Sanctuary Group

Quarterly update
Period ended September 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

Highlights at a glance – period ended September 2019

Revenue

2019:
£375.4m

2018:
£364.1m

Cost of borrowing

2019:
4.59%

2018:
4.70%

Units

2019:
101,379

2018:
101,633

Highest ratings achieved for governance and viability

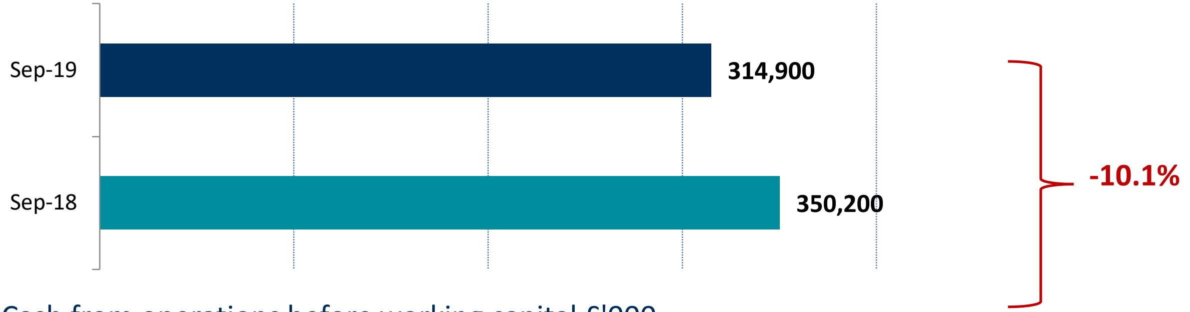
G1 / V1

Sanctuary Group

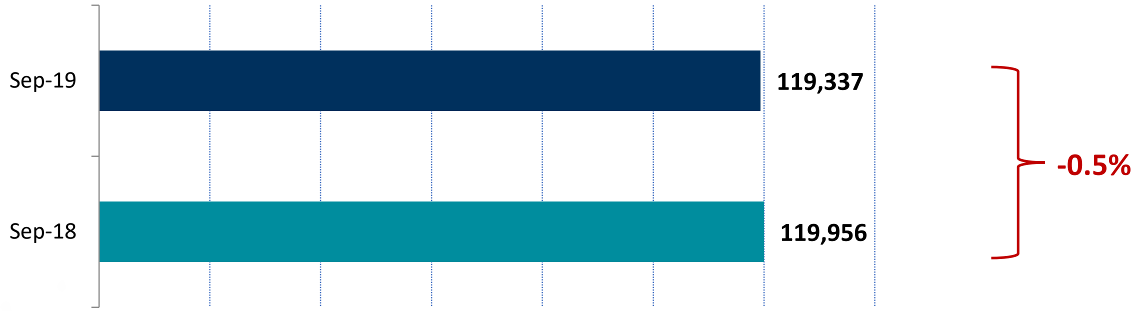
Sustainable cash flow generation

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, to act as a buffer.

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.

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.

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Group operating segments – six month period

