

Investor presentation January 2024

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

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 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. Paul is also Chair of the North East Housing Partnership (NEHP).



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 is responsible for Finance, ICT and People and Organisational Development.

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



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 in 2018, and more recently, the project to produce Karbon's ESG report against The Good Economy's sustainability reporting standard.

Andrew also holds a Board and Audit Committee position at Durham Aged Mineworkers Homes Association, the largest almshouse charity in the UK, and is the Chair of a school charitable trust.

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Contents

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



1. Overview and strategic update

Our geography

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**

Our footprint covers the North East of England and Yorkshire, where we own or manage around 32,000 homes across diverse communities. We also provide services to a further 9,000 homes for other housing associations stretching over to the North West.

Some customers just need an affordable home, or a way onto the property ladder. Others might need a bit more – financial advice, community services, sheltered accommodation or training that can lead to a new job. Whatever people need to feel more secure, confident and happy with where they're at, we work our heart out to provide it.

By combining a sound business head with a strong social heart and staying true to our values, we hope to build strong foundations for even more people.



Credit highlights

31,771

Homes owned or managed

A (positive)

S&P Global, May 2023

G1/V1

Affirmed regulatory rating (Nov 23)

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

2. Homes England Strategic Partner - £165m grant funding to help deliver 2,200 new social and affordable homes to 2026.

3. Strong ESG foundations - Committed to achieving EPC Band C across existing homes by 2030. Three years of reporting ESG metrics using the Sustainability Reporting Standard for Social Housing.

4. Low risk business model - A focus on core social housing and low exposure to market sales risks. Turnover from social housing lettings represents 87% of total group turnover.

5. Robust performance metrics - Strong interest coverage and liquidity levels, low levels of gearing and high levels of customer satisfaction.

2.0 x
Liquidity ratio

29.0%
Social housing
operating
margin

38.2%
Gearing ratio

182%
EBITDA MRI
Interest Cover

**Top
quartile
TSM**

54North homes

Progress update

- In December 2022 – a formal Transfer of Engagements occurred between YHA and LYHA, to create 54 North Homes.
- A 3,000-home regional subsidiary within the Karbon Group.

Successes so far:

- 45 new homes delivered across Yorkshire in 22/23, with another 280 being managed on behalf of the Karbon Group.
- 250 homes planned to be delivered over three years, commencing in FY23/24, where we are currently on track to deliver 50 new homes across Yorkshire by the end of the financial year.
- £1.7m awarded from the Social Housing Decarbonisation Fund for 100 homes in Leeds.
- Roll out of Money Matters and Home Comforts services across Yorkshire.
- Strengthened our 54NH Board and formulated our ED&I action plan.
- Invested over £1.7m in existing homes across new kitchens, bathrooms, boilers, windows and doors, and fire alarm systems in FY22/23. Our projection to the end of 23/24 will see capital improvements exceed £3m this year.

Data source: 54 North Homes Limited, annual report and audited financial statements y/e 31st March 2023



South Tyneside Housing Ventures Trust (STHVT)

- In July 2023, a formal transfer of 439 homes from STHVT was completed.
- Our presence in the coastal region of South Tyneside now stands at >1,600 homes

Key aspects of the decision to transfer:

- Karbon's ability to provide additional services across money and debt advice, employability and digital skills, furniture rental scheme and access to our community investment funds.
- Karbon's success in merger delivery and capacity to invest in and maintain customers' homes.



Fair Foundations

We launched our Fair Foundations report in January 2023, outlining Karbon's approach and role in helping to shape our communities.

Key principles:

- Everyone deserves a fair chance to realise their potential, regardless of where they live.
- Karbon has a role to play in building 'sustainable places' where we are an anchor institution.

We have piloted our approach in two areas - **Stanley** (in County Durham) and **Byker** (in Newcastle).

Our projects so far and key outcomes:

- Purchased Stanley Board School – anchor town centre site
- Stanley Skills Hub – our base on Stanley high street, used in partnership with others (such as Barclays Bank)
- Ready Made Home trial project: 30 homes fully decorated including flooring to help sustain tenancies
- New Start employment programme





2. Operational performance

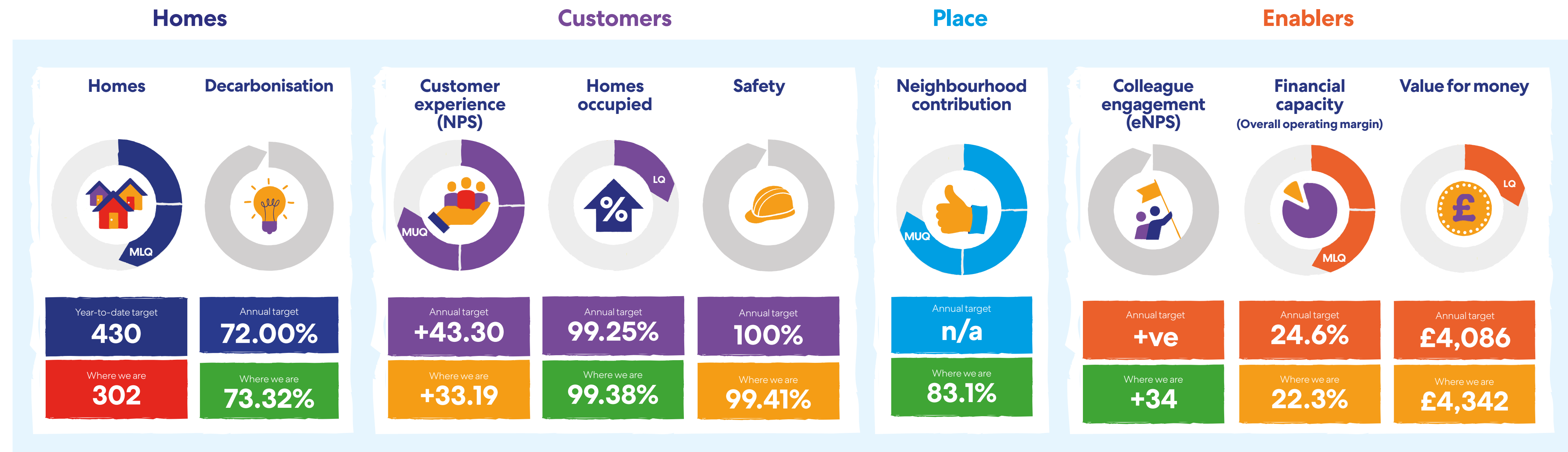
Operating model

Our strategy is to strive for excellence across our services. They will be locally responsive, easy to access and personalised where possible.

As we move into the third year of our 'Stronger Foundations Strategy 2021-26', housing continues to have a huge role to 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 KPIs listed below display our Karbon Homes (association) 2023/24 target and YTD performance to October 2023.



Operational performance

- Despite challenging circumstances, rent collection and arrears performance has remained strong.
- Our void rental losses have risen slightly to 1.86% compared to the prior year figure due to re-let times, some difficulties in keeping pace with the volume of reported repairs and sourcing materials at competitive prices.
- We continue to focus on 100% compliance targets, with any shortfall typically due to access issues for a small number of homes.

