

# PRESENTATION TO FIXED INCOME INVESTORS JULY 2019



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Robert Mills, Regional Housing Director (left) and Jamir Ali, Project Manager (right) during a start-on-site event in Camberley, July 2018.



The purpose of this presentation is to give you an insight into our business, the team and our strategy:

<b>01</b>	Overview	4 – 8	<b>04</b>	Development	23 – 27
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**01**  
Overview

# ACCENT GROUP OVERVIEW

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# ACCENT GROUP OVERVIEW

- A national provider of social housing with 20,623 homes
- 50 year history and successful track record
- Straightforward group structure with one principal operating RP
- Strategic focus on customer experience, operational efficiency and continuous improvement.
- Significant national and regional presence with assets in South, East, North West, Yorkshire and North East
- Diversified nationally across 5 core regions – not exposed to London markets
- Geography promotes organisational diversity, risk mitigation and agility

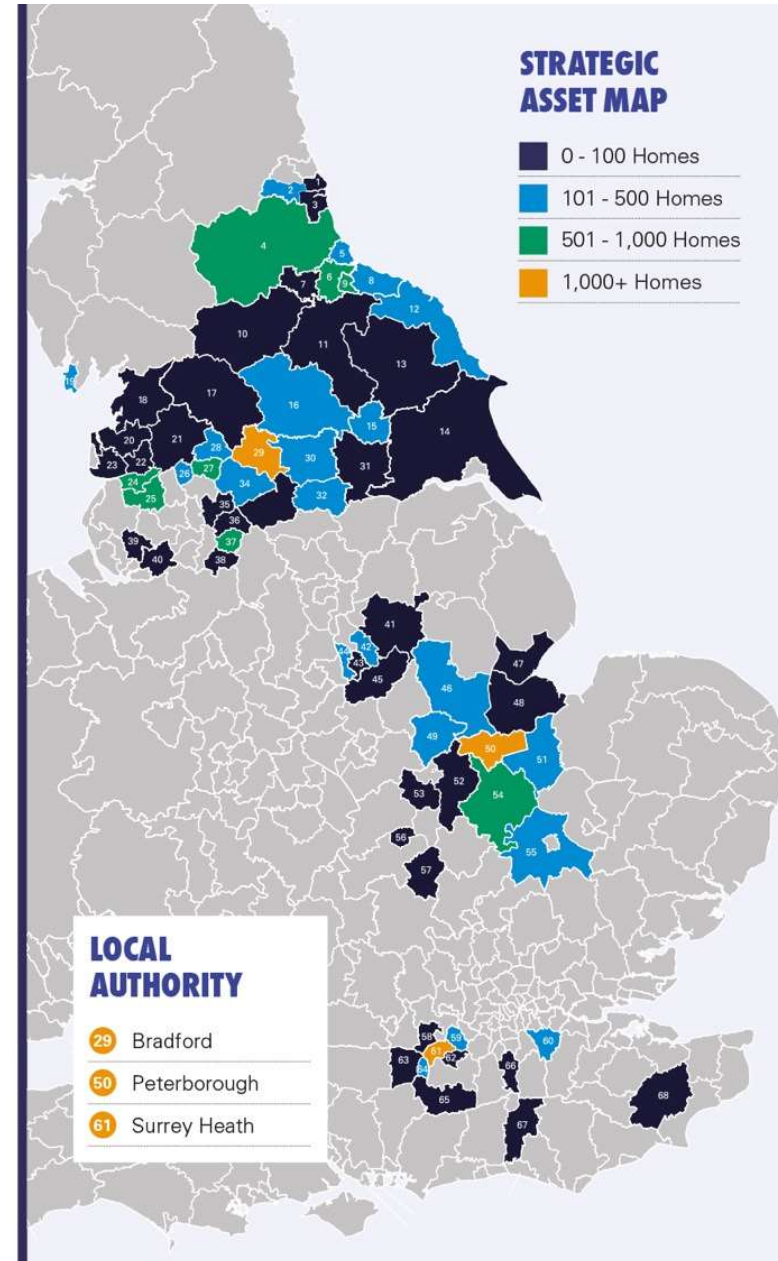
## A BRIEF HISTORY...



# ACCENT GROUP OVERVIEW

- £95m turnover
- 95% turnover from social housing lettings
- A strong balance sheet, with housing assets of over £675m (EUV - SH)
- Low gearing <47%, debt per unit of £15k, coupled with c.4,000 unencumbered assets
- Strong EBITDA-MRI interest cover of 1.94x
- Re-financing restrictive legacy debt and funding ongoing investment through proposed bond issue.
- Social Housing lettings operating margin of 22%, last 3 year average c.30%
- Financial strength recognised externally
  - A+ rating from S&P
  - G1/M1 from the regulator (IDA result announced 26th June 2019)

\* Amounts derived from FY19 financial statements



**01**  
Overview

Our vision:

# WITH YOU FOR YOUR JOURNEY

Our values:



**WE ARE ENERGETIC**

We strive for the BEST everytime.



**WE ARE SMART**

We challenge ourselves to improve EVERY DAY.



**WE ARE DRIVEN**

We do whatever it takes to get it RIGHT.



**WE ARE CARING**

We are genuine people who CARE.

