Sanctuary Group

Quarterly update
Period ended December 2019
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

Sanctuary Group

Highlights at a glance – period ended December 2019

Revenue

2019:
£561.6m

2018:
£553.3m

Cost of borrowing

2019:
4.30%

2018:
4.60%

Units

2019:
101,524

2018:
101,232

Highest ratings achieved for governance and viability

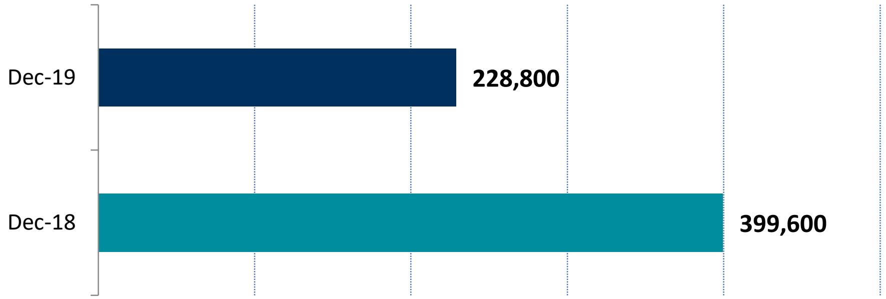
G1 / V1

Sanctuary Group

Sustainable cash flow generation

Total Divisional EBITDA £'000

Cash and facilities available £'000



Cash from operations before working capital £'000

Performance

The cash position of the Group remains strong, with sufficient cash in hand and facilities to fund operations and capital expenditure through the next financial year and beyond.

2019/2020 is the fourth year of the one per cent rent reduction applied to properties in England, subject to certain exceptions, as set out in the Welfare Reform and Work Act 2016. Many tenants in England may not have felt the benefit of the rent cut because their incomes have remained stagnant or reduced in real terms. Around 11 per cent of our tenants have now moved onto Universal Credit. We have sought to mitigate the impact of the move by engaging proactively with them, supporting them to budget and signposting to external advice where necessary. We have also encouraged residents to consider Direct Debit as a way of ensuring priority payments are met. 29 per cent of overall residents are now paying via Direct Debit; however, for new lets the percentage is higher at 55 per cent.

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 and existing homes and services for tenants.

Agenda

Highlights

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Sanctuary Group

Group operating segments – nine month period

At December 2019 (£'000)	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development property sales	Other	Total December 2019	Total December 2018	Movement
Revenue	292,452	56,242	142,708	41,522	26,191	2,460	561,575	553,314	8,261
Cost of sales	-	-	-	-	(18,579)	(570)	(19,149)	(16,740)	(2,409)
Operating costs	(141,902)	(53,590)	(128,907)	(22,824)	-	(6,974)	(354,197)	(343,304)	(10,893)
Divisional EBITDA	150,550	2,652	13,801	18,698	7,612	(5,084)	188,229	193,270	(5,041)
Depreciation (Housing and op assets)	(27,922)	(4,624)	(5,721)	(5,217)	-	(927)	(44,411)	(44,829)	418
Reportable segment surplus	122,628	(1,972)	8,080	13,481	7,612	(6,011)	143,818	148,441	(4,623)
Corporate central overheads							(11,931)	(10,436)	(1,495)
Share of profit of joint ventures							3,928	3,115	813
Operating contribution							135,815	141,120	(5,305)
Other gains and losses							4,776	11,252	(6,476)
Interest receivable							2,779	2,549	230
Interest payable							(95,809)	(97,151)	1,342
Loan break costs							(8,633)	-	(8,633)
Derivative movements							268	121	147
Surplus on ordinary activities before taxation							39,196	57,891	(18,695)
Taxation on surplus on ordinary activities							(189)	(189)	-
Surplus for the period after taxation							39,007	57,702	(18,695)

