karbon homes

Providing a strong foundation for life

Investor update January 2025

Presenting team

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 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. Paul is also Chair of the North East Housing Partnership (NEHP) and a non-executive director of A2 Dominion.

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 Storey Homes.

Scott joined Karbon in 2020, responsible for Finance, ICT, People and Organisational Development, Procurement and Insurance.

Scott is a member of the National Housing Federation's Housing Statement of Recommended Practices working party, chair of the audit committee of Prosper Procurement Limited, a governor and chair of the audit committee at Teesside University.

James Clifford
Assistant Director of Strategic Finance and Treasury

James (ACMA) began his career in the NHS before moving to the housing sector with roles at Your Homes Newcastle.

James was Director of Finance at Byker Community Trust from 2017 until Byker merged with Karbon in 2021.

Since joining Karbon, James has overseen the financial aspects of Karbon's subsidiaries, development programme and merger and acquisition work.

Since September 2024, James also leads on treasury and business planning for the Group.

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Agenda

1. Overview and strategic update
2. Operational performance
3. Development and assets
4. Funding and treasury
5. Financial performance and outlook

1. Overview and strategic update

Strategic overview

- Strong operational performance with excellent safety standards. Focus on reducing response times for repairs for customers.
- Sector-leading results for new Tenant Satisfaction Measures.
- Reduced tenancy turnover leading to lower rent loss and empty homes costs.
- Maintaining high standards has led to increases to operating expenditure.
- Financial metrics remain strong and compare favourably with peers.
- Our successful growth story continues through development of new homes and the acquisition of Leazes Homes.

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Credit highlights

33,645
Homes owned or managed

A (positive)
S&P Global, May 2024

G1/V1
Regulatory rating (Affirmed Dec 24)

Merger track record – Proven track record of successful merger and stock acquisition integration, with sustained financial performance.

Homes England Strategic Partner – £165m grant funding to help deliver 2,200 new social and affordable homes.

Strong ESG foundations – On track to achieve EPC band C across existing homes by 2030. Reporting ESG metrics using the Sustainability Reporting Standard for Social Housing.

Low risk business model – A focus on core social housing and low exposure to market sales risks.

Robust financial metrics – Strong interest coverage and liquidity levels, low levels of gearing.

1.4 x
Liquidity ratio with new funding underway

25.4%
Overall operating margin (excluding asset sales)

35.0%
Gearing ratio

199%
EBITDA MRI Interest Cover

Major repairs expenditure removed from interest cover covenant calcs

Six month results September 2024

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Strategy refresh

We have refreshed our strategy for 2024 -2029.

We have recommitted to the three key themes of **Homes**, **Customer**, and **Place**, underpinned by sound management and governance arrangements.

Our performance against these themes is measured through a balanced scorecard of nine KPIs.

Growth timeline

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April 2017

York Housing Association
December 2017

the guinness partnership
1300u stock purchase
May 2018

BYKER community trust
April 2021

Leeds & Yorkshire Housing Association
December 2022

South Tyneside Housing Ventures
July 2023

Leazes Homes
July 2024

c. 34k homes

Our geography

Our footprint covers the North East of England and Yorkshire, where we own or manage around 34,000 homes across diverse communities. We also provide services to a further 9,000 homes for other housing associations in the North West region.

Yorkshire is a key centre for growth through our subsidiary 54North Homes.

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Leazes Homes

- 759 homes in Newcastle upon Tyne
- Focus on supported and older people's accommodation.
- 589 homes built post-2010 (77.6%)
- EBITDA-MRI interest cover 244%
- Operating margin 27.0%
- Complements Karbon's growing supported housing offer
- Strengthening relationships with local authority partners
- Integrated well with Group services

For-profit housing association

- We will shortly begin the process of registering a new for-profit housing association.
- Developing new affordable homes is capital-intensive in the short term. We are increasing our investment in customer services and planned maintenance and we do not want this to hinder our ambition to deliver new homes.
- Therefore, we are setting up a new vehicle to attract equity investment into the sector. Karbon is well-placed in the region to use the capital injection to build new homes and provide stable returns to investors.

Our sustainability summary

32,664* homes

100% Decent Homes Standard

644* new homes completed in 2023/24

74.4% of our homes achieve EPC C or above

71% Our rents as an average of a typical market rented property across our region

2,487 energy efficiency upgrades saving an estimated 490 tCO2

4,858 customers helped through our Money Matters Team, with £5.32m generated for them in additional income

1,039 colleagues paid at living wage or above

4.7% mean gender pay gap

+39 Colleague Net Promoter Score in 23/24

G1/V1 Top governance and viability regulatory rating

A S&P rating A (outlook positive)

*Karbon Group figures.
Data from our 2023-24 ESG report.

2. Operational performance

KPI performance

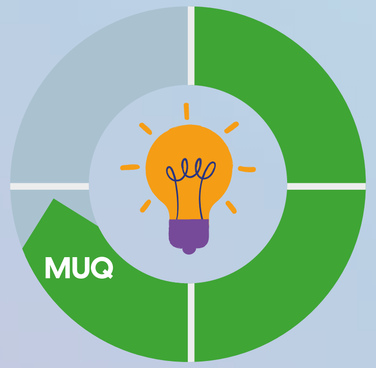
We manage delivery of our strategy through our nine performance indicators.

Homes

Development

24/25 Annual Target
1.98%

Where we are
0.61%
(September 2024)

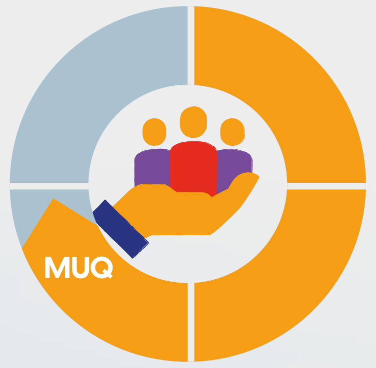


Quality and Decarbonisation

24/25 Annual Target
74%

Where we are
77.54%
(September 2024)

Customer



Customer Experience

24/25 Annual Target
89.00%

Where we are
81.71%
(September 2024)

Occupancy

24/25 Annual Target
1.87%

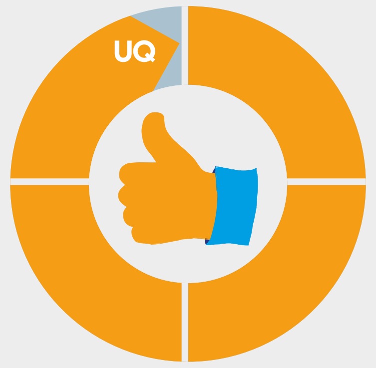
Where we are
1.67%
(September 2024)

Building and Customer Safety

24/25 Annual Target
100%

Where we are
99.97%
(September 2024)

Place



Neighbourhood Satisfaction

24/25 Annual Target
83.50%

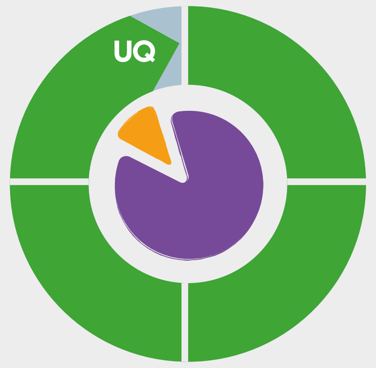
Where we are
78.68%
(September 2024)

Enablers of success

Colleague Engagement

24/25 Annual Target
+36

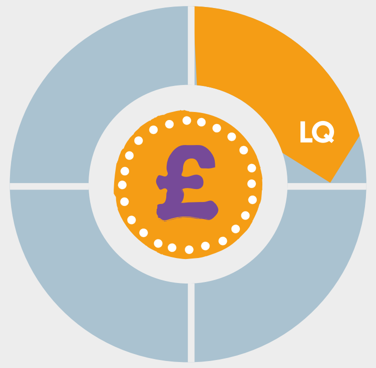
Where we are
+45.00
(September 2024)



Financial Capacity

24/25 Annual Target
188.20%

Where we are
192.70%
(September 2024)



Value for Money

24/25 Annual Target
£4,830

Where we are
£4,834
(September 2024)

Data from Karbon Homes performance reporting, September 2024

KPI performance - customer

Customer experience – We are behind target on this metric, but it has shown improvement during the year. Karbon is performing very well compared to peers on all satisfaction measures. We are trying to improve this further by investing in our repairs service and reducing wait times for customers.

Occupancy (void rent loss) – We achieved a result of 1.67% void rent loss compared to our target of 1.87%. This positive outcome is partly due to lower tenancy turnover, as our customers are choosing to stay with us for longer.