# THE CORPORATE STRATEGY

Our corporate strategy 2018-21 captures the key strategic objectives through 4 themes:



## **AFFORDABLE & SECURE HOMES**

We provide high quality homes in desirable areas.



## **SERVICE CHOICE & INNOVATION**

Customers sit at the heart of everything we do.



## **AMBITIOUS & RESILIENT BUSINESS**

We continually increase our capacity to deliver.



## **EMPOWERED & TALENTED PEOPLE**

We help every member of our team reach their full potential.



**02**

Governance

# GOVERNANCE

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# GOVERNANCE OVERVIEW

- Streamlined corporate structure
- Clear Vision and Corporate Strategy
- Governance review completed during 2017/18 by specialist housing consultancy Altair
- New committee structure and non-exec recruitment in place
- G1/V1 regulatory status, reconfirmed via IDA
- Strong Board, sub-committee and executive team – blend of public and private sector experience
- Experienced Executive team in place, incorporating new Executive Director of Governance and Business Assurance role
- Risk appetite set by Board through externally facilitated workshops
- Strong core business focus and customer focus



# ACCENT BOARD MEMBERSHIP



**TOM MISKELL OBE (CHAIR)**

- 40 years sector experience acknowledged with an OBE in 2017
- CEO, non-executive director, director and Chair roles with various housing associations, sector bodies and local authorities
- Owner and director of consultancy Tom Miskell Ltd



**SALLY ORMISTON**

- 15-year consultative career across public, private and third sectors
- Senior roles with Deloitte including director of client experience and programme director for London 2012
- Led national significance initiatives including Lord Haskin's review of rural services and the London Development Agency's £500M annual investment



**MAGGIE PUNYER**

- Founding director of Ocean Media
- Former regional director for Shelter
- Served on numerous charity, sector and local authority boards and committees



**ARCHANA MAKOL**

- Chief counsel for BT
- High profile success leading to setup of BT Law Ltd
- Past senior legal and professional roles with established solicitors



**PETER CAFFREY**

- Long term commercial banker
- Senior manager and director positions in numerous big name financial institutions
- Number of non-executive director roles on various housing provider boards



**JAMES KELLY**

- High profile representative for Lloyds Banking Group
- Former deputy chair for the Council of Mortgage Lenders Mortgage Arrears and Possessions Panel and the UK Finance Mortgage Arrears and Possessions Panel
- Professional and voluntary roles in the DWP



**ROB SELDON**

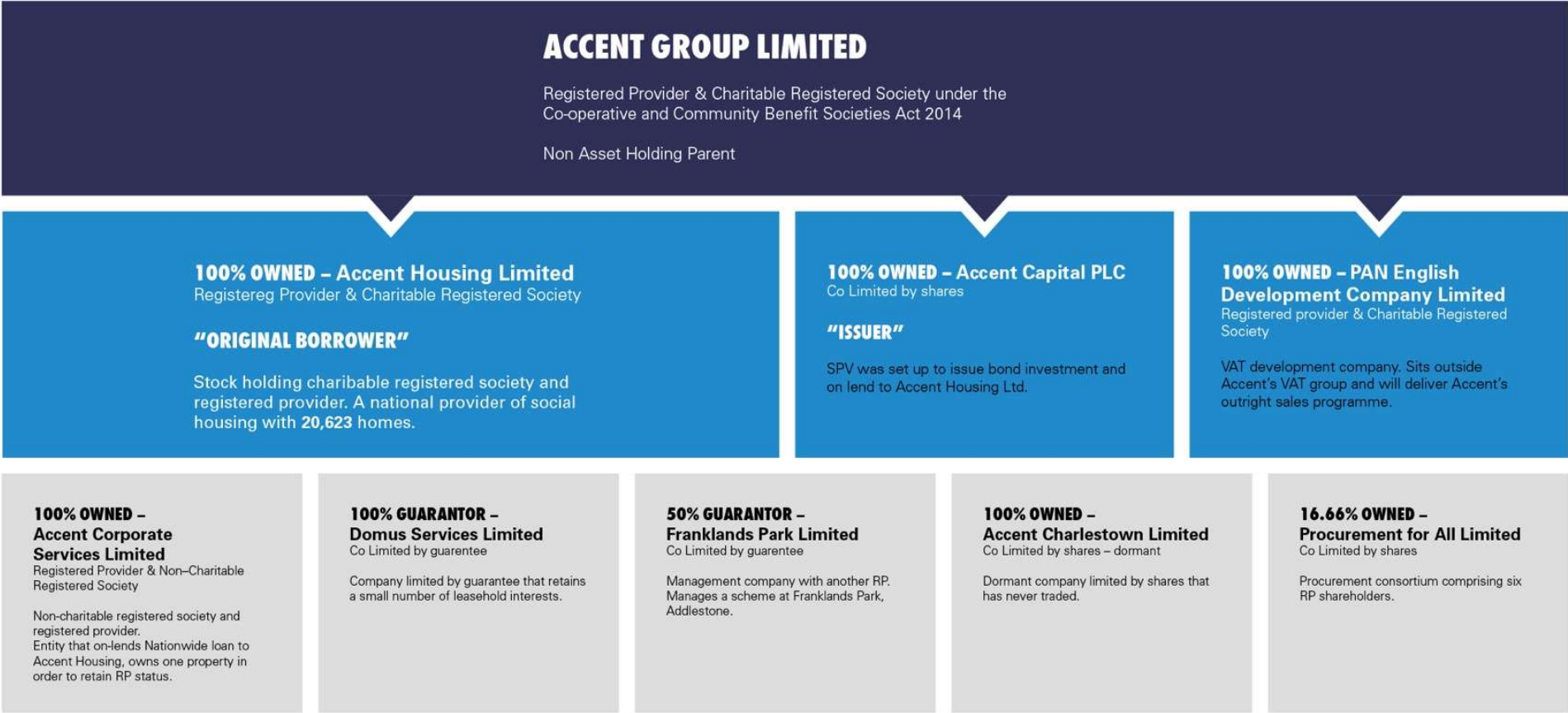
- Qualified accountant for 27 years
- Former partner at Deloitte
- Leading on numerous financial due diligence acquisitions for private equity and public and private companies



