Investor Presentation

2021-22 update

Agenda

Who we are?

Our Exec Team and Board

Our stock

Our Structure

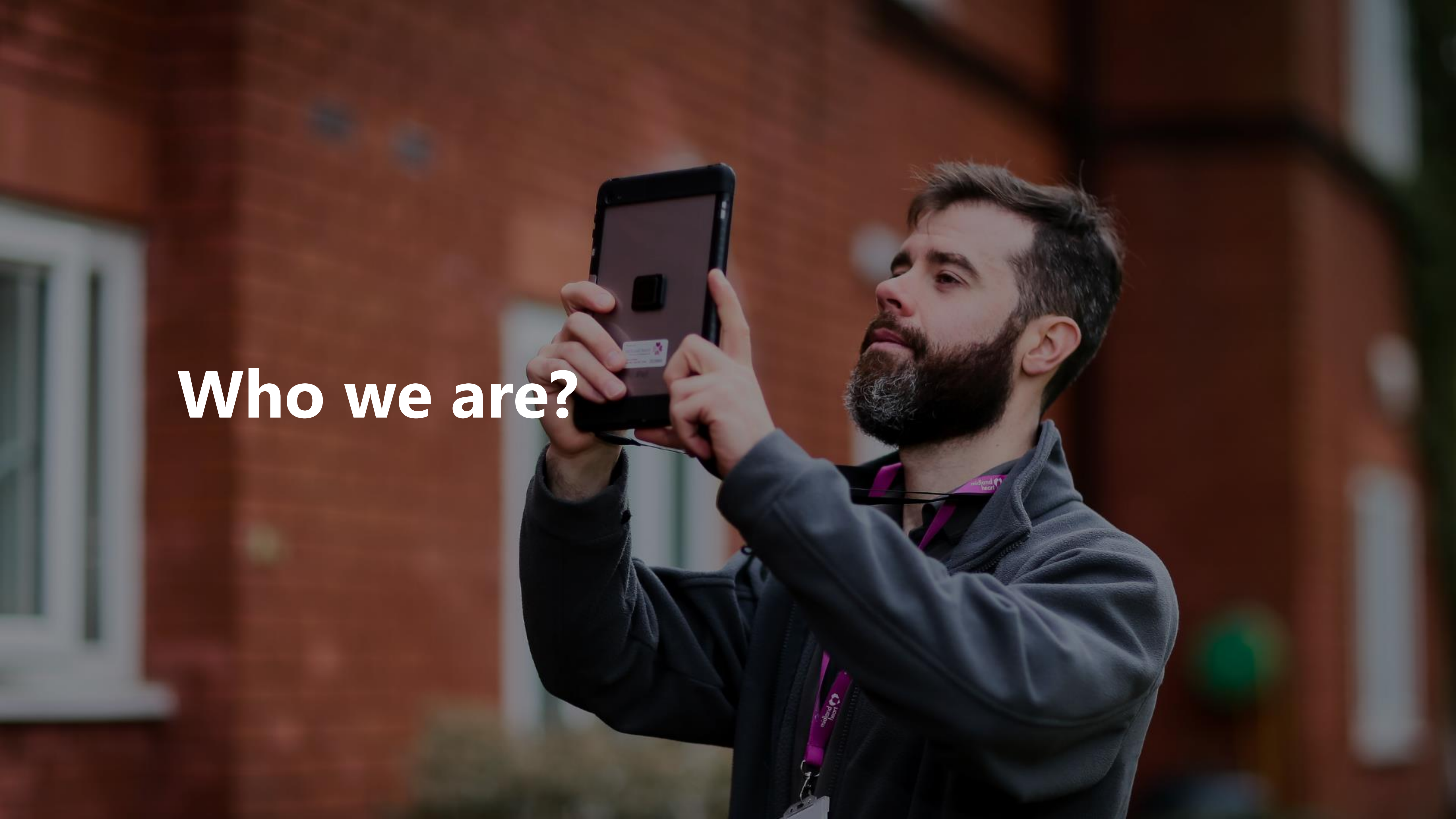
How are we performing

Corporate Plan Components & ESG

Summary

Q&A

Who we are?



Introduction

- Founded in 1925, Midland Heart owns and manages **c.34,000 homes** and provides a range of quality services for **c.70,000 customers.**

- Our mission is to be:

A leading housing organisation, delivering homes and services across the Midlands that enables people to live independently.