Building and customer safety – In September we achieved 99.97% against our 100% target. This metric is a blended measure of performance against our major safety and compliance performance obligations.

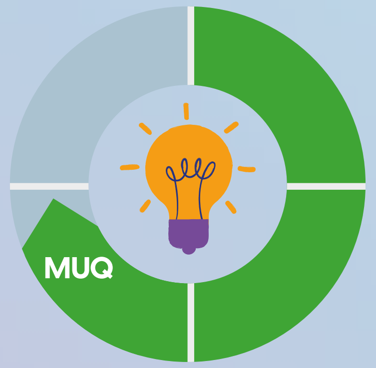
KPI performance - homes and place

Homes

Development

24/25 Annual Target
1.98%

Where we are
0.61%
(September 2024)

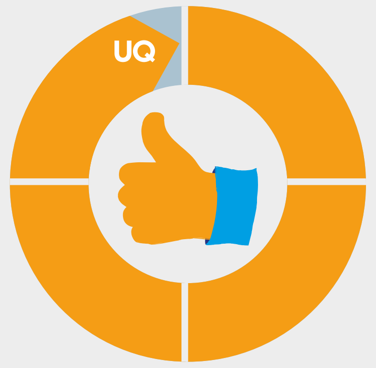


Quality and Decarbonisation

24/25 Annual Target
74%

Where we are
77.54%
(September 2024)

Place



Neighbourhood Satisfaction

24/25 Annual Target
83.50%

Where we are
78.68%
(September 2024)

Development – To September, the Group completed 255 homes, and this rose to 424 by the end of Q3. We remain on track to achieve our target with a busy Q4 ahead.

Quality and decarbonisation - At September, 77.54% of our homes were graded EPC C or above, ahead of target. This puts us above median for the sector and on track to achieve our 2030 target of 100%.

Satisfaction with neighbourhood – This metric is behind our challenging target but remains in the top quartile for the sector.

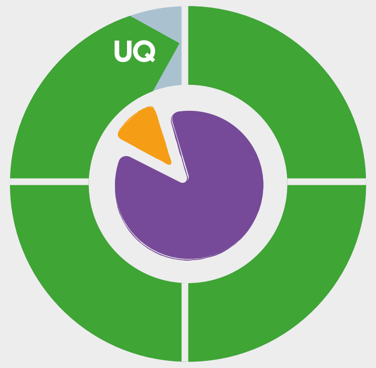
KPI performance - enablers

Enablers of success

Colleague Engagement

24/25 Annual Target
+36

Where we are
+45.00
(September 2024)



Financial Capacity

24/25 Annual Target
188.20%

Where we are
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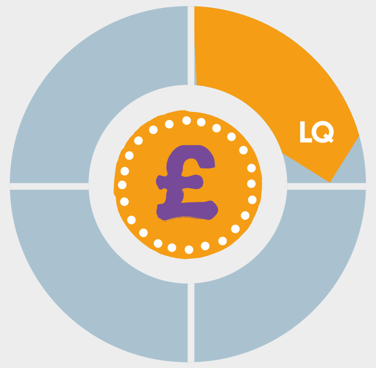


Value for Money

24/25 Annual Target
£4,830

Where we are
£4,834
(September 2024)

Colleague engagement – Our colleague survey shows continued improvement each year. Our net promoter score from Karbon colleagues is +45, a result we are extremely proud of.

Financial capacity – EBITDA-MRI interest cover is our headline KPI for financial capacity. We are running slightly above target with a score of 192.70% vs a target of 182.90%.

Value for money – At September we achieved a cost per unit of £4,834 against our target of £4,830, so marginally over target.

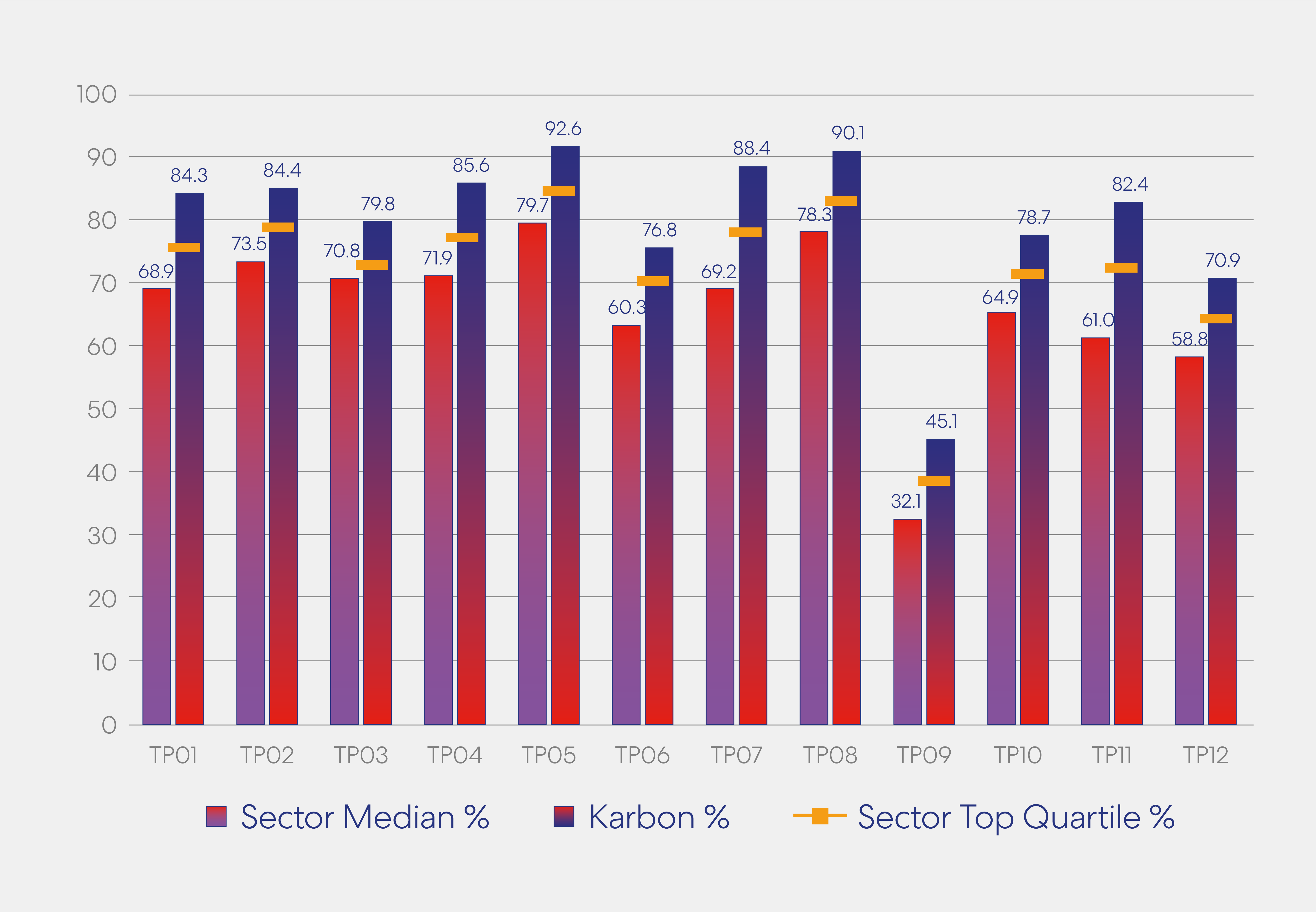
Tenant satisfaction

The Regulator of Social Housing has introduced new standardised satisfaction measures to be used by housing associations in England.

Karbon has delivered sector-leading results. We perform better than the sector top quartile across all perception questions.

These results reflect the increased focus on customer service from our brilliant Karbon colleagues.

on average 14.1% above sector medians



Karbon Homes Group measures 2023-24 as reported to the Regulator of Social Housing

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Customer safety

Rating	No. of properties	Rating	No. of properties	Rating	No. of properties
Upper High	0	Upper Medium	5	Upper Low	0
High	0	Medium	11	Low	7
Lower High	0	Lower Medium	12	Lower Low	0
				Total	35

External wall survey results to date

- Of our c. 34,000 homes, over 70% are houses and bungalows.
- Karbon has 580 blocks of two or more houses.
- Of these, only six meet the definition of high rise under the Building Safety Act.
- We identified 79 blocks which required an external wall survey.
- We have now completed all surveys.
- We have finalised reports on 35 properties which identify no high risk, and 16 properties where no further work is required.