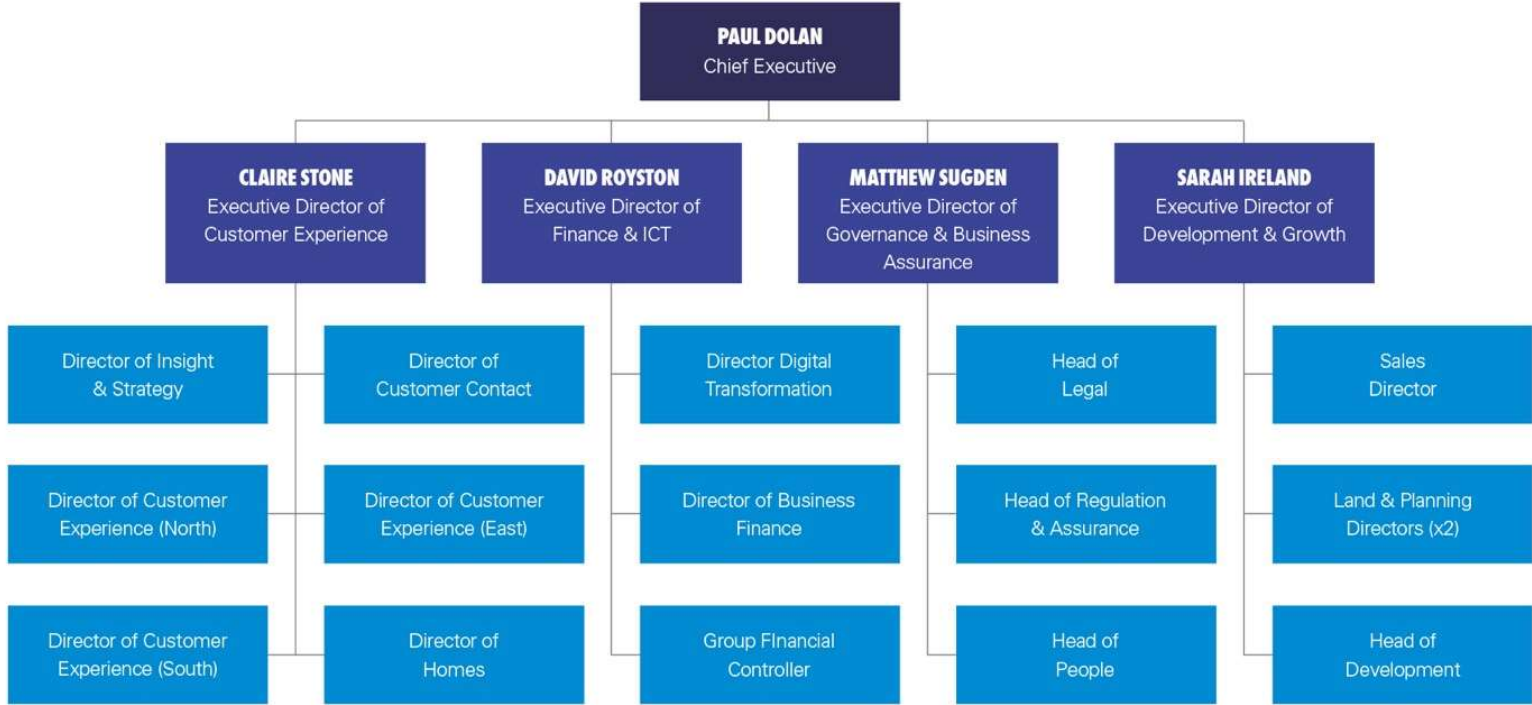
**RICHARD WILKINSON**

- 36 years' experience in the education and health sectors
- Former governor of Leeds Trinity University, trustee and deputy chair of a local charity
- Lay member for Bradford and West Yorkshire and Harrogate clinical commissioning committees