Karbon Homes (Association): Performance Benchmarking %	Measure	YTD Oct 2023	Target 23/24	FY 22/23
Rent collected against rent debit	%	100.3	99.7	98.9
Current rent arrears (UC customers) net housing benefit as percentage of rent debit	%	2.9	3.5	2.8
Void rent loss as percentage of annual rent debit (rolling 12 months)	%	1.86	1.87	1.65
Average re-let time (Housemark Standard)	Days	49.3	47.0	48.0
Benefit income achieved for customers	£	3.1m	4.0m	4.0m
Responsive repairs completed to target date	%	85.6	85.0	95.6
Appointments made and kept	%	98.1	98.0	97.7
Average number of calendar days to complete standard void repairs (routine)	Days	10.2	11.5	8.9
Average number of calendar days to complete standard void repairs (major)	Days	39.1	30.0	36.6
Average cost of responsive repairs	£	176.2	154.5	145.6
Homes meeting Decent Homes Standard	%	100.00	100.00	100.00
Gas servicing completed against service plan	%	99.94	100.00	99.96
Customers very and fairly satisfied with responsive repairs	%	93.1	91.0	91.4

Health and safety



Compliance related spend for next three years maintained at an average of £12m.

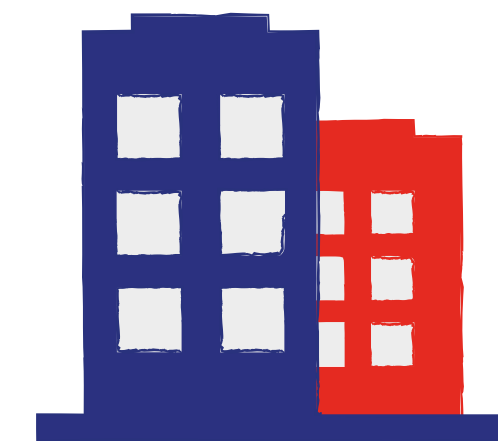


Damp and mould: robust systems in place to proactively deal with any issues. Sharing learning and best practice with others in the sector.

£9m planned spend on fire and building safety in 2024/25.



The Building and Customer Safety Working Group advise our board and committees on the strategic direction of fire and building safety.



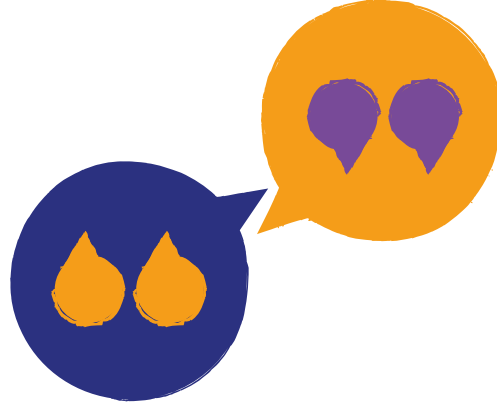
Fire safety – robust response to Building and Fire Safety Bills based on holistic risk of a building, not just height.

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



100% of homes at Decent Homes Standard.

Delivering excellent service to our customers



Making sure the customer voice is heard



Increase transparency and visibility through our resident engagement framework



Using data-led customer insight to personalise our service



Regularly measure our performance

**Karbon Residents Committee:
Key focus areas during 2022/23 were**

- Tenant Satisfaction Measures (TSM's)
- Complaints handling
- Damp and mould
- Adding two new area forums across our patch
- New guides and materials to help residents self-serve

Colin feels the benefits of upgrade

Thanks to the UK Government's Social Housing Decarbonisation Fund, we've been able to invest in energy saving upgrades to improve the performance of our existing homes.

Customer Colin Barnes of Ouston is already feeling the benefits:



“My home has had a total overhaul! It's incredible really. The work has included more insulation as well as improvements to the roof.

The difference it makes to the warmth of the house was immediate and really noticeable. My sister really feels the cold and even she is lovely and warm now!”

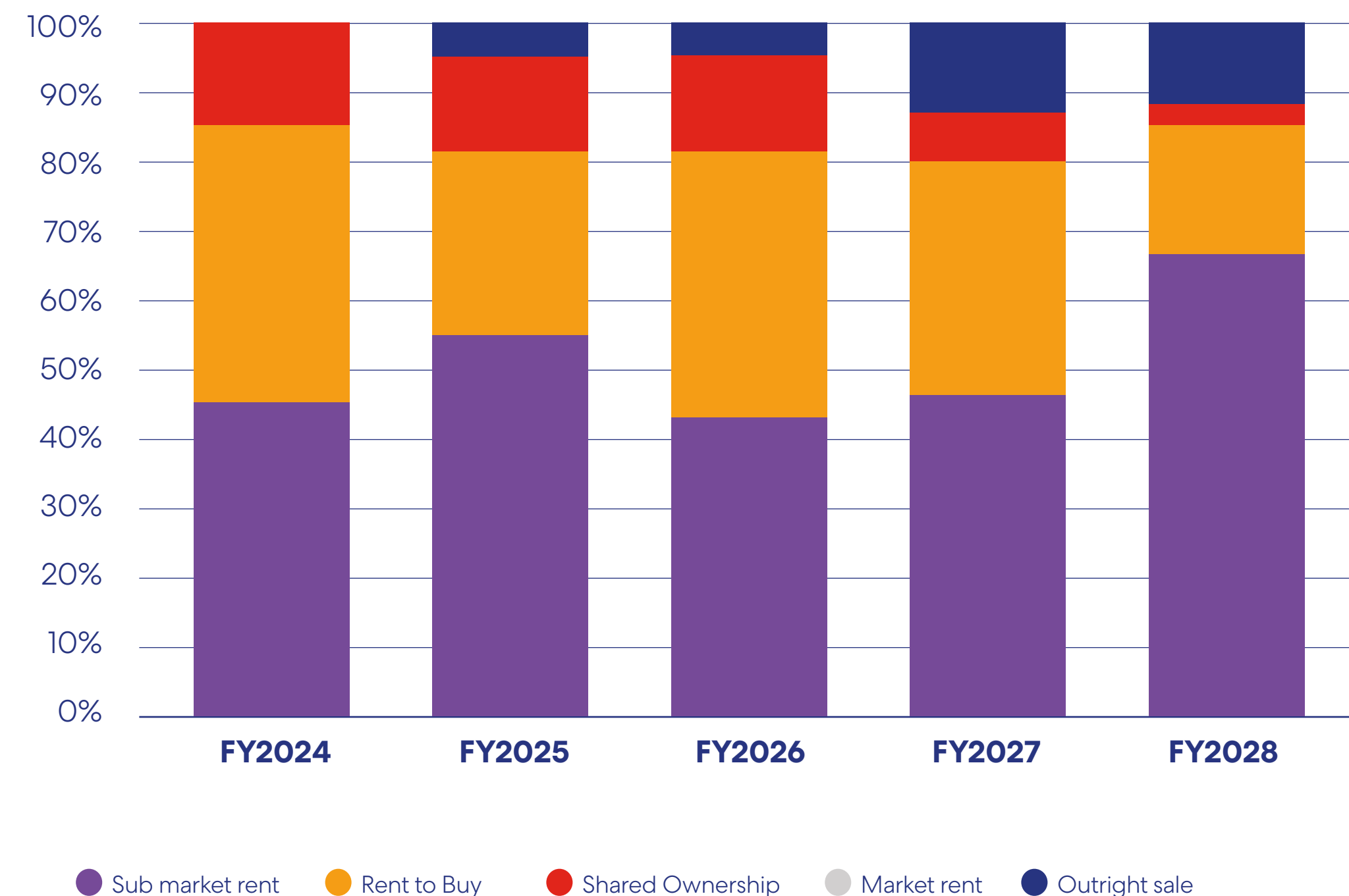
3. Development and assets

Development strategy

Karbon Homes Group	Actual 2019/20	Actual 2020/21	Actual 2021/22	Actual 2022/23	Forecast 2023/24	Business Plan 2024/25	Business Plan 2025/26	Business Plan 2026/27	Business Plan 2027/28
New homes completed	534	447	463	529	759	910	941	543	546

- Our Strategic Partnership (SP) bid was for 2,200 homes over the period to 2027/28, attracting grants of £165.1m.
- Since our SP was agreed with Homes England in Sept 2021, we've already successfully claimed £86m of grant for sites underway.
- This strengthens our strategy for building 600 new homes per year.
- Our focus remains on core social and affordable housing with modest amounts of commercial activity (on our own or through carefully selected JV partners) to help cross-subsidise social projects.
- However, we remain flexible in our approach, continually assessing internal and external risks to the sustainability of our programme before committing spend.