Interventions include:

- **The Elms (Extra Care), Durham** – works to stacked vertical balconies
- **Kingfisher Lodge (leasehold)** – remediation works to cavity barriers
- **Osborne Villas (retirement living)** – work underway to remove PVCu cladding
- **The Manors (Extra Care), Northumberland** - £500k fire safety project.

Customer safety

The Manors - £500,000 fire safety project

This Extra Care Scheme has been fitted with a full building sprinkler system to help provide an enhanced level of safety and security for residents as well as the businesses and the wider community who use the building.

Working in partnership with contractor Harmony Fire, the project took three months to complete and saw all 46 apartments and the building's communal areas fitted with the system. Due to the higher vulnerability levels among residents, including those with visual impairments, cognitive impairments and mobility issues, the sprinkler system also helps limit false alarms and unnecessary full building evacuations.

Resident engagement played a key role throughout the project. Residents were given opportunities to ask questions, see plans, better understand the system itself and influence the works programme timeline.

The success of the project has received external recognition within the housing sector and was shortlisted in the Best Resident Safety Initiative category at the Northern Housing Awards.

"We're really pleased with the results of this major project, which has had a positive impact on the safety of everyone who uses The Manors.

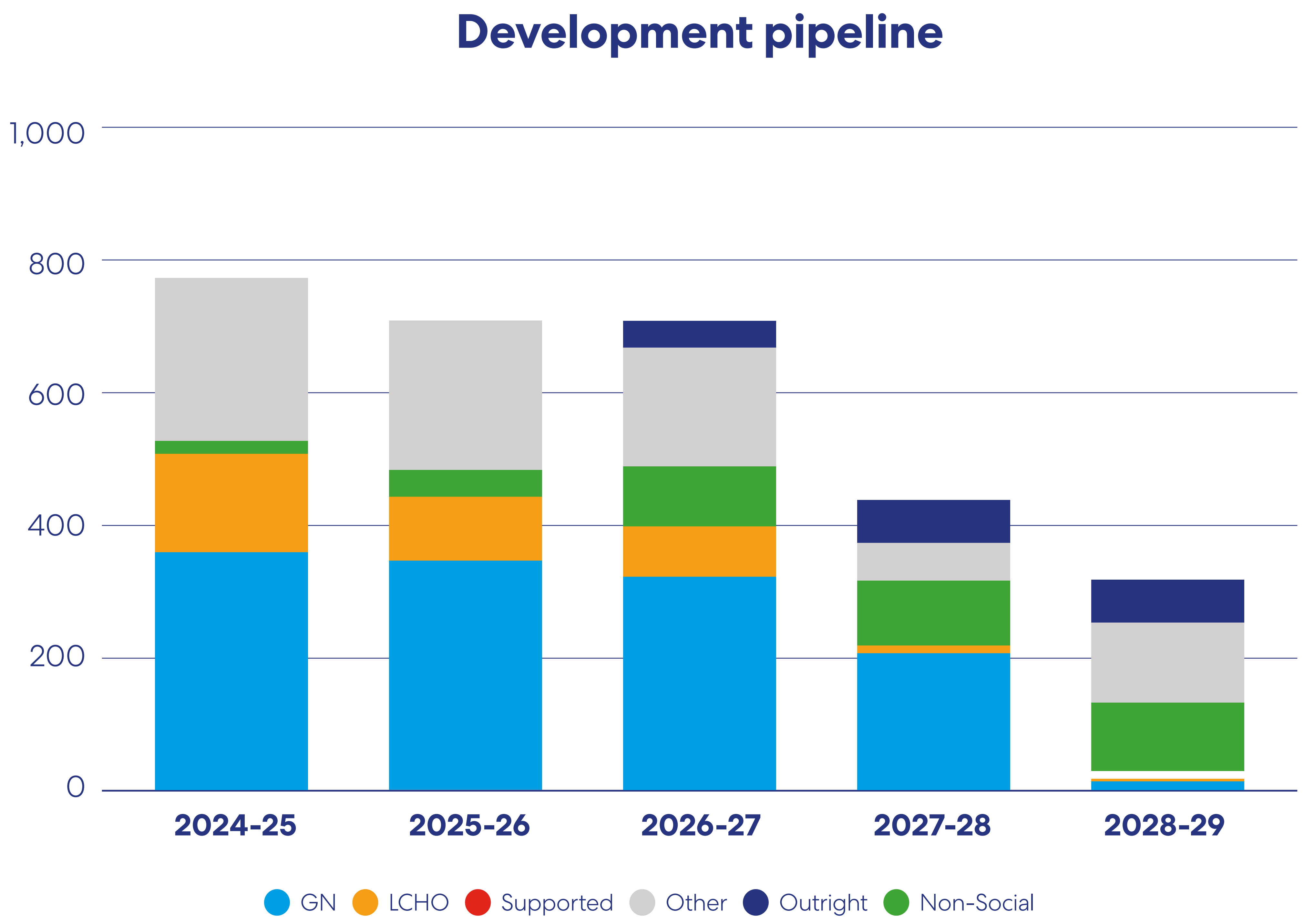
"From the very first meeting with Harmony, through to work completion, the project has been seamless. It's a great example of the impact great collaboration between partners can have when delivering a project of this nature, and the high levels of customer satisfaction throughout illustrate this perfectly."

Kevin Smith,
Fire Safety Manager,
Karbon Homes

3. Development and assets

Development performance

- Karbon has a development pipeline of **2,958 units** over the next five years. Of these, around **94%** are social tenures, with 6% for outright sale.
- **57.0%** of these units are committed, with more flexibility later in the programme.
- Beyond Year 5, Karbon maintains a provision for future development in its business plans, but we are seeking ways to increase this capacity.
- Since our Strategic Partnership with Homes England began in September 2021, we've already successfully claimed £159m of Homes England grant for sites underway.
- Our SP bid was for 2,200 homes over the period to 2027/28, attracting grants of £165.1m
- Our focus remains on social and affordable housing tenures with modest amounts of commercial activity (on our own or through carefully selected joint venture partners) to help cross-subsidise social projects.



	2024-25	2025-26	2026-27	2027-28	2028-29
Group Totals	**770**	**711**	**712**	**443**	**322**
Committed	100%	88%	35%	4%	8%
Uncommitted	0%	12%	65%	96%	92%

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Development highlights

We have 33 active development schemes on site with contract values of over £377m, and we have a further 500+ new affordable homes (11 schemes) in contract or in advanced stages of negotiation.

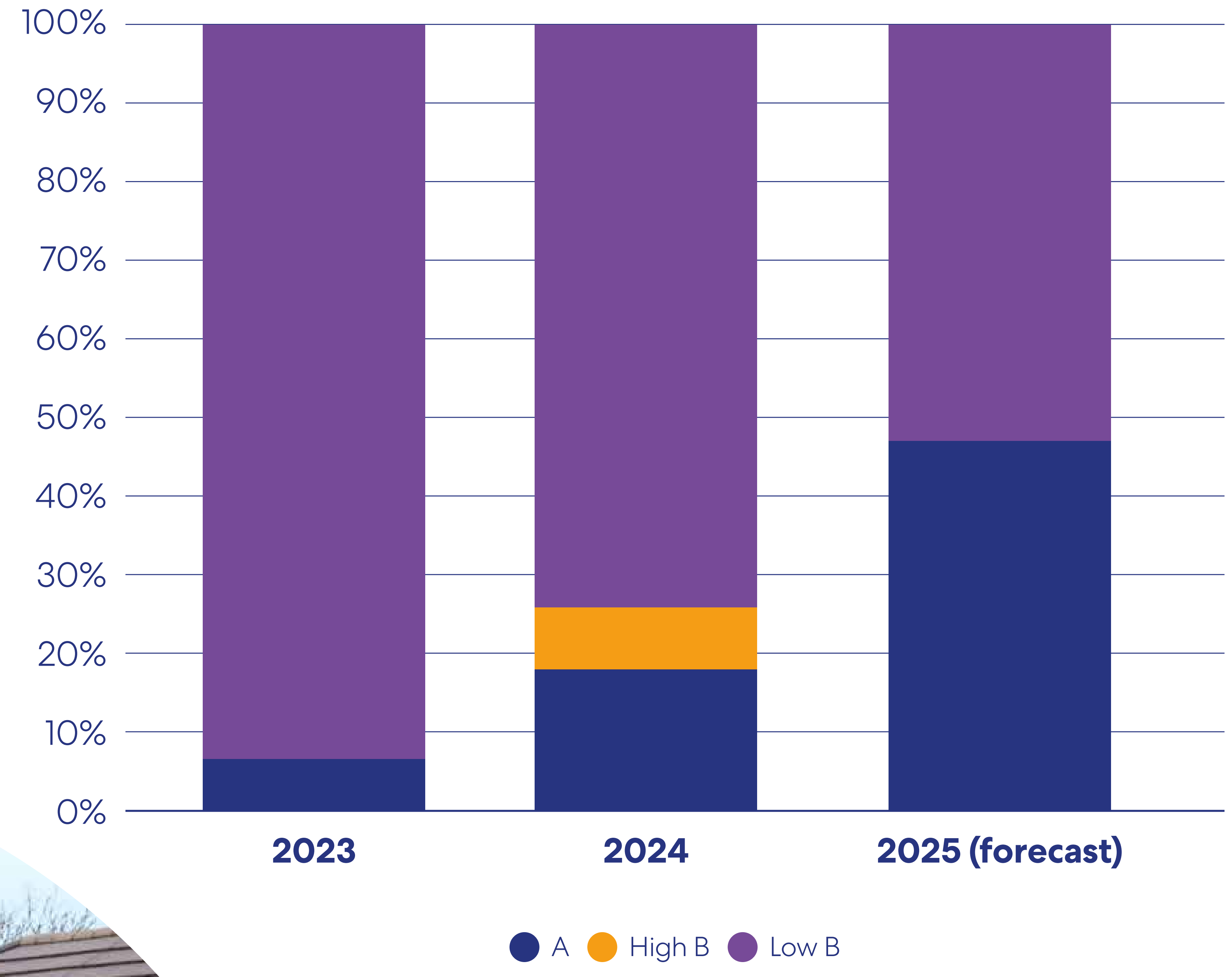
Back Lane and Saxty Way, Thirsk are examples of our ambition to ensure the right homes are delivered in the right place. Across the two sites, we are well underway with developing 108 new affordable homes for a range of tenures. All homes will meet EPC A fitted with air source heat pumps, PV panels and on-site open play space.