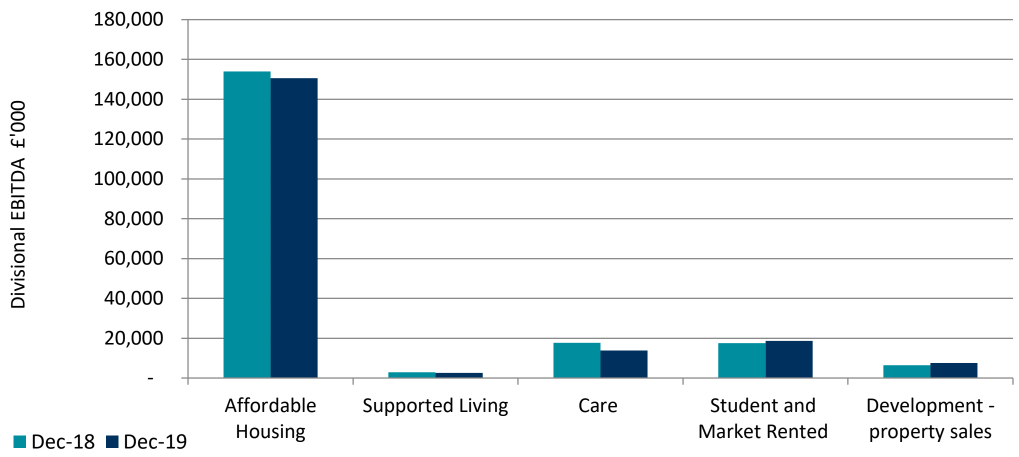
KPIs as reported in the Annual Report and Financial Statements business review

	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development property sales	Other	Total
Divisional EBITDA (December 2019)	150,550	2,652	13,801	18,698	7,612	(5,084)	188,229
Divisional EBITDA (December 2018)	154,026	2,927	17,710	17,531	6,410	(5,334)	193,270
Movement	(3,476)	(275)	(3,909)	1,167	1,202	250	(5,041)
Divisional EBITDA margin (December 2019)	51.5%	4.7%	9.7%	45.0%	29.1%		33.5%
Divisional EBITDA margin (December 2018)	52.6%	5.4%	12.7%	41.2%	31.4%		34.9%

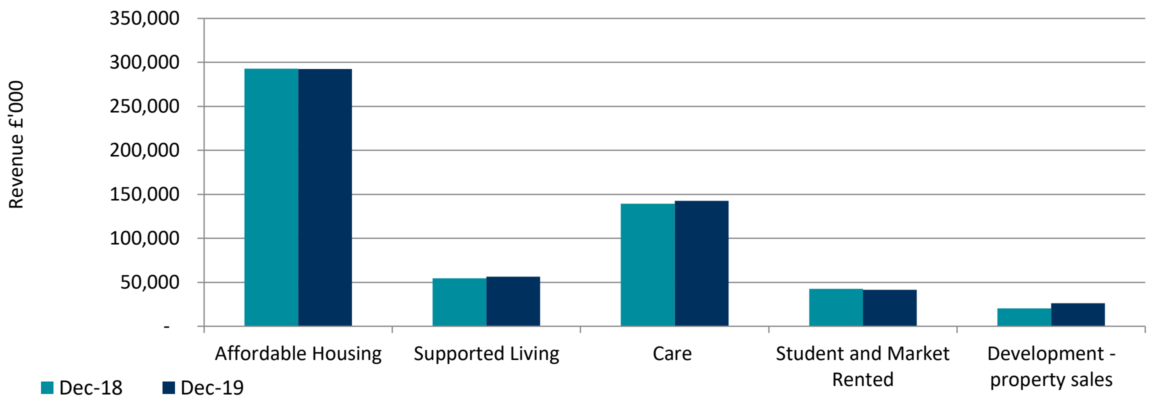
Sanctuary Group

Revenue and EBITDA analysis

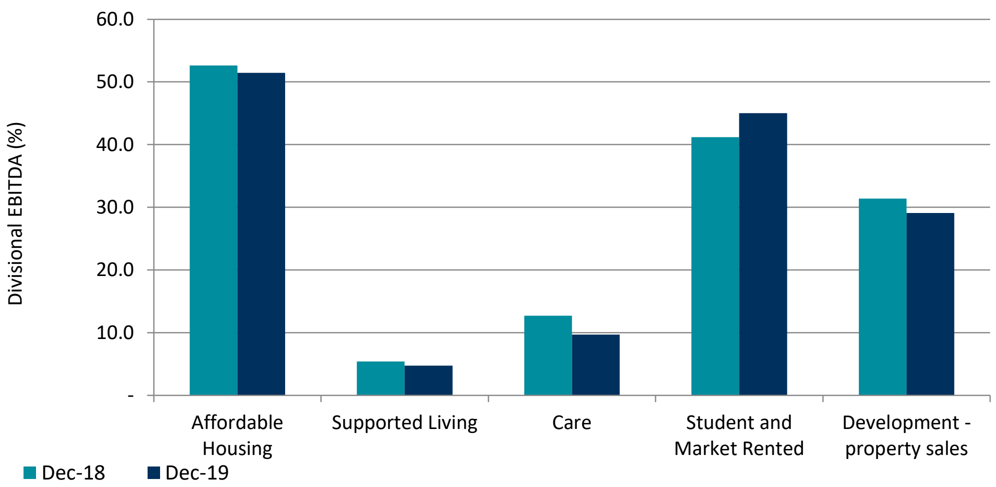
Year on year trend analysis – EBITDA



Year on Year Trend Analysis - Revenue



Year on year trend analysis – EBITDA Margin



- Core EBITDA has slightly reduced due to one-off restructuring costs.
- The development team continues to make progress towards the Group's aspiration to deliver over 16,000 new homes over the next 10 years.

