

Investor presentation January 2021

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

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1. Introduction and highlights

Presenting team



Paul Fiddaman
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 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 as Finance Director and then Managing Director before taking the position as Group Finance Director at the £230million turnover Storey Homes.



Andrew Thompson
Assistant Director: Treasury

Andrew is a Chartered Certified Accountant (FCCA).

He took up the position of Head of Finance at Derwentside Homes in 2015 and was heavily involved in the process of amalgamation to form Karbon Homes in April 2017.

Andrew led on Karbon's inaugural £250m bond in Nov 2018 including the June 2020 retained issuance.

Credit highlights

1. Credit profile

Strong investment grade (A rated, S&P) 27,000+ unit, 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 87% of total turnover.

4. Robust financial metrics

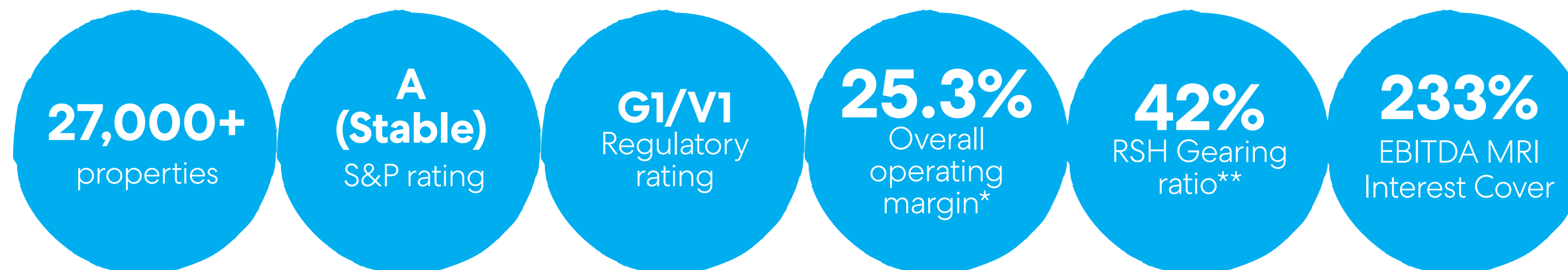
Strong operating margins, high income generation and relatively low levels of gearing.

5. Excellent governance

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

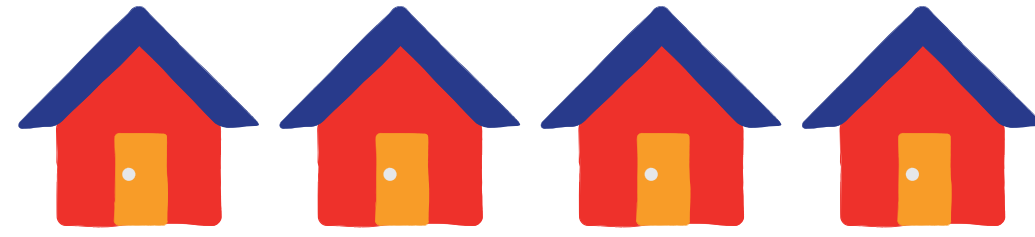
6. Strong ESG credentials

Committed to achieving EPC Band C across existing homes by 2030.

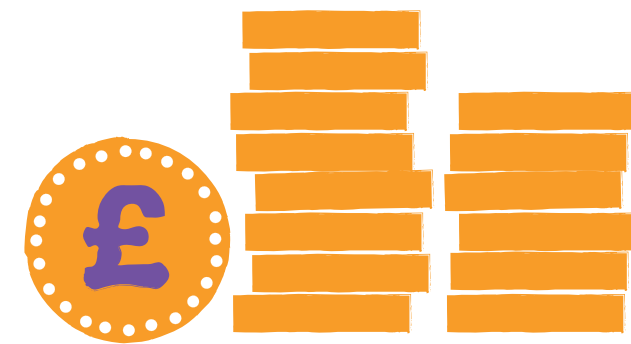


Source: Metrics from Karbon Homes audited financial statements year ended 31 March 2020. *Overall operating margin, excluding asset sales. **RSH Gearing definition

Our impact



Own or manage
27,000+
homes, housing over
55,000
people



£136 million
annual turnover and
assets worth
**£865
million**



Identified
£6.5 million
in unclaimed benefits
for our customers



79,500
home repairs completed
**£44
million**
invested in our existing
homes last year