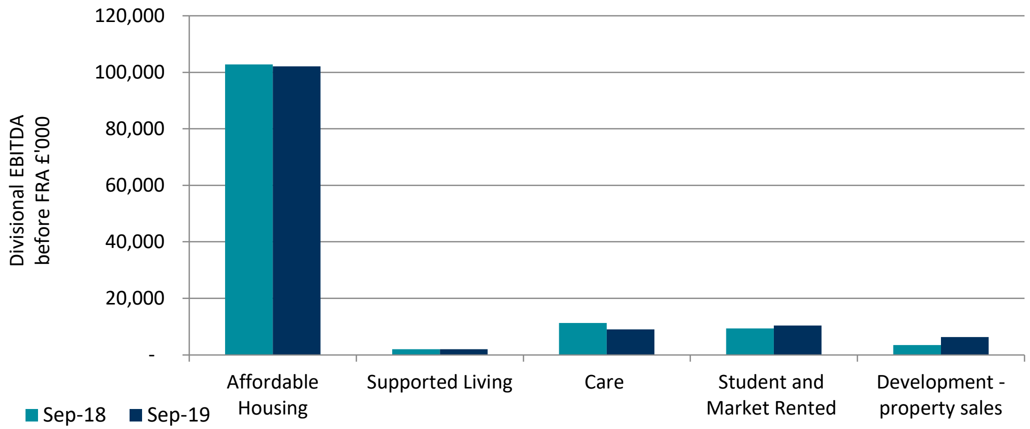
At September 2019 (£'000)	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development property sales	Other	Total September 2019	Total September 2018	Movement
Revenue	195,256	37,432	95,206	26,448	19,781	1,315	375,438	364,131	11,307
Cost of sales	-	-	-	-	(13,461)	(447)	(13,908)	(8,061)	(5,847)
Operating costs	(93,171)	(35,419)	(86,140)	(16,036)	-	(4,393)	(235,159)	(230,679)	(4,480)
Divisional EBITDA	102,085	2,013	9,066	10,412	6,320	(3,525)	126,371	125,391	980
Depreciation (Housing and op assets)	(19,545)	(3,269)	(3,820)	(3,420)	-	(627)	(30,681)	(30,347)	(334)
Reportable segment surplus	82,540	(1,256)	5,246	6,992	6,320	(4,152)	95,690	95,044	646
Corporate central overheads							(8,608)	(6,787)	(1,821)
Share of profit of joint ventures							2,383	1,782	601
Operating contribution							89,465	90,039	(574)
Other gains and losses							3,109	10,323	(7,214)
Interest receivable							2,073	1,627	446
Interest payable							(63,649)	(65,098)	1,449
Derivative movements							(269)	77	(346)
Surplus on ordinary activities before taxation							30,729	36,968	(6,239)
Taxation on surplus on ordinary activities							(64)	(153)	89
Surplus for the period after taxation							30,665	36,815	(6,150)

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

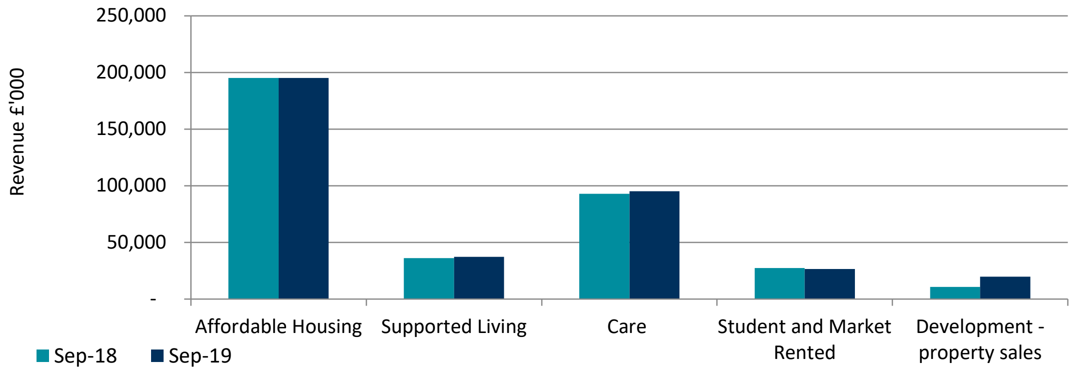
	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development property sales	Other	Total
Divisional EBITDA (September 2019)	102,085	2,013	9,066	10,412	6,320	(3,525)	126,371
Divisional EBITDA (September 2018)	102,803	1,973	11,234	9,314	3,440	(3,373)	125,391
Movement	(718)	40	(2,168)	1,098	2,880	(152)	980
Divisional EBITDA margin (September 2019)	52.3%	5.4%	9.5%	39.4%	31.9%		33.7%
Divisional EBITDA margin (September 2018)	52.7%	5.5%	12.1%	33.9%	32.2%		34.4%