- Our strategy focuses on:
  - Being a top-class landlord
  - Building as many as social and affordable homes for rent as we can
  - Being a great place to work and develop your career

Our Executive team

Glenn Harris MBE
Chief Executive

- Chief Executive since March 2018; previously Finance Director
- Was Deputy Chief Executive at East Midlands Development Agency (EMDA) and NHS Logistics

David Taylor
Executive Director of Operations

- Joined Midland Heart in 2009 and became a member of the Executive Team in 2015
- Member of the Chartered Institute of Housing, with over 20 years' experience working in the sector

Baljinder Kang
Executive Director of Corporate Resources

- Has 25 years of generalist people management experience across the private, NHS, charitable and not for profit sectors
- Led the team to winning the 2017 CIPD award for best reward initiative

Joe Reeves
Executive Director of Finance & Growth

- Joined Midland Heart in 2013
- Spent 15 years at PwC in public sector audit and advisory and the corporate finance infrastructure and government teams

Our Board

John Edwards CBE
Chair, Non-executive member

Glenn Harris MBE
Chief Executive

David Taylor
Executive member

Martin Tiplady OBE
Non-executive member

Llewellyn Graham
Non-executive member

Chris West
Non-executive member

Darren Humphreys
Non-executive member

Carole Mills
Non-executive member

Joe Reeves
Executive member

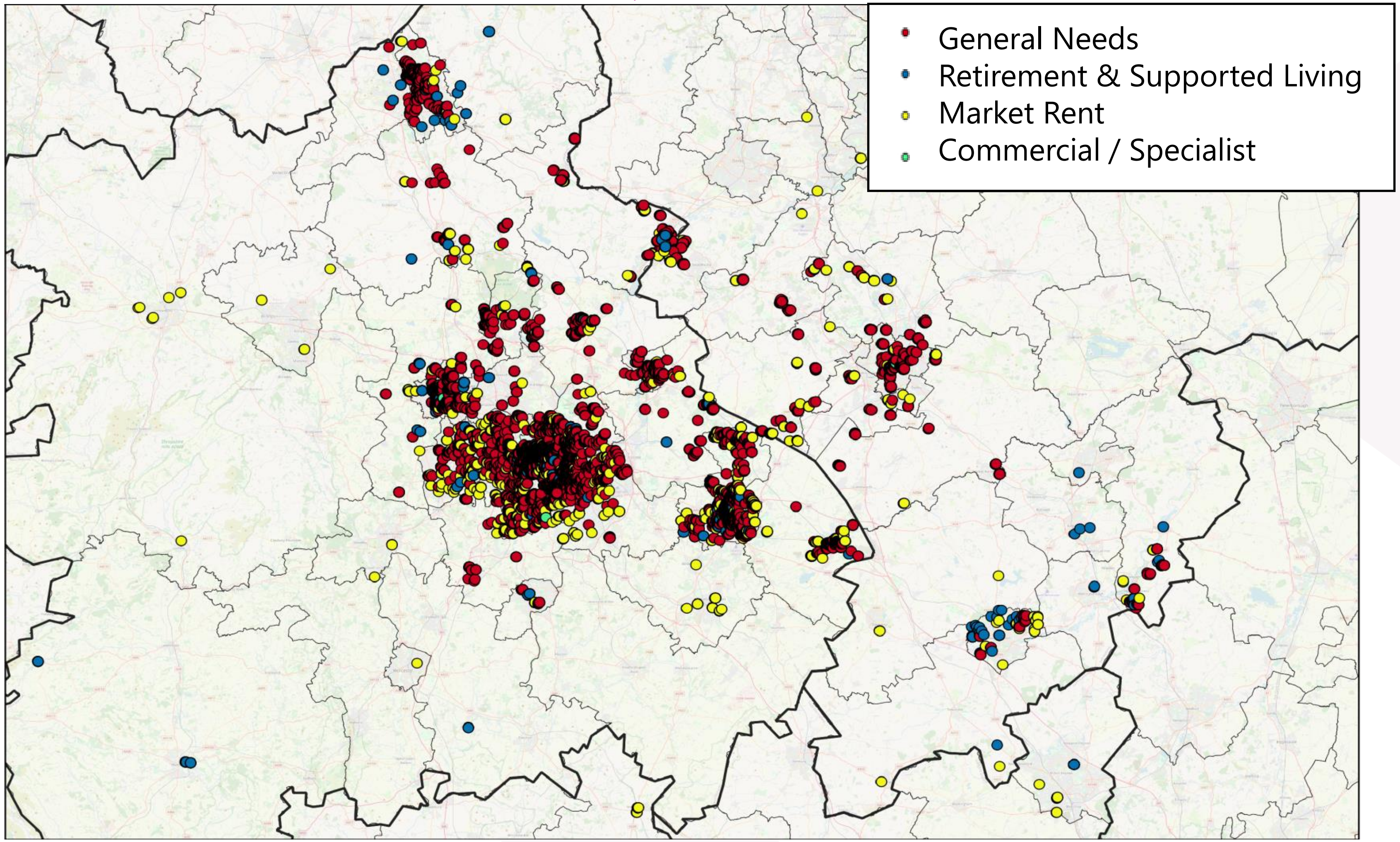
Dominic Wong
Non-executive member

Our stock

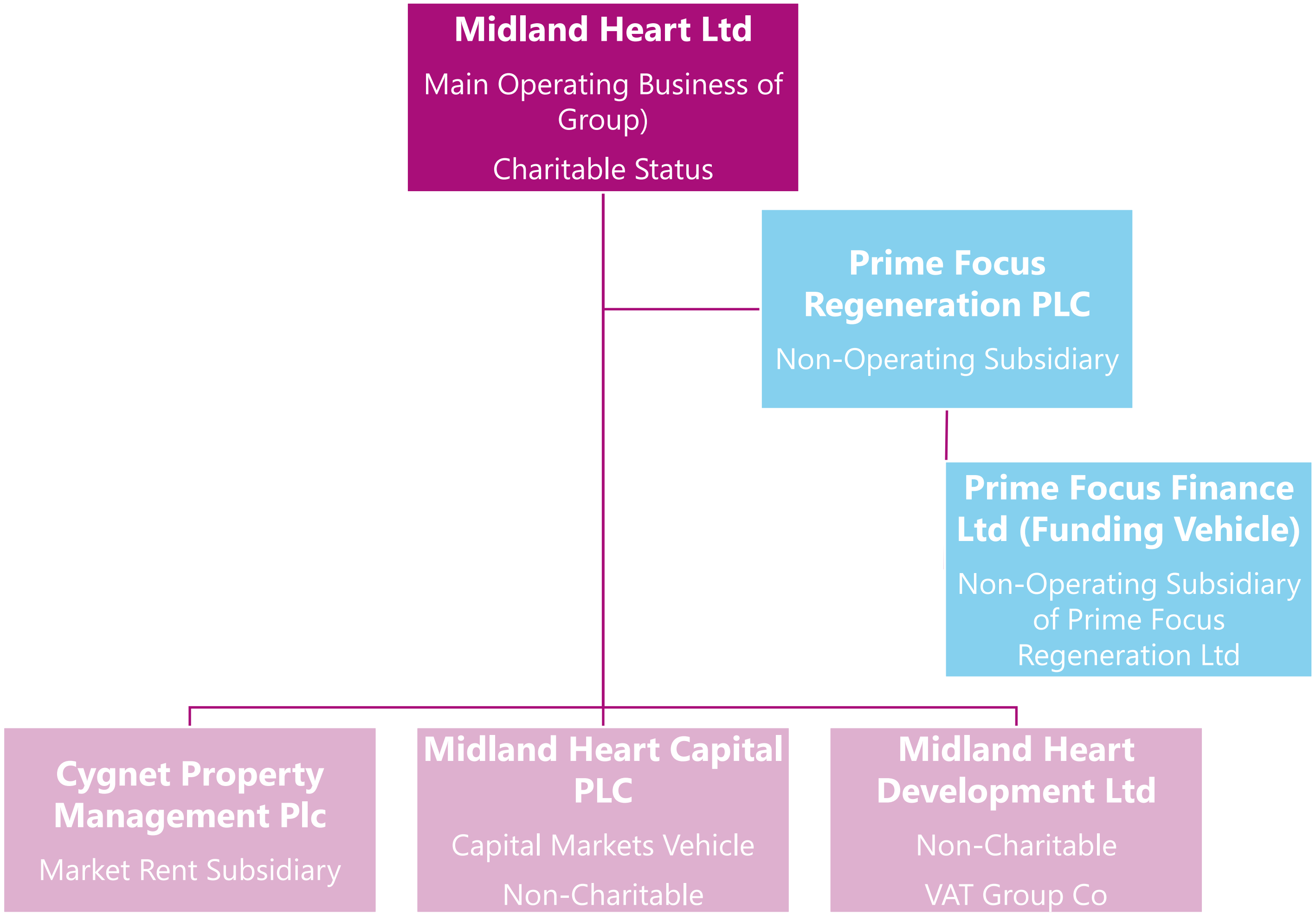
23,295 General Needs
2,814 Housing for Older People
1,236 Supported Housing
278 Intermediate Market Rent
2,188 Shared Ownership
3,985 Other

We operate in 55 LAs across the Midlands

Top 5 Local Authorities	Total
Birmingham	11,912
Coventry	3,651
Wolverhampton	2,478
Sandwell	1,563
Stoke-on-Trent	1,090
Total	20,694



Organisation Structure



MAKING WHAT MATTERS *Brilliant*

INVESTING IN HOMES

Investing in our homes is our customers' number one priority and will sit at the centre of everything we do.