Osgodby Lane, Cayton is a development of 126 bungalows and family homes with a range of tenures including affordable rent, Rent to Buy and shared ownership to meet the diverse needs of the community. All homes are being built using timber frame construction and will all meet EPC A or B. The first customers received their keys in mid-December 2024 and we envisage all homes to be completed by mid-2025.

Development performance - sustainability

- We want the new buildings we develop to complement other improvements we are making to our energy efficiency rating.
- We adopt a ‘fabric first’ approach, ensuring our homes are well insulated and energy efficient before adding newer technologies such as air source heat pumps and solar panels.
- We aim to have an increasing proportion of our homes developed at EPC A, meaning lower energy bills for our customers and a shorter journey to net zero.

EPC mix - new developments



Examples

Redburn Row, Chilton Moor – first full EPC A fabric first, timber frame and solar panels (45 units)

Field Lane, Thorpe Willoughby – first full large scale off-gas development built using timber frame and fitted with air source heat pumps (70 units)

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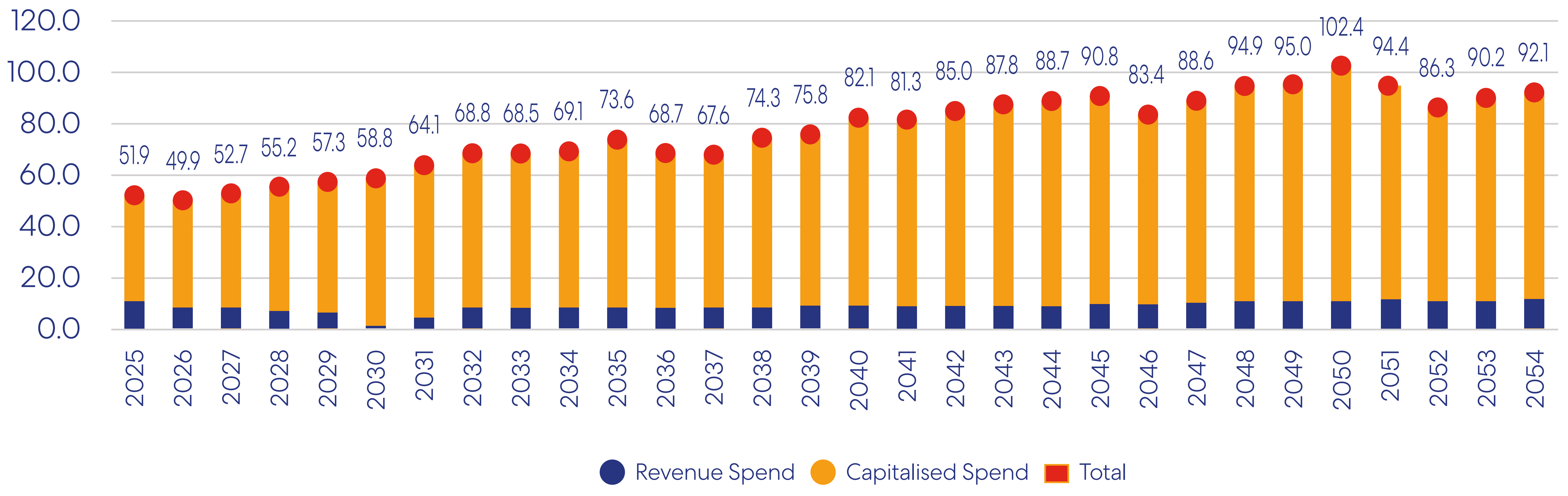
Investment in existing homes

- Our business plan shows our commitment to significant investment in our existing stock.
- These numbers are based on a comprehensive stock condition survey carried out during 2023-24.
- Our investment will enable us to not only provide a great home for our existing customers but also protect our assets into the future.
- We are on course for all our homes to reach EPC C or above by 2030.

	Revenue	Capital	Total
2025	11.2	40.7	51.9
2026	8.4	41.5	49.9
2027	8.7	44.0	52.7
2028	6.9	48.3	55.2
2029	6.6	50.7	57.3
2030	1.5	57.3	58.8
2031	4.6	59.5	64.1
2032	8.6	60.2	68.8
2033	8.2	60.3	68.5
2034	8.4	60.7	69.1
2035	8.5	65.1	73.6
2036	8.7	60.0	68.7
2037	8.5	59.0	67.6
2038	8.6	65.7	74.3
2039	8.7	67.0	75.8

	Revenue	Capital	Total
2040	8.9	73.2	82.1
2041	9.1	72.2	81.3
2042	9.0	76.0	85.0
2043	9.2	78.6	87.8
2044	9.4	79.3	88.7
2045	9.6	81.3	90.8
2046	9.7	73.6	83.4
2047	10.6	77.9	88.6
2048	10.8	84.1	94.9
2049	11.0	84.0	95.0
2050	11.2	91.3	102.4
2051	11.4	82.9	94.4
2052	11.1	75.2	86.3
2053	11.3	78.9	90.2
2054	11.5	80.5	92.1

Group major repairs expenditure (£m)



Data from 30 June 2024 FFR

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Energy efficiency

EPC C

- £17.3m total investment
- 6,418 properties to be treated
- 13,678 measures to be taken
- £2.7k cost per property
- Detailed plan in place and being delivered

Net zero

- £654m additional cost above standard investment costs (over £1bn gross)
- All properties to be treated
- 245,000 measures to be taken
- £38k+ gross cost per property