Revenue and EBITDA analysis

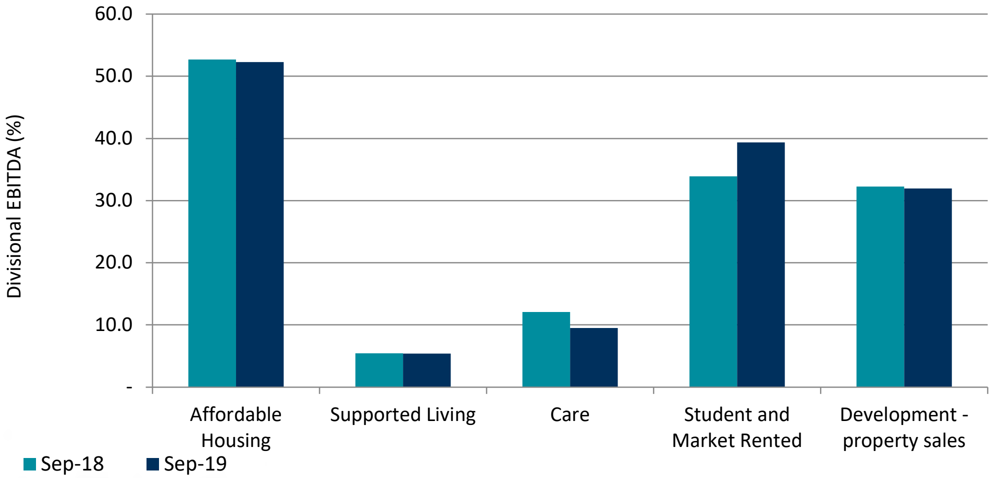
Year on year trend analysis – EBITDA



Year on Year Trend Analysis - Revenue



Year on year trend analysis – EBITDA Margin



- Student and Market rented has improved on rental income compared to prior year, which is driven by student extensions, in addition to favourable summer business.
- The development team continues to make progress towards the Group's aspiration to deliver 15,000 new homes.
- Development property sales have increased, primarily driven by 32 more sales in the current year to date than the 25 reported in the first half of 2018/2019.

Sanctuary Group

Affordable Housing: increased units

Period ending September 2019	Sep-19	Sep-18	Movement
Affordable Housing			
Revenue (£'000)	195,256	195,098	158
Divisional EBITDA (£'000)	102,085	102,803	(718)
Divisional EBITDA margin (%)	52.3%	52.7%	(0.4)
Units in management	79,765	79,394	371
Calls to Housing Services Centre - Housing (Rolling year)	328,666	310,886	17,780
Calls to Housing Services Centre - CIT (Rolling year)	270,098	281,977	(11,879)
Calls to Repairs Customer Services (Rolling year)	563,331	587,627	(24,296)
First time resolution - Internal Maintenance teams	81.4%	84.0%	(2.6)
England and Scotland excluding extra care:			
% void loss from empty homes - England	0.6%	0.6%	-
% void loss from empty homes - Scotland	0.4%	0.5%	(0.1)
Average relet days social housing - England	23	25	(2)
Average relet days social housing - Scotland	22	24	(2)
Customer satisfaction (%) - England	81%	83%	(2)
Customer satisfaction (%) - Scotland	76%	77%	(1)
Complaints / 1000 properties - England	7	7	-
Complaints / 1000 properties - Scotland	7	8	(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.
- 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.

Sanctuary Group

Supported Living: consistent high quality working practices

Period ending September 2019	Sep-19	Sep-18	Movement
Supported Living			
Revenue (£'000)	37,432	36,127	1,305
Divisional EBITDA (£'000)	2,013	1,973	40
Divisional EBITDA margin (%)	5.4%	5.5%	(0.1)
Units in management	4,352	4,411	(59)

- This division covers our supported living, home care and Sanctuary365 offerings.
- The extra care and home care services have been rebranded as Sanctuary Retirement Living.
- 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.

Older Persons Care: increased CQC ratings

Period ending September 2019	Sep-19	Sep-18	Movement
Revenue (£'000)	95,206	93,055	2,151
Divisional EBITDA (£'000) (Inc exceptional costs)	9,066	11,234	(2,168)
Divisional EBITDA (£'000) (Exc exceptional costs)	11,098	11,234	(136)
Divisional EBITDA margin (%)	9.5%	12.1%	(2.5)
Number of bed spaces in management	5,022	5,266	(244)
Total income per bed space per week (£)	815	733	82
Care home occupancy (%)	91.3%	89.6%	1.7
Self funder occupancy (%)	32.0%	32.0%	-
Care home resident satisfaction (%)	97%	97%	-
Care staff costs as a percentage of revenue	62.9%	64.4%	(1.5)
CQC rating % (good/outstanding)	85.0%	78.0%	7

- We are continuing to invest in staff training and plan to make sure staff resources are available for the future by recruiting 50 apprentice nurse practitioners in the current year, with the intention of them becoming fully qualified nurses within the next three 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 52 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 wellbeing, 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.

