

Investor Update

6 Months to September 2020

MAKING
WHAT **MATTERS**
Brilliant



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Chief Executive's foreword

When we launched a new corporate plan Making What Matters Brilliant in 2019, we asked our colleagues to embrace our role as a landlord first and foremost. Our customers, homes and communities are the reason we are all here, and should be at the centre of everything we do.

Of course, we had no idea at the time that, within a matter of months, a global pandemic would alter our lives in ways none of us could have imagined. And yet the blueprint we set out back then, has proved to be exactly what was needed to respond to the challenges faced.

By focussing on making what matters brilliant and maintaining strong fiscal discipline, we were in a particularly strong position to continue delivering for our customers in the most unprecedented of circumstances. Even at the height of lockdown we carried on providing urgent repairs and maintained compliance with building safety standards. We also continued to invest in the regional economy, still running all our planned recruitment campaigns and resuming work on new homes as soon as we safely could.

So as we gradually return to a more normal way of working, I am confident we will emerge in an even stronger position to build the good quality, affordable homes our region needs, and provide the first-class services our customers deserve.



A handwritten signature in blue ink that reads "Glenn" with a long, sweeping underline.

Glenn Harris MBE

Chief Executive, Midland Heart

Key highlights

G1/V1 ratings from the regulator

34% operating margin

36.5% social housing lettings margin

£34.9m operating surplus

£250m bond issue at 1.831%

3,000 new homes on track to be delivered by 2024



Operating and financial review

GROUP STATEMENT OF COMPREHENSIVE INCOME	Sept 2019 (£'000)	Sept 2020 (£'000)
Turnover (A)	104,339	96,552
Operating expenditure (B)	(73,187)	(63,315)
Surplus on disposal of property, plant and equipment	7,001	1,659
Surplus on revaluation of investment properties	-	-
Operating Surplus	38,153	34,896
Interest receivable	305	434
Interest and financial costs	(11,621)	(10,983)
Surplus before tax	26,837	24,347
Taxation	(116)	39
Surplus for the year	26,721	24,386
Operating margin (A-B/A)	30%	34%

These accounts are unaudited

GROUP STATEMENT OF FINANCIAL POSITION	March 2020 (£'000)	Sept 2020 (£'000)
Housing properties	1,556,943	1,570,075
Investment properties	25,325	25,479
Other fixed assets	31,023	35,483
Fixed asset investment	2,244	2,596
Total Fixed Assets	1,615,535	1,633,633
Other	19,406	14,069
Cash and cash equivalents	91,211	173,842
Total Current Assets	110,617	187,911
Creditors: Amounts falling due within one year	(52,607)	(37,540)
Net Current Assets	58,010	150,371
Total Assets less Current Liabilities	1,673,545	1,784,004
Creditors: Amounts falling due after more than one year	(1,319,950)	(1,407,779)
Pension: defined benefit liability	(17,209)	(15,453)
Total Net Assets	336,386	360,772
Revenue reserves	415,868	440,254
Cash flow hedge reserve	(79,482)	(79,482)
Total Reserve	336,386	360,772

These accounts are unaudited

- Underlying operating surplus stable; reduction due to lower sales after the expiry of our Voluntary Right to Buy programme
- Lower maintenance costs due to Covid related delays in repairs
- Reduced turnover due to continued transfer of care contracts, no outright sales and fewer Shared Ownership sales
- Improved cash position due to bond issue and corresponding increase in creditors
- Asset base continues to grow through new development and investment in works to existing properties

Striving for business as usual, our Covid update

Investing in homes	<ul style="list-style-type: none"> Completed hundreds of home improvements, from installing new energy efficient boilers to replacing windows, doors and roofs
Service first	<ul style="list-style-type: none"> Urgent repairs maintained throughout and routine repairs resumed as soon as possible 90% Customer satisfaction
Growth and partnerships	<ul style="list-style-type: none"> Work already resumed on most sites by May, still on track to deliver circa 400 homes this year
People focussed	<ul style="list-style-type: none"> All staff retained or redeployed, no recourse to furlough 81% colleague engagement
Safe and strong	<ul style="list-style-type: none"> Gas safety compliance maintained Building safety obligations met



Value for money and social impact

Delivering strong returns on investment

	March 2020	September 2020
Gearing (%)	28.1	28.4
Operating margin (social housing lettings only) (%)	33.9	36.5
Operating margin (overall) (%)	29.9	34.4
EBITDA MRI Interest cover (%)	268	329
ROCE (%)	2.3	2.0

Becoming an early adopter of the Sustainability Reporting Standard

We are very proud to be an early adopter of the Sustainability Reporting Standard for Social Housing, the result of an innovative collaboration between banks, investors, housing associations, service providers and impact investing organisations. The group was established, in 2019, following the recognition that there was no common reporting standard for Environmental, Social and Governance (ESG) reporting. ESG factors are rapidly increasing in relevance in the credit process and the new reporting standard will help us secure investment on the best possible terms as well as articulating clearly our social impact. This includes:

Providing genuinely affordable homes and supporting customers

We provide good quality, affordable homes for those who would otherwise be unable to afford them. Around 90% of our homes are offered at social rent and we let hundreds of homes each month. All our new homes on site are for social and affordable rent or shared ownership. Our specially trained team of money advisors work closely with any customers who fall into financial difficulty, ensuring 99% of those who engage are able to successfully sustain their tenancy. This work has been all the more essential during Covid, with our advisors helping over 700 customers between April and September.