All figures are Karbon Homes only

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4. Funding and treasury

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Funding position

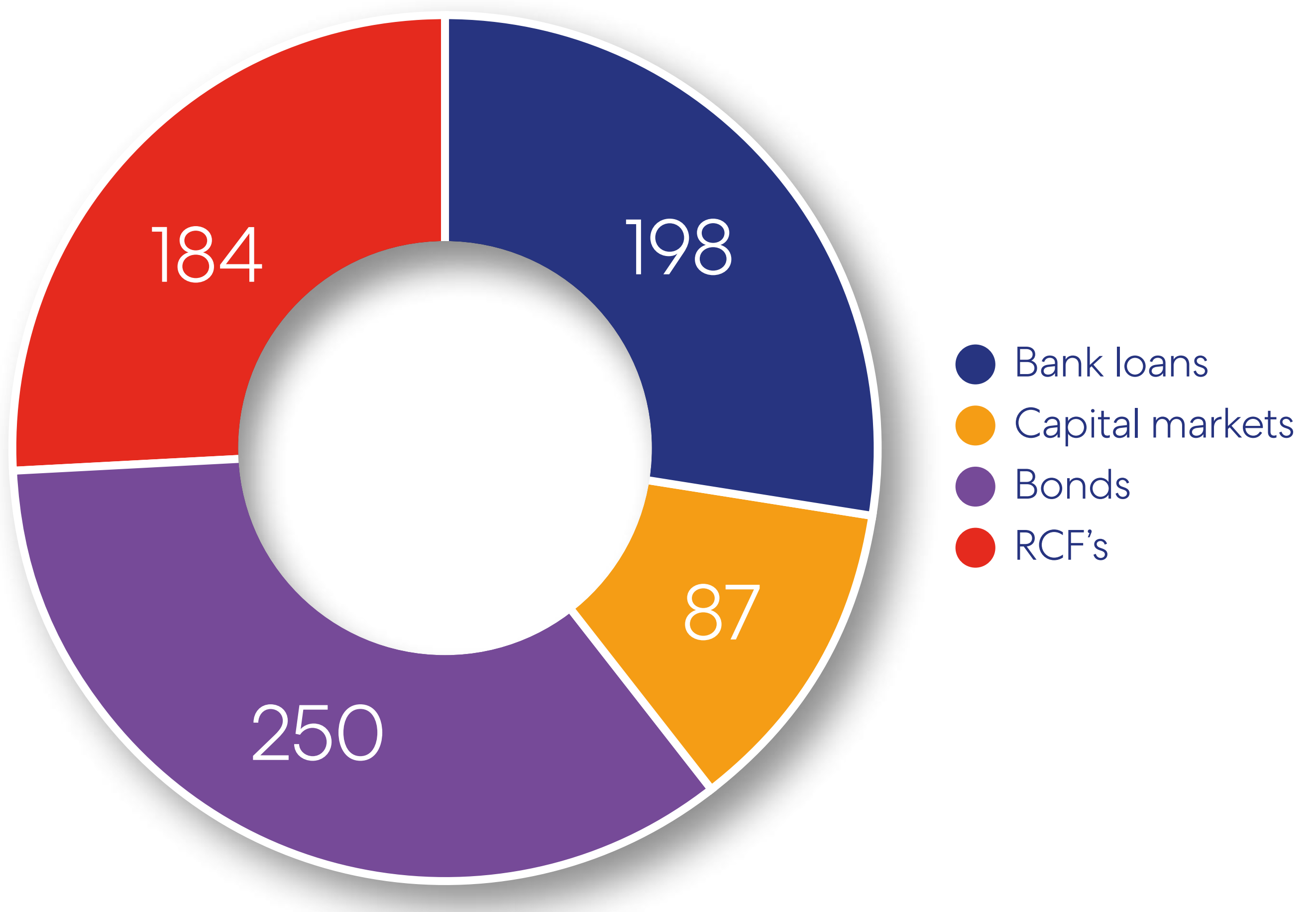
Treasury position (at Sep 2024)

- 93% of drawn debt at fixed rates of interest.
- Security in place for all £720m agreed facilities.
- Cash and deposits of £40m.
- Excess security £282m, unencumbered stock £399m = £681m capacity.
- £215.6m cash and undrawn facilities vs 12-month requirement of £139m (1.4x liquidity ratio).

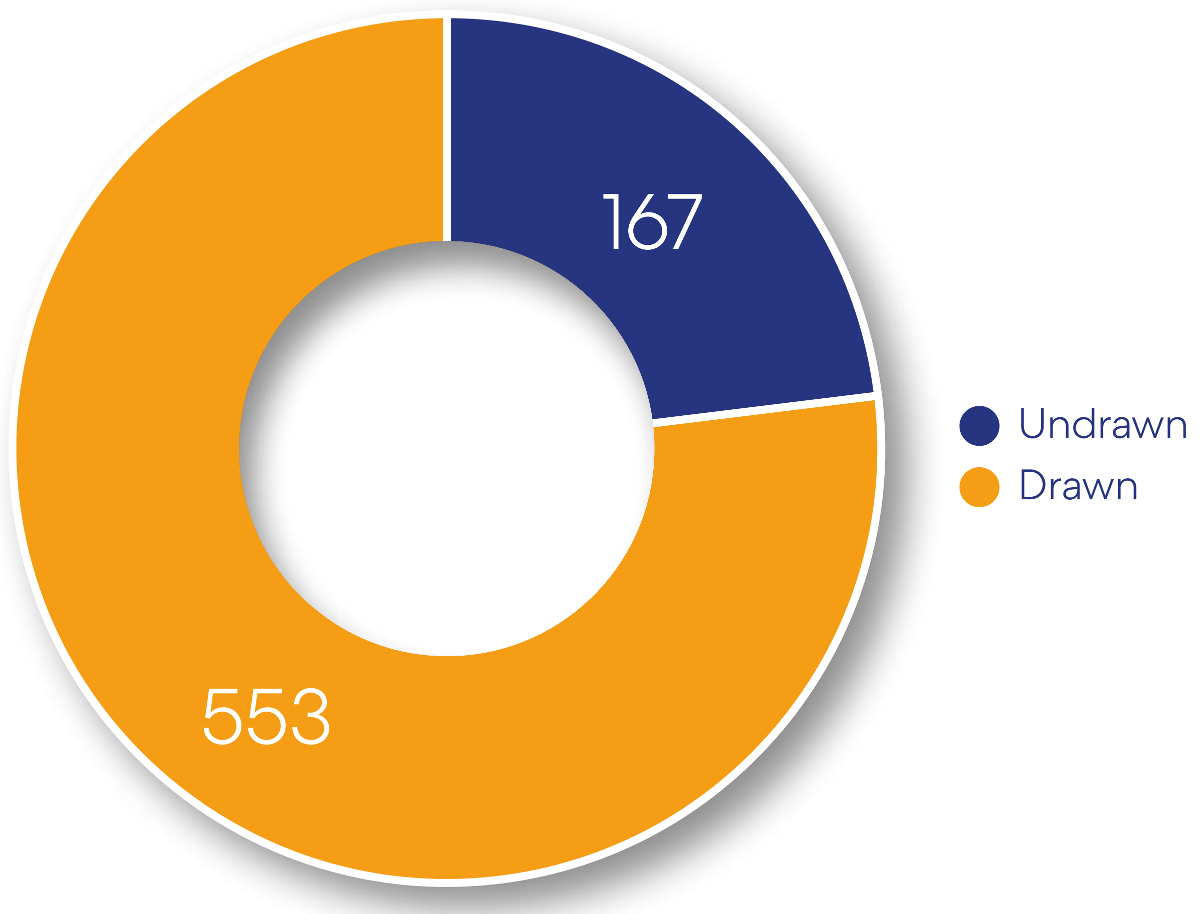
Updates

- In summer 2024, major repairs removed from all lender interest cover covenants. Huge increase to headroom.
- In December 2024, 54North secured £20m from AHGS 2053 bond at 5.12%.
- In December 2024, Karbon Homes went to market seeking £65m+ of new funding.