SERVICE FIRST

Our customers have told us they expect a first-class service. We will ensure our services are responsive and we get things right first time.

GROWTH & PARTNERSHIPS

The Midlands needs more affordable homes. We are committed to building as many as we can over the next five years.

PEOPLE FOCUSED

We want to be a truly great place to work and build your career. We will retain and attract the right people by rewarding, recognising and growing our colleagues.

SAFE & STRONG

We will remain financially strong and maintain our focus on safety. We will spend money wisely, investing in the things that matter most to our customers.

How are we performing?

Consistently Strong Performance

c90%
Customer satisfaction

√
EBITDA MRI
214% (280%
excluding debt
refinancing)

4,000
New homes by 2025

£38m
Surplus for the year
Gearing 44%

+90%
last 3 years
Repairs satisfaction

G1 V1
July 2021

Consistently below
<5%
Arrears level

80%
last 2 years
Colleague engagement
Awarded 24th inclusive Top 50 Companies in 2020 (across all sectors)

Moody's
A1 stable rating
sector highest

Compliant
Building safety

SAFE & STRONG

- A challenging operating environment: ‘Building A Safer Future’ & new building safety regulator on the horizon
- Consistently strong building safety compliance; way ahead of the sector even during lockdown.
- Strong financials, VFM metrics and A1 Moody’s credit rating (sector leading)
- £100m new bond secured of £250m

Key highlights

- £250m Bond Issue (fully secured) with £100m drawn at the lowest rate (1.831%) we have ever achieved
- Our robust level of liquidity; c£265m of cash & undrawn facilities are immediately available
- Repaid legacy loans carrying high interest rates and onerous covenants and allowed the release of significant levels of security
- Retained our A1 Moody's Credit Rating (highest in the sector)

Statement of Comprehensive Income

Group Financial Statement	2019/20	2020/21
Turnover	£201m	£196m
Operating Expenditure	(£140m)	(£135m)
Surplus on disposal of property, plant and equipment	£25m	£3.8m
Surplus on revaluation of investment properties	£0.3m	£1.8m
Operating Surplus	£86m	£66m
Net Interest Payable & Taxation	(£22m)	(£28m)
Surplus for the year	£64m	£38m
Movement in fair value of cash flow hedged financial instruments	(£11m)	£14m
Actuarial (loss)/gain on defined benefit scheme	£24m	(£22m)
Total comprehensive income for the year	£77m	£30m

Reduced turnover due to no outright sales, fewer Shared Ownership sales and withdrawal from care contracts

Surplus on disposal fallen due to the completion of the vRTB programme pilot, resulting in lower sales surpluses in the financial year

Includes early repayment fees of c£7.5m on legacy loans

Surplus for the year remains resilient (after excluding disposal of PPE and early redemption of debt)

Balance Sheet

Group Financial Position	2019/20	2020/21
Fixed Assets	£1,615m	£1,684m
Current Assets	£111m	£133m
Creditors: Amounts falling due within one year	(£53m)	(£55m
Net Current Assets	£58m	£78m
Total Assets Less Current Liabilities	£1,673m	£1,762m
Creditors: Amounts falling due after more than one year	(£1,320m)	(£1,360m)
Pensions- defined benefit liability	(£17m)	(£35m)
Total Net Assets	£336m	£367m
Revenue reserves	£416m	£432m
Cash flow hedge reserve	(£79m)	(£65m)
Total Reserves	£336m	£367m

Assets are based at cost and continue to grow through new development and investment in works to existing properties

Increase due to cash in bank from bond issue

Record revenue reserves

Value For Money Metrics March 2021

midland heart

	2020/21 Quartile (Vs Regulator 2019/2020 data)	2020/21	2019/20	2018/19	2017/18	2016/17
Reinvestment	Median	6.4%	6.6%	4.6%	3.6%	2.5%
New Supply Delivered (SHL)	Median	1.2%	1.6%	0.3%	0.9%	0.5%
Gearing	Upper	28.9%	28.1%	30.2%	27.1%	28.9%
EBITDA MRI Interest Cover	Upper	280% (214% including refinancing)	268%	283%	251%	231%
Headline CPU	Median	£3,480	£3,325	£3,085	£2,947	£3,067
Operating Margin (SHL)	Upper	32.6%	33.9%	36.9%	39.5%	38.4%
Operating Margin (Overall)	Upper	30.9%	30.5%	30.9%	36.1%	32.5%
ROCE	Median	3.7%	5.1%	4.8%	4.9%	4.6%

