


Sanctuary Group

Quarterly update

Period ended 31 December 2017

Results reported under IFRS

Agenda

- Highlights
- Operating overview
- Statement of Financial Position, cash flow and treasury information
- Progress with short-term initiatives and business plan

Highlights at a glance – period ended December 2017

Surplus

2017: £52.0m

2016: £42.7m

Revenue

2017: £525.7m

2016: £501.9m

Divisional EBITDA

2017: £199.7m

2016: £196.8m

Customer Satisfaction – Affordable Housing:

Dec 2017: 87%

Dec 2016: 85%

Units

Dec 2017: 100,930

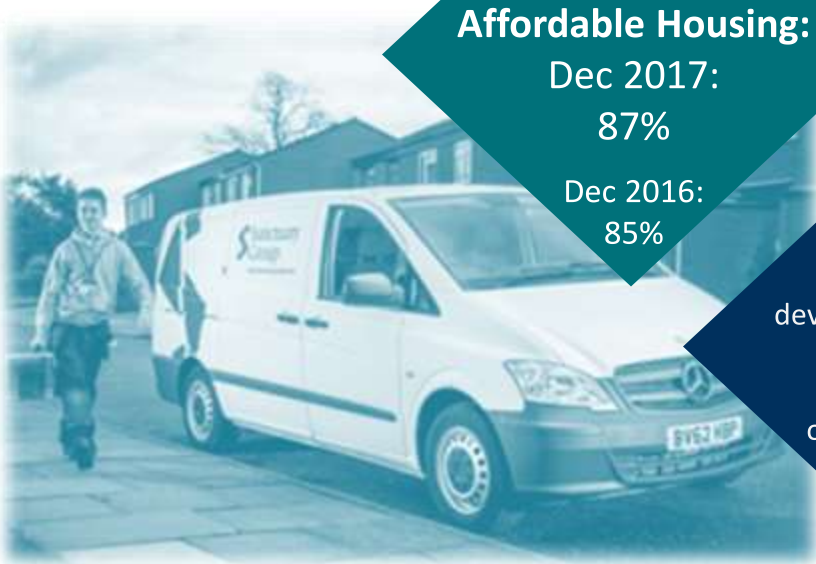
Dec 2016: 99,343

30,000

Properties being developed over 10 years

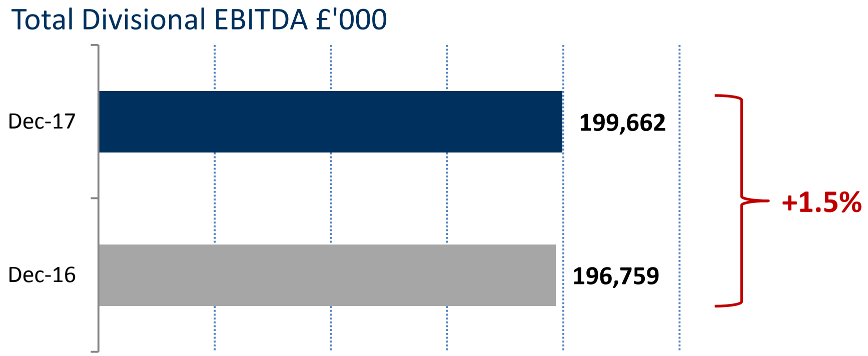
£90m

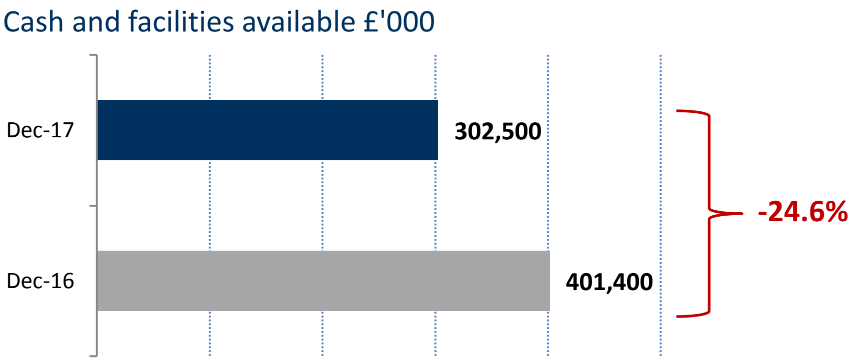
of grant funding for 2016-2021 AHP

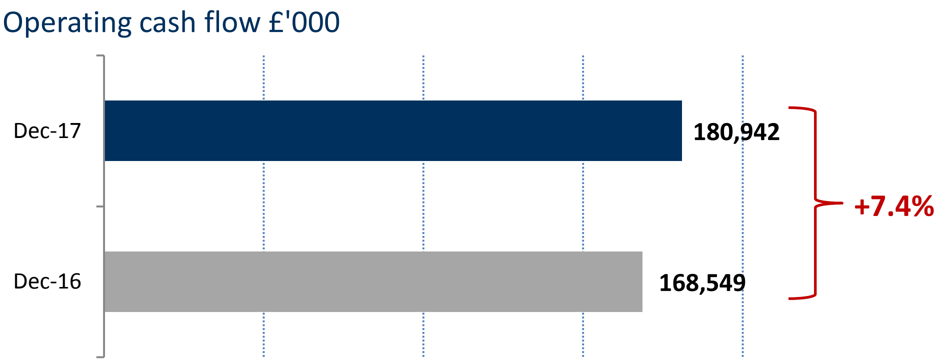


Sanctuary Group

Sustainable cash flow generation







Robust cash generation

- Following the acquisition of Embrace Care Ltd (Embrace) in the first quarter of the year, integration of Embrace's operations into Sanctuary Group and the realisation of operational efficiencies continues. Bringing Embrace into the Group demonstrates our ambition to grow and recognises that Sanctuary's strength comes from offering a diverse range of high quality services within a sustainable business model. The current initiatives section provides further details of the acquisition.
- Our development programme is continuing apace and we are making excellent progress in purchasing sites and securing planning permission to help us achieve our ambitious target of building 30,000 homes over the next 10 years, which together with the Embrace acquisition is the main reason for the reduction in cash/facilities.
- Strong, positive operating cash flows continue, with an increase on the prior year as a result of efficiencies and working capital movements.