# ORGANISATIONAL STRUCTURE



# ACCENT LEADERSHIP STRUCTURE



# HEALTH AND SAFETY

- Accent maintains customer safety via a national contract structure and associated inspection regimes delivering
  - Gas safety
  - Water hygiene
  - Electrical testing
  - Asbestos
  - Mechanical; lifts examinations and service
  - Fire risk assessments, including carbon monoxide detectors and smoke alarms
- A qualified surveyor post is responsible for each of the following areas; water hygiene, asbestos, electrical, heating, mechanical and report to the Customer Safety Manager. The surveyors manage the contractor performance, inspection regimes and the delivery of associated works.
- The Fire & Safety Manager, supported by a Fire & Safety Assessor in each region, is responsible for the fire safety of all assets.
- Accent does not own any buildings of 10 storeys or over. It owns two mid-rise blocks and both have up to date FRAs as carried out by external fire safety management experts. All works required as a result of these surveys have been completed. The local Fire & Safety Assessor works closely with Hampshire Fire & Rescue Services to maintain safety standards.
- In 2018/19 Accent invested £945k on fire safety (£745k on remedial works associated with fire risk assessments and £200k on roof/floor compartmentation works).
- Our Business Plan includes conservative ongoing fire safety spend.
- Performance reports are maintained on a daily basis and aggregated to report to the Executive Committee for Health & Safety, who in turn provide the Board with an update at every meeting.

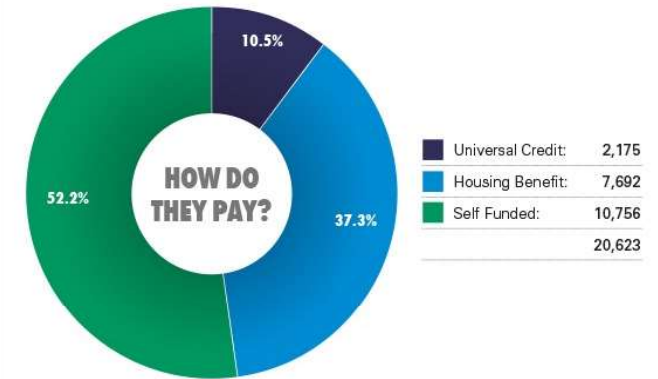
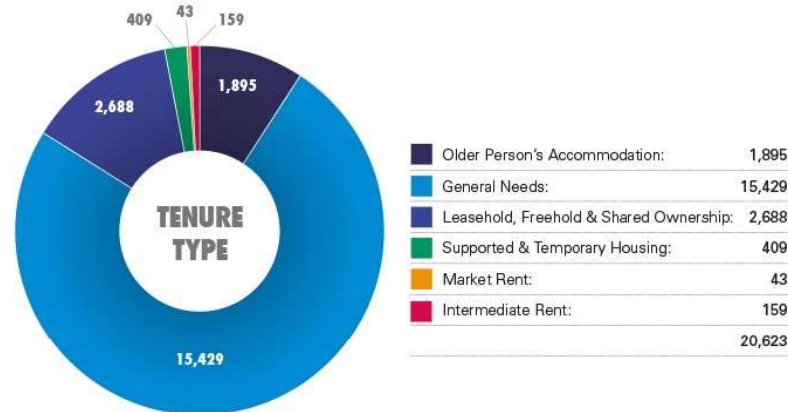
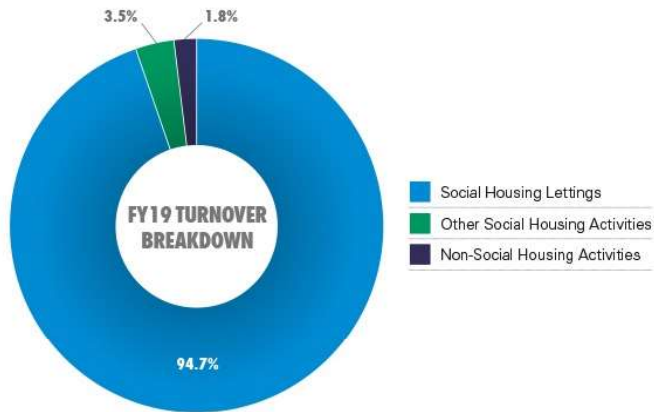
**03**  
Operations

# OPERATIONS

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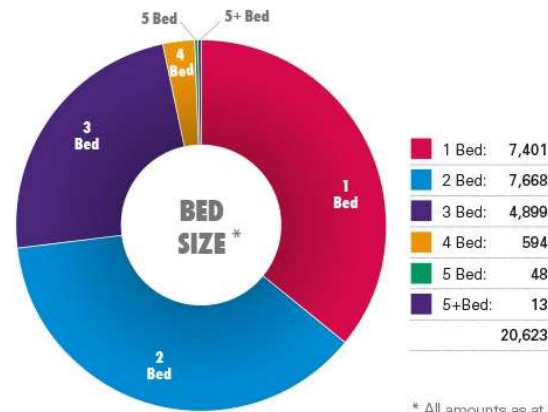
# STOCK AND TENANT PROFILE



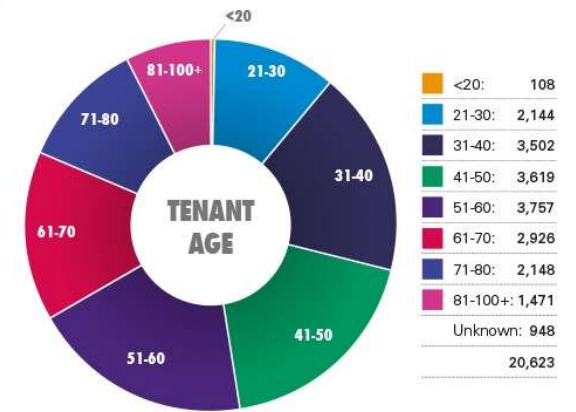
**YEAR-ON-YEAR PROPERTY PRICE INCREASES**  
(Sources: UK House Price Index Summary)

