

## Karbon Homes Group

27<sup>th</sup> November 2024

Karbon Homes Group trading update for the six-month period ending 30 September 2024

- Karbon Homes Group (KHG) is today issuing its consolidated trading update for the period ended 30 September 2024.
- These figures are unaudited and for information purposes only.

Highlights for the period ending 30 September 2024

- KHG own and manage **33,645 homes**
- Turnover for the period was **£108.0m** (2023: £98.0m)
- Operating surplus (including asset sales) for the period was **£27.2m** (2023: £26.3m)
- Overall operating margin (including asset sales) was **26.4%** (2023: 26.8%)
- Overall operating margin (excluding asset sales) was **25.4%** (2023: 25.0%)
- The surplus before tax for the period was **£16.9m** (2023: £21.9m)
- Gearing as at 30 September 2024 was **35.0%** (2023: 35.7%)
- Interest cover for the period was **199.0%** (2023: 218.3%)

Commenting on the results, Scott Martin, Executive Director of Resources, said:

We're pleased to publish our six-monthly results to September 2024, which highlight continued positive performance through what has been a challenging operational and economic environment.

Since our previous set of half-year results, published in 2023, we have refreshed our “Stronger Foundations” Corporate Strategy and recommitted to our Strategic Aims – to provide good quality homes, deliver an excellent customer experience and shape strong, sustainable places for our communities. These goals are all underpinned by strong governance and value for money principles, and excellent colleague engagement.

### Provide good quality homes

In July 2024 we welcomed a new organisation to the Karbon family. Leazes Homes owns 770 homes in Newcastle upon Tyne and expands Karbon's offer of supported and older people's accommodation. These homes and teams are now fully integrated into the group and are part of the financial data presented

here to September 2024. These results include a -£1.3m goodwill adjustment to income, which reflects the differences between the fair values of the properties and loan facilities acquired and their historic costs.

We continue to grow organically by developing new homes, supported by grant funding through our Strategic Partnership with Homes England. Since September 2023, we have added 255 homes to the Group. Progress is slightly behind target this year, reducing capital expenditure but also reducing income from completed homes.

Our financial forecasts include a small profit from commercial property development. We are working with local housebuilder Homes by Carlton through joint ventures to deliver two market sale sites (94 homes total) in County Durham. Both sites are progressing well with the first site generating significant early interest from potential buyers. By working through joint ventures in this way, Karbon benefits from the expertise of our housebuilding partners and shares the commercial risk.

We want to ensure our homes are safe, comfortable and efficient. Currently, over 77% of our homes achieve an Energy Performance Certificate rating (EPC) C or above, performing well in comparison to our peers. An ongoing programme of work is in place to bring the remaining homes up to EPC C by 2030, maximising government grant funding where available.

#### Deliver an excellent customer experience

We are encouraged by the results of our recent regulatory tenant satisfaction measures. Karbon is consistently placed in the top quartile of our benchmarking group of 221 housing associations in the sector for the main measures. In particular – Overall Satisfaction TP01 (Karbon Group: 84.3%, Sector Top Quartile (England): 78.0%).

In keeping with our plan, over the last two years we have significantly increased investment in our existing homes. So far this year we've made over £37.2m capital investment in our existing homes, through our planned, responsive and cyclical repairs programmes, with 85.6% of our customers saying they were very or fairly satisfied that their home is well maintained (TP04), placing us in top quartile (Sector Top Quartile (England): 77.8%).

We have excellent data on the condition of our homes following a comprehensive survey programme over the last two financial years. Investment will improve our customers' experience in their home and help protect our assets into the future.

These positive steps contributed to a drop in rent lost due to empty properties from 1.84% to 1.65%.

We have also increased investment in responsive repairs. Like other housing associations, a backlog of repairs requests built up during the pandemic and we have invested to catch up and restore our normal response times. Since the beginning of the fiscal year, this investment has reduced the work in progress jobs for our internal repairs service by 23.5%.

However, the cost of repairs has risen significantly from pre-pandemic levels and has not abated despite reducing the backlog. This has come from a mixture of cost inflation (labour and materials), customer demand, and, rightly, promotion of customers' rights meaning an increase in damp and mould and fire safety remediation works. In the first six months of the year we spent £16.6m on responsive repairs (Sep 2023: £13.6m).

#### Shape strong, sustainable places for our communities

We continue to develop our role as a major landlord and anchor institution in the North East and Yorkshire, particularly in towns and cities where we hold a high concentration of housing.

In Stanley, County Durham, we are focussing our efforts to generate new investment in its infrastructure and its people. We want Stanley to thrive, and we are reaching out to businesses, charities and statutory organisations to create employment opportunities and coordinate investment.

Our investment in Byker continues. Karbon acquired around 1,800 homes in Byker, Newcastle upon Tyne in 2021 and we are fulfilling our promises to invest in those homes and the surrounding environment in full consultation with our customers.

In Gateshead, we have decided to empty and eventually demolish a development of 121 flats. We identified that these flats were not meeting the needs of our customers and required an uneconomical level of future investment. We plan to replace the old buildings with a new development. We are working closely with Gateshead Council to see how this work could contribute to any wider plans to improve and invest in the local area. Active management of our assets in this way allows us to improve the overall return on capital from our property portfolio.