Well positioned to manage future challenges

- The Government has confirmed that increases to social housing rents will be limited to the Consumer Price Index plus 1% from 2020, an £18 million per annum positive impact on cash flow by 2025. This provides the Group with the stability and certainty to invest in new homes and existing homes and services for tenants.

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Group operating segments

At 31 December 2017 (£'000)	Affordable Housing	Supported Living	Older Persons Care: Care (existing business)	Older Persons Care: Care (new business)	Student and Market Rented	Development: First Tranche Sales	Embrace	Other	Total Dec-17	Total Dec-16	Movement
Revenue	290,825	53,286	89,950	11,139	40,479	11,084	27,555	1,384	525,702	501,905	23,797
Cost of sales	-	-	-		-	(7,978)		-	(7,978)	(12,065)	4,087
Operating costs	(129,612)	(51,177)	(74,824)	(10,740)	(22,204)	-	(23,720)	(5,785)	(318,062)	(293,081)	(24,981)
Divisional EBITDA *(1)	161,213	2,109	15,126	399	18,275	3,106	3,835	(4,401)	199,662	196,759	2,903
Depreciation (Housing and op assets)	(32,291)	(4,064)	(3,741)	(54)	(4,422)	-	(710)	(361)	(45,643)	(39,792)	(5,851)
Impairment of investment property	-	-	-	-	-	-		-	-	-	-
Reportable segment surplus *(2)	128,922	(1,955)	11,385	345	13,853	3,106	3,125	(4,762)	154,019	156,967	(2,948)
Corporate central overheads									(12,595)	(13,688)	1,093
Other gains and losses									7,750	2,276	5,474
Operating contribution									149,174	145,555	3,619
Interest receivable									3,106	2,411	695
Interest payable									(100,601)	(104,879)	4,278
Derivative movements									617	237	380
Loss on financing arrangements									-	(372)	372
Surplus on ordinary activities before taxation									52,296	42,952	9,344
Taxation on surplus on ordinary activities									(277)	(236)	(41)
Surplus for the period after taxation									52,019	42,716	9,303