REGION	PRICE INCREASE
East Midlands	6.3%
North West	2.9%
Yorkshire	2.9%
South East	2.2%
North East	1.3%
London	-0.4%

\* As at FY19 by number of units



\* All amounts as at FY19

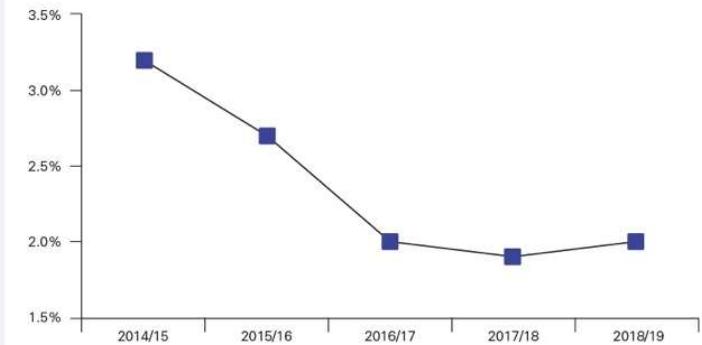




# INCOME & WELFARE REFORM

- Strategic income management approach
- Dedicated National Income Strategy lead
- Extensive financial analysis and planning to mitigate impact of Universal Credit
- Implementation of predictive income model – maximising current and future income collection
- Positioned well for roll out of Universal Credit – total arrears £1.76m 18/19 (1.96% of social housing lettings turnover)
- New Customer Experience Directorate focussed on tenancy sustainability and income maximisation (rent & voids)
- Invested just over £2m in a transformation programme across ICT and restructuring

## CURRENT TENANT ARREARS % OF LETTINGS TURNOVER

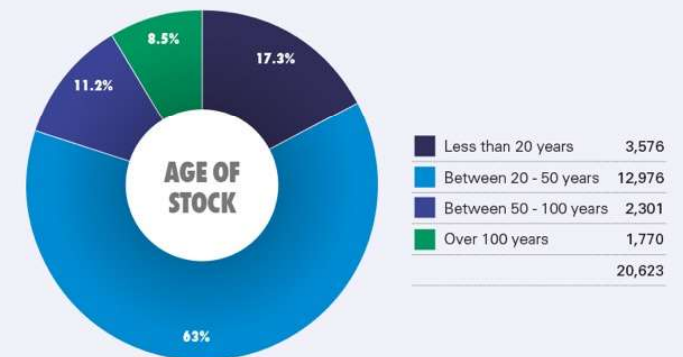
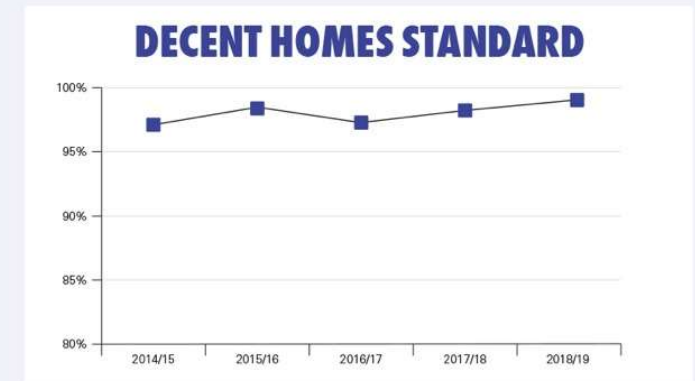


## UNIVERSAL CREDIT

	Tenants	Tenants on UC	Tenants on HB
East	4,657	476	1,466
North East	3,498	512	1,517
North West	4,487	580	1,703
South	4,084	211	1,554
Yorkshire	3,897	396	1,452
Group	20,623	2,175	7,692

# ASSET MANAGEMENT

- Comprehensive Asset Management Strategy
- Use of software solutions Assetcore and Savills APE (Asset Performance Evaluation) to drive value out of existing stock base
- Clarity of future investment requirements
- Pro-active stock management – track record of disposal of poor performing stock with negative NPV
- Increases financial capacity to re-invest in new and existing assets achieving Decent Homes Standard of over 99%
- Investments in existing assets undertaken on a holistic and economically efficient basis
- We invested £3.3m more on non-capitalised repairs in 2018/19 and expect an enhanced level of spend until 2023/24 of c£1m pa
- Focus on energy efficiency (boilers, insulation, etc)
- Access to Green Energy Services for new tenants



## DIGITAL SERVICE

- Leaner more efficient business – National contact centre based in Yorkshire (reduced from 6 regional contact centres)
- Award winning Contact Centre – Omni channel contacts
- Winner of Inside Housing's HANA Best Use of Technology 2018 and 2019  
Finalist in UK Housing Awards Digital Landlord of the year 2019
- Drive to offer customer choice and business efficiencies through sector leading self-serve options
- Launch of 'My Account' (over 5,000 signups in 6 months since launch)
- Launched 'Let's Move' – sector leading online letting platform increasing efficiency and reducing waste



An aerial photograph of a residential development, showing several large, multi-story buildings and surrounding greenery. The entire image is overlaid with a semi-transparent blue filter. In the top center, there is a white rectangular box containing the number '04' and the word 'Development' below it. In the center of the image, the word 'DEVELOPMENT' is written in large, bold, white capital letters, with a white horizontal line underneath it.