Funding facilities of £720m



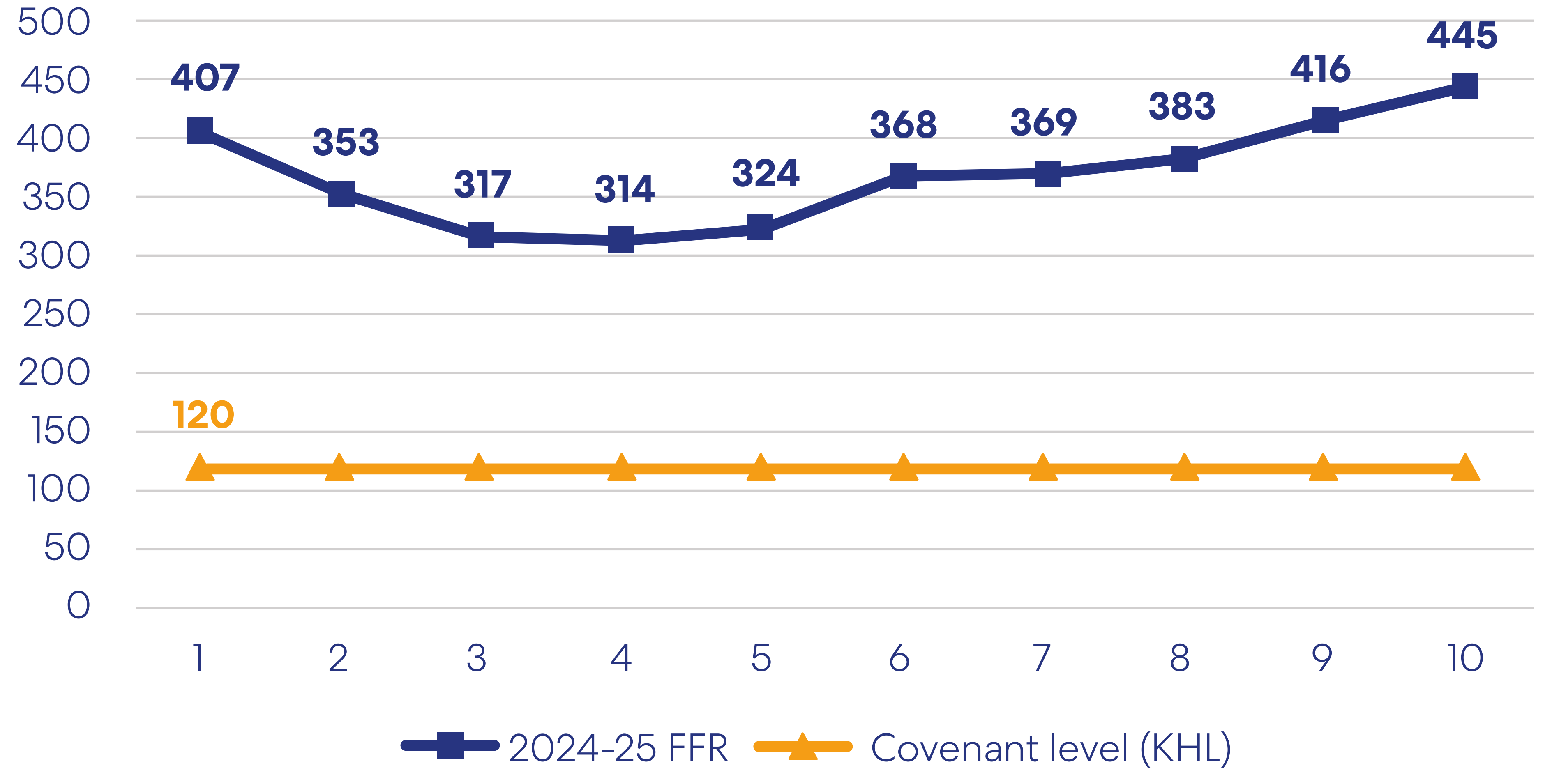
Drawn vs undrawn facilities (£553m)



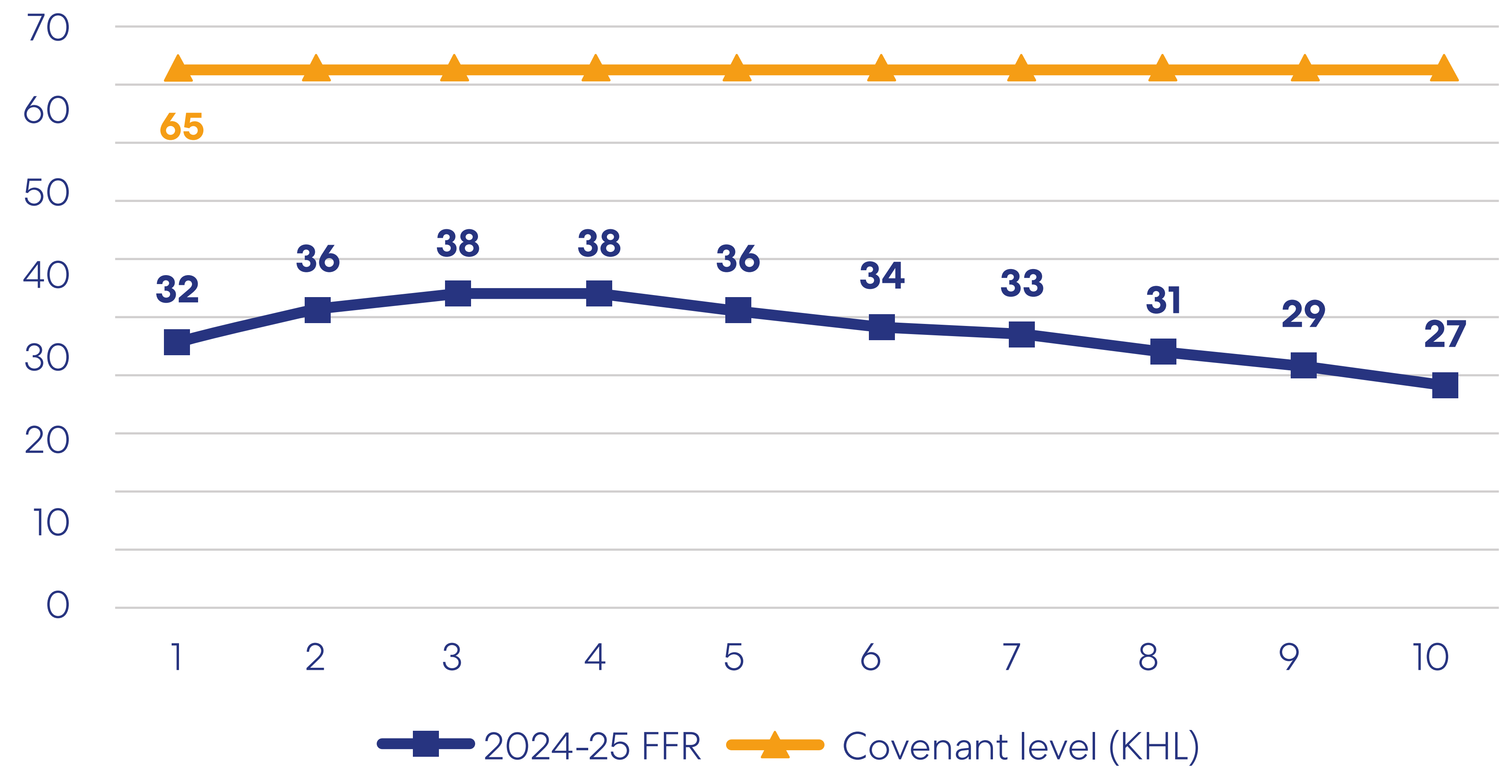
Covenant position

Interest cover	30 June 2024 FFR	Covenant level (KHL)	Gearing	2024-25 FFR	Covenant level (KHL)
1	407	120	1	32	65
2	353	120	2	36	65
3	317	120	3	38	65
4	314	120	4	38	65
5	324	120	5	36	65
6	368	120	6	34	65
7	369	120	7	33	65
8	383	120	8	31	65
9	416	120	9	29	65
10	445	120	10	27	65

Interest cover (%)



Gearing (%)



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5. Financial performance

Half year results summary

Operating margin (excl goodwill) was 26.4% to September 2024. (Sep 2023: 26.8%)

Key movements on turnover have been:

- £7.5m increase from a 7.7% rent increase in April 2024.
- £1.5m from Leazes Homes addition (2.5 months)

Surplus before tax:

If the £1.3m loss on goodwill adjustment is excluded, the Group is £1.06m behind its target surplus for the year. Broadly, this is:

- -£0.2m income lost from properties scheduled for demolition.
- -£0.4m growth initiatives in commercial subsidiaries.
- +£0.4m from interest received on deposits.
- -£0.6m on Leazes merger costs and other non-pay overheads
- -£0.2m in 54North asset sales.

The Group also expects to incur an additional £2.3m of capitalised repair costs during the year. We are seeing a continuing increase in demand for major repairs works, and we will be building this into future iterations of our business plan.