Stress Testing Scenarios

Fall in Income

10 year Rents Freeze

Bad Debts/Voids Double

Increase in Expenditure

Wage inflation +2% (Effectively CPI +3% per annum)

Maintenance costs; Capital & Revenue increased by 20%

Treasury

Libor increases 2% above plan rates

Cash to recover security value falls by 10% in EUV and 25% in MV-T

Development & Sales

No grant on unapproved schemes

Build costs increased by 30%

Sales prices reduced by 35% and proceeds delayed by 12 months

Green Scenarios

Net £30m pa 2025 -30 to hit EPC C

£15k additional costs to meet Net Zero by 2040 of £0.5m from 2021/22

Golden Rules

Cashflow
Min 18 months
Current: met

Golden Rules

Interest Cover
Rule: 150%
Covenant: 116%
Current: 246%

Gearing
Rule: 70%
Covenant: 75%
Current: 44%

Treasury Dashboard March 2021

Cash & Liquidity
Total: £265m

Cash: £110m

Available Facilities: £155m + £150m Fully Secured and unissued Retained Bond

Unencumbered Assets
c5,000

MVT: £375m
EUV: £225m

Drawn Debt & Swaps

Outstanding
Loan Balance: £576m

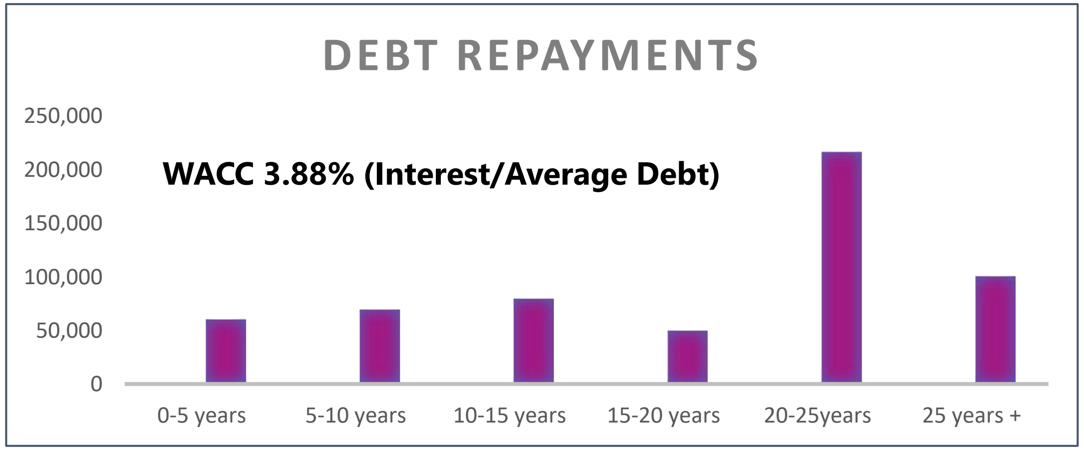
SWAPS: £150m fully hedged and collateralised by property/credit threshold

Moody's Credit Rating A1 (stable)

Funding Mix

Fixed 80%
Variable 19%
Index Linked 1%

45% Bank Debt
55% Bonds



Building Safety

- We continue to consistently **deliver on our statutory and regulatory compliance obligations** on Building Safety even during the pandemic.
- We have **5 buildings that are over 18m** buildings and we have no buildings with ACM (Aluminium Composite Materials) cladding.
- We have a **Primary Authority Partnership Agreement** with West Midlands Fire and Rescue Service (WMFRS).

We have embarked on a number of initiatives to ensure we follow best practice guidance:

  - an accelerated programme of EICRs (electrical safety) is to be completed by March 2022 (90% complete at July 21, moving from 10 years to a 5 year cycle).
  - A retrofit programme of sprinklers in Extra Care schemes commenced from April 2021.
  - We have completed Type 4 intrusion inspections on the above 5 buildings, no significant issues identified.