**04**

Development

# DEVELOPMENT

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# STRATEGIC INFLUENCE

- Key influencer in operating regions – place on executive steering group for housing in the Oxford and Cambridgeshire Arc
- Senior membership of Peterborough & Cambridgeshire Combined Authority RP investment group
- Strong strategic relationship with Surrey Heath Borough Council and a member of the Surrey Heath Partnership
- Lead Accent Development Consortium



# DEVELOPMENT

THE DEVELOPMENT AND GROWTH STRATEGY WILL FOCUS ON THE DELIVERY OF NEW HOMES IN THE FOLLOWING AREAS:

- Geographical focus in areas of high demand in housing market areas in which Accent has stock
- The new homes that we build will make Accent a stronger and more sustainable organisation
- No development planned in London

Proposed programme split:

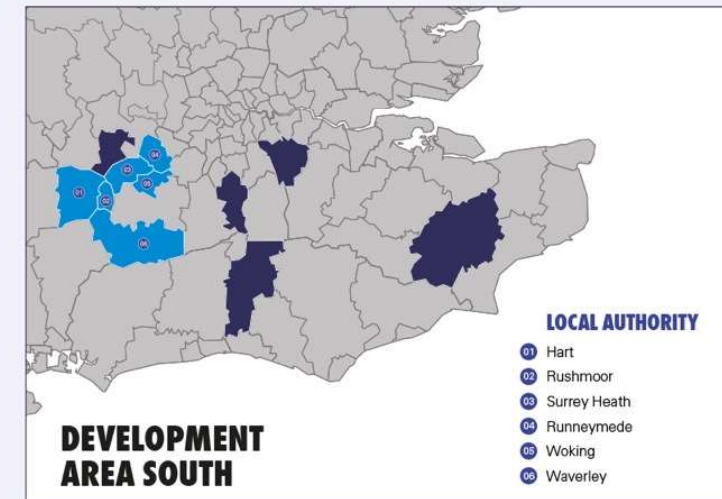
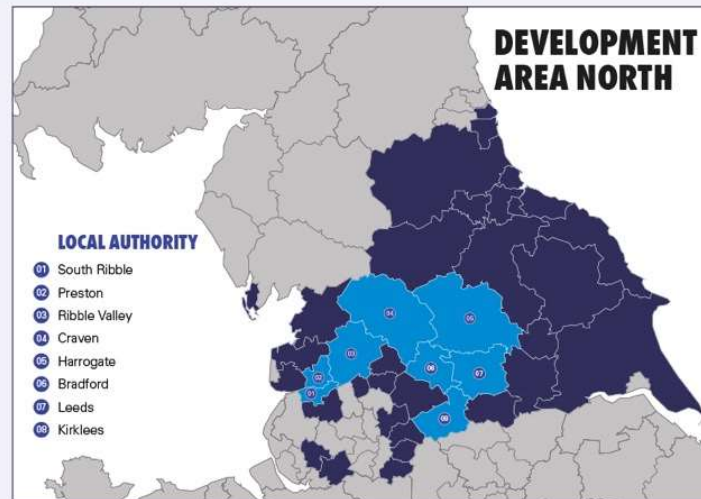
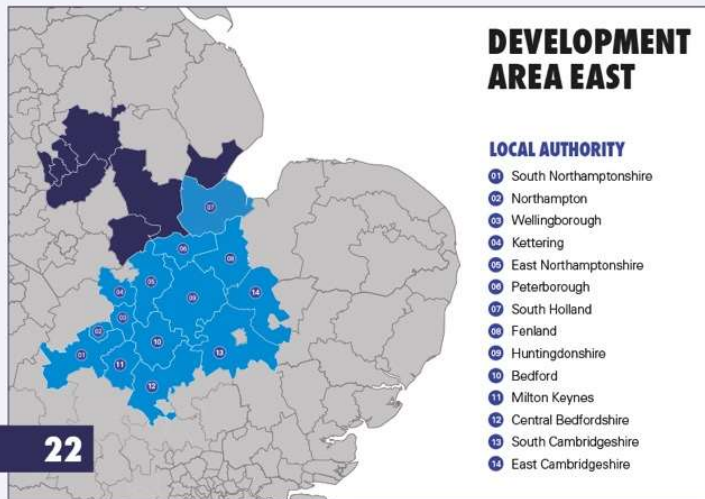
East: 55%

North: 38%

South: 7%

● AREAS WHERE WE HAVE HOMES

● FOCUS FOR DEVELOPMENT



# DEVELOPMENT APPRAISAL CRITERIA

The Development and Growth Strategy is underpinned and supported by a robust, fully stress tested Financial Plan, supporting Treasury Strategy and strong governance.