Annual development programme mix



Metrics from Karbon Homes Annual Reports 2019 - 2023. 30 year business plan numbers taken from Karbon's FFR 23/24 submitted to the Regulator of Social Housing (RSH) in June 2023, with forecasts for 23/24 taken from Karbon Homes October 2023 management accounts.

Recent development successes



43 affordable rent bungalows
Trimdon Village, County Durham



43-home mixed development
Thirsk, North Yorkshire



Regeneration scheme, six two-bed bungalows Prudhoe, Northumberland



41 homes with enhanced EPC and estate biodiversity measures Former rail sidings, Newcastle

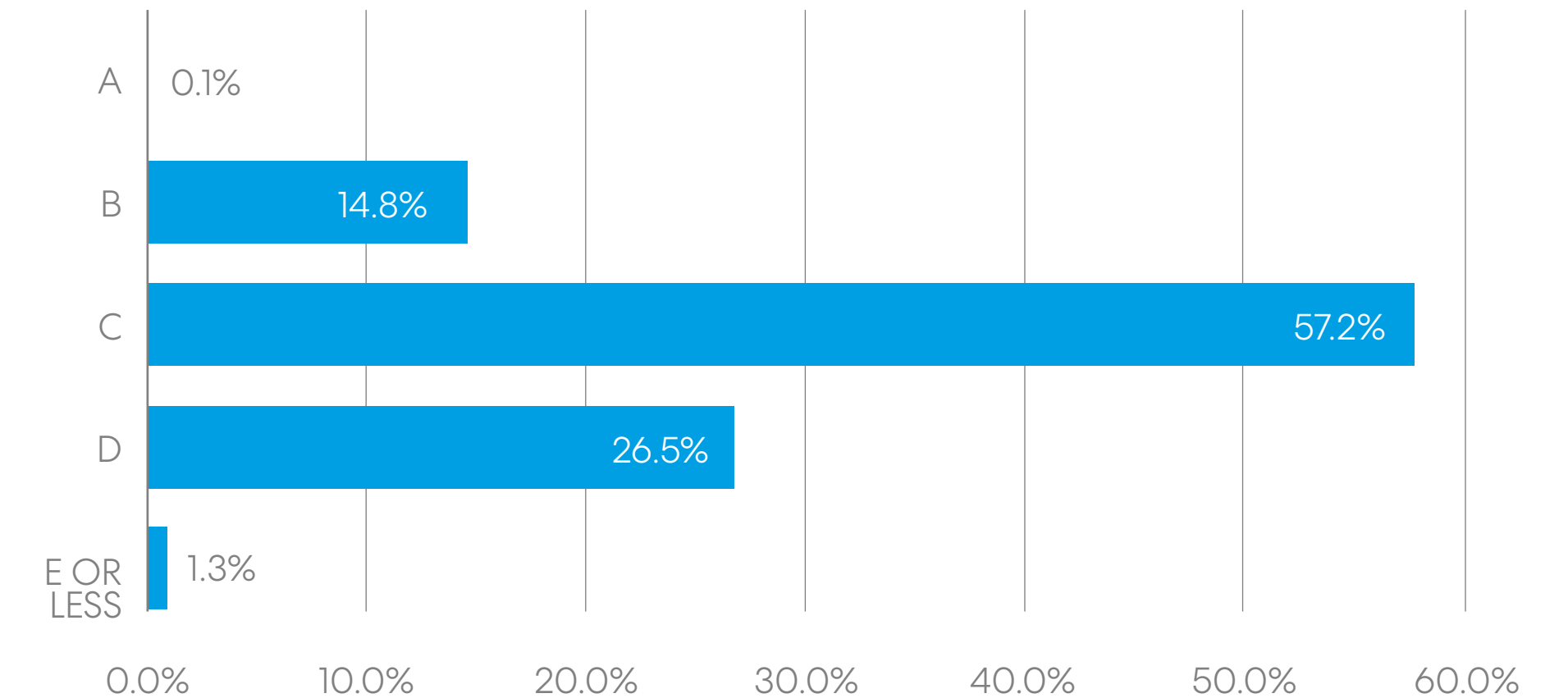


Four one bed flats with an eco-friendly addition
Masham, North Yorkshire

Capital investment and energy efficiency

- Over the next four years we plan to invest £342m 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.
- During the last 12 months, we have made over 2,500 energy improvement actions, saving an estimated 3,700 tCO₂ emissions from our homes.
- As at October 2023, over 72% of our homes are now rated at EPC C or better.
- 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.

Current Homes : EPC Ratings



Recent successes

- Piloting infrared heating panels, to replace out-dated storage heaters.
- 91 homes in County Durham and Northumberland improved through wall, loft and underfloor insulation as well as new roofs and PV panels.
- Karbon has also been awarded funding under SHDF wave 2.1, enabling us to invest a further £3.2m in 218 homes over the next two years.



4. Financial performance



Performance summary

Metric		20/21 Actual	21/22 Actual	22/23 Actual	23/24 FFR	24/25 FFR	25/26 FFR	26/27 FFR	27/28 FFR
SH as % of Turnover*	%	84.5%	87.0%	87.5%	88.4%	89.7%	84.8%	86.7%	85.3%
SH Core EBITDA margin*	%	38.1%	37.2%	38.0%	34.7%	38.5%	36.7%	39.7%	39.7%
EBITDA Margin	%	40.4%	39.8%	40.0%	37.9%	40.8%	40.1%	43.7%	43.5%
EBITDA MRI Margin	%	30.5%	26.7%	21.5%	21.9%	22.7%	23.5%	24.5%	25.3%
Debt to EBITDA MRI	x	11.5x	12.0x	14.2x	12.2x	11.9x	12.4x	13.0x	12.4x
Gearing (RSH definition)	%	35.8%	34.5%	34.8%	32.4%	37.0%	39.0%	40.4%	40.1%
EBITDA MRI ICR	%	213.2%	195.7%	171.2%	194.8%	208.4%	202.3%	201.8%	200.0%
Capitalised Major Repairs	£m	14.0	20.3	30.5	30.0	37.5	39.0	45.7	45.6
Development – completions**	#	447	463	529	759**	910	941	543	546

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

** Updated forecast for 2023-24 from October 2023 management accounts

Group statutory financials

£m	19/20 Actual	20/21 Actual	21/22 Actual	22/23 Actual	23/24 FFR	24/25 FFR	25/26 FFR	26/27 FFR	27/28 FFR
SH Core turnover	113.2	114.6	128.5	138.2	160.5	181.3	192.7	201.6	208.0
Sales and other turnover	22.7	27.8	26.7	27.4	27.1	27.1	41.1	37.4	42.6
Turnover	135.9	142.4	155.2	165.6	187.6	208.4	233.8	239.0	250.6
Cost of sales and other op. costs	(17.7)	(20.6)	(17.8)	(19.1)	(15.9)	(16.7)	(27.4)	(22.2)	(27.1)
SH Core operating costs	(83.9)	(84.8)	(97.2)	(102.9)	(123.4)	(131.6)	(138.4)	(141.0)	(145.0)
SH Core operating surplus	23.9	29.8	31.3	35.3	37.1	49.7	54.3	60.6	63.0
Operating surplus	34.3	37.0	40.2	43.6	48.3	60.1	67.9	75.8	78.5
Surplus on disposals	4.3	1.6	3.8	3.3	3.2	2.4	2.4	2.0	2.1
Net interest cost	(16.8)	(19.2)	(19.6)	(17.8)	(17.9)	(21.9)	(24.9)	(26.4)	(28.9)
Tax and other*	0.3	2.7	11.3	54.4	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Surplus	22.1	22.1	35.7	83.5	33.6	40.5	45.4	51.3	51.7