**Other segments - comprises sundry external income and associated costs and development administration costs.*

**(1) as reported in the Annual Report and Financial Statements business review*
**(2) as reported in the Annual Report and Financial Statements operating segments note*

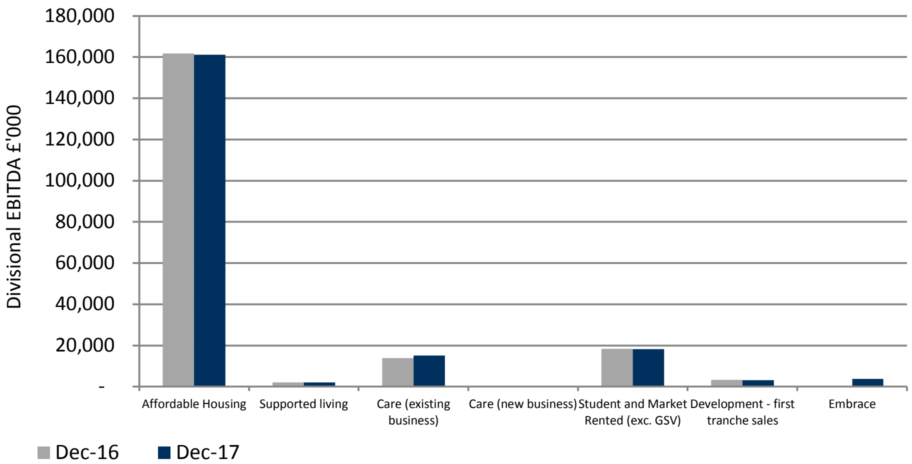
KPIs as reported in the Annual Report and Financial Statements business review

	Affordable Housing	Supported Living	Care (existing business)	Care (new business)	Student and Market Rented	First Tranche Sales	Embrace	Other	Total
Divisional EBITDA (Dec-17)	161,213	2,109	15,126	399	18,275	3,106	3,835	(4,401)	199,662
Divisional EBITDA (Dec-16)	161,851	2,144	13,883	274	19,958	3,365	-	(4,716)	196,759
Movement	(638)	(35)	1,243	125	(1,683)	(259)	3,835	315	2,903
Divisional EBITDA margin (Dec-17)	55.4%	4.0%	16.8%	3.6%	45.1%	28.0%	13.9%		38.0%
Divisional EBITDA margin (Dec-16)	55.3%	3.8%	17.4%	1.9%	47.2%	21.8%	-		39.2%