- Schemes must meet a hurdle rate reviewed annually and set on the basis of:
  - Costs of funds + margin for risk
- A prudent approach will be taken in relation to appraising schemes with an element of private sale
- No staircasing receipts are accounted for in financial appraisals
- No capital appreciation is assumed in financial appraisals
- Asset cover is assessed on a scheme by scheme basis to ensure development activity enhances overall borrowing capacity



# DEVELOPMENT

The principles of the Development and Growth Strategy are:

- Investment decisions will be appropriately balanced between the development of new build homes and improving our existing assets
- Increase in land led programme leading to a reduction in the number of homes delivered through S106 provision
- Function of shared ownership and private development is as a cross subsidy not a revenue stream in its own right
- Our financial plan assumes total revenue from market sales will not exceed 20% of total revenue in any one year
- Our development team has been significantly strengthened to deliver a planned, well managed and sustainable development programme of up to 500 units per year in the longer term
- Our programme will be supported by funding from Homes England; SOAHP grant funding and Delivery Partner status in the Homes England Wave Strategic Partnership with initial funding for 300 further homes

## DEVELOPMENT PLAN 2019/20 – 2023/24

### PLANNED DEVELOPMENT PIPELINE (TOTAL 2,151 UNITS STARTS ON SITE)



### DEVELOPMENT COMPLETIONS (TOTAL 1,808 UNITS)





**05**

Financial Review and Performance

# FINANCIAL REVIEW AND PERFORMANCE

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# FINANCIAL STRATEGY HIGHLIGHTS

## WE ENSURE STRONG FINANCIAL MANAGEMENT VIA:

- Effective governance with clearly defined risk appetite
- Strong internal controls and established risk management framework
- Simple group structure: one asset owning RP
- Simple and straightforward funding arrangements
- High quality budgeting and financial reporting
- Solid financial planning, with multi-variant stress testing, golden rules
- Effective policies & procedures, prudent accounting policies

## 5-YEAR SUMMARY FINANCIALS

		Audited 2014/15	Audited 2015/16	Audited 2016/17	Audited 2017/18	Audited 2018/19
Turnover	£'000's	£108,196	£101,415	£94,152	£96,058	£94,934
Operating surplus	£'000's	£31,797	£35,970	£33,371	£30,256	£22,894
Operating Margin %	%	29%	35%	35%	31%	24%
EBITDA MRI Interest cover	times	2.01x	2.28x	2.23x	2.67x	1.94x
Interest cover (social housing surplus)	times	1.42x	1.87x	1.93x	2.02x	1.40x
Debt	£'000's	£362,611	£347,835	£351,212	£334,112	£315,649
Gearing (excluding cash)	%	52.5%	59.5%	58.3%	55.6%	46.9%
Debt per unit	£'s	£18,203	£17,642	£16,923	£17,031	£15,306

# GOLDEN RULES

## ALL OF THE GOLDEN RULES ARE MET BY THE FINANCIAL PLAN:

- Interest cover should not fall below 110%
- Gearing should not increase above 70%
- A positive underlying business cash flow, in each 3-year rolling period
- All capital receipts must be ring fenced and only invested in income generating assets
- Cash is sufficient to ensure coverage of the forecasted net cash outflow on a rolling six-month look forward
- Liquidity is sufficient to ensure funds can cover forecasted net cash outflow on a rolling eighteen-month look forward