Student and Market Rented: increased student occupancy %

Period ending September 2019	Sep-19	Sep-18	Movement
Revenue (£'000)	26,448	27,482	(1,034)
Divisional EBITDA (£'000)	10,412	9,314	1,098
Divisional EBITDA margin (%)	39.4%	33.9%	5.5
Units in management	12,240	12,562	(322)
Student occupancy (%)	95.0%	94.4%	0.6
Student income per bedspace (£)	3,946	3,940	6
Student cost per bedspace (£'000)	(2,340)	(2,644)	304

- The student business is targeting improvements in operating profit and service delivery.
- The student business is beginning to experience reduced demand from European students as a result of the uncertainty around Brexit, however occupancy levels still remain high, increasing overall from 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 reduced FRA spend, improved student rents, commercial rent increases and staff cost savings.

Development: property sales in England and Scotland

Period ending September 2019	Sep-19	Sep-18	Movement
Revenue - property sales (£'000)	**19,781**	10,670	9,111
Sales surplus (£'000)	**6,320**	3,440	2,880
Average margin	**31.9%**	32.2%	(0.3)
Development units			
No. of properties on site and in development pipeline	**6,440**	6,454	(14)
New starts in period	**890**	210	680
Completions in period	**323**	590	(267)
Sales (England only)			
Sales in period (units)	**110**	66	44
Average OMV (£'000)	**336**	320	16
Average share sold	**59.0%**	51.0%	8.0
Reservations (units)	**52**	29	23

- 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 the 2016-2021 Shared Ownership Affordable Homes Programme as well as the completion of the 2015-2018 Affordable Homes Programme. In Scotland, Development is focused on regeneration and social housing programmes.
- 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.
- 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. Shared ownership sales were 25 units ahead of the prior year.

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Net assets: investment in properties

At September 2019 (£m)	Sep-19	Mar-19	Movement
Non-current assets:			
Intangible assets	62.7	64.3	(1.6)
Property, plant and equipment	3,430.5	3,359.5	71.0
Investment property	226.8	226.8	-
Deferred tax asset	4.4	4.3	0.1
Derivative financial assets	32.2	22.3	9.9
Equity accounted investments	2.4	3.2	(0.8)
Other investments	27.1	27.0	0.1
Trade and other receivables	44.9	42.6	2.3
	3,831.0	**3,750.0**	**81.0**
Current assets:			
Trade and other receivables	88.0	75.5	12.5
Contract assets	0.5	0.3	0.2
Inventory	111.9	110.6	1.3
Assets classified as held for sale	1.4	1.3	0.1
Cash and cash equivalents	76.9	150.1	(73.2)
	278.7	337.8	(59.1)
TOTAL ASSETS	**4,109.7**	**4,087.8**	**21.9**

- 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.

At September 2019 (£m)	Sep-19	Mar-19	Movement
Current liabilities:			
Trade and other payables	139.3	147.7	(8.4)
Contract liabilities	38.0	26.8	11.2
Current tax liabilities	0.3	0.3	-
Loans and borrowings	55.6	74.7	(19.1)
Provisions	4.6	4.6	-
	237.8	254.1	(16.3)
Non-current liabilities:			
Trade and other payables	10.9	10.7	0.2
Loans and borrowings	2,738.7	2,736.2	2.5
Deferred tax liabilities	0.6	0.6	-
Derivative financial liabilities	3.6	3.4	0.2
Retirement benefit obligations	40.1	41.4	(1.3)
Provisions	3.2	3.7	(0.5)
	2,797.1	2,796.0	1.1
TOTAL LIABILITIES	**3,034.9**	**3,050.1**	**(15.2)**
Share capital	-	-	-
Cashflow hedge reserve	7.8	1.4	6.4
Cost of hedging reserve	1.1	1.1	-
Revaluation reserves	1.3	1.2	0.1
Restricted reserves	0.2	0.2	-
Revenue reserves	1,064.4	1,033.8	30.6
TOTAL EQUITY	1,074.8	1,037.7	37.1
TOTAL EQUITY AND LIABILITIES	**4,109.7**	**4,087.8**	**21.9**