Affordable Housing: mitigation of rent cuts and investment in fire safety

Period ending December 2019	Dec-19	Dec-18	Movement
Affordable Housing			
Revenue (£'000)	292,452	292,755	(303)
Divisional EBITDA (£'000)	150,550	154,026	(3,476)
Divisional EBITDA margin (%)	51.5%	52.6%	(1.1)
Units in management	79,966	79,455	511
Calls to Housing Services Centre - Housing (Rolling year)	341,293	326,884	14,409
Calls to Housing Services Centre - CIT (Rolling year)	273,666	287,296	(13,630)
Calls to Repairs Customer Services (Rolling year)	569,989	587,840	(17,851)
First time resolution - Internal Maintenance teams	81.0%	84.0%	(3.0)
England and Scotland excluding extra care:			
% void loss from empty homes - England	0.6%	0.6%	-
% void loss from empty homes - Scotland	0.4%	0.4%	-
Average relet days social housing - England	23	24	(1)
Average relet days social housing - Scotland	21	24	(3)
Customer satisfaction (%) - England	80%	82%	(2)
Customer satisfaction (%) - Scotland	76%	76%	-
Complaints / 1000 properties - England	10	7	3
Complaints / 1000 properties - Scotland	8	7	1

- Revenue and EBITDA has been impacted in the current year due to it being the fourth year one per cent rent reduction that has been applied to properties in England. We have mitigated a large part of the rent cuts coupled with inflationary pressures.
- The maintenance service has been further expanded with the in-house fire services team, which will provide fire safety servicing and routine repairs, reducing our reliance on external contractors.
- The Group is ready to proceed with a programme of retrofitting sprinkler systems at 14 of its high rise blocks, predominantly within Chester and the West Midlands.

Supported Living: consistent high quality working practices

Period ending December 2019	Dec-19	Dec-18	Movement
Supported Living			
Revenue (£'000)	56,242	54,431	1,811
Divisional EBITDA (£'000)	2,652	2,927	(275)
Divisional EBITDA margin (%)	4.7%	5.4%	(0.7)
Units in management	4,346	4,351	(5)

- This division covers our supported living, home care and Sanctuary365 offerings.
- Sanctuary Supported Living aims to expand the business by maximising new marketing opportunities through the development of innovative products and services, improve service delivery by the use of electronic care and support plans and seek to proactively bring care and support contracts back in house, thereby maximising income to the Group.
- The use of assistive technology, telecare and telehealth continues to grow within the Group, maximising the profile of Sanctuary365 across Sanctuary Supported Living services where possible.
- Working practices continue to be reviewed to ensure best practice across all services, providing a consistent level of service and to realise economies of scale.
- Delivery of additional support hours has contributed to revenue growth.
- The reduction in EBITDA from the prior year is due to increases in the National Living Wage.

Sanctuary Group

Older Persons Care: increased CQC ratings

Period ending December 2019	Dec-19	Dec-18	Movement
Revenue (£'000)	142,708	139,304	3,404
Divisional EBITDA (£'000) (Inc exceptional costs)	13,801	17,710	(3,909)
Divisional EBITDA (£'000) (Exc exceptional costs)	16,306	17,710	(1,404)
Divisional EBITDA margin (%)	9.7%	12.7%	(3.0)
Number of bed spaces in management	4,975	5,110	(135)
Total income per bed space per week (£)	812	757	55
Care home occupancy (%)	91.2%	90.6%	0.6
Self funder occupancy (%)	32.0%	33.5%	(1.5)
Care home resident satisfaction (%)	96%	96%	0.0
Care staff costs as a percentage of revenue	63.1%	65.1%	(2.0)
CQC rating % (good/outstanding)	87.0%	84.0%	3