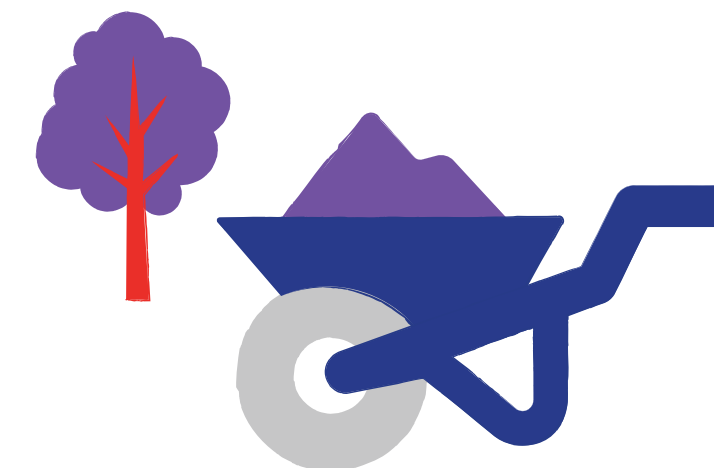


We employ
800+
people who are
all on the living
wage or above



Supported over
151 residents
into employment and training
in the last year

1,900+
new homes planned
over next three years,
an investment of
c.£200 million



Invested over
£286k
in **61 community projects**
last year

Provided
benefit, money
and debt advice to
**5,396
customers**

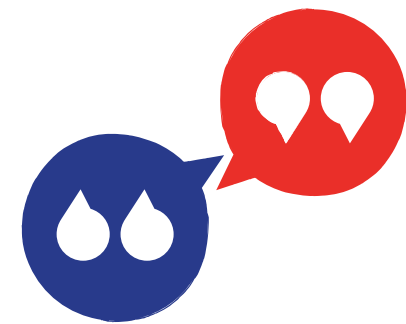


£120,000

given to
104 charities
to support communities
through the coronavirus crisis

360

socially isolating
customers are
receiving weekly
social calls



7,271

vulnerable customers
contacted to offer
additional support

**Supporting
our
communities
during Covid-19**



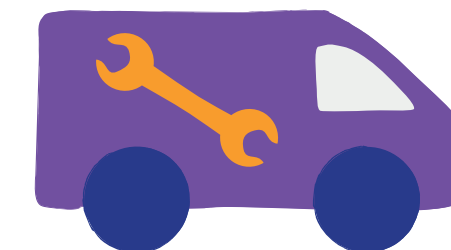
1,100

older customers in our
retirement living and extra
care schemes are receiving
a daily welfare call