£m	Sept 2024 Actual	Sept 2023 Actual
Turnover	107,950	98,024
Operating surplus	22,220	26,285
Surplus before tax	16,939	21,853
Excluding goodwill adjustments	*1,302*	*-4,714*
Surplus excluding goodwill adjustments	**18,241**	**17,139**

Financial summary

Metric		21/22 Actual	22/23 Actual	23/24 Actual	24/25 FFR†	25/26 FFR	26/27 FFR	27/28 FFR	28/29 FFR
SH as % of turnover*	%	87.0%	87.5%	88.0%	87.8%	89.3%	85.5%	85.8%	85.5%
SH Core EBITDA Margin*	%	37.2%	38.0%	36.3%	33.7%	40.2%	39.1%	41.8%	42.1%
EBITDA Margin*	%	39.8%	40.0%	37.1%	37.0%	43.4%	43.3%	45.3%	45.2%
EBITDA MRI Margin*	%	26.7%	21.5%	21.8%	18.3%	25.2%	25.6%	26.6%	26.4%
Debt to EBITDA MRI*	x	12.0x	14.2x	12.6x	15.2x	12.1x	13.1x	12.9x	12.2x
Gearing (RSH definition)	%	34.5%	34.8%	34.5%	32.6%	35.1%	37.0%	37.2%	35.6%
EBITDA MRI ICR*	%	195.7%	171.2%	193.3%	168.5%	211.5%	200.6%	198.4%	202.8%
Capitalised Major Repairs	£m	20.3	30.5	29.4	40.7	41.5	44.0	48.3	50.7
Development - completions	#	463	529	644	770**	711	712	443	322

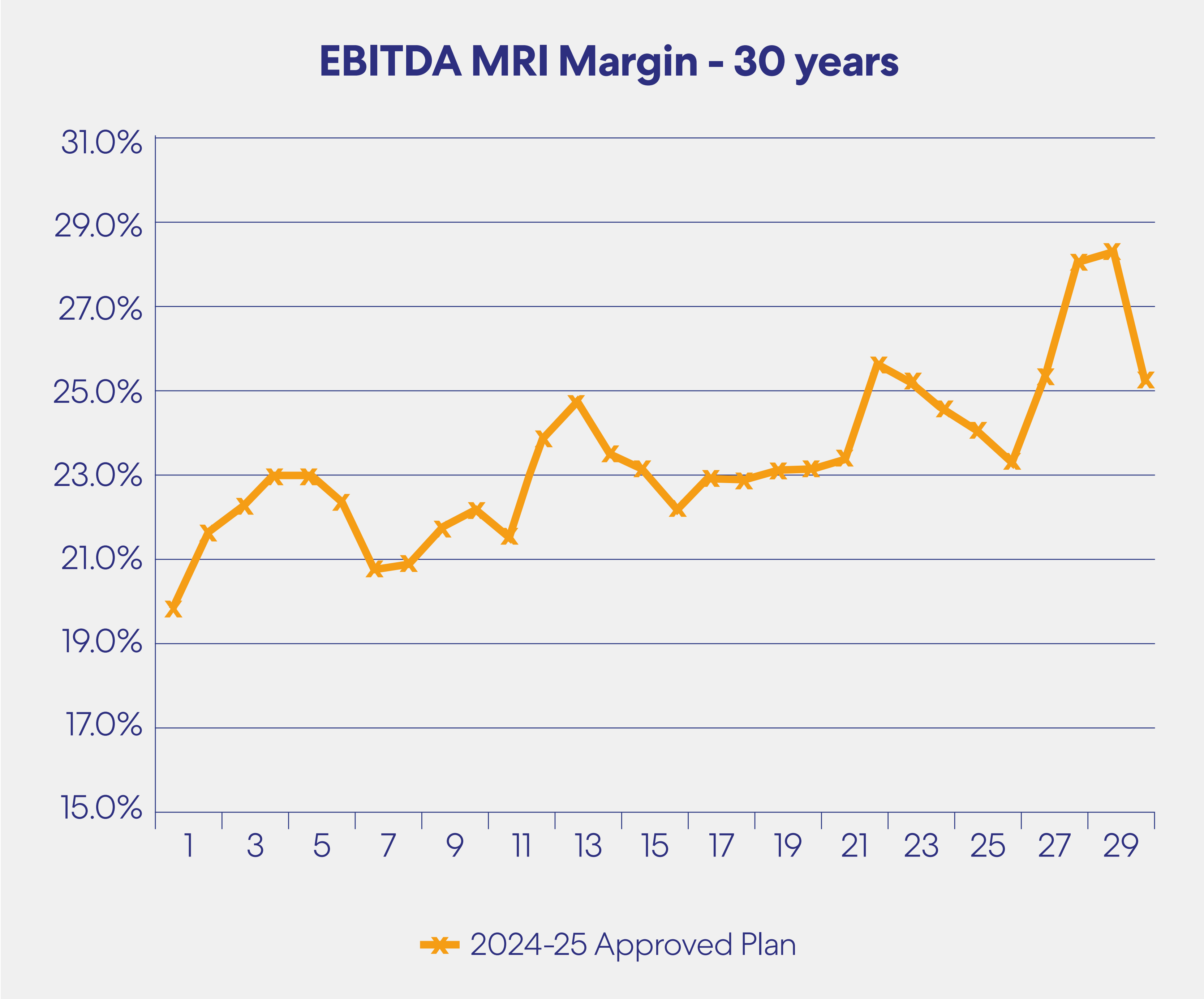
*Excludes surplus from first tranche shared ownership and outright sales, reflecting S&P Global's methodology published June 2021

