Sanctuary Group

Sanctuary Group

Quarterly update

Period ended 30 September 2018

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 September 2018

Highest ratings achieved for governance and viability

G1 / V1

Revenue

2018: £364.1m

2017: £347.0m

Cost of borrowing

2018: 4.70 %

2017: 4.87 %

Growth

Integration of new care acquisition has increased number of care homes to 101

Units

2018: 101,633

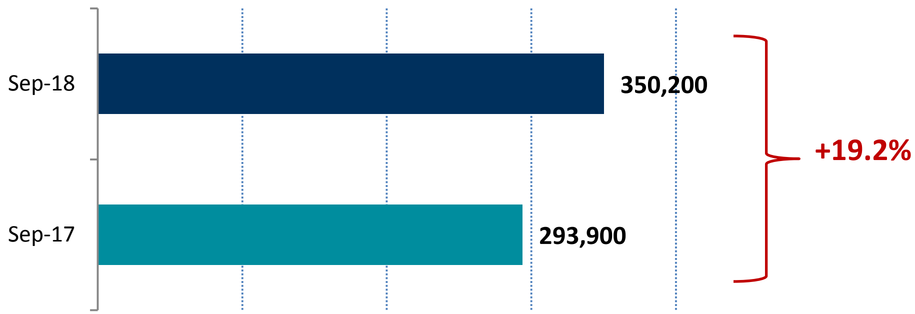
2017: 101,019

590 new housing completions in the period with a further 6,454 in the development pipeline

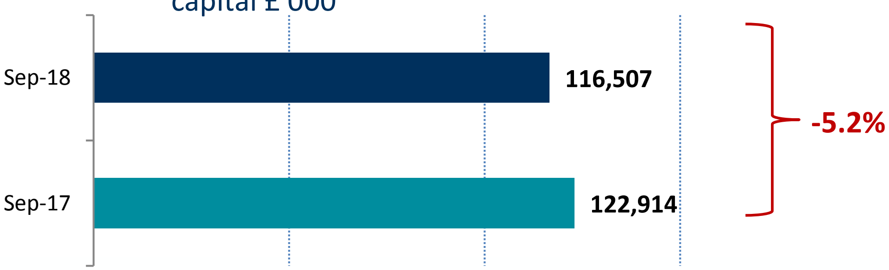
Sustainable cash flow generation

Total Divisional EBITDA * £'000

Cash and facilities available £'000



Cash from operations before working capital £'000



Performance

- 2018/2019 is the third 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. In order to mitigate the effects of the rent reduction policy in England and to continue to provide increased value for money to our customers, the emphasis continues to be on cost management. This will be achieved by maximising efficiencies through our Modern Workplace initiatives and reducing reliance on external contractors by driving up the utilisation of the in-house maintenance service.

- In response to the tragic events of the Grenfell Tower fire we have revisited all our fire risk assessments and brought forward a £4 million programme of fire prevention works to ensure that our homes continue to exceed the minimum statutory requirements.

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.

*numbers stated before additional FRA costs to enable a like for like comparison

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Group operating segments – Six month Period

At 30 September 2018 (£'000)	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development property sales	Other	Total September 2018	Total September 2017	Movement
Revenue	195,098	36,127	93,055	27,482	10,670	1,699	364,131	346,997	17,134
Cost of sales	-	-	-	-	(7,230)	(831)	(8,061)	(5,789)	(2,272)
Operating costs	(91,194)	(33,970)	(81,449)	(17,418)	-	(4,241)	(228,272)	(209,521)	(18,751)
Divisional EBITDA*	103,904	2,157	11,606	10,064	3,440	(3,373)	127,798	131,687	(3,889)
Additional FRA costs	(1,101)	(184)	(372)	(750)	-	-	(2,407)	-	(2,407)
Total before depreciation and impairment	102,803	1,973	11,234	9,314	3,440	(3,373)	125,391	131,687	(6,296)
Depreciation (Housing and op assets)	(20,510)	(2,504)	(4,069)	(2,978)	-	(286)	(30,347)	(28,633)	(1,714)
Impairment of investment property	-	-	-	-	-	-	-	-	-
Reportable segment surplus	82,293	(531)	7,165	6,336	3,440	(3,659)	95,044	103,054	(8,010)
Corporate central overheads							(6,787)	(8,283)	1,496
Share of profit of joint ventures							1,782	-	1,782
Other gains and losses							10,323	2,346	7,977
Operating contribution							100,362	97,117	3,245
Interest receivable							1,627	1,707	(80)
Interest payable							(65,098)	(66,049)	951
Derivative movements							77	509	(432)
Surplus on ordinary activities before taxation							36,968	33,284	3,684
Taxation on surplus on ordinary activities							(153)	(138)	(15)
Surplus for the period after taxation							36,815	33,146	3,669

