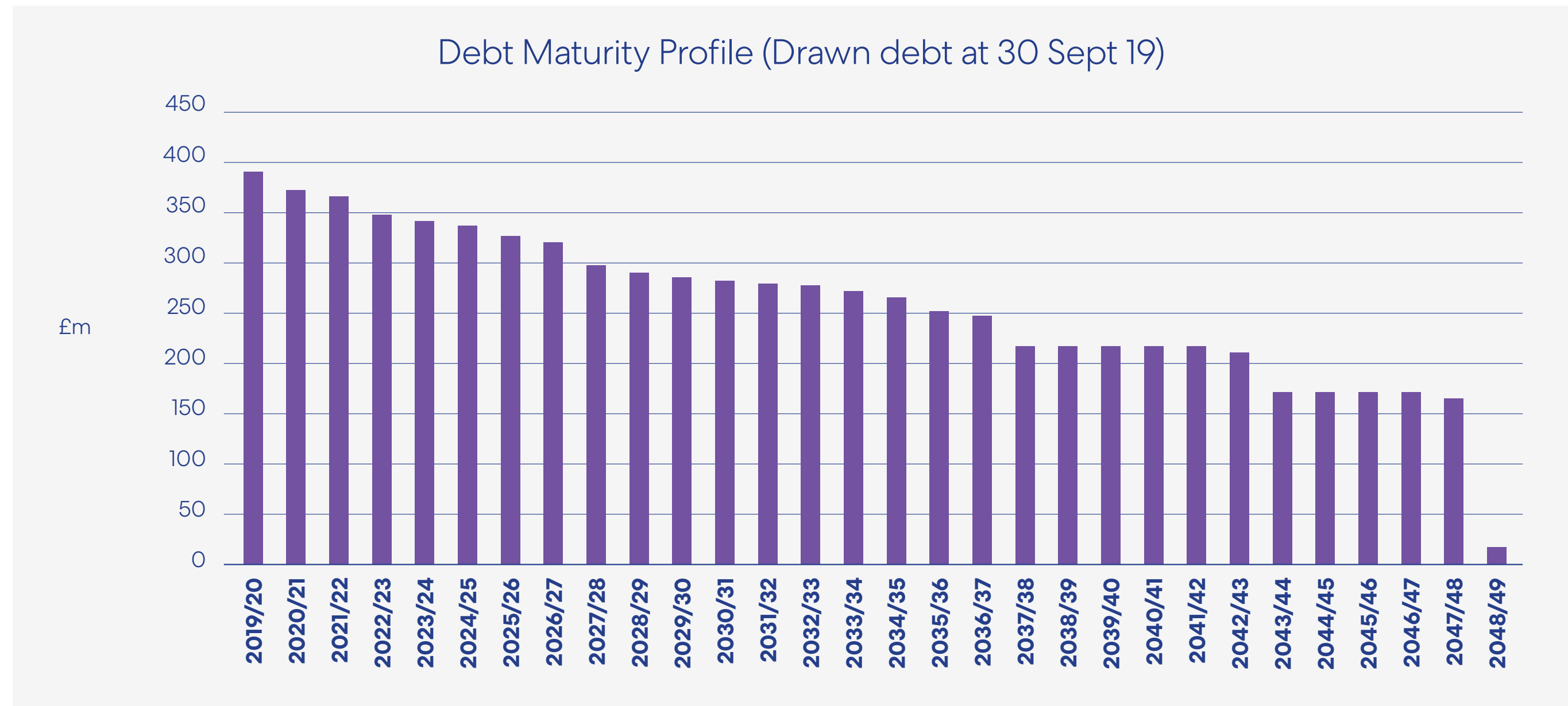
## Drawn vs Undrawn facilities (£m)