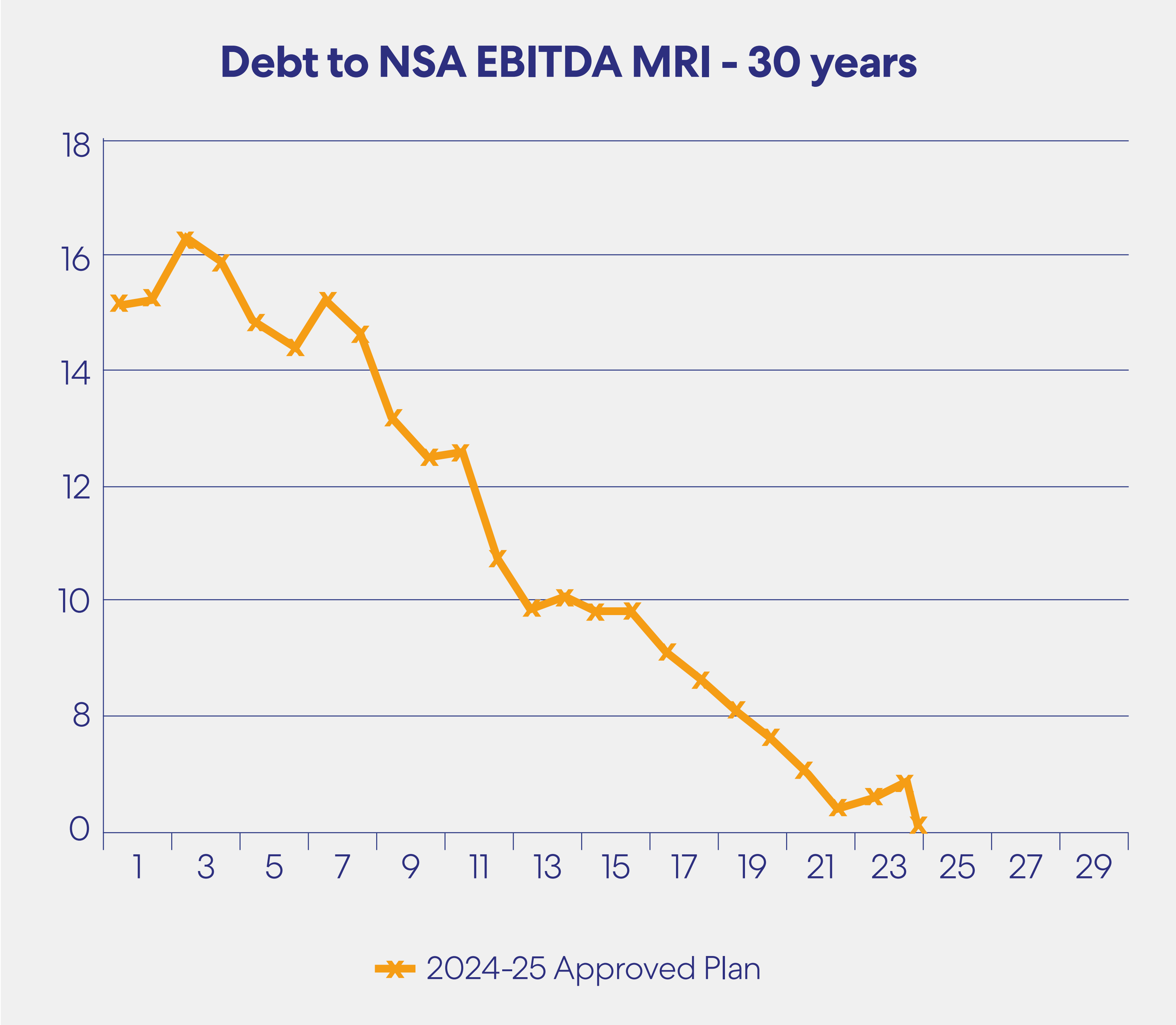
**Updated forecast for 2024-25

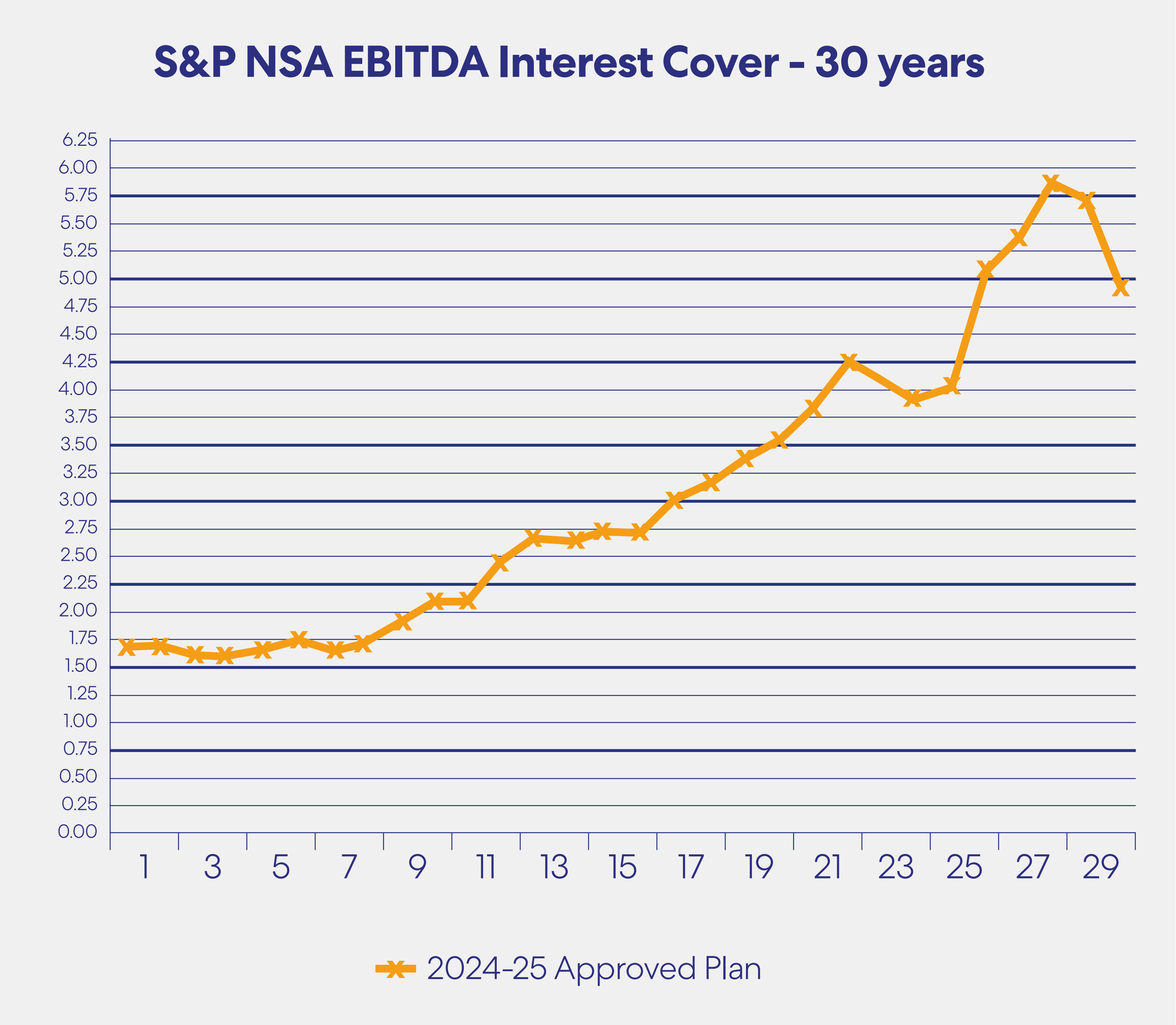
†All figures from 30 June 2024 FFR

Business plan summary

Our business plan show improving metrics after an initial period where we have increased gearing to deliver our HE Strategic Partnership.







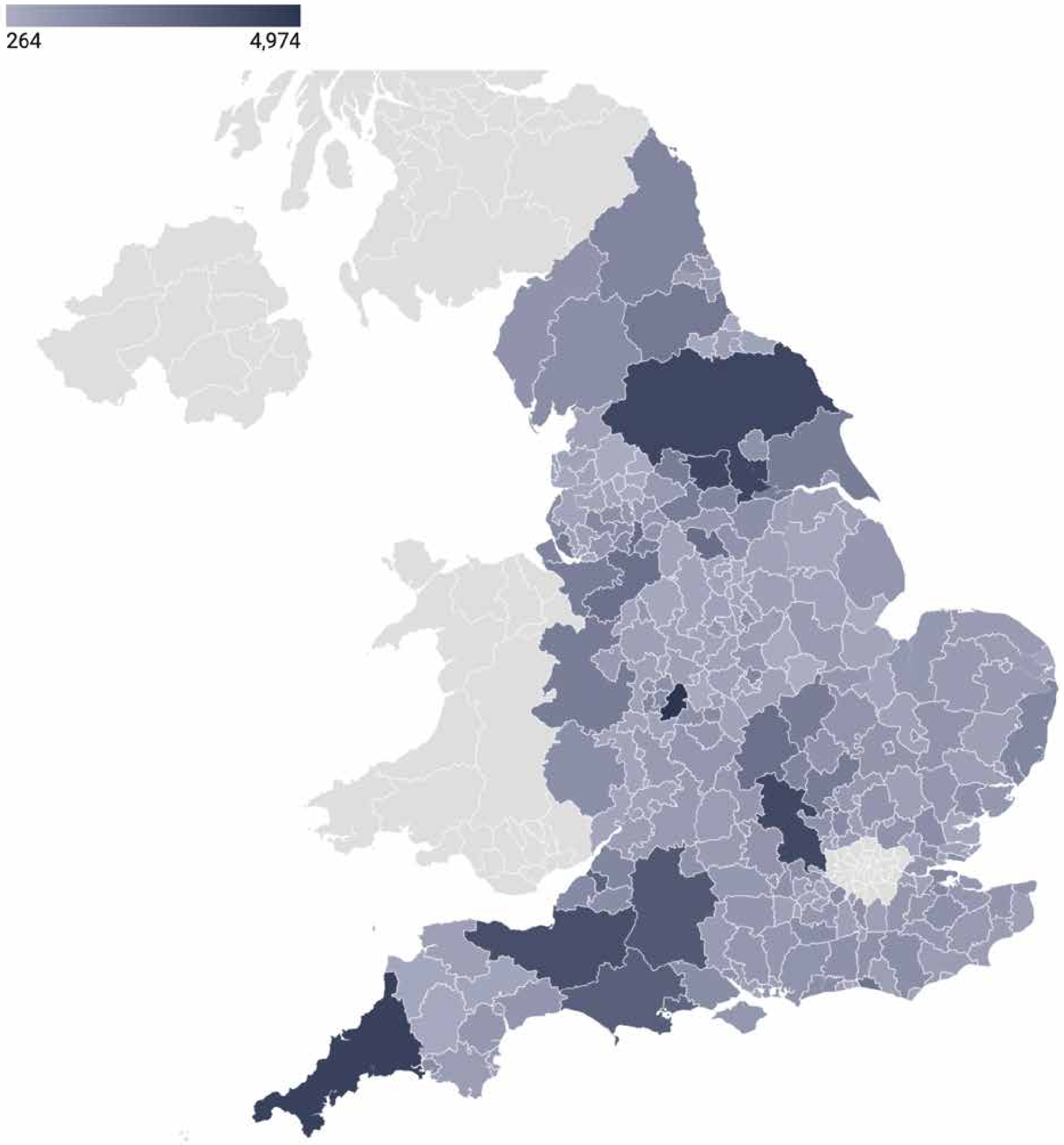
Taken from 30 June 2024 FFR

Outlook

- Increased targets for our local authorities to deliver new housing – showing capacity and creating an imperative for growth.
- Government to publish spending review in late spring 2025 with the next Affordable Housing grant programme to be announced soon after.
- Following the encouraging five-year rent settlement there is hope that the government will continue to increase financial support into the sector.
- However, National Insurance contribution increases, new mandated performance standards and more interventions from the Housing Ombudsman are driving up front-line costs. The new standards match our ambition to do more for our customers and invest in assets, and we will reflect this reality in our next business plan refresh.
- In 2025 we will embark on a multi-year, £8m efficiency programme "Good to Great" to improve our customer experience and reduce inefficiencies in our customer transactions.
- Our for-profit housing association will attract new investment and help us maintain the development capacity to match our ambitions.

Housing targets under new method

The housing targets for each local authority under the proposed new method



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Any questions?