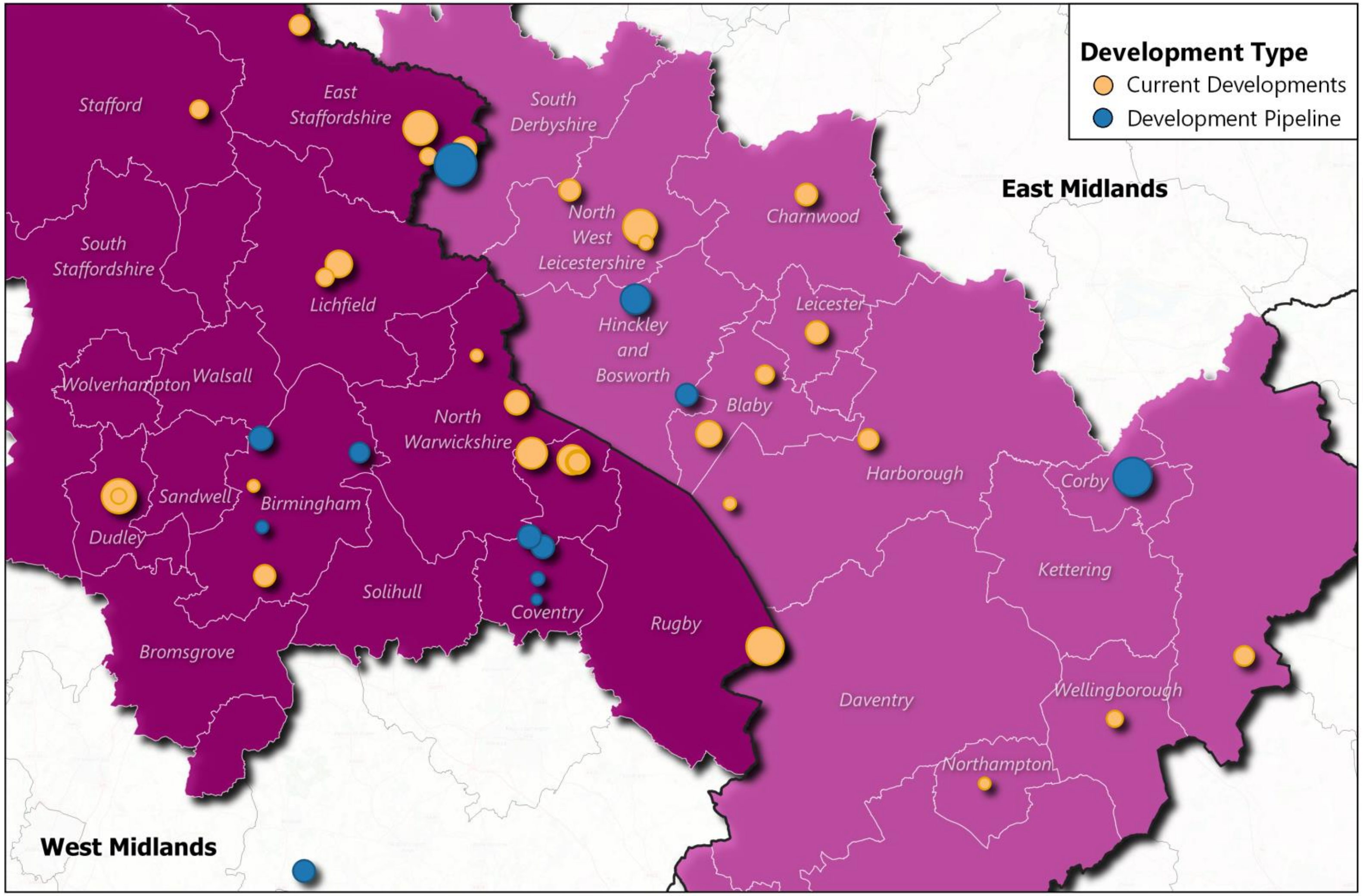
GROWTH & PARTNERSHIPS

- On target to deliver 4,000 homes by 2025
- Partnerships in place (Countryside & Partner Construction)
- Strategic partnership bid approved c£90m grant to deliver 1,950 affordable homes
- Delivered on a stock swap, c£7m in surplus proceeds. Increasing our stock by c600 in East Staffs and the sale of c500 in south Midlands.