* Includes negative goodwill of £53.5m: 2022/23 (£8.5m: 2021/22)

Unaudited YTD: September 2023

Operating margins in line with this time last year: 26.8% September 2023 (26.9%: September 2022)

Key movements on our income have been:

- £2.9m generated from prior year newly-built homes
- £4.8m in rent and service charge uplifts (rent settlement and caps)
- £5.5m from bringing LYHA into the group to form 54North Homes (£4.9m in additional turnover and £0.6m in asset sales).

Surplus before tax:

- £4.7m of negative goodwill arising on the acquisition of 439 homes from South Tyneside Housing Ventures Trust.

Forecasted year end position to 31 March 2024:

- Group surpluses are currently forecast to be £34.6m (£1.4m above original budget), inclusive of £4.7m of negative goodwill.
- Removing the impacts of goodwill reveals a story of £3.4m of additional investment this year including:
 - £2.5m additional spend on responsive and void repairs
 - £0.5m of abortive development costs
 - £0.5m of accelerated software rollouts and cloud migration.

£m	Sept 2023 Actual	Sept 2022 Actual
Turnover	98.0	84.2
Operating surplus	26.3	22.7
Surplus before tax	21.9	13.7





5. Funding and treasury

Our sustainability summary

Corporate



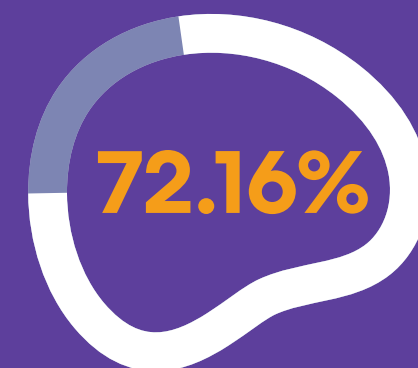
31,771*
homes (with 30,588 at social or affordable rents)

Decent Homes Standard
100%

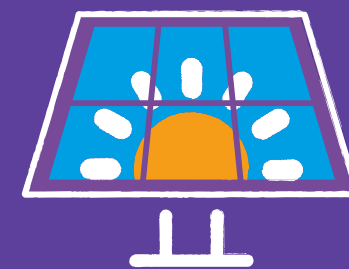
529* new homes completed in 2022/23



Environmental



of our homes achieve EPC C or above



All new homes built at EPC rating B or above

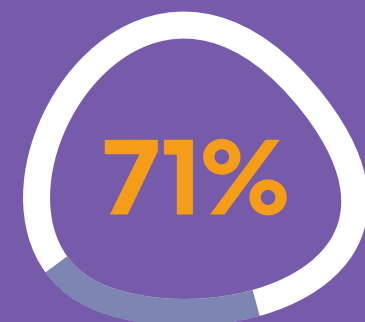
2,526

energy efficiency upgrades, saving an estimated 3,694 tCO2



Social

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



4,659

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

964 colleagues paid at living wage or above



Governance

Mean gender pay gap:

4.88%



Colleague Net Promoter Score in 22/23 of

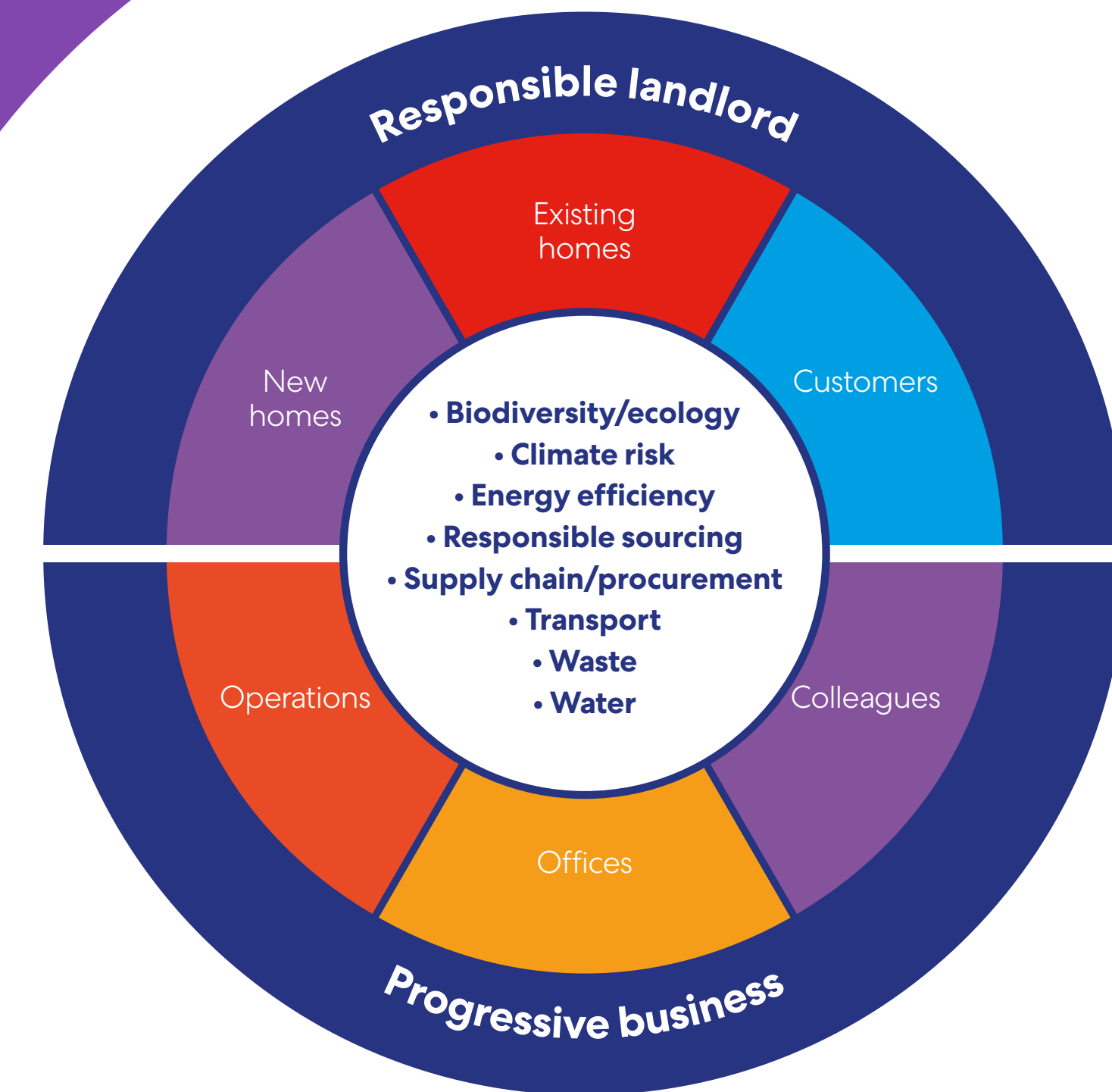
+23

Top Governance and Viability Regulatory Rating

G1/V1

S&P rating

A



Our Response to Climate Change project forms the backbone of our environmental strategy

Sources: Metrics from Karbon Homes ESG report 2022/23

Treasury overview

Treasury:

- 92% of our currently drawn debt is at fixed rates of interest.
- Security in place to draw on all £681m available facilities up to full utilisation.
- Cash and deposit holdings of £51m at September 2023.
- We currently have unencumbered stock worth £374m, and excess or trustee held loan security of £263m, giving a total of £637m to fund new borrowings.
- Of the £166m in RCF facilities, there are none that expire in the next 12 months.