11,652

emergency repairs carried
out by our property
services teams



**GOOD WORK
PLEDGE** ✓
~~~~~

Our Money  
Matters Team have  
supported

**3,245**

customers  
struggling with  
financial and  
budgeting issues



# Byker Community Trust: merger progress



Byker has been part of Karbon's cost-sharing partnership since 2016 and, following formal due diligence, both Byker and Karbon Boards have agreed in December 2020 to proceed towards a formal partnership in time for FY21/22.

- Adding 1,800+ homes to the Group portfolio
- Iconic Grade II listed Byker estate
- Plans for accelerated investment up to 2029 in environmental and living space improvements
- Complimentary geographies and efficiencies over time
- Award winning regeneration credentials: Byker recently won the 'Neighbourhood Transformation Award' at the UK Housing Awards.



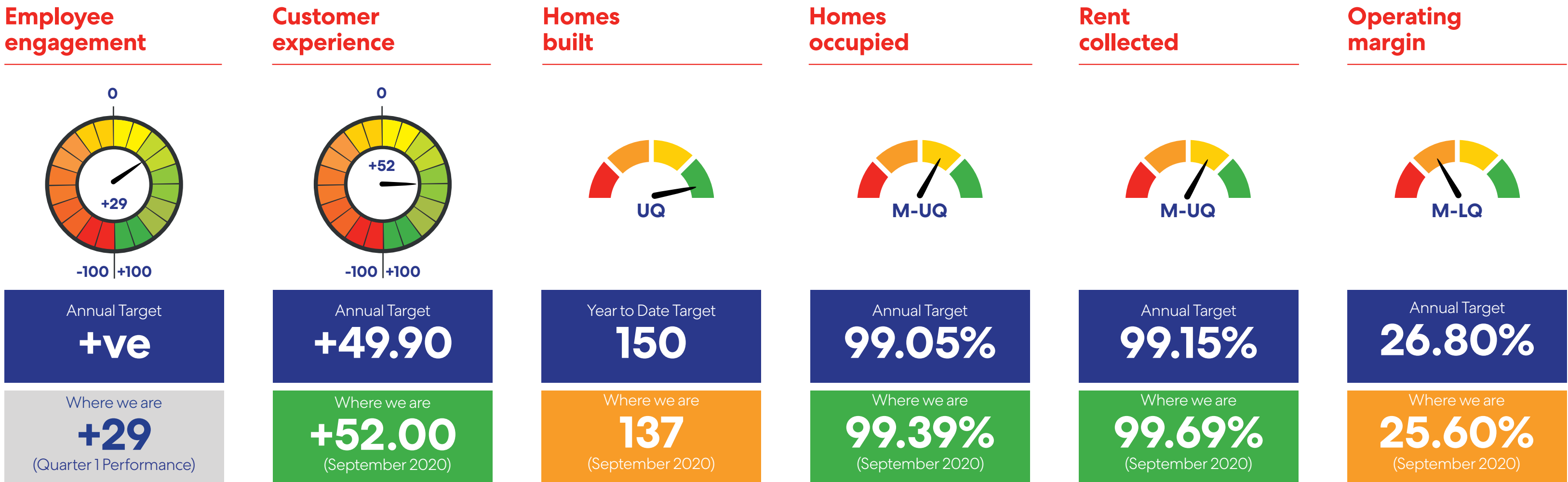


## 2. Operational performance



# Operating model

- A fundamental part of our vision is to be one of the best service providers in the UK.
- We continue on our journey 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.
- Karbon benchmarks itself using Housemark and the Sector Scorecard: we have included below the headline indicators we report internally.
- The KPI's listed below each speedometer display our 2020/21 target and YTD performance to September 2020.
- Benchmarks cover business health, development, outcomes delivered, effective asset management and operating efficiencies.



# Operational performance and Covid-19

- Broadly, performance has been maintained during an unprecedented period surrounding the pandemic.
- Repairs turnaround times, costs and voids have been obvious areas directly impacted by local lockdowns, materials and labour availability issues.
- On the other hand, rent collection rates and instances of arrears have remained on target and performed better than some of our sensitivity modelling to date, which has been encouraging.

| <b>Karbon Homes (Association):<br/>Performance Benchmarking</b>                | <b>Measure</b> | <b>YTD<br/>Sept 2020</b> | <b>Target<br/>20/21</b> | <b>FY 19/20</b> |
|--------------------------------------------------------------------------------|----------------|--------------------------|-------------------------|-----------------|
| Rent collected against rent debit                                              | %              | 99.69%                   | 99.15%                  | 99.12%          |