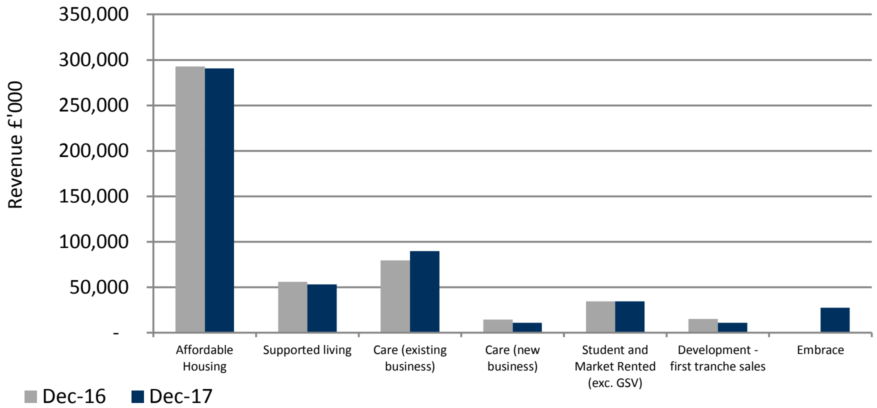
Sanctuary Group

Revenue and EBITDA analysis

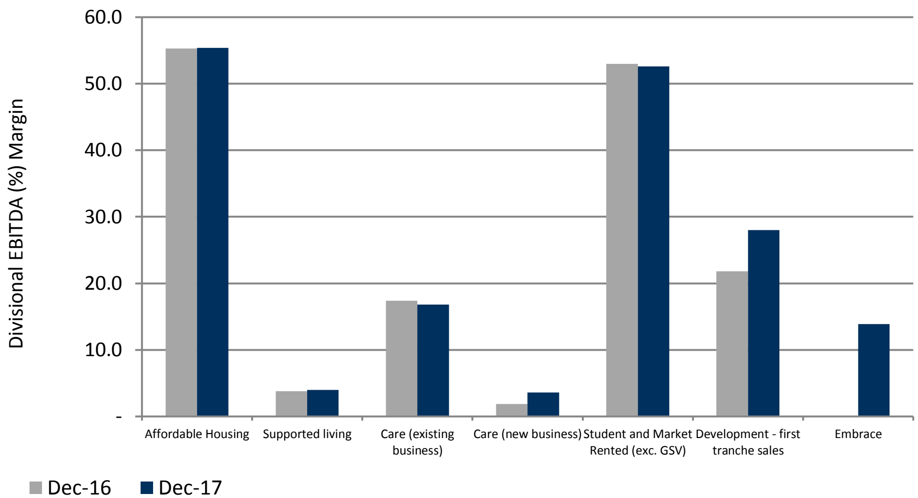
Year on year trend analysis – EBITDA



Year on year trend analysis - revenue



Year on year trend analysis – EBITDA Margin



- The Group has benefited from additional revenue due to the Embrace acquisition as well as achieving revenue growth within its existing Care operations. Overall Group revenue has therefore increased despite a further 1% rent reduction applied to social housing properties in England as a result of the Welfare Reform and Work Act 2016.
- Total divisional EBITDA has increased year-on-year by £2,903,000, driven by the Group's Care and Embrace divisions.
- Total divisional EBITDA margin is lower than the prior year by 1.2%. However, on a like-for-like basis, with Embrace excluded, total divisional EBITDA margin is comparable to the prior year.
- Property sales generated a surplus of £3,106,000 at a margin of 28.0% compared to a prior year surplus of £3,365,000 with a margin of 21.8%.

Affordable Housing: improved efficiencies

Period to 31 December 2017	Dec-17	Dec-16	Movement
Affordable Housing			
Revenue (£'000)	290,825	292,824	(1,999)
Divisional EBITDA (£'000)	161,213	161,851	(638)
Divisional EBITDA margin (%)	55.4%	55.3%	0.1%
Units in management	77,232	77,398	(166)
Calls to Housing Services Centre - Housing (Rolling year)	255,838	297,589	(41,751)
Calls to Housing Services Centre - CIT (Rolling year)	260,991	199,141	61,850
Calls to Repairs Customer Services (Rolling year)	599,341	602,220	(2,879)
First time resolution - Internal Maintenance teams	87%	86%	1%
% void loss from empty homes - England	0.7%	1.0%	0.3%
% void loss from empty homes - Scotland	0.3%	1.0%	0.7%
Average relet days social housing - England*	30	33	3
Average relet days social housing - Scotland	19	32	13
Customer satisfaction (%)	87%	85%	2.0%
Complaints / 1000 properties	6	5	(1)

*excludes extra care

- Despite rent reductions in England as a result of the Welfare Reform and Work Act 2016, Affordable Housing EBITDA margins have been maintained. This has been achieved through efficiencies being realised from the implementation of our OneSanctuary enterprise-wide SAP system and the further consolidation of our housing operations.

- Specifically, in the prior year, the phased roll out of our OneSanctuary system saw the implementation of housing management and maintenance modules, which have helped drive current year efficiencies.

- A reduction in void loss percentage and average relet days demonstrate further operational benefits of the above implementations.