Financial plan and funding:

The 2024/25 budget and business plan is currently in development phase. Key considerations or assumptions are currently:

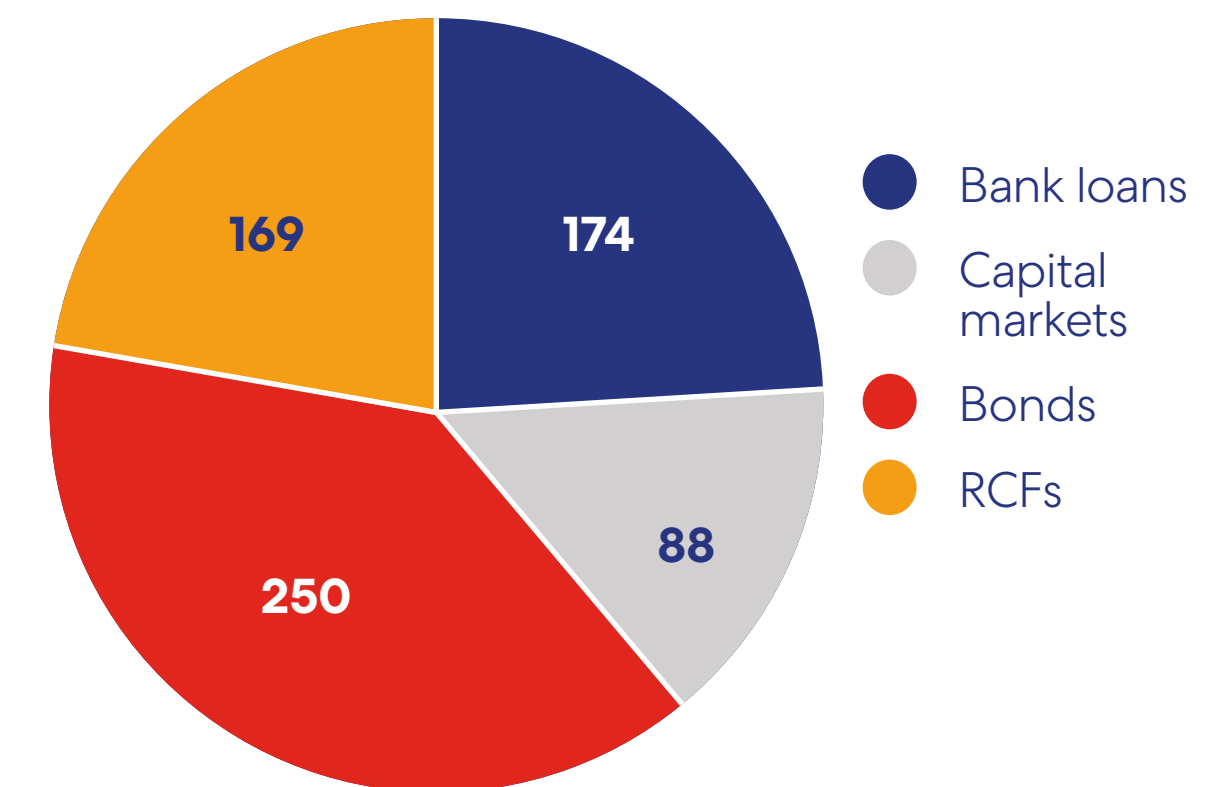
- Known cost and repairs pressures coming through in FY23/24
- Rent increases up to 7.7%
- Staff cost inflation
- Revised SCS data and prices
- Our new homes development commitments

Our focus in Treasury, is helping the business reach balanced decisions that protect our 'A' credit rating with S&P.

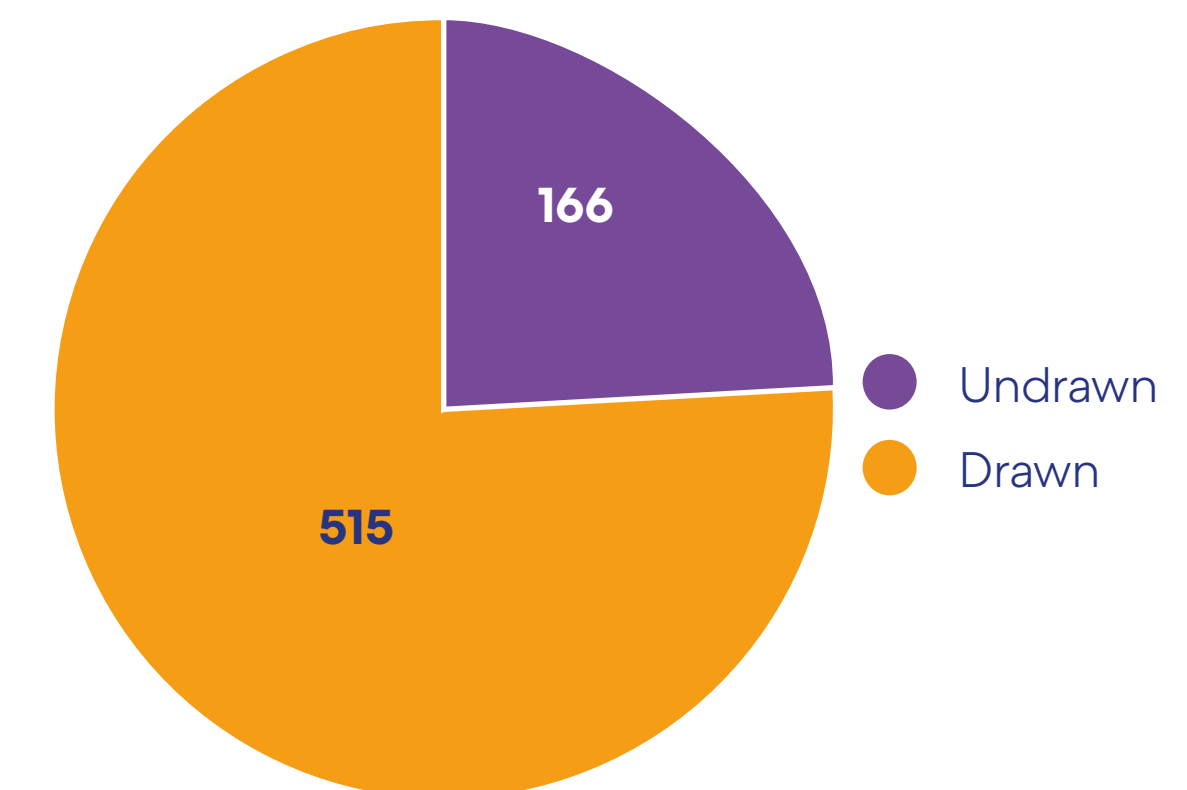
New funding and loan covenants:

- Business fully funded to April 2026.
- Project underway with our lenders to future-proof our loan covenant suite. Sustainability metrics and our journey to EPC C for all homes will be key features.