| Current rent arrears net housing benefit as % of rent debit                    | %              | 3.19%                    | 2.96%                   | 3.14%           |
| Void rent loss as % of annual rent debit (rolling 12 months)                   | %              | 1.76%                    | 1.76%                   | 1.36%           |
| Average re-let time (Housemark Standard)                                       | Days           | 85.58                    | 33.00                   | 48.31           |
| Benefit income achieved for our customers                                      | £              | £3.3m                    | £5m                     | £6.5m           |
| Responsive repairs completed to target date                                    | %              | 97.07%                   | 95.00%                  | 94.59%          |
| Appointments made and kept                                                     | %              | 98.15%                   | 98.00%                  | 98.13%          |
| Average number of calendar days to complete standard void repairs (routine)    | Days           | 16.39                    | 13.00                   | 14.53           |
| Average number of calendar days to complete standard void repairs (structural) | Days           | 31.82                    | 35.00                   | 46.57           |
| Average cost of responsive repairs                                             | £              | £147.70                  | £134.37                 | £147.57         |
| Homes meeting Decent Homes Standard                                            | %              | 100.00%                  | 100.00%                 | 100.00%         |
| Gas servicing completed against service plan                                   | %              | 99.58%                   | 100.00%                 | 99.91%          |
| Customers very and fairly satisfied with responsive repairs                    | %              | 92.88%                   | 92.00%                  | 91.15%          |



## Health and safety

**Compliance related spend for 20/21 forecasted at £7.4m and budgets for 2021/22 totalling £9.4m**

**Significant expenditure on fire safety totalling £8.8m in last 6 years and budgets totalling £2.4m in 2021/22**

**Karbon has no buildings over 18 metres in height or with affected cladding materials**



**100% of stock 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

Just after the country went into lockdown, life got even tougher for Karbon customer Jean after losing her job. Feeling low and despondent, Jean was referred to Karbon's Foundations for Life team and started working with employment advisor, Helen Stevenson, who helped her to work on her confidence and see things more positively.