- We are continuing to invest in staff training and plan to make sure staff resources are available for the future by offering apprenticeship schemes for assistant practitioners and nursing associates, with the intention of them becoming fully qualified nurses within the next four years. This will help to mitigate the potential impact on care staff recruitment which may be caused by the United Kingdom's exit from the EU.
- 2019/2020 is the third year of a three-year strategy designed to deliver improved ways of working and governance to ensure all homes maintain the delivery of high quality care that meets the CQC standards. Sanctuary Care will continue to build on its strong reputation in local areas and build brand awareness in the market place.
- Sanctuary Care have now successfully introduced its industry leading care application (kradle) in 83 homes and anticipate a complete roll out by March 2020. 'Kradle' allows care staff to electronically plan, track and measure care delivered to our residents. Staff use mobile devices around the home to deliver care and record well-being, vital statistics and useful information about residents at the touch of a button. It is anticipated 'kradle' will contribute towards even higher care standards.
- Increased occupancy has contributed to the year on year revenue growth.
- Exceptional costs relate to restructuring, including a change and alignment of employee terms and conditions.

Student and Market Rented: increased income per bed space

Period ending December 2019	Dec-19	Dec-18	Movement
Revenue (£'000)	41,522	42,538	(1,016)
Divisional EBITDA (£'000)	18,698	17,531	1,167
Divisional EBITDA margin (%)	45.0%	41.2%	3.8
Units in management	12,237	12,316	(79)
Student occupancy (%)	94.1%	94.2%	(0.1)
Student income per bedspace (£)	4,288	4,204	84
Student cost per bedspace (£'000)	(2,285)	(2,400)	115

- The student business is targeting improvements in operating profit and service delivery.
- There has been a slight reduction in student occupancy as a result of reduced demand from European students due of the uncertainty around Brexit, however income per bed space remains high and has increased overall from the prior year.
- The business will continue to seek ways to maximise operational efficiencies while improving the customer experience through technology, including the optimisation of the benefits from our ERP system, as well as the installation of the next generation Kinetic booking solution and events management software.
- Working with asset management, under-utilised assets will be reviewed and opportunities explored for income maximisation or alternative use, thereby maximising the potential revenue generation from each site. A standard operating model will be developed to ensure consistency and economy in the management of market rented and commercial tenancies.
- Contributing factors for overall increased EBITDA performance is due to staff cost savings and a significant investment in FRA spend being made in the prior year which has resulted in a lower requirement for FRA spend in the current year.

Development: property sales in England and Scotland

Period ending December 2019	Dec-19	Dec-18	Movement
Revenue - property sales (£'000)	**26,191**	20,440	5,751
Sales surplus (£'000)	**7,612**	6,410	1,202
Average margin	**29.1%**	31.4%	(2.3)
Development units			
No. of properties on site and in development pipeline	**5,930**	6,317	(387)
New starts in period	**1,380**	226	1,154
Completions in period	**504**	680	(176)
Sales (England only)			
Sales in period (units)	**142**	111	31
Average OMV (£'000)	**314**	302	12
Average share sold	**61.0%**	55.0%	6.0
Reservations (units)	**54**	29	25

- Sanctuary will continue to work with Homes England and the Scottish Government to deliver more new homes while looking for flexible ways to support them to meet the challenge of the housing shortage.
- Within England, Development is focused on successfully delivering both the 2016-2021 and 2015-2018 Shared Ownership Affordable Homes Programme. In Scotland, Development is focused on regeneration and social housing programmes.
- The emphasis in the current year is on continuing to identify land opportunities as well as delivering the current pipeline. In addition, we will need to ensure that our new homes meet the high expectations of our customers.
- The Group is continuing to increase the in-house construction function, giving the Group greater flexibility and enabling more cost-effective construction by removing external management and profit costs.
- Overall Development growth in the current year is driven by sales contribution, offset by increased staff costs resulting from underlying operational growth.

Agenda

Highlights

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Net assets: investment in properties

At December 2019 (£m)	Dec-19	Mar-19	Movement
Non-current assets:			
Intangible assets	62.1	64.3	(2.2)
Property, plant and equipment	3,478.1	3,359.5	118.6
Investment property	230.2	226.8	3.4
Deferred tax asset	4.3	4.3	-
Derivative financial assets	25.0	22.3	2.7
Equity accounted investments	4.0	3.2	0.8
Other investments	24.6	27.0	(2.4)
Trade and other receivables	41.9	42.6	(0.7)
	3,870.2	**3,750.0**	**120.2**
Current assets:			
Trade and other receivables	74.9	75.5	(0.6)
Contract assets	0.2	0.3	(0.1)
Inventory	106.5	110.6	(4.1)
Assets classified as held for sale	-	1.3	(1.3)
Cash and cash equivalents	174.8	150.1	24.7
	356.4	337.8	18.6
TOTAL ASSETS	**4,226.6**	**4,087.8**	**138.8**