Funding facilities of £681m

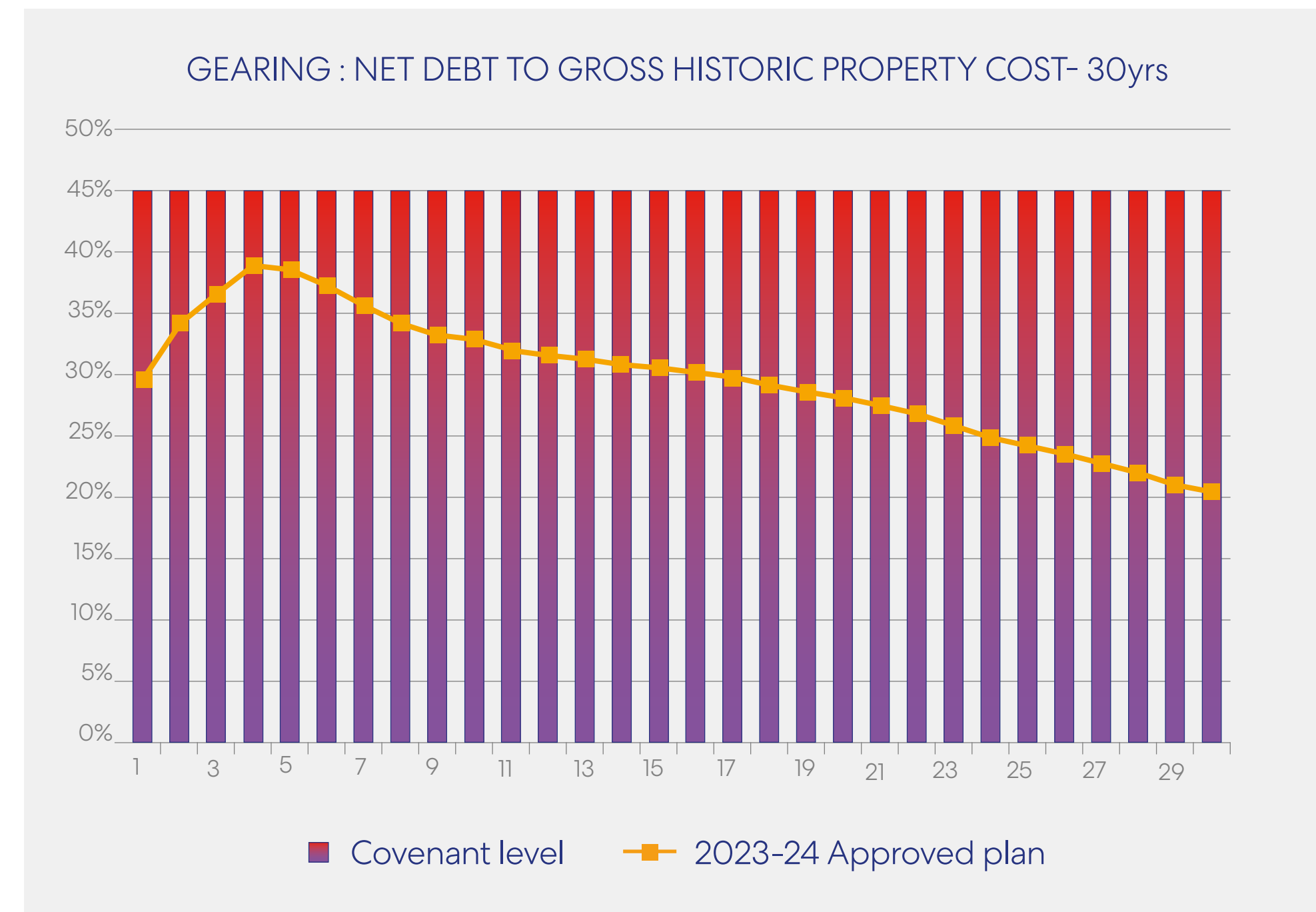
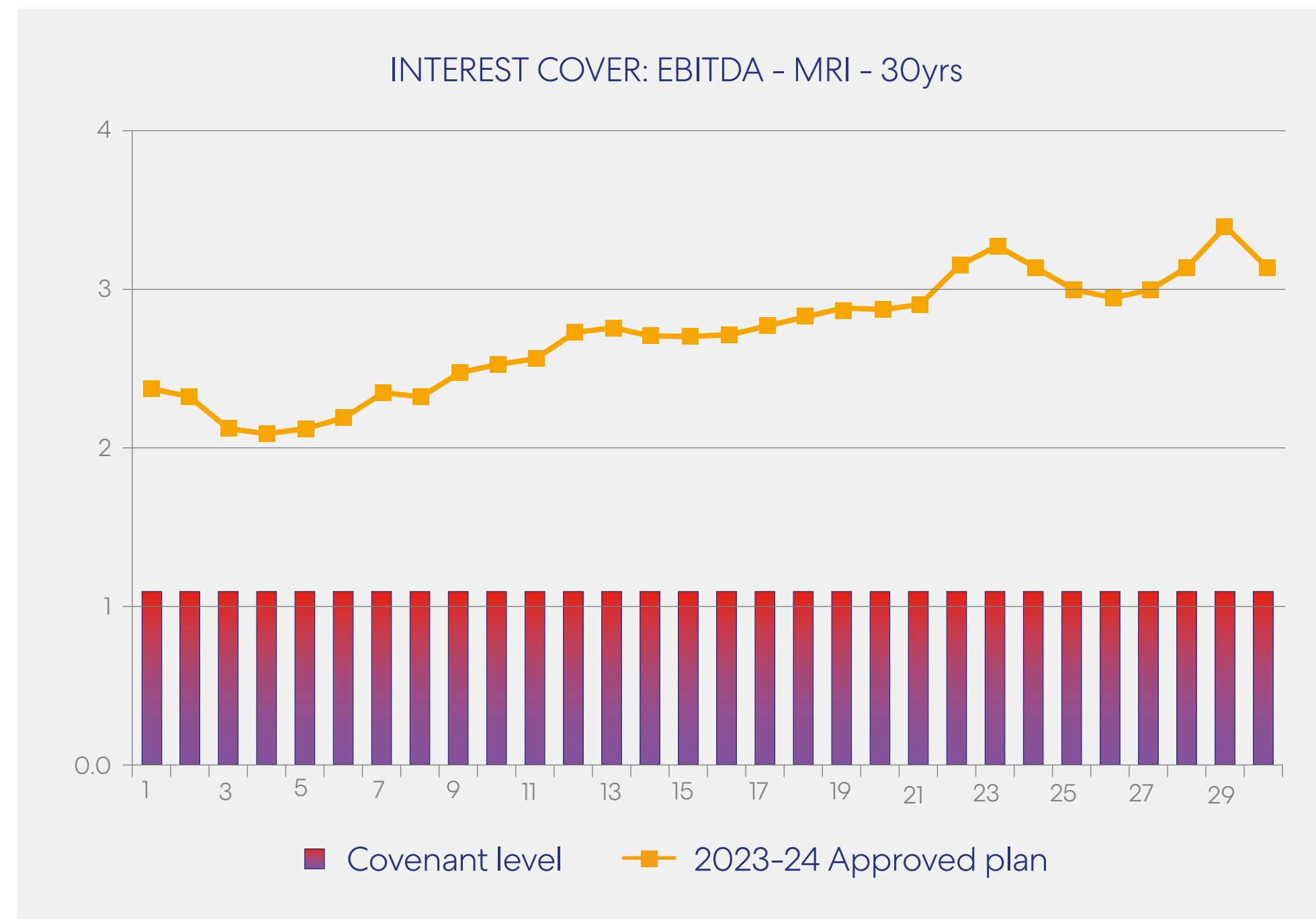