● Undrawn ● Drawn

# Treasury overview

## Current loan portfolio – business fully funded until 2023/24



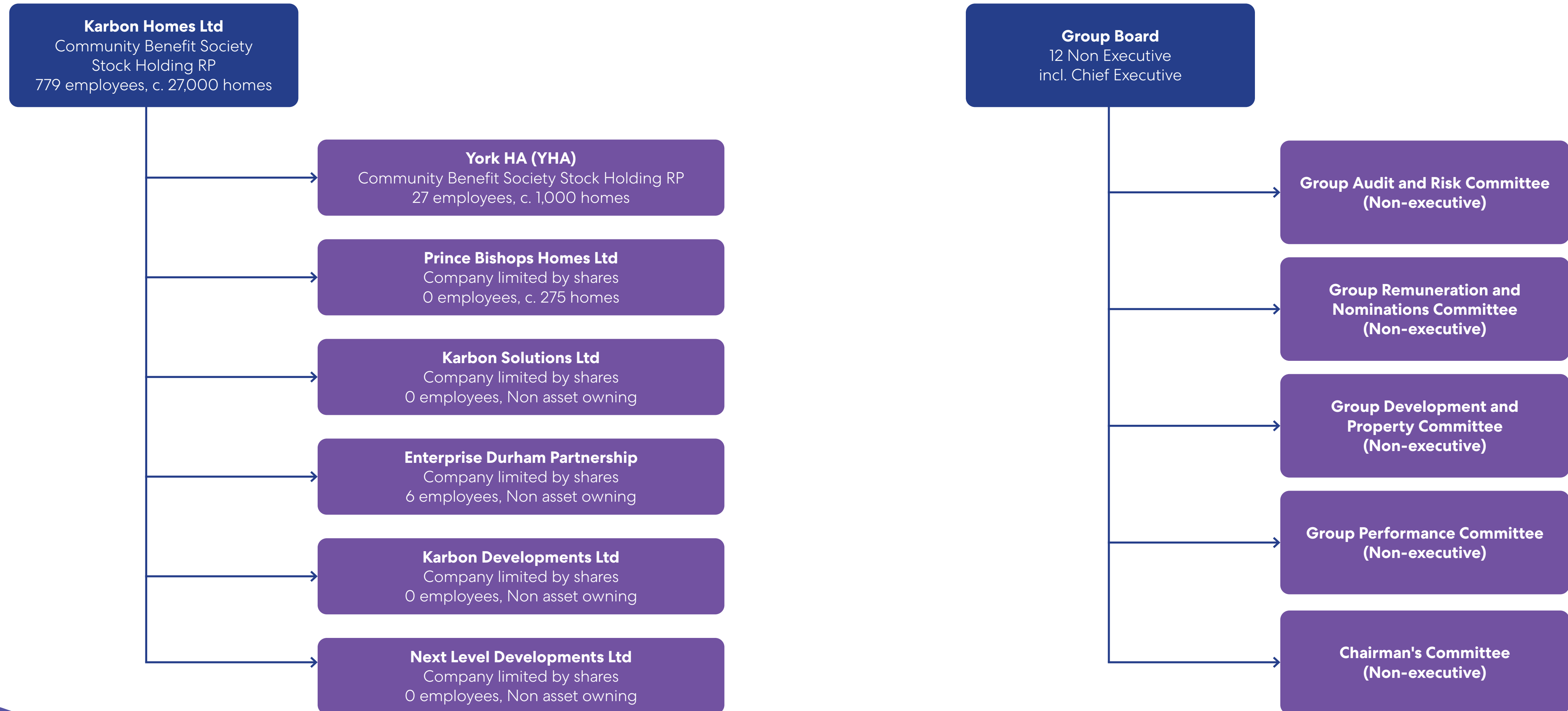
- 95% of our currently drawn debt is at fixed rates of interest
- Security in place to draw on available facilities up to full utilisation
- Cash and instant access holdings of £61m at Sept 19
- Currently have unencumbered stock worth £151m, excess or trustee held loan security of £205.7m, giving total of £356.7m to fund new borrowings.

A close-up photograph of a person's hand in a brown, textured coat. The hand is holding a keychain with a bright green ring. The hand is positioned near a silver door handle on a dark door. The background is a blurred outdoor setting.

**6.**  
**Group overview, board  
and executive**



# Corporate and committee structures



# Chair and Executive Directors



**Sebert Cox OBE**  
Chairman



**Paul Fiddaman**  
Group Chief Executive



**Richard Fryer**  
Executive Director  
Integration and  
Company Secretary



**Charlotte Carpenter**  
Executive Director  
Growth and Business  
Development



**Jo Ray**  
Executive Director  
Customer Services



**Greg van Enk-Bones**  
Interim Executive  
Director of Resources



**Julia Histon**  
Managing Director  
York Housing  
Association

- ✓ Group Board of 12 including the Chief Executive
- ✓ Strong controls and governance including internal audit, risk frameworks and detailed risk management, detailed stress testing of business plan.

**Board Member Skills** - wide range of skills on the Board including:

- ✓ Finance and Treasury
- ✓ Risk Management
- ✓ Design and Development
- ✓ Customer Experience
- ✓ Business and Property Management, Legal and Consultancy

A hand is shown pointing at a tablet screen. The screen displays the 'karbon homes' logo in white text against a colorful, gradient background. Below the logo, there are social media interaction buttons: 'Like', 'Comment', and 'Share'. The background of the entire image is a blurred blue and purple gradient.

# 7. Conclusion

# Conclusion

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- Karbon has a long history of proven financial and operational management.
- We have a strategic focus on the North East and Yorkshire areas. A strategy of concentrating on a particular geography provides operational and financial strength.
- We aim to be achieving top quartile performance in our KPI's over the next three years.
- Operating margins are expected to improve, through the ongoing benefits of merging predecessor entities and cost cutting initiatives, where appropriate.
- Low levels of gearing providing flexibility for increased development.
- Generating strong cash flows from core social housing business. Debt facilities of £623m in Sept 19, £235.5m undrawn.
- G1/V1 rating, reflecting strong governance and viability.
- A+ (negative) credit rating re-affirmed with Standard & Poors.

# The impact of Karbon Homes

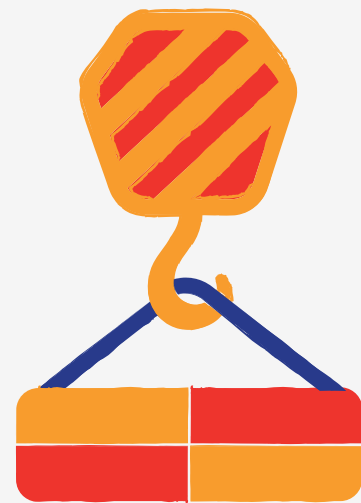
## Economic



Own or manage almost  
**30,000**  
homes

**1,600+**

**new homes** planned  
over next three years



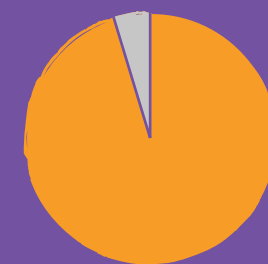
**£934**  
**million**  
in assets



**£59**  
**million**

invested in our existing  
homes last year

**94.7%** of our rents are at or below  
Local Housing Allowance rates



## Social

Supported

**205 people**

into employment and  
training in the last year



We employ  
**800+**

people who are all on  
the living wage or above



Identified

**£5.3 million**

in unclaimed  
benefits for  
our customers

Provided benefit,  
money and debt  
advice to

**5,607**  
**customers**



Invested over  
**£200k** in **34 community projects**  
last year