At December 2019 (£m)	Dec-19	Mar-19	Movement
Current liabilities:			
Trade and other payables	126.2	147.7	(21.5)
Contract liabilities	26.9	26.8	0.1
Current tax liabilities	0.3	0.3	-
Loans and borrowings	151.3	74.7	76.6
Provisions	4.6	4.6	-
	309.3	254.1	55.2
Non-current liabilities:			
Trade and other payables	9.6	10.7	(1.1)
Loans and borrowings	2,781.8	2,736.2	45.6
Deferred tax liabilities	0.6	0.6	-
Derivative financial liabilities	3.1	3.4	(0.3)
Retirement benefit obligations	39.6	41.4	(1.8)
Provisions	3.2	3.7	(0.5)
	2,837.9	2,796.0	41.9
TOTAL LIABILITIES	**3,147.2**	**3,050.1**	**97.1**
Share capital	-	-	-
Cashflow hedge reserve	4.6	1.4	3.2
Cost of hedging reserve	1.1	1.1	-
Revaluation reserves	0.7	1.2	(0.5)
Restricted reserves	0.2	0.2	-
Revenue reserves	1,072.8	1,033.8	39.0
TOTAL EQUITY	1,079.4	1,037.7	41.7
TOTAL EQUITY AND LIABILITIES	**4,226.6**	**4,087.8**	**138.8**

- The Group continues to hold significant cash reserves and available facilities in order to meet its operational / capital requirements and as part of its Brexit strategy.

Sanctuary Group

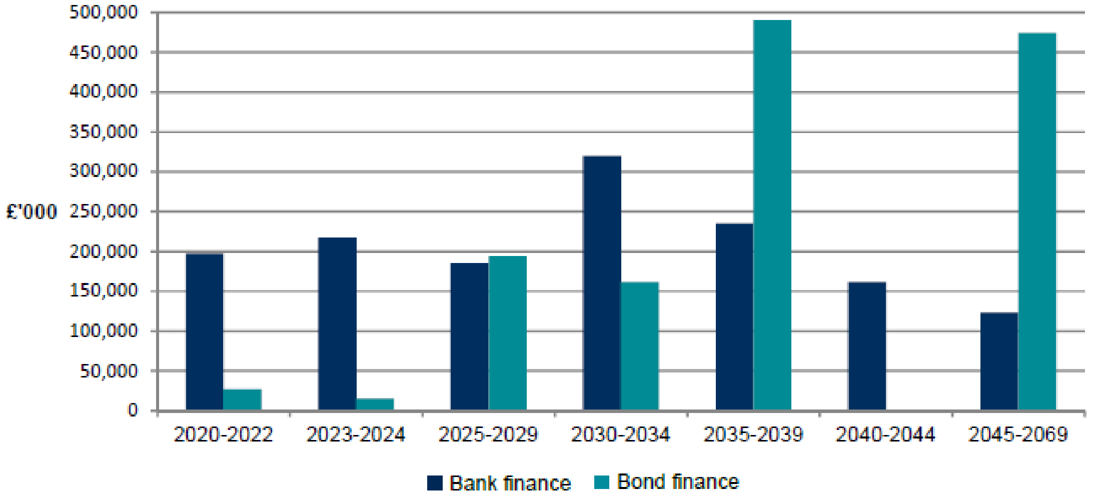
Cash flow: cash generation from operating activities

Period ending December 2019 (£'000)	Dec-19	Dec-18	Movement
Cash generated from operations before working capital movements	181,201	186,168	(4,967)
Changes in payable and receivables	(21,283)	(21,092)	(191)
Changes in inventory	3,278	21,821	(18,543)
Cash from operating activities	**163,196**	**186,897**	**(23,701)**
Servicing of finance and taxation	(93,957)	(94,574)	617
Loan break costs	(8,633)	-	(8,633)
Net cash flow from operations	**60,606**	**92,323**	**(31,717)**
PPE proceeds	16,270	25,228	(8,958)
Capital expenditure and investment	(147,165)	(137,229)	(9,936)
Dividends from and Loans to JVs	5,272	949	4,323
Financing activities	89,668	59,675	29,993
Net cash outflow for the period	**(24,651)**	**(40,946)**	**16,295**

Financing	**Dec-19**	**Dec-18**	
Loan advances received	206,000	96,000	110,000
Loan repayments	(116,332)	(36,325)	(80,007)
Net cash outflow from financing	**89,668**	**59,675**	**29,993**

- Development activity for the year-to-date has been funded by grant receipts, existing cash and additional loan drawdowns.
- Loan break costs of £8.6m relate to early repayment of several loans with a single funder as part of a refinancing initiative to secure preferable rates for the longer term.