Supported Living: consistent high quality working practices

Period to 31 December 2017	Dec-17	Dec-16	Movement
Supported Living			
Revenue (£'000)	53,286	56,050	(2,764)
Divisional EBITDA (£'000)	2,109	2,144	(35)
Divisional EBITDA margin (%)	4.0%	3.8%	0.2%
Units in management	5,995	5,966	29

- This division includes our supported living, home care and Sanctuary365 operations. A review of organisational structures, terms and conditions and consolidation of management across the Sanctuary Supported Living, Sanctuary Home Care and Sanctuary365 operations has brought consistency of quality and working practices across our services.
- The Group remains committed to supporting the vulnerable in society by providing a high quality and efficient service, and developments in our IT systems have supported the continuous review of performance against consistent metrics.
- Supported Living continues to win new contracts across the country, as well as extending existing contracts that we currently service. Sanctuary Home Care has continued to consolidate its operation, the focus continues to be on a smooth handover to new providers where arrangements have not been financially viable.
- Sanctuary365 has retained its accreditation as a platinum provider of telecare services by the Telecare Services Association and has continued to work with our supported living and extra care operations growing the services provided to the Group.

Older Persons Care: strong revenue growth

Period to 31 December 2017	Dec-17	Dec-16	Movement
Revenue (£'000)	101,089	94,149	6,940
Divisional EBITDA (£'000)	15,525	14,157	1,368
Divisional EBITDA margin (%)	15.4%	15.0%	0.4%
Number of bed spaces in management	3,541	3,537	4
Existing Sanctuary Care business:			
Total income per bed space per week (£)	722	712	10
Care home occupancy (existing business) (%)	94.8%	94.7%	0.1%
Self funder occupancy (%)	46.4%	45.0%	1.4%
Care home resident satisfaction (%)	97%	98%	(1.0%)
Care staff costs as a percentage of revenue	61.8%	61.9%	0.1%
CQC compliance	82.0%	74%*	8.0%

*sector average

- Revenue has grown strongly in Older Persons Care. This is as a result of new homes, including the provision of care services to Westminster Council through six homes which are now all fully operational, and an increase in the proportion of self-funding residents in our homes which has increased by 1.4% to 46.4% during the year. The increase in self-funding residents has also driven the increase in total income per bed space.

- Resident satisfaction remains high at 97%.

- Strong financial performance has been delivered whilst improving the quality of our care. The Care Quality Commission (CQC) inspections in our care homes have demonstrated our quality compared to a sector average of 74%.

Student and Market Rented: increased income per bed space

Period to 31 December 2017	Dec-17	Dec-16	Movement
Revenue (ex. GSV) (£'000)	34,775	34,656	119
Divisional EBITDA (ex. GSV) (£'000)	18,290	18,354	(64)
Divisional EBITDA margin (ex. GSV) (%)	52.6%	53.0%	(0.4%)
Units in management	12,511	12,442	69
Student occupancy (%)	96.8%	94.7%	(2.1%)
Student income per bedspace (£'000)	4,119	4,084	35
Student cost per bedspace (£'000)	(2,176)	(2,103)	(73)
Student complaints / 1000 properties	2	2	-

- Occupancy levels remain high though there has been a slight decline in occupancy at a site in the North of England.
- Income per bed space has increased due to pricing increases and student extensions.
- Changes to the contractual arrangement regarding Glasgow Student Villages (GSV) have resulted in a reduction in revenue and EBITDA, however the overall favourable effects of the new arrangement to the Group, including repayment of an external, project specific loan and finance cost savings, are not reflected within EBITDA.

Sanctuary Group

Development: property sales

Period to 31 December 2017	Dec-17	Dec-16	Movement
Revenue - property sales (£'000)	**11,084**	15,430	(4,346)
Sales surplus (£'000)	**3,106**	3,365	(259)
Average margin	**28.0%**	21.8%	6.2%
Development units			
Number of properties on site and in development	**7,112**	6,337	775
New starts in period	**1,093**	557	536
Completions in period	**461**	161	300
Sales (England only)			
Sales in period (units)	**57**	142	(85)
Average OMV (£'000)	**331**	247	84
Average share sold	**58.8%**	46.0%	12.8%
Reservations (units)	**23**	24	(1)