With Helen's support Jean secured a job with the NHS.

"I was so glad I contacted the Foundations for Life team at Karbon and Helen was brilliant. She is a wonderful person and has helped me to find work. Without her support, I would still be looking for work and unsure what steps to take. I am now a few months into my new job and I'm really enjoying it. I'm feeling a lot more positive."





### 3. Development and assets

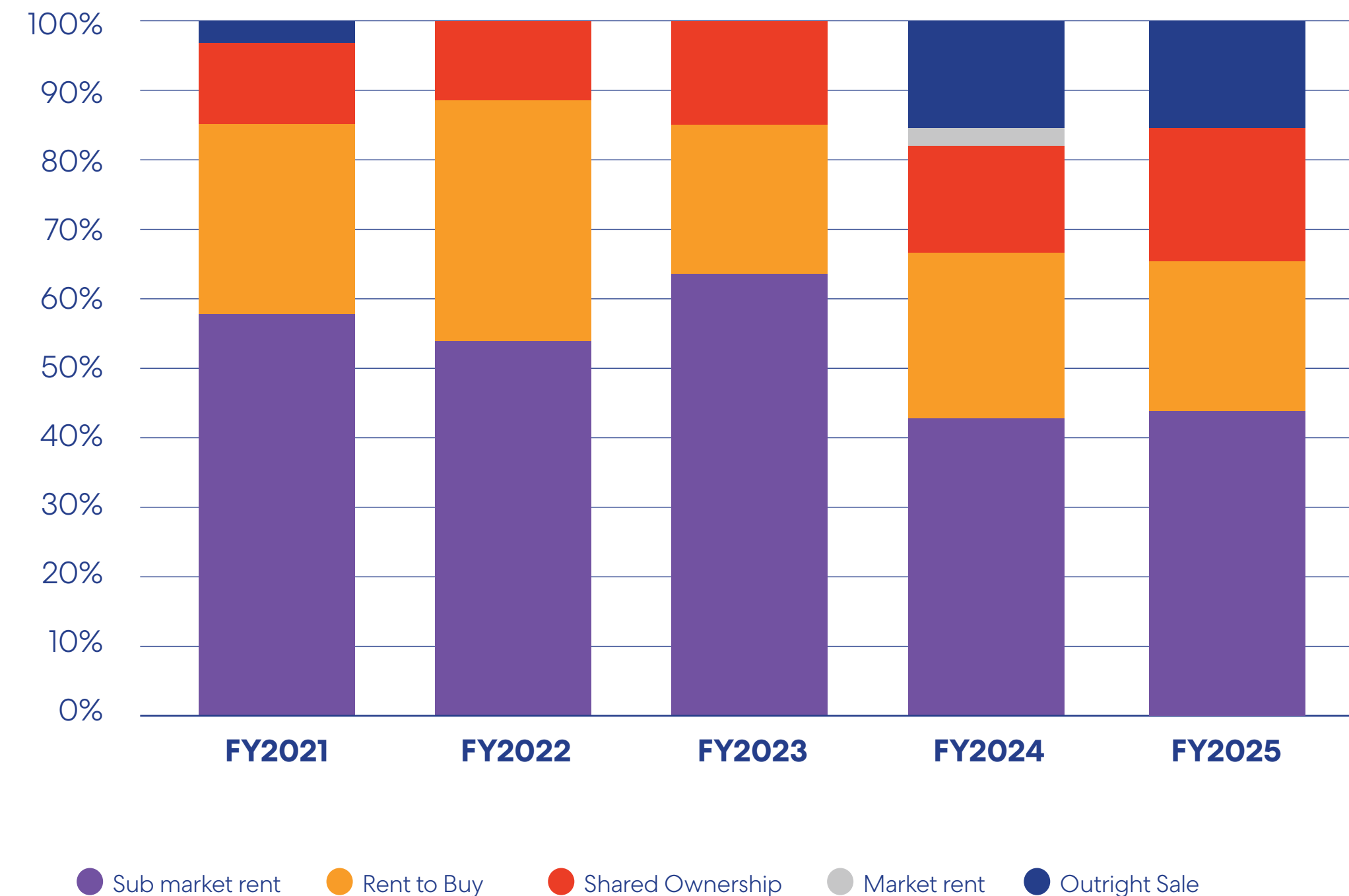


# Development strategy

| Karbon Homes Group  | Actual 2017/18 | Actual 2018/19 | Actual 2019/20 | Forecast 2020/21 | Business Plan 2021/22 | Business Plan 2022/23 | Business Plan 2023/24 | Business Plan 2024/25 |
|---------------------|----------------|----------------|----------------|------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| New Homes Completed | 357            | 430            | 534            | 463              | 625                   | 850                   | 555                   | 541                   |

- Strategy to develop 500+ homes per year
- Focus on core social and affordable housing
- Modest amounts of commercial activity to assist in Karbon increasing social housing development
- Open to Joint Ventures for larger sites
- Currently formulating our submission for the new Homes England Affordable Homes Programme

Annual development programme mix





# Recent planning consent – Future Homes at Helix Newcastle



Our ground-breaking new vision for affordable homes to suit all generations has won planning permission to go ahead on Helix Newcastle, a 24-acre innovation district in Newcastle.

- The 'Future Homes' project will build a community of 66 homes on a site within easy walking distance of city centre shops, cafés and restaurants.
- Concept involves efficient construction using modular steel façades with extensive communal landscaping and green roofs.
- We are working alongside the Future Homes Alliance (FHA), a Community Interest Company formed by Newcastle University, Ryder Architecture, Zero Carbon Futures, the Elders Council, the Sustainable Communities Initiative, and the Innovation Super Network.
- A significant donation made by L&G to the project, enabling further research capacity.