Treasury: capacity in funding for expanding business



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.

The reduction in net margin includes loan break costs of £8.6m in the current period, and reduction in asset sales versus the prior period.

Period ending December 2019 (£'m)	Dec-19	Dec-18
Unencumbered Assets	1,326	1,412
Cost of borrowing	4.30%	4.60%
Percentage of fixed rate debt against total debt drawn	86.5%	88.5%
Cash and undrawn facilities	228.8	399.6

Period ending December 2019 (£'000)	Dec-19	Dec-18
Opening net debt	(2,641,961)	(2,622,227)
Net cash inflow/(outflow) for the period	(24,651)	(40,946)
Net cash (inflow)/outflow from financing	(89,668)	(59,675)
Foreign currency movement (hedged)	962	(6,214)
Non-cash movements	(22,987)	(10,046)
Closing net debt	**(2,778,305)**	**(2,739,108)**

Key Performance Indicators	Dec-19	Dec-18
Operating margin	24.2%	25.5%
Net margin	7.0%	10.5%
Interest cover	2.04	2.12
Gearing	49.7%	49.0%
Debt to revenue ratio	3.9	3.8
Standard & Poor's credit rating	A+	A+
Moody's credit rating	A2	A2

Treasury: reduction in finance costs

At December 2019 (£'000)	Total December-19	Total December-18	Movement
Operating contribution	135,815	141,120	(5,305)
Other gains and losses	4,776	11,252	(6,476)
Interest receivable	2,779	2,549	230
Interest payable	(95,809)	(97,151)	1,342
Loan break costs	(8,633)	0	(8,633)
Derivative movements	268	121	147
Surplus before taxation	39,196	57,891	(18,695)
Taxation	(189)	(189)	-
Surplus for the period after taxation	39,007	57,702	(18,695)

- Interest payable (including loan break costs) has increased by £7,291,000. Loan break costs were incurred relating to the early repayment of a number of historic loans held with one funder. The debt has subsequently been re-financed with lower fixed rates which has also simplified the financing structure.
- Derivative movements relate to movements in an interest rate swap, through the Income Statement, within a subsidiary PFI vehicle. The corresponding liability is shown on the Statement of Financial Position.
- Sanctuary Group has highest rating for both governance and viability, G1 and V1, from the Regulator of Social Housing. Our credit ratings are A2 from Moody’s and A+ from Standard & Poor’s.
- 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.

Agenda

Highlights

Operating overview

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Current initiatives are driving value

Our mission and values

- At the core of our business are Sanctuary's values. These set the way we conduct ourselves and how we do business.
- Our mission – Building affordable homes and sustainable communities where people choose to live.
- We believe no-one should be homeless. Everyone should have a decent home that they can afford and that meets their needs and circumstances.
- We believe care should be accessible to all who need it and should be delivered with dignity, respect and, above all, kindness.
- Our new corporate strategy is now on our Group website https://www.sanctuary-group.co.uk/about-us/our-corporate-strategy
- https://www.sanctuary-group.co.uk/news/2019/08/sanctuary-group-publishes-our-impact-report

Investing in innovation

- Sanctuary was the first housing association to implement an Enterprise Resource Planning (ERP) system group-wide, known as One Sanctuary.
- 5,000 of our staff use the ERP system on a daily basis, for finance, procurement, human resources, service charges, learning and development, housing , maintenance and assets.
- With the implementation complete, the focus going forward is on further maximising the outputs from the system, processes and people we have in place. Our Modern Workplace initiative will ensure the business continues to transform the way we operate, with a constant focus on efficiency and effectiveness in our delivery of services to customers.

Building more social housing

- The development team continues to make progress towards the Group's aspiration to deliver 16,000 new homes. A combination of homes for those in housing need, older people's accommodation, care homes and properties for part or outright sale.
- We continue to bid for grant funding from Homes England, the Scottish Government and local authorities.
- The five joint ventures formed with one of the UK's leading house building and construction groups in order to develop almost 1,000 properties at several specific sites, including a significant element of affordable housing, are on-site and sales have commenced.