Drawn vs undrawn facilities



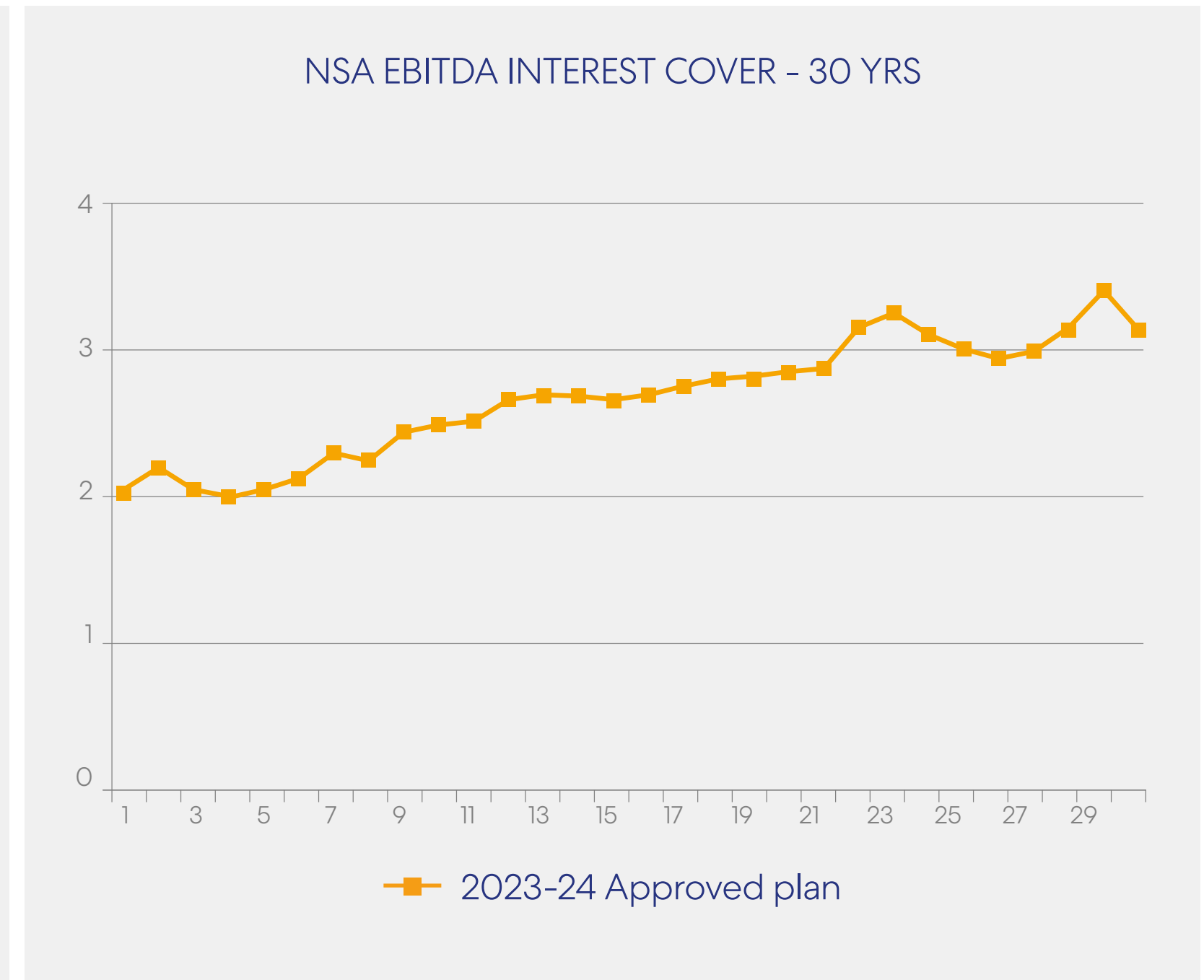
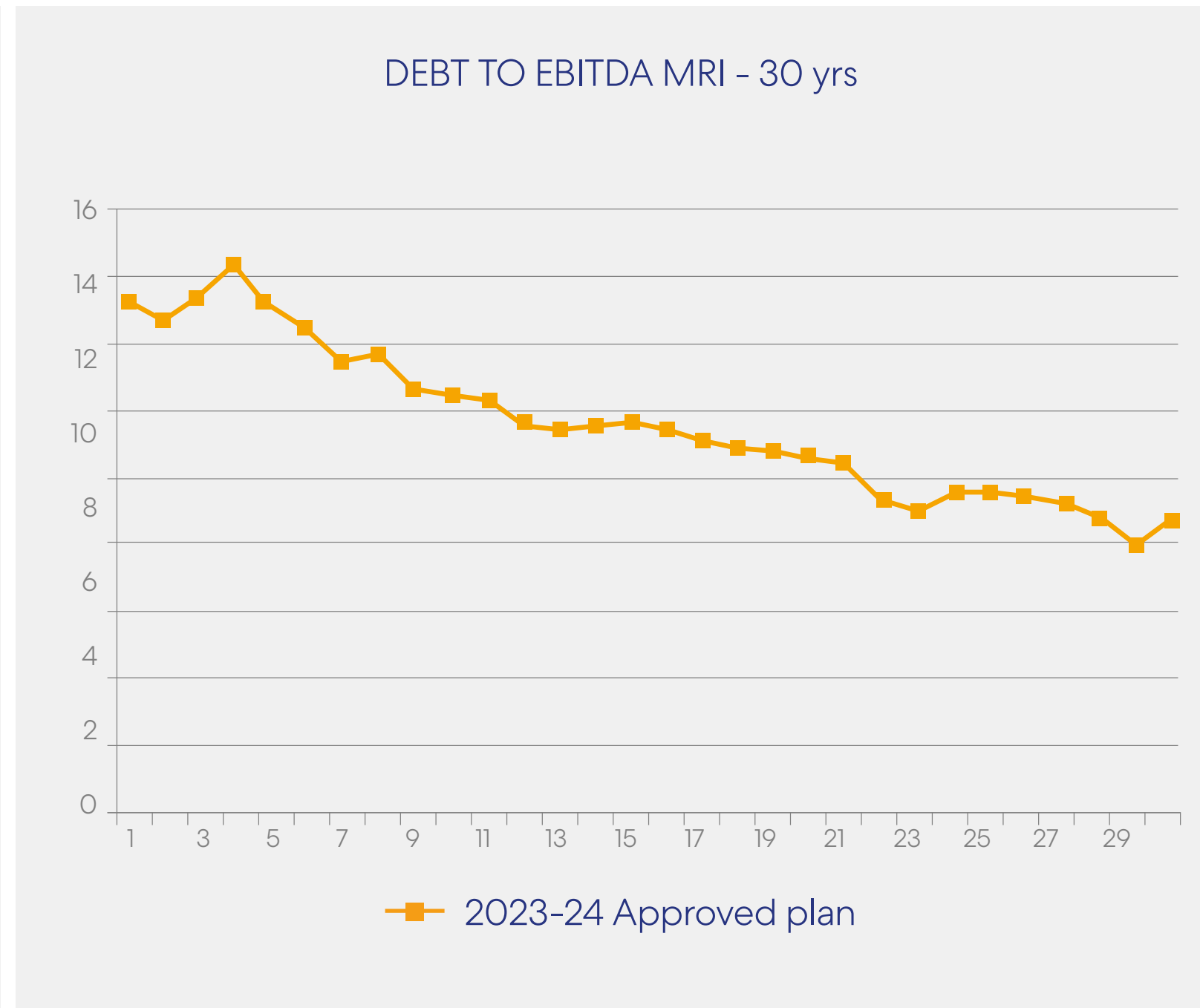
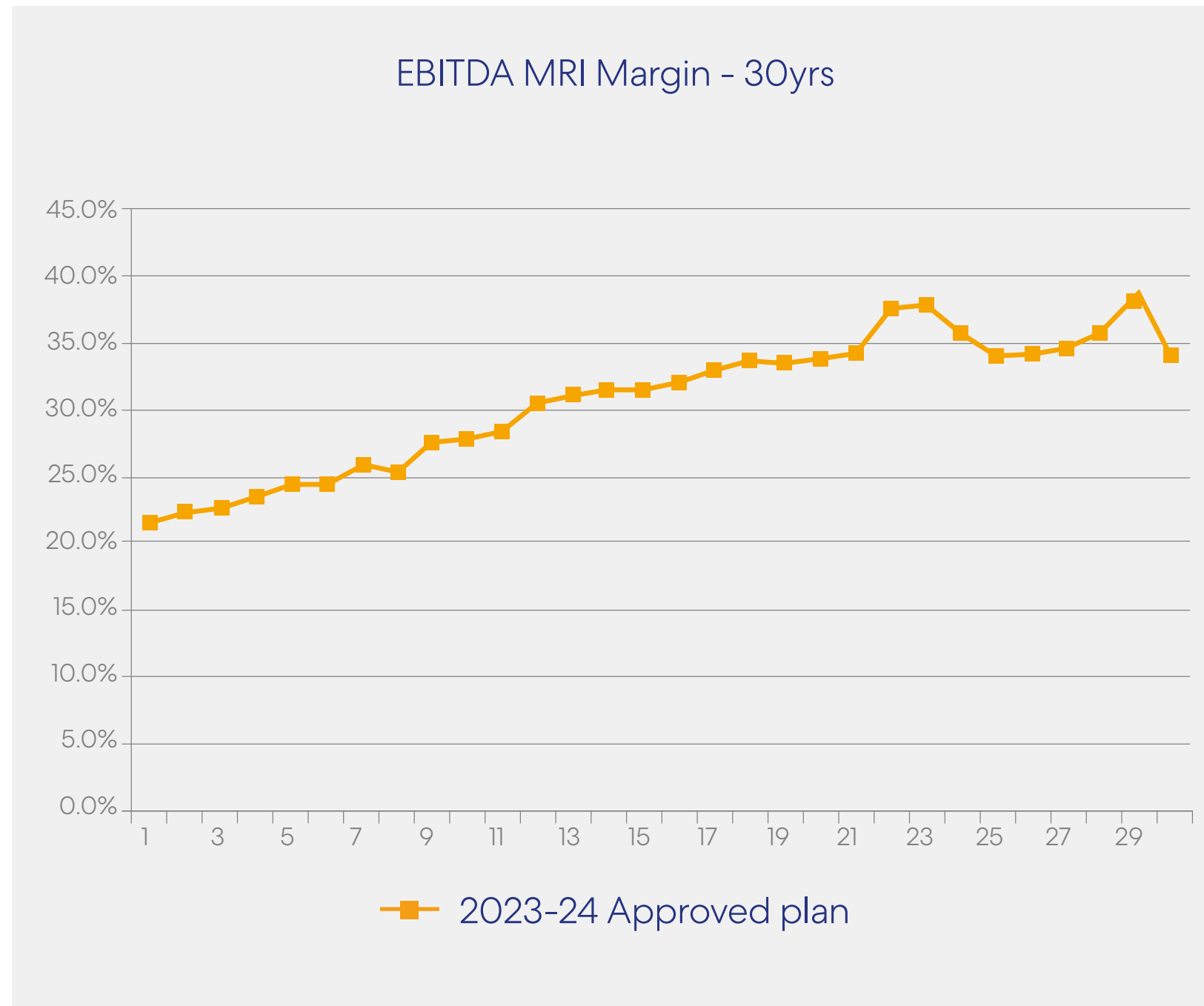
30 year financial plan covenants