30,000
Properties being developed over the next 10 years

- Margin increases have been driven by a change in the mix of properties sold.
- The increase in open market value is a reflection of the nature and location of the properties sold.
- The sales above represent the 2015-2018 Affordable Homes Programme in England and the continuing progress of the Scottish Affordable Housing Programme. The Group has been allocated almost £90 million of funding from the Homes and Communities Agency to build 2,265 affordable homes under the 2016-2021 Shared Ownership and Affordable Homes Programme. This was the largest grant allocation for the programme.
- The Group's revised business plan includes the development of 30,000 properties over the next 10 years, with a mix of tenures including affordable housing, shared ownership homes, and properties for outright sale, as well as new care homes.

Embrace: acquisition of over 1,600 bed spaces

Period to 31 December 2017	Dec-17	Pre-acquisition budget	Variance
Embrace			
Revenue (£'000)	27,555	26,349	1,206
Divisional EBITDA (£'000)	3,835	3,833	2
Divisional EBITDA margin (%)	13.9%	14.5%	(0.6%)
Units in management	1,653	1,653	-
CQC compliance	84.0%	74%*	10.0%

*sector average

embrace
life . change . choice

- On 19 June 2017 the Association purchased 100% of the ordinary share capital of Embrace Care Ltd (Embrace), the parent of a group of companies that owns and manages 35 care homes and a supported living scheme.
- The acquisition has increased the total number of older persons bed spaces within the Group by 1,653, enabling the Group to expand the high quality care services it already provides to many more people.
- Embrace's homes are largely in Scotland and the North East. This complements those held by Sanctuary Care, which are mostly in the Midlands and the South.
- CQC registered services in England have a compliance rating of 84%, which is 10% above the sector average.

Sanctuary Group

Highlights

Operating overview

Statement of Financial Position, cash flow and treasury information

Progress with short-term initiatives and business plan

Net assets: investment in properties continues

At 31 December 2017 (£m)	Dec-17	Mar-17	Movement
Non-current assets:			
Intangible assets	78.1	77.8	0.3
Property, plant and equipment	3,287.3	3,067.8	219.5
Investment property	233.9	233.9	-
Derivative financial assets	18.7	30.4	(11.7)
Equity accounted investments	0.1	0.1	-
Other investments	32.3	34.9	(2.6)
Trade and other receivables	48.0	41.2	6.8
	3,698.4	**3,486.1**	**212.3**
Current assets:			
Trade and other receivables	79.6	76.1	3.5
Inventory	9.5	21.0	(11.5)
Cash and cash equivalents	73.5	177.0	(103.5)
Non-current assets classified as held for sale	9.8	9.8	-
	172.4	283.9	(111.5)
TOTAL ASSETS	**3,870.8**	**3,770.0**	**100.8**
Current liabilities:			
Trade and other payables	193.7	183.6	10.1
Current tax liabilities	-	0.1	(0.1)
Loans and borrowings	90.7	94.0	(3.3)
Provisions	0.5	0.5	-
	284.9	278.2	6.7
Non-current liabilities:			
Trade and other payables	8.4	8.0	0.4
Loans and borrowings	2,537.8	2,491.7	46.1
Deferred tax liabilities	1.3	1.1	0.2
Derivative financial liabilities	3.8	4.4	(0.6)
Retirement benefit obligations	121.7	128.0	(6.3)
Provisions	10.4	6.0	4.4
	2,683.4	2,639.2	44.2
TOTAL LIABILITIES	**2,968.3**	**2,917.4**	**50.9**
Share capital	-	-	
Cashflow hedge reserves	0.9	2.3	(1.4)
Revaluation reserves	1.5	2.3	(0.8)
Restricted reserves	0.3	0.2	0.1
Revenue reserves	899.8	847.8	52.0
TOTAL EQUITY	902.5	852.6	49.9
TOTAL EQUITY AND LIABILITIES	**3,870.8**	**3,770.0**	**100.8**

- The decrease in the derivative financial assets is mainly due to the expiration of the 2017 cross currency interest rate swap (CCIRS) on repayment of the loan.
- Inventory relates to housing held for sale and has decreased due to the timing of current property development.
- The Group continues to hold significant cash reserves and available facilities in order to meet its operational and capital requirements. The acquisition of Embrace Care Limited was financed from existing cash funds. Development activity has been funded from both existing funds, as well as additional drawdowns.
- Loans and borrowings, which include finance leases payable, have increased by £42.8 million, across current and non-current liabilities. This is as a result of additional loan drawdowns to fund development activity, partially offset by repayments made during the year.