# 05

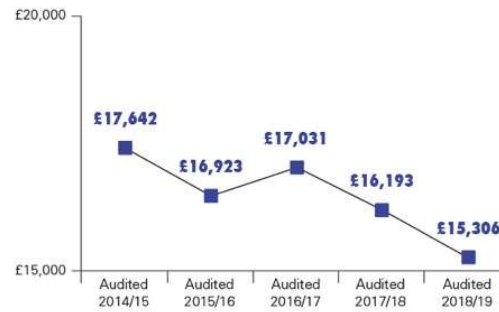
## Financial Review and Performance

# FINANCIAL METRICS

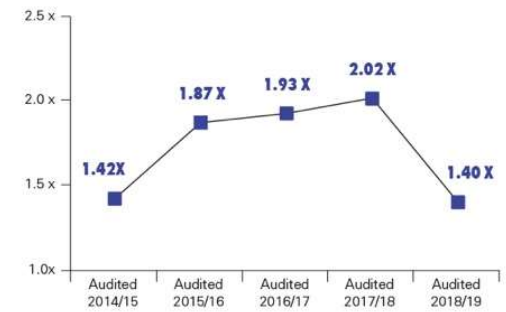
### DEBT



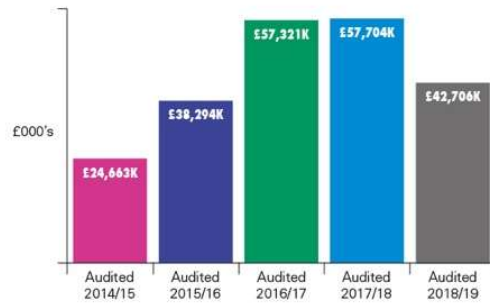
### DEBT PER UNIT



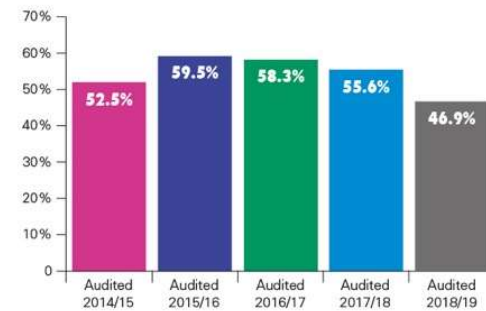
### INTEREST COVER



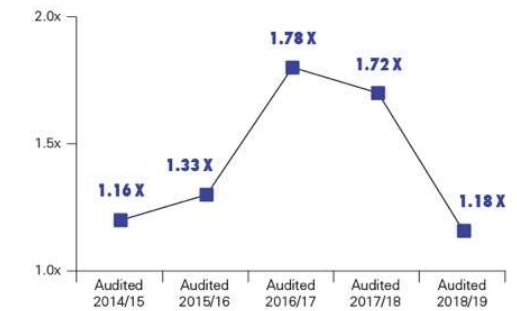
### CASH & EQUIVALENTS



### GEARING



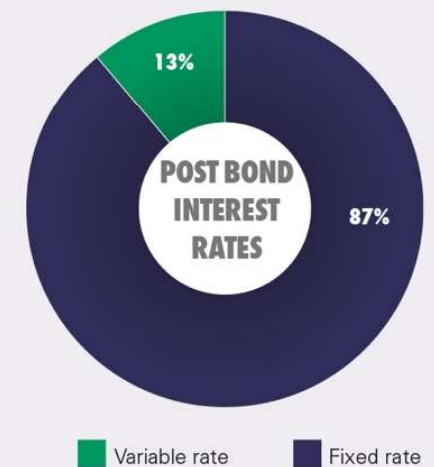
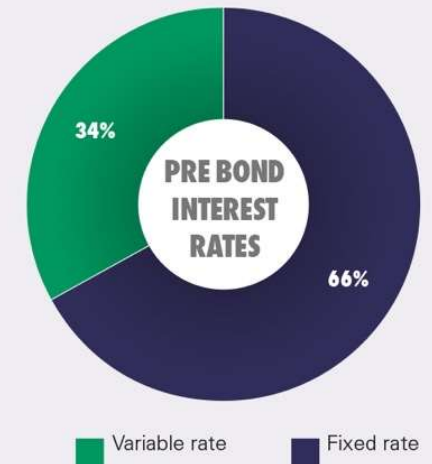
### LIQUIDITY RATIO



# FUNDING APPROACH

## LEGACY FUNDING ARRANGEMENTS ARE SIMPLE AND STRAIGHTFORWARD, AT MARCH 2019:

- Legacy debt comprises £273m traditional bank debt plus £41m THFC/Orchardbrook; 66% fixed rate and 34% variable.
- Post bond issue: fixed 87% variable 13%
- Simple legacy debt portfolio competitively priced with WACOD at c.4.2%
- No risk of margin calls from legacy funding agreements
- Only two freestanding swaps (MTM £1.0m) expire October 2019 and December 2021 respectively
- High level of unencumbered assets; over 4,000 units and excess now released from existing lenders (best estimate £312m of value)
- Implementing Assetcore to optimise flexibility of security



# RATINGS

- S&P rating of A+ (negative outlook) assigned on 3rd July 2019
- Negative outlook reflects the rating on the UK Sovereign
- S&P highlighted:
  - A skilled and experienced management team
  - Clear financial strategy
  - Policy to maintain market sales below 20% of turnover
  - Robust interest coverage
  - Operations in areas where social rent represents c. 52% of market rent
- They noted the near term pressure on operating margins as a constraining factor as we invest in the business as well as an expected recovery to c. 30%

# LIQUIDITY & FUNDING

## STRONG LIQUIDITY AND STRAIGHTFORWARD FUNDING ARRANGEMENTS:

Interest cover averages 1.79x over last three years, liquidity ratio of 1.20x at March 2019

Looking forward:

- Strong liquidity position currently £82m in undrawn facilities and £43m in cash
- Sufficient liquidity and facilities out to Quarter 1 2022 without new finance being required
- Strong balance sheet with housing stock of over £675m (EUV - SH), including a £88m valuation increase in 2019
- Good EBITDA MRI interest cover at c.1.94x at 31 March 2019
- New issue will repay £122m of existing debt plus break costs as well as raise new financing to fund ongoing investment and Development Programme

**06**

Conclusions

# CONCLUSIONS

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# CONCLUSIONS

## KEY CREDIT HIGHLIGHTS:

- Our national geographical spread diversifies risk
- 95% of turnover is from social housing lettings, no non-core commercial activity
- 20,623 properties give us critical mass
- A strong balance sheet, with housing assets of over £675m
- Significant liquidity with £82m of undrawn facilities and £43m cash
- Low gearing <47%, low debt per unit of £15k
- Significant amount of unencumbered assets
- Prudent approach to development activity, gradual and sustainable increase in the programme
- Credible business strategy, balanced risk appetite and effective governance arrangements
- Strategic focus on customer experience, operational efficiency and continuous improvement
- Experienced Board, NEDs and Executive Team in place
- A+ rating from S&P and G1/V1 from regulator
- Plan to give annual updates to investors, London and Edinburgh



# INDICATIVE TERM SHEET

- Issuer: Accent Capital PLC
- Original Borrower: Accent Housing Limited
- S&P Rating: A+
- Size: £350m including £125m retained
- Tenor: long dated bullet
- Asset Cover: 1.05 EUV-SH, 1.15 MV-ST plus charged cash