# Recent development starts – College Grange, Sunderland

- 105 new affordable homes on the College Grange development in Sunderland, formerly occupied by Sunderland College.
- College Grange will be a mixed tenure development with a blend of different sized family homes and bungalows for older residents.
- The completed homes will be a mix of Rent to Buy and Affordable Rent properties.





# Development and Modern Methods of Construction (MMC)



## New high specification homes for Teesside village

We have made very rapid progress on our new £6m development of 36 affordable ICF (Insulated Concrete Formwork) homes in Greatham, near Hartlepool. Completion is expected early in 2021.

ICF combines concrete and foam insulation to build houses more rapidly than from traditional bricks and mortar.

## Modular homes for Central Park in Darlington

We are currently working with Keepmoat Homes and their specialist supplier Ilke Homes on 17 factory-built homes on the Central Park development close to the middle of Darlington.

We have 13 three bedroom homes and 4 two bedroom homes which are all assembled from giant sections of 'superstructure' taken to site on low loader trucks, then craned into position.



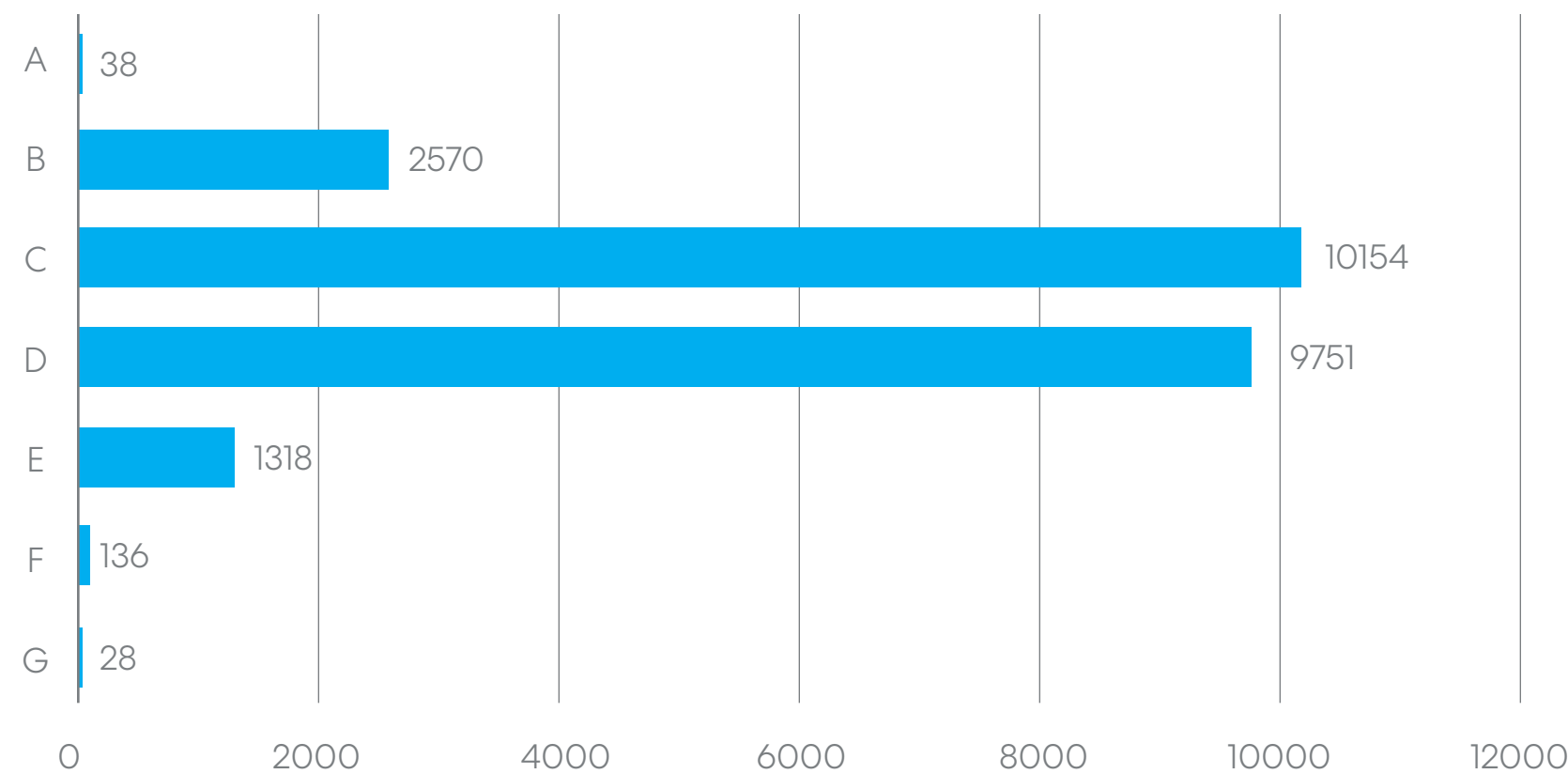


# Capital investment, EPC and ESG

Over the next four years, we intend to invest £219m in improving our existing homes.

We continue to formulate our strategies around achieving EPC band C across our existing homes by 2030.

Current Homes : EPC Ratings



ESG: Karbon has signed up as an early adopter of The Good Economy’s ‘Sustainability Reporting Standard’

## EPC C by 2030:

- Upgrading our systems and processes around EPC recording
- Committing long term investment in our workforce, practices and specifications in order to facilitate the drive to energy efficiency
- Allowance for £20m worth of EPC upgrades beginning 21/22 in our recent business plan.



# 4. Financial performance





# Performance summary

| Metric                     |    | 18/19 Actual | 19/20 Actual | 20/21 FFR | 21/22 FFR | 22/23 FFR | 23/24 FFR | 24/25 FFR |
|----------------------------|----|--------------|--------------|-----------|-----------|-----------|-----------|-----------|
| SH as % of Turnover*       | %  | 89.9%        | 86.9%        | 86.2%     | 88.8%     | 90.0%     | 81.5%     | 81.8%     |
| SH Core EBIDTA margin*     | %  | 36.5%        | 37.2%        | 37.2%     | 38.6%     | 42.9%     | 41.9%     | 42.0%     |