Sanctuary Group

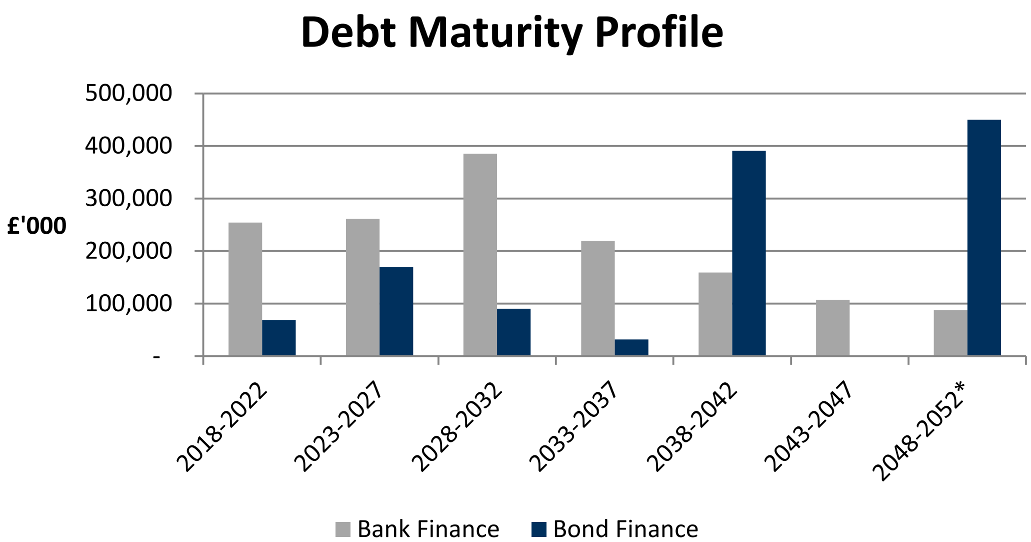
Cash flow: sustainable cash generation from operating activities

Period to 31 December 2017 (£'000)	Dec-17	Dec-16	Movement
Cash from operating activities	180,942	168,549	12,393
Servicing of finance and taxation	(93,113)	(108,868)	15,755
Net cash flow from operations	**87,829**	**59,681**	**28,148**
Capital expenditure and investment	(245,733)	(68,546)	(177,187)
Financing activities	53,296	(113,124)	166,420
Net cash inflow/(outflow) for the period	**(104,608)**	**(121,989)**	**17,381**

Financing	**Dec-17**	**Dec-16**	
Loan advances received	96,000	-	96,000
Loan repayments	(42,704)	(113,124)	70,420
Net cash inflow/(outflow) from financing	**53,296**	**(113,124)**	**166,420**

- Strong, positive operating cash flows continue with an increase on the prior year as a result of efficiencies and working capital movements.
- Capital expenditure and investment spend has increased this year due to higher levels of development activity and the acquisition of Embrace Care Limited. The Group is developing a number of schemes including the former Victoria Infirmary in Glasgow; contemporary apartments at The Quadrangle in Haringey; and family homes at Bullwood Hall in Rochford.
- Loan drawdowns of £96m have been made to finance property development programmes.

Treasury: capacity in funding for expanding business



*The only repayments past the five year period 2048 – 2052 are two £25 million Barclays 'LOBO' agreements with a final maturity date in April 2068.

The Group has capitalised on its strong financial position and credit quality to maintain good levels of cash and available facilities to fund its existing and future development programmes.