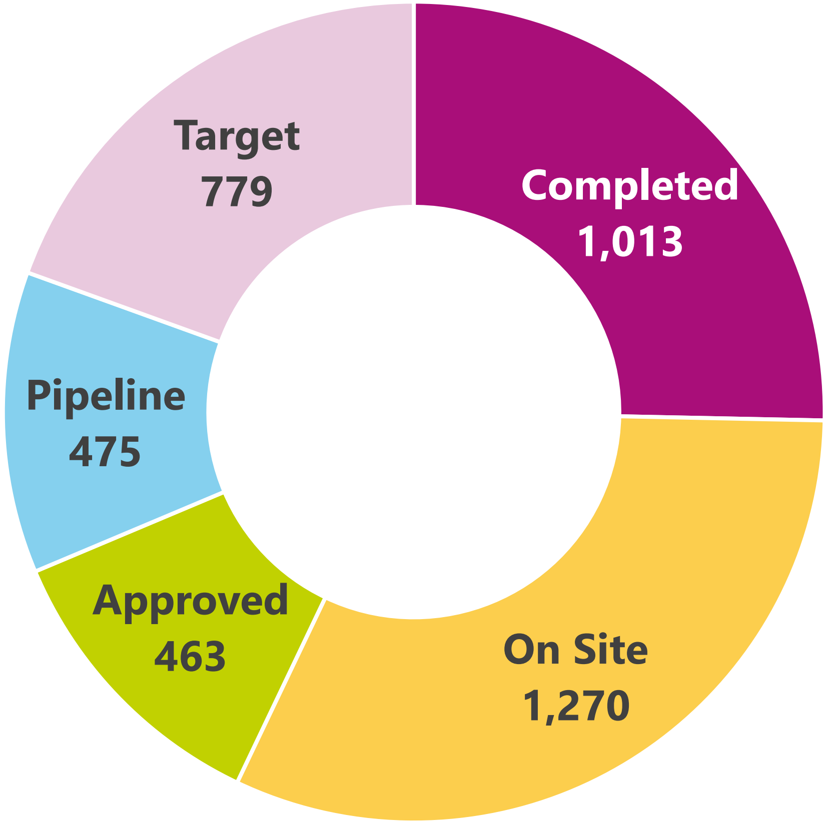
Housing Delivery Strategy

- 4,000 new homes by 2025 and replacement of 175 voluntary right to buy homes
- West & East Midlands focused
- 60% will be delivered through strategic partnerships
- 40% will be delivered through Section 106

Development locations



Progress to 4,000 homes



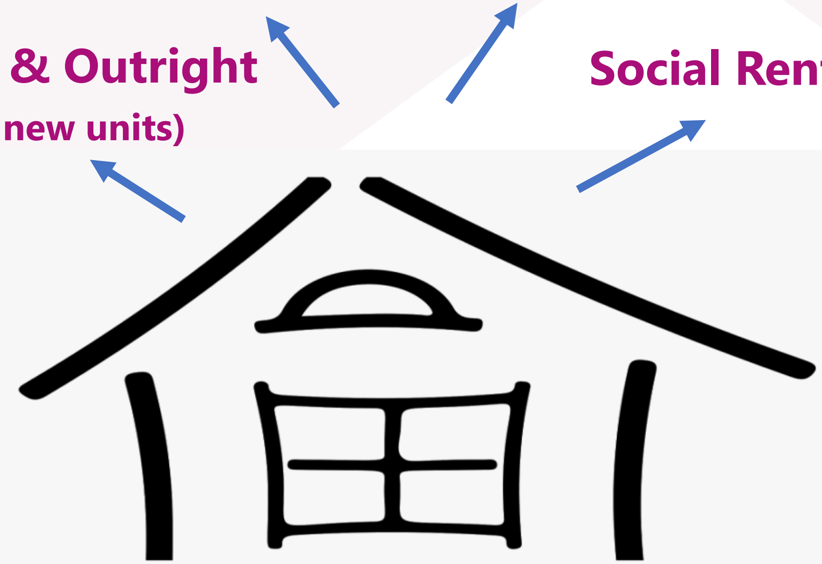
By Tenure Split

Shared Ownership 27%

Affordable Rent 60%

Market Rent & Outright Sales 3% (No new units)

Social Rent 10%



Demand over the last 12 months to August 21

717 adverts on our Lettings Portal

41,000 new registrations on our Lettings Portal

89,000 applications for our homes

1.32 days on average for a successful application

'Strong demand for our homes'

INVESTING IN HOMES

- An asset investment plan that's delivers on c£120m of spend over 6 years.
- Delivered on our component replace programme despite the impact of COVID.
- On track to deliver 1% void loss by 2025
- Will have complete 100% stock condition data by March 2022
- Baseline assessment completed on low carbon