| EBITDA margin              | %  | 38.4%        | 39.0%        | 39.1%     | 40.2%     | 44.3%     | 44.3%     | 44.3%     |
| EBITDA MRI margin          | %  | 31.0%        | 31.2%        | 28.6%     | 28.6%     | 32.0%     | 35.1%     | 25.6%     |
| Debt to EBITDA margin      | X  | 9.7x         | 9.0x         | 11.8x     | 11.5x     | 9.6x      | 7.6x      | 10.6x     |
| Gearing (Historic cost)    | %  | 38.8%        | 38.3%        | 37.1%     | 39.5%     | 38.9%     | 39.2%     | 38.7%     |
| EBITDA MRI ICR             | %  | 212.4%       | 233.4%       | 206.0%    | 210.0%    | 249.4%    | 334.3%    | 240.0%    |
| Average cost of borrowing  | %  | 4.3%         | 4.3%         | 4.2%      | 4.2%      | 4.2%      | 4.2%      | 4.2%      |
| Capitalised Major Repairs  | £m | 9.5          | 10.6         | 14.7      | 16.5      | 18.1      | 15.9      | 33.4      |
| Development- completions** | #  | 430          | 534          | 463       | 625       | 850       | 555       | 541       |

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

\*\*Updated forecast for 2020-21



# Group Statutory Financials

| £m                               | 18/19 Actual | 19/20 Actual | 20/21 FFR    | 21/22 FFR    | 22/23 FFR    | 23/24 FFR    | 24/25 FFR    |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| SH Core turnover                 | 111.3        | 113.2        | 116.0        | 120.6        | 127.5        | 135.3        | 141.1        |
| Sales and other turnover         | 18.1         | 22.7         | 24.4         | 21.2         | 20.2         | 37.2         | 37.7         |
| <b>Turnover</b>                  | <b>129.4</b> | <b>135.9</b> | <b>140.4</b> | <b>141.8</b> | <b>147.7</b> | <b>172.6</b> | <b>178.8</b> |
| Cost of sales of other op. costs | (12.5)       | (17.7)       | (18.0)       | (14.8)       | (14.0)       | (28.3)       | (28.8)       |
| SH Core operating costs          | (85.1)       | (83.9)       | (85.7)       | (89.2)       | (89.1)       | (88.4)       | (92.6)       |
| SH Core operating surplus        | 26.2         | 29.3         | 30.3         | 31.4         | 38.4         | 46.9         | 48.5         |
| <b>Operating surplus</b>         | <b>31.8</b>  | <b>34.3</b>  | <b>36.6</b>  | <b>37.8</b>  | <b>44.6</b>  | <b>55.8</b>  | <b>57.4</b>  |
| Surplus on disposals             | 1.7          | 4.3          | 1.5          | 1.1          | 1.4          | 2.7          | 2.4          |
| Net interest cost                | (17.7)       | (16.8)       | (18.2)       | (18.2)       | (17.7)       | (17.5)       | (18.7)       |