Period to 31 December 2017 (£m)	Dec-17	Dec-16
Capacity	1,183.8	1,176.7
Cost of borrowing	4.76%	4.99%
Percentage of fixed rate debt against total debt drawn	89.8%	93.0%
Cash and undrawn facilities	302.5	401.4

Period to 31 December 2017 (£'000)	Dec-17	Dec-16
Opening net debt	(2,382,816)	(2,347,305)
Net cash inflow/(outflow) for the period	(104,608)	(121,989)
Net cash (inflow)/outflow from financing	(53,296)	113,124
Reduction in debt on acquisitions	1,083	1,877
Foreign currency movement	10,406	(11,884)
Non-cash movements	(10,846)	14,636
Closing net debt	**(2,540,077)**	**(2,351,541)**

Period to 31 December 2017	Dec-17	Dec-16
Operating margin	28.4%	29.0%
Net margin	9.9%	8.5%
Interest cover	2.02	1.83
Gearing	48.1%	47.1%
Debt to revenue ratio*	5.0	3.8
Standard & Poor's credit rating	A+	A+
Moody's credit rating	A2	A1

*Annualised revenue

Treasury: increased operating profits enable servicing of finance costs

At 30 December 2017 (£'000)	Total Dec-17	Total Dec-16	Movement
Operating contribution	149,174	145,555	3,619
Interest receivable	3,106	2,411	695
Interest payable	(100,601)	(104,879)	4,278
Derivative movements	617	237	380
Loss on financing arrangements	-	(372)	372
Surplus on ordinary activities before taxation	52,296	42,952	9,344
Taxation on surplus on ordinary activities	(277)	(236)	(41)
Surplus for the period after taxation	52,019	42,716	9,303

Interest payable has decreased by £4,278,000 due to favourable profiling and historically low variable interest rates.

Interest receivable has increased due to interest received on loans from joint ventures and interest on deposited funds.

Derivative movements relate to interest rate swaps that are not hedge accounted, these are shown as liabilities on the Statement of Financial Position.

- Sanctuary Group has once again been given the highest rating for both governance and viability, G1 and V1, from the Homes and Communities Agency following an annual stability check.
- The Group and its registered providers comply with the provisions of the National Housing Federation’s Code of Governance 2015. In addition, all non-registered provider subsidiaries also comply with relevant provisions of the Code.

Highlights

Operating overview

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Progress with short-term initiatives and business plan

Sanctuary Group

Current initiatives are driving value

Our values

- Our mission - To remain a market leader in the provision of high quality housing, nursing and residential care and community services.

SAP implementation (OneSanctuary)

- The Finance, Procurement, HR, Fixed Assets, Housing Management and Maintenance modules of the SAP system are now in use. The new system is continuing to drive efficiencies within the Group, allowing efficiency savings to be made in Corporate Services and other back office functions. The objective now is to maximise the efficiencies from the OneSanctuary programme through optimisation of the system, and refining a seamless customer service centre using state of the art technology.

Expansion of care operation

- In quarter one the Group expanded its portfolio of care homes, with the purchase of 35 residential care homes and a supported living scheme from Embrace Group. The homes, which are largely in Scotland and the North East, will dovetail with Sanctuary's 68 existing care homes, which are mostly in the Midlands and South.
- The 35 care homes currently operated by Embrace Group will bring the total number of older persons' bed spaces provided by Sanctuary Group to over 5,100. Annual turnover of the Embrace Group is approximately £50 million and over 1,800 staff have transferred to Sanctuary Group as part of the acquisition.
- The Group's core charitable objective is to provide housing and care services for those who need it. This acquisition helps the Group achieve that objective by expanding the high-quality care services it already provides to many more people.

Development of new homes

- 30,000 homes are being developed over the next 10 years.
- The Group has been awarded almost £90 million of funding from the Homes and Communities Agency to build 2,265 affordable homes under the 2016-2021 Shared Ownership Affordable Homes Programme.
- The three joint ventures formed with one of the UK's leading house building and construction groups in order to develop over 600 properties at several specific sites, including a significant element of affordable housing, are on-site and sales have commenced.

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