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

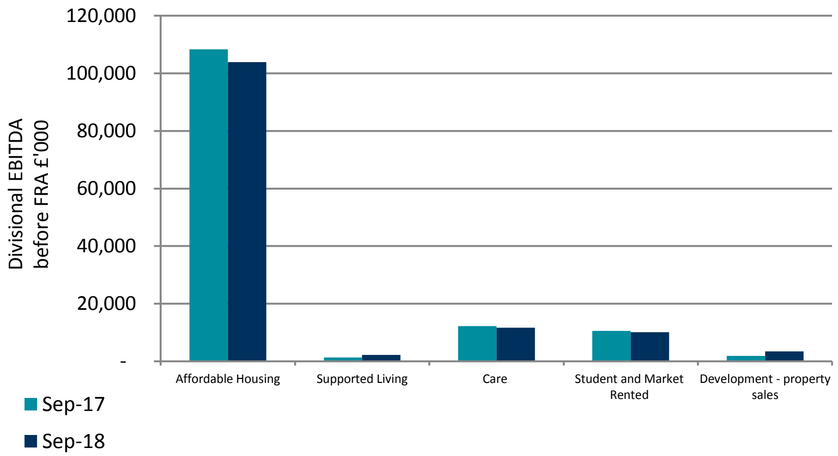
	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development property sales	Other	Total September 2018
Divisional EBITDA* (September 2018)	103,904	2,157	11,606	10,064	3,440	(3,373)	127,798
Divisional EBITDA (September 2017)	108,372	1,300	12,175	10,545	1,919	(2,624)	131,687
Movement	(4,468)	857	(569)	(481)	1,521	(749)	(3,889)
Divisional EBITDA* margin (September 2018)	53.3%	6.0%	12.5%	36.6%	32.2%		35.1%
Divisional EBITDA margin (September 2017)	55.7%	3.6%	14.8%	41.2%	24.9%		38.0%