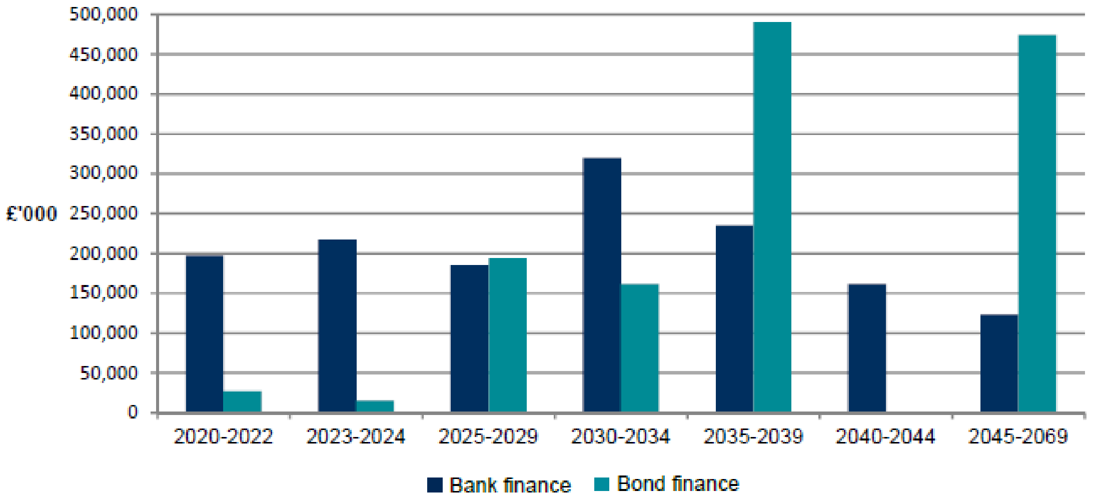
Cash flow: cash generation from operating activities

Period ending September 2019 (£'000)	Sep-19	Sep-18	Movement
Cash generated from operations before working capital movements	119,337	119,956	(619)
Changes in payable and receivables	(7,616)	(19,530)	11,914
Changes in inventory	(1,464)	(9,000)	7,536
Cash from operating activities	**110,257**	**91,426**	**18,831**
Servicing of finance and taxation	(63,116)	(67,063)	3,947
Net cash flow from operations	**47,141**	**24,363**	**22,778**
PPE proceeds	10,687	17,675	(6,988)
Capital expenditure and investment	(87,126)	(54,364)	(32,762)
Dividends from and Loans to JVs	2,199	6,025	(3,826)
Financing activities	(46,118)	(23,206)	(22,912)
Net cash outflow for the period	**(73,217)**	**(29,507)**	**(43,710)**

Financing	**Sep-19**	**Sep-18**	
Loan advances received	22,000	-	22,000
Loan repayments	(68,118)	(23,206)	(44,912)
Net cash outflow from financing	**(46,118)**	**(23,206)**	**(22,912)**

- Development activity for the year-to-date has been funded by grant receipts, existing cash and additional loan 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 ending September 2019 (£'m)	Sep-19	Sep-18
Unencumbered Assets	1,399	1,413
Cost of borrowing	4.59%	4.70%
Percentage of fixed rate debt against total debt drawn	91.0%	91.7%
Cash and undrawn facilities	314.9	350.2

Period ending September 2019 (£'000)	Sep-19	Sep-18
Opening net debt	(2,641,961)	(2,622,227)
Net cash inflow/(outflow) for the period	(73,217)	(29,507)
Net cash (inflow)/outflow from financing	46,118	23,206
Foreign currency movement (hedged)	(3,540)	(4,634)
Non-cash movements	(16,295)	5,880
Closing net debt	**(2,688,895)**	**(2,627,282)**

Key Performance Indicators	Sep-19	Sep-18
Operating margin	24.7%	27.6%
Net margin	8.2%	10.1%
Interest cover	2.02	2.08
Gearing	49.4%	49.1%
Debt to revenue ratio	3.7	3.7
Standard & Poor's credit rating	A+	A+
Moody's credit rating	A2	A2

Sanctuary Group

Treasury: reduction in finance costs

At September 2019 (£'000)	Total September-19	Total September-18	Movement
Operating contribution	92,574	100,362	(7,788)
Interest receivable	2,073	1,627	446
Interest payable	(63,649)	(65,098)	1,449
Derivative movements	(269)	77	(346)
Surplus before taxation	30,729	36,968	(6,239)
Taxation	(64)	(153)	89
Surplus for the period after taxation	30,665	36,815	(6,150)

- Interest payable has decreased by £1,449,000 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. 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.

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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.
- 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 OneSanctuary.
- 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 15,000 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.