Reducing carbon emissions

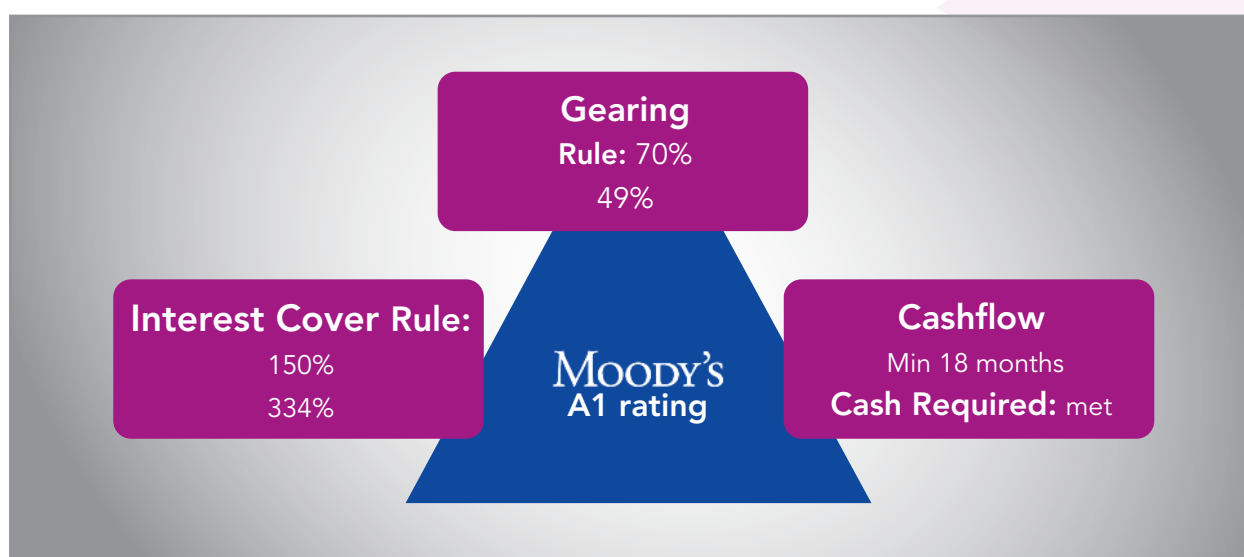
As well as exploring ways to reduce the carbon footprint of new homes, we are investing over £100million in improving our existing homes. This includes installing the most efficient A-rated boilers and upgrading windows, doors and roofs to offer higher standards of thermal insulation. We aim to ensure all our homes meet a minimum EPC rating of D by 2025. Despite Covid, we are still on track to deliver hundreds of home improvements and over 1,000 new boilers this year, as we transition towards carbon zero.

Investing in jobs

We recognise the important role we play in supporting the local and regional economy. As well as paying all our staff the Living Wage, we aim to be a leading employer, offering brilliant career and development opportunities. During the height of lockdown, we recruited to over 30 roles ranging from an IT Security Manager to Customer Service Officers and Multi-trade Operatives, moving selection and recruitment processes online. Selections for our inaugural degree apprenticeship programme, were well underway at the start of lockdown and our new degree apprentices started with us in September. All six are from the West Midlands region

Treasury position

Cash and facilities	Unencumbered assets
<p>Total available: £327m</p> <p>Total cash: £174m</p> <p>Total facilities: £153m + £150m</p> <p>Retained bond (fully secured)</p>	<p>Units: c3,000</p> <p>MVT: c£234m</p> <p>EUV: c£143m</p>



Contribution to new housing supply

- On track to achieve our corporate plan aim to build **3,000 homes** over 5 years, with **1,300 homes** now on site.
- Over two thirds of the homes we have on site are for **social and affordable rent**. The remainder are for shared ownership.
- Despite Covid precautions, we have already delivered **90 new homes** and are on track to deliver circa **400 new homes** by the end of the financial year.
- Experiencing some challenging market conditions, with **54 unsold** shared ownership homes, however there are now signs of a sales upturn.
- Exploring a **low carbon trailblazer** development, ahead of the Future Homes Standard.



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Enquiries

If you would like to know more about Midland Heart and our financial performance please get in touch.

Joe Reeves, Executive Director of Finance and Growth.

Email. Joe.Reeves@midlandheart.org.uk

Mobile. 07753 928269

John Drozd, Director of Corporate Finance.

Email. John.drozd@midlandheart.org.uk

Mobile. 07785 778321

Midland Heart.

20 Bath Row,

Birmingham, West Midlands, B15 1LZ



midlandheart.org.uk

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