*numbers stated before additional FRA costs to enable a like for like comparison

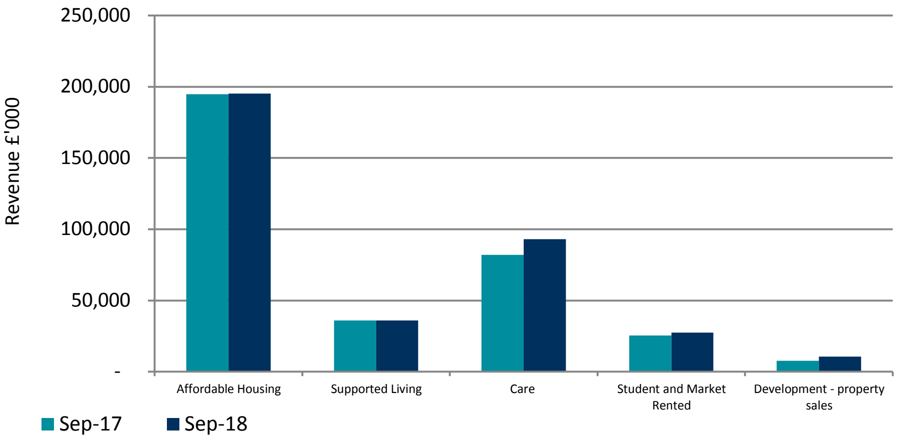
Sanctuary Group

Revenue and EBITDA analysis

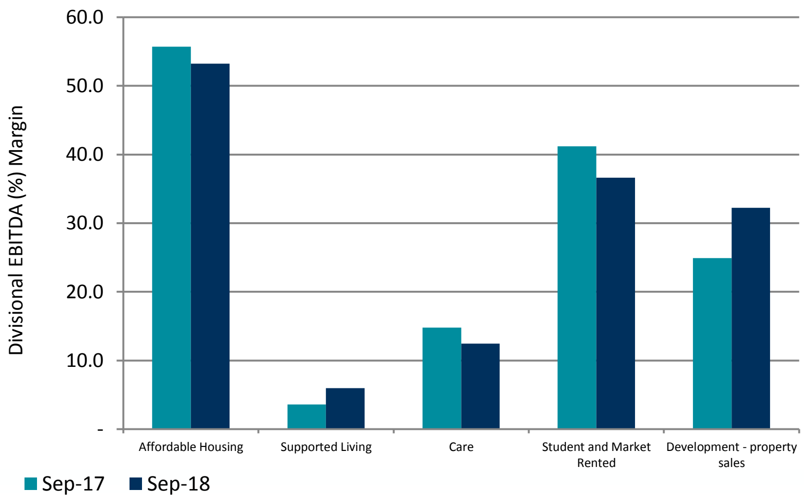
Year on year trend analysis – EBITDA



Year on year trend analysis - revenue



Year on year trend analysis – EBITDA Margin



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- The Group has benefited from additional revenue this year as a result of the Embrace Care portfolio, now referred to as Care (North) operations, which were acquired on 19th June 2017 (included within Care above). During this initial phase of integration, these acquired operations have contributed to a short-term reduction in EBITDA margin for Care; however, this is expected to improve over the longer term.
- Affordable Housing EBITDA is lower this year due to increased maintenance spend on housing stock as the Group continues to invest in its assets.
- Progression in the Group's development programme has resulted in a marked increase in property sales this year at improved margins.

Sanctuary Group

Affordable Housing: modern workplace initiatives

Period to 30 September 2018	Sep-18	Sep-17	Movement
Affordable Housing			
Revenue (£'000)	195,098	194,698	400
Divisional EBITDA* (£'000)	103,904	108,372	(4,468)
Divisional EBITDA* margin (%)	53.3%	55.7%	(2.4%)
Units in management	79,394	78,873	521
Calls to Housing Services Centre - Housing & CIT (Rolling year)	592,863	495,830	97,033
Calls to Repairs Customer Services (Rolling year)	587,627	604,033	(16,406)
First time resolution - Internal Maintenance teams	84%	86%	(2%)
England and Scotland excluding extra care:			
% void loss from empty homes - England	0.6%	0.7%	(0.1%)
% void loss from empty homes - Scotland	0.5%	0.3%	0.2%
Average relet days social housing - England	25	30	(5)
Average relet days social housing - Scotland	24	18	6
Customer satisfaction (%) - England	83%	82%	1%
Customer satisfaction (%) - Scotland	77%	79%	(2%)
Complaints / 1000 properties - England	7	9	(2)
Complaints / 1000 properties - Scotland	8	11	(3)

*numbers stated before additional FRA costs to enable a like for like comparison

- This is the third year of the one per cent rent reduction applied to properties in England. Despite this, revenue has increased as a result of a general improvement in void performance.

- The reduction in Affordable Housing EBITDA in the current year is a reflection of the Group's investment in its assets, with increased spend having been incurred during the year on maintenance of housing stock.

- One of Group's values is sustainability and wherever possible and when it makes sense to do so, we always prefer to invest in our own people and teams. We have done that with the development of our new Fire Services team, bringing in a service which used to be outsourced. Once established, the team will manage all fire safety servicing and related routine repairs.

Supported Living: consistent high quality working practices

Period to 30 September 2018	Sep-18	Sep-17	Movement
Supported Living			
Revenue (£'000)	**36,127**	**36,040**	**87**
Divisional EBITDA* (£'000)	**2,157**	**1,300**	**857**
Divisional EBITDA* margin (%)	**6.0%**	**3.6%**	**2.4%**
Units in management	**4,411**	**4,455**	**(44)**

- This division covers our supported living, home care and Sanctuary365 offerings.
- The home care business continues to consolidate operations, concentrating on providing services into the Group's own establishments. Significant effort has been made to ensure a smooth handover to new service providers where continued arrangements have not been financially viable.
- 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 all care and support contracts back in house where aligned to Group strategy, 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.

*numbers stated before additional FRA costs to enable a like for like comparison

Sanctuary Group

Older Persons Care: strong revenue growth

Period to 30 September 2018	Sep-18	Sep-17	Movement
Revenue (£'000)	93,055	82,035	11,020
Divisional EBITDA* (£'000)	11,606	12,175	(569)
Divisional EBITDA* margin (%)	12.5%	14.8%	(2.3%)
Number of bed spaces in management	5,266	5,192	74
Total income per bed space per week (£)	752	719	33
Care home occupancy (%)	91.5%	93.1%	(1.6%)
Self funder occupancy (%)	33.1%	34.2%	(1.1%)
Care home resident satisfaction (%)	96%	97%	(1%)
Care staff costs as a percentage of revenue	65.1%	62.6%	2.5%
CQC compliance	80.0%	84.0%	(4%)

- Sanctuary Care (North) integrated into the main Sanctuary Care operation on 1 April 2018, ensuring a consistent delivery of high quality services to our customers. This includes the furtherance of internal quality assessments and procedures. The acquisition and subsequent integration of the Sanctuary Care (North) operations has resulted in a short-term reduction in EBITDA margin compared to the prior year; however, the margin is expected to improve as synergies are realised over the longer-term.