| Tax and other                    | (9.8)        | 0.3          | (0.2)        | (0.1)        | 0.0          | (0.3)        | (0.3)        |
| <b>Surplus</b>                   | <b>6.0</b>   | <b>22.1</b>  | <b>19.7</b>  | <b>20.6</b>  | <b>28.4</b>  | <b>40.7</b>  | <b>40.8</b>  |



# Unaudited YTD: Sept 20

| £m                 | Sept 20 Actual | Sept 19 Actual |
|--------------------|----------------|----------------|
| Turnover           | 67.9           | 66.1           |
| Operating surplus  | 20.8           | 20.3           |
| Surplus before tax | 11.7           | 12.0           |

- Operating margins held: 31% Sept 20 (31%: Sept 19)
- Despite the pandemic and its impact on our operating environment, financial performance has been held YoY with:
  - Some higher void rent loss costs and direct works teams inefficiencies during lockdown, set against
  - Lower repairs costs and employee costs with delays to budgeted spend during the six months to Sept 20

## Forecasted year end position to 31 March 2021:

- Group surpluses are currently forecasted to show a modest shortfall from our budget of £21m



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.

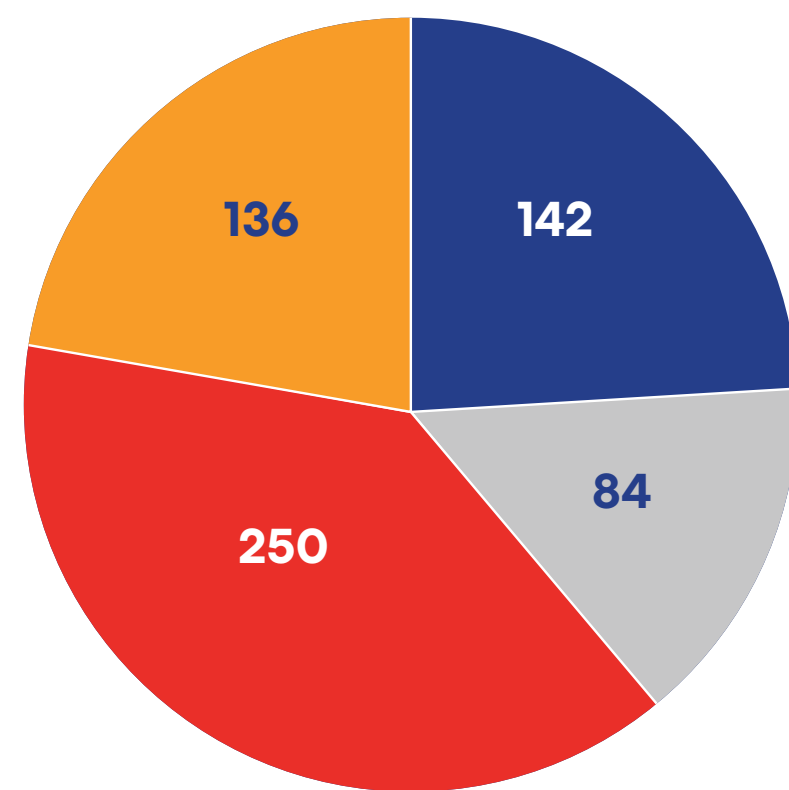
# 5. Funding and treasury



# Treasury overview

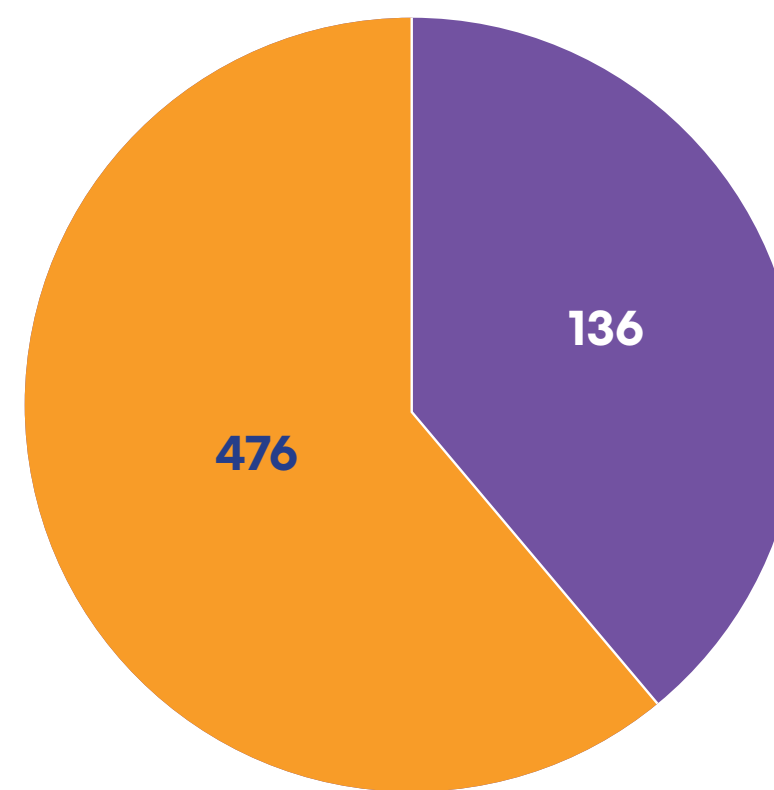
## Current loan portfolio – business fully funded until 2023/24

Funding facilities of £612m



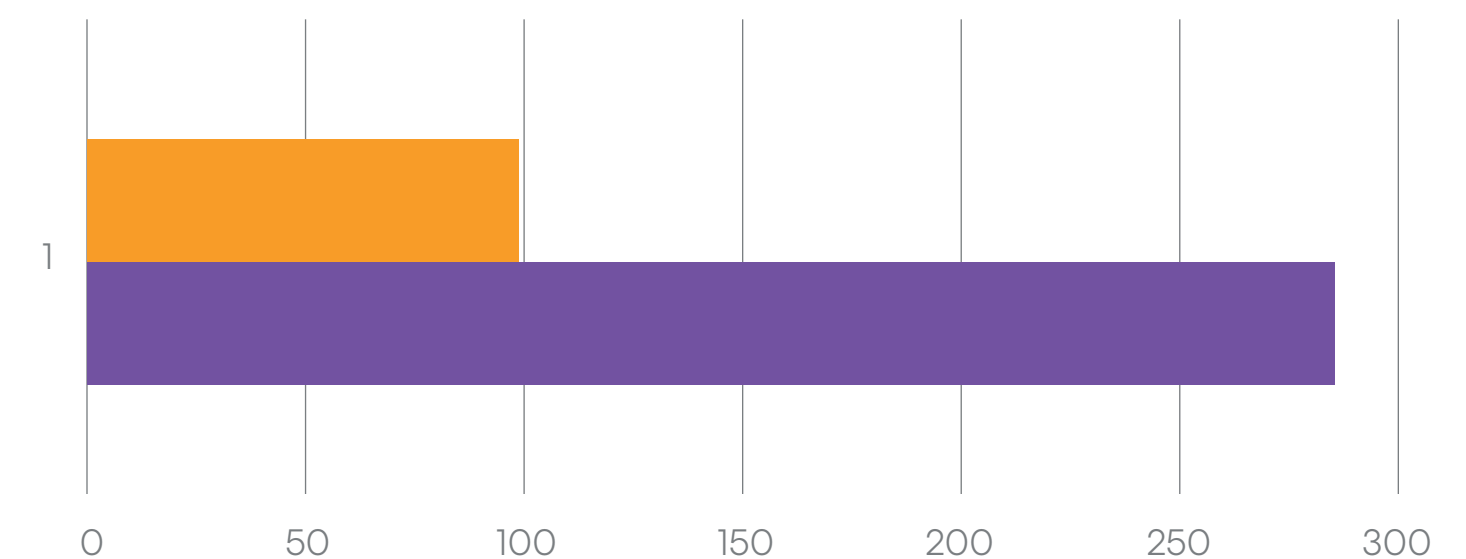
● Bank Loans ● Capital markets ● Bonds ● RCFs

Drawn vs undrawn facilities (£m)



● Undrawn ● Drawn

Liquidity headroom



● 24 month liquidity requirements from Sept 20 (£m)  
● Cash, deposits and undrawn facilities at Sept 20 (£m)

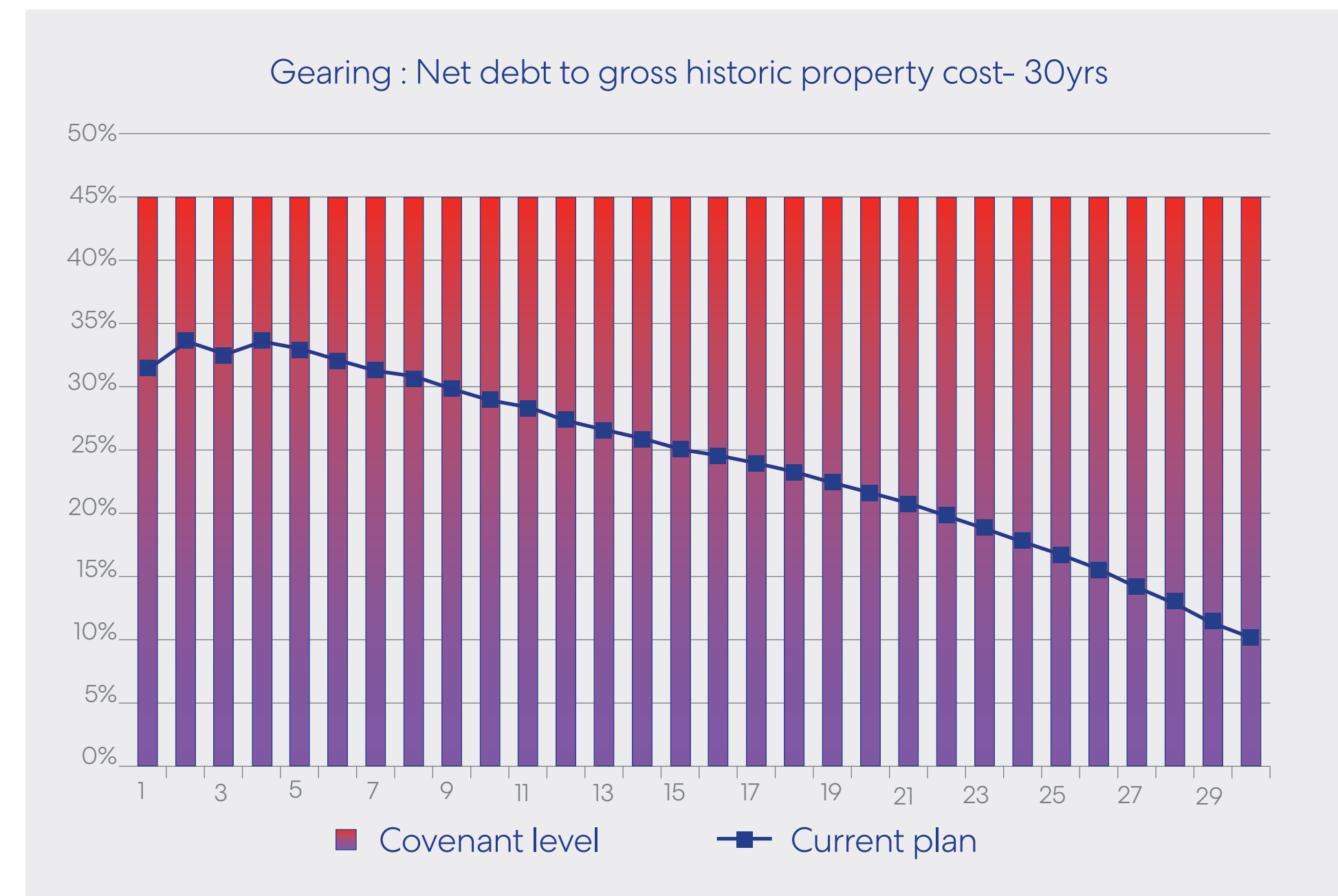
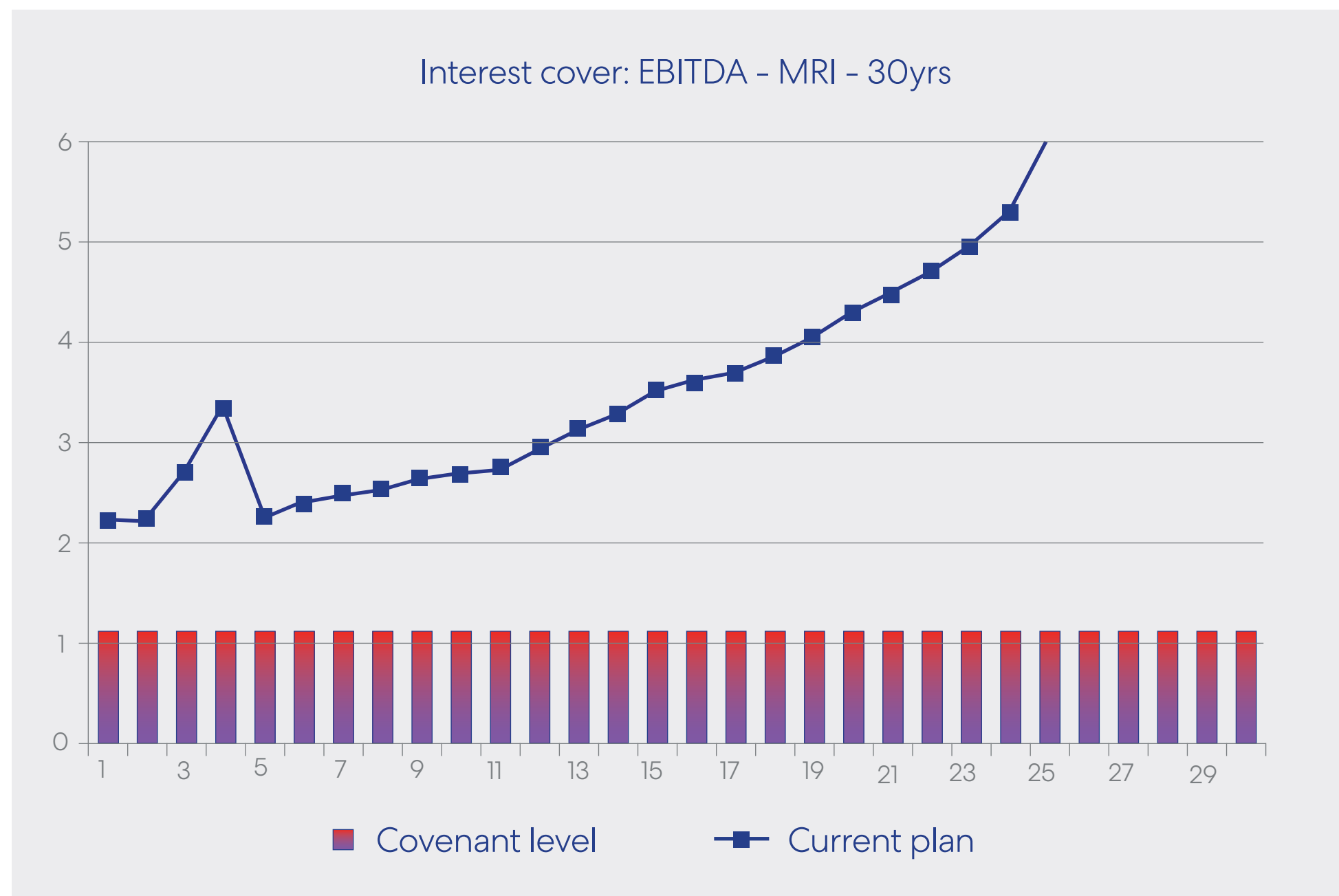
- 96% of our currently drawn debt is at fixed rates of interest
- Security in place to draw on available facilities up to full utilisation
- Cash and instant access holdings of £24m at Sept 2020
- Deposits of £126m at Sept 2020
- Currently have unencumbered stock worth £160m, excess or trustee held loan security of £124m, giving total of £284m to fund new borrowings.

Source: Metrics from Karbon Homes unaudited Group management accounts and performance reports, Sept 2020



# 30 Year Business Plan covenants

Our currently approved 30 year Business plan for 2020/21, shows healthy levels of compliance headroom with our two key banking loan covenants of Interest Cover and Gearing





**Any questions?**