Our currently approved 30-year financial plan for 2023/24 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, Debt to EBITDA MRI and S&P's NSA EBITDA MRI interest cover

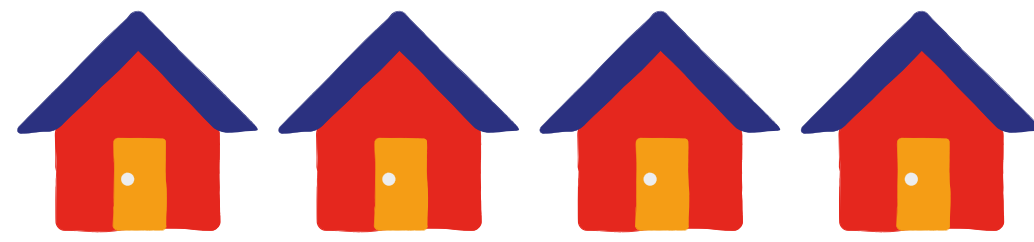


- Our shadow rating model is used extensively by our Board in strategic modelling
- Our aim is to maintain our A rating.



Source: Metrics from Karbon Homes' 2023/24 FFR submission to the Regulator of Social Housing (RSH) in June 2023

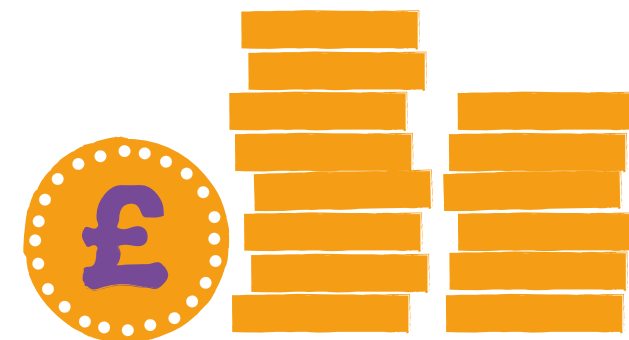
Our impact



Own or manage
32,000
homes, housing over
64,000
people



We employ
964
people who are
all on the living
wage or above



£165 million
annual turnover and
assets worth
**£1.17
billion**

529
new homes
completed, an
investment of
£95m million



Identified
£4.0 million
in income gains for our
customers



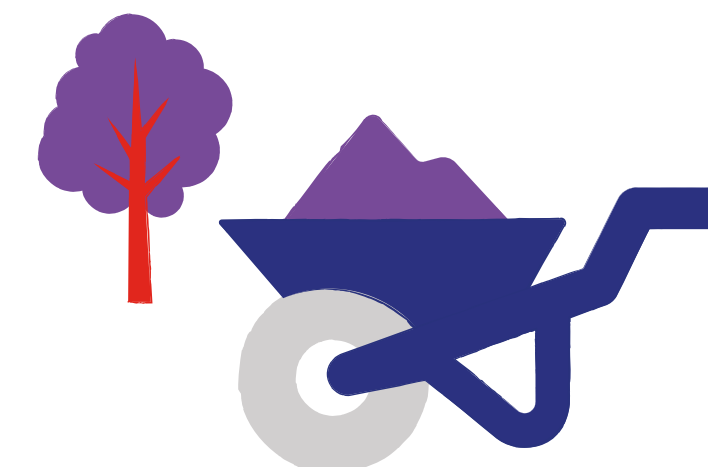
119,945
home repairs completed
**£30.5
million**
invested in home
improvements

Provided
benefit, money
and debt advice to
4,569
customers



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

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



Invested almost
£317,000
in **176 community
projects** last year

Any questions?