- 2018/2019 is the second 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 will be introducing its industry leading care application (kradle) after a successful trial in three care homes. '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.

*numbers stated before additional FRA costs to enable a like for like comparison

Sanctuary Group

Student and Market Rented: increased income per bed space

Period to 30 September 2018	Sep-18	Sep-17	Movement
Revenue (£'000)	27,482	25,579	1,903
Divisional EBITDA* (£'000)	10,064	10,545	(481)
Divisional EBITDA* margin (%)	36.6%	41.2%	(4.6%)
Units in management	12,562	12,499	63
Student occupancy (%)	94.4%	92.6%	1.8%
Student income per bedspace (£)	3,940	3,866	74

- The student business is targeting improvements in revenue, operating profit and service delivery.

- 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.

*numbers stated before additional FRA costs to enable a like for like comparison

Sanctuary Group

Development: property sales

Period to 30 September 2018	Sep-18	Sep-17	Movement
Revenue - property sales (£'000)	**10,670**	7,708	2,962
Sales surplus (£'000)	**3,440**	1,919	1,521
Average margin	**32.2%**	24.9%	7.3%
Development units			
No. of properties on site and in development pipeline	**6,454**	7,111	(657)
New starts in period	**210**	580	(370)
Completions in period	**590**	294	296
Sales (England only)			
Sales in period (units)	**66**	37	29
Average OMV (£'000)	**320**	290	30
Average share sold	**51.0%**	60.0%	(9.0%)
Reservations (units)	**29**	25	4

- 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.
- The emphasis in the current year will be 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.
- A total of 25 new on-site sales centres will be launched during the year. The Group will continue to make sure the local communities benefit from our developments by ensuring contractors deliver community benefits as well as meeting our employment and skills requirements.

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Sanctuary Group

Net assets: investment in properties continues

At 30 September 2018 (£m)	Sep-18	Mar-18	Movement
Non-current assets:			
Intangible assets	67.3	69.1	(1.8)
Property, plant and equipment	3,326.5	3,293.3	33.2
Investment property	238.6	228.0	10.6
Deferred tax asset	3.9	3.8	0.1
Derivative financial assets	19.6	13.9	5.7
Equity accounted investments	2.4	0.6	1.8
Other investments	32.3	31.6	0.7
Trade and other receivables	41.1	46.2	(5.1)
	3,731.7	**3,686.5**	**45.2**
Current assets:			
Trade and other receivables	83.9	90.0	(6.1)
Inventory	49.1	61.5	(12.4)
Cash and cash equivalents	66.2	95.7	(29.5)
Non-current assets classified as held for sale	6.9	9.0	(2.1)
	206.1	256.2	(50.1)
TOTAL ASSETS	**3,937.8**	**3,942.7**	**(4.9)**
Current liabilities:			
Trade and other payables	150.8	185.2	(34.4)
Current tax liabilities	0.6	0.4	0.2
Loans and borrowings	92.3	104.7	(12.4)
Provisions	1.0	4.7	(3.7)
	244.7	295.0	(50.3)
Non-current liabilities:			
Trade and other payables	25.4	10.2	15.2
Loans and borrowings	2,617.5	2,623.9	(6.4)
Deferred tax liabilities	0.6	0.7	(0.1)
Derivative financial liabilities	3.2	3.3	(0.1)
Retirement benefit obligations	39.4	42.6	(3.2)
Provisions	8.4	6.7	1.7
	2,694.5	2,687.4	7.1
TOTAL LIABILITIES	**2,939.2**	**2,982.4**	**(43.2)**
Share capital	-	-	-
Cashflow hedge reserves	(0.3)	(1.3)	1.0
Revaluation reserves	2.3	1.8	0.5
Restricted reserves	0.2	0.2	-
Revenue reserves	996.4	959.6	36.8
TOTAL EQUITY	998.6	960.3	38.3
TOTAL EQUITY AND LIABILITIES	**3,937.8**	**3,942.7**	**(4.9)**

- 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.
- Loans and borrowings, which include finance leases payable, have decreased by £18.8 million as a result of repayments made during the year.