#### Outlook

On 30 October, the UK Government announced that housing associations would be allowed to increase rents by CPI+1% for a period of five years. The Government has also made clear its intention to increase housebuilding by unblocking planning delays and it has announced some increases to grant funding. These are welcome announcements which will have a positive impact on our financial plans, however development of new social housing in the current climate remains difficult.

Therefore we are exploring the possibility of setting up a for-profit housing association that will enable us to attract external investment and deliver more much-needed social housing across the North East and Yorkshire. We will soon be starting the registration process with the Regulator of Social Housing for the new organisation.

On 31st July 2024, we published our third annual ESG Report against the Sustainability Reporting Standard for Social Housing. The report provides an overview of the variety of work we deliver and our impact across Environmental, Social and Governance areas.

The release of our ESG report, at the same time as our Annual Review and Financial Statements, was part of a commitment we made to ensure that our various stakeholders were provided with complete and timely information around our performance data. The releases can be found at our website, both in downloadable and interactive versions:

<https://www.karbonhomes.co.uk/about-us/corporate/>

We'll be holding our annual investor update in early January 2025, which will provide insight into our full year FY25 results and discuss future challenges and opportunities moving into 2025/26.

The webinar on the **16th January 2025** will be hosted by our Group Chief Executive, Paul Fiddaman, with the opportunity for one to one meetings that day.

To register an interest in this event or in a one-to-one meeting with us, please get in touch with James Clifford (AD Strategic Finance and Treasury),  
[james.clifford@karbonhomes.co.uk](mailto:james.clifford@karbonhomes.co.uk)

Our unaudited 6 monthly Group results and other key indicators are displayed below

|   | 30-Sep<br>2024  | 30-Sep<br>2023  |
|---|-----------------|-----------------|
| <b>Unaudited Financial Metrics</b>                    |                 |                 |
|   | Actual<br>£'000 | Actual<br>£'000 |
| <b>Statement of Comprehensive Income</b>              |                 |                 |
| Turnover  | 107,950         | 98,024          |
| Operating Surplus (incl. asset sales)                 | 27,220          | 26,285          |
| Surplus before tax (Note 1)                           | 16,939          | 21,853          |
| <b>Margins</b>  |                 |                 |
| Overall operating margin (incl. asset sales) (Note 2) | 26.4%           | 26.8%           |
| Overall operating margin (excl. asset sales) (Note 3) | 25.4%           | 25.0%           |
| <b>Key Financial Ratios</b>                           |                 |                 |
| Interest cover (EBITDA MRI) (Note 4)                  | 199.0%          | 218.3%          |
| Gearing (Note 5)                                      | 35.0%           | 37.7%           |
| Return on Capital Employed (ROCE) (Note 6)            | 1.86%           | 1.99%           |

|   | 30-Sep<br>2024 | 30-Sep<br>2023 |
|---|----------------|----------------|
| <b>Liquidity</b>  |                |                |
| 24 month liquidity requirement (£'000) (Note 7)                 | 279,688        | 188,350        |
| Cash and undrawn facilities (£'000) (Note 8)                    | 215,623        | 216,509        |
| Unencumbered stock (no of properties)                           | 9,154          | 8,620          |
| Value of unencumbered stock (Avg of EUV and MV, £'000) (Note 9) | 399,397        | 374,754        |
| Loan security excesses (Avg of EUV and MV, £'000) (Note 10)     | 282,031        | 263,388        |

### Credit Rating

S & P

A (positive) : 17th May 2024

### Notes:

- 1) Surplus before tax includes goodwill charge to income arising on acquisition of Leazes of -£1.3m, (2023: +£4.7m)
- 2) Overall operating margin (incl. asset sales), includes all activity but removes the benefits of any negative goodwill amortisation.
- 3) Overall operating margin (excl. asset sales) removes the gain or loss on disposal of housing properties and other fixed assets (as per RSH VFM Metric definition)
- 4) Earnings before interest, tax, depreciation and amortisation, major repairs included is defined as: (operating surplus - disposal of assets - outright sales and first tranche SO surpluses + depreciation & impairment - grant amortisation - capitalised major repairs) / interest paid (reflecting the 'S&P global methodology for rating public and non-profit social housing providers', published 1st June 2021 and its calculation of 'non-sales adjusted EBITDA)
- 5) Gearing is defined as Group Net Debt / Group Housing assets at historic cost less depreciation (RSH VFM Gearing definition). Any fair value adjustments of loans are ignored within this calculation  
Karbon have chosen to include cash held in non ring-fenced investment accounts as available cash, Sept 2024: £13.6m (Sept 2023: £11.3m)
- 6) Return on capital employed is defined as Operating surplus (incl asset sales) / Total assets less current liabilities
- 7) 24-month cashflow requirements

- 8) Cash, investments and undrawn RCF (Revolving Credit Facilities)
- 9) Value of stock not held by a lender or security trustee.
- 10) Value of excess security held with current lenders or security trustees

This trading update contains certain forward-looking statements about the future outlook for Karbon Homes Group. These have been prepared and reviewed by Karbon only and are unaudited.

Forward looking statements inherently involve a number of uncertainties and assumptions. Although the Directors believe that these statements are based upon reasonable assumptions on the publication date, any such statements should be treated with caution as future outlook may be influenced by factors that could cause actual and audited outcomes and results to be materially different.

Additionally, the information in this statement should not be construed as solicitation/recommendation to invest in Karbon's bonds.

For further information, please contact:

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