Sanctuary Group

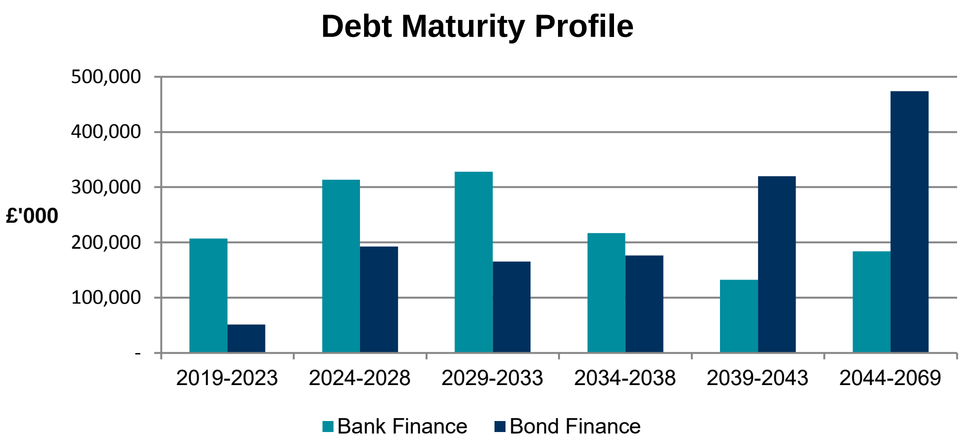
Cash flow: sustainable cash generation from operating activities

Period to 30 September 2018 (£'000)	Sep-18	Sep-17	Movement
Cash generated from operations before working capital movements	116,507	122,914	(6,407)
Changes in payable and receivables	(19,596)	(4,296)	(15,300)
Cash from operating activities	**96,911**	**118,618**	**(21,707)**
Servicing of finance and taxation	(67,063)	(64,321)	(2,742)
Net cash flow from operations	**29,848**	**54,297**	**(24,449)**
Property sales and PPE proceeds	28,345	16,520	11,825
Capital expenditure and investment	(64,494)	(217,087)	152,593
Financing activities	(23,206)	26,143	(49,349)
Net cash outflow for the period	**(29,507)**	**(120,127)**	**90,620**

Financing	**Sep-18**	**Sep-17**	
Loan advances received	-	64,000	(64,000)
Loan repayments	(23,206)	(37,857)	14,651
Net cash outflow from financing	**(23,206)**	**26,143**	**(49,349)**

- The reduction in cash from operating activities is largely a reflection of short-term working capital movements.
- Net capital expenditure and investment spend is lower than last year due to the differing annual phasing of development activity.
- Development activity for the year-to-date has been funded by grant receipts and existing cash, without the need for additional drawdowns.

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.

Period to 30 September 2018 (£'m)	Sep-18	Sep-17
Capacity	1,413	1,133
Cost of borrowing	4.7%	4.87%
Percentage of fixed rate debt against total debt drawn	91.7%	91.4%
Cash and undrawn facilities	350.2	293.9

Period to 30 September 2018 (£'000)	Sep-18	Sep-17
Opening net debt	(2,622,227)	(2,382,816)
Net cash inflow/(outflow) for the period	(29,507)	(120,127)
Net cash (inflow)/outflow from financing	23,206	(26,143)
Foreign currency movement (hedged)	(4,634)	9,968
Non-cash movements	5,880	(8,124)
Closing net debt	**(2,627,282)**	**(2,527,242)**

Key Performance Indicators	Sep-18	Sep-17
Operating margin	27.6%	28.0%
Net margin	10.2%	9.6%
Interest cover	2.08	1.98
Gearing	49.1%	48.6%
Debt to revenue ratio*	3.7	3.7
Standard & Poor's credit rating	A+	A+
Moody's credit rating	A2	A2

*before other gains and losses

Sanctuary Group

Treasury: reduction in finance costs

At 30 September 2018 (£'000)	Total Sep-18	Total Sep-17	Movement
Operating contribution	100,362	97,117	3,245
Interest receivable	1,627	1,707	(80)
Interest payable	(65,098)	(66,049)	951
Derivative movements	77	509	(432)
Surplus on ordinary activities before taxation	36,968	33,284	3,684
Taxation on surplus on ordinary activities	(153)	(138)	(15)
Surplus for the period after taxation	36,815	33,146	3,669

Interest payable has decreased by £951,000 due to favourable profiling and historically low variable interest rates.

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 once again been given the highest rating for both governance and viability, G1 and V1, from the Regulator of Social Housing (formerly the Homes and Communities Agency). 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.

Highlights

Operating overview

Statement of Financial Position, cash flow and treasury information

Progress with short-term initiatives and business plan

Sanctuary Group

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

Modern workplace

- 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.

Development of new homes

- Aspire to build 30,000 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 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.