Low Carbon Agenda

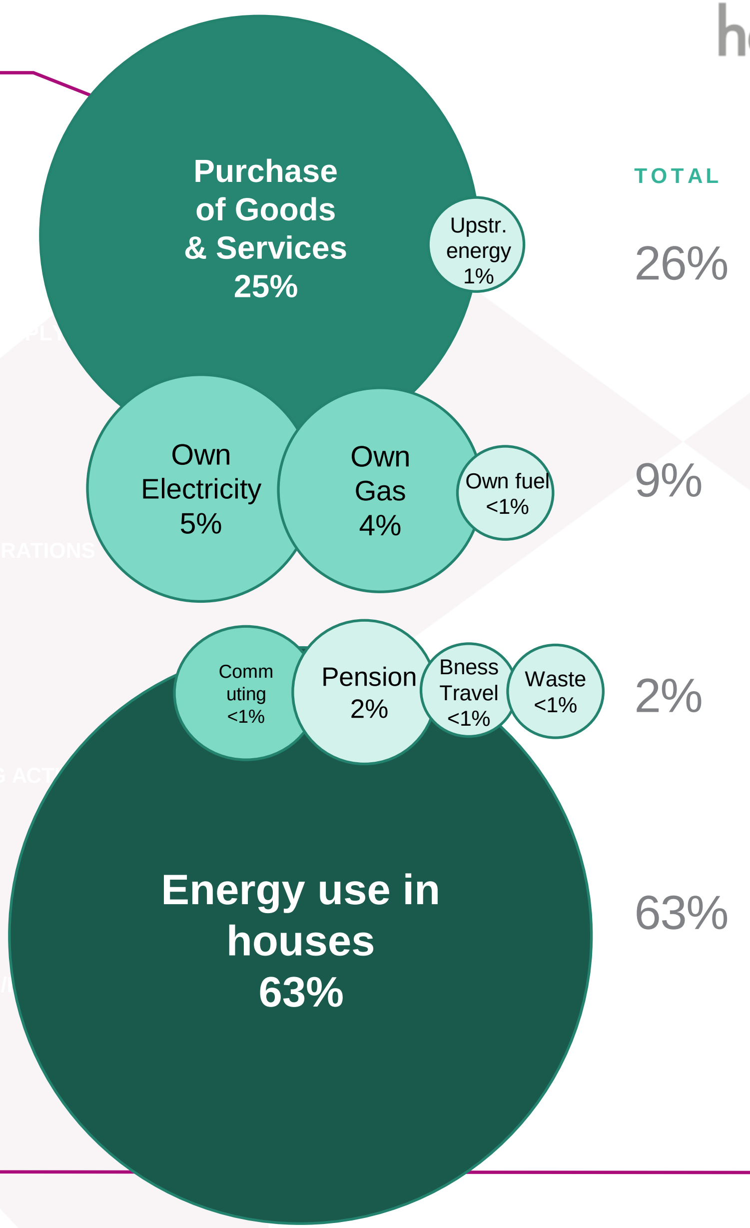
Working with Arup, we have undertaken an initial organisation wide calculation of our carbon footprint, including our value chain.

This looked beyond the carbon emissions of our direct assets but also at our supply chain and supporting activities.

Our first estimate is that we emit circa 126,400 tonnes of CO_2 emissions per annum.

Key contributors:

- Energy used in the homes we rent
- The goods & services we purchase
- Energy used in our offices and activities of staff



ESG highlights

Real Living Wage employer

Top 50 inclusive employer

Enhanced maternity pay

99% properties meet the Decent Home Standard

Over 90% customer satisfaction

Early adopters to the Sustainability Reporting Standard and produced our first annual report

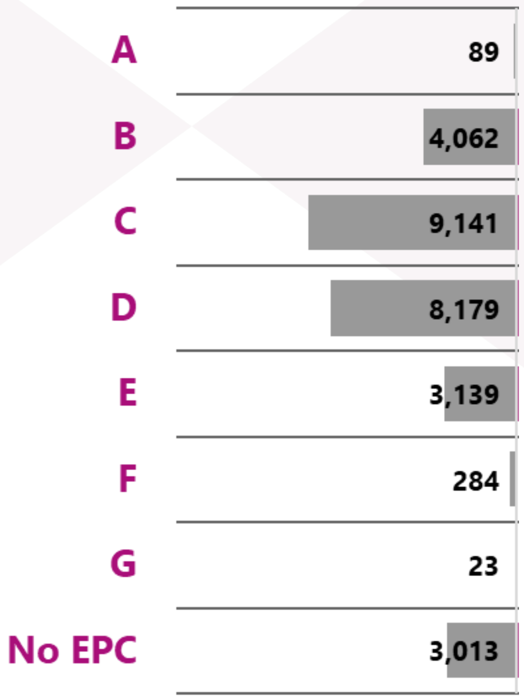
Set up an internal ESG steering group.

Commenced work with Vantage to benchmark and collaborate with other RPs in the sector.

Low carbon road map & action plan

Board have agreed £10m in the next 4 years for low carbon, primarily to move properties to Band D by 2025 and c60% to Band C. Band C by 2030, £100m to 2030.

EPC ratings* for existing homes



*registered on the Government website

Case study: Future Homes Standard

The energy efficiency of our new homes is much higher than our existing properties, with 98% of new developments achieving Band B and the remainder achieving Band A.

However we have ambitious plans for further improvements and we are already building our first homes to the Future Homes Standard, four years ahead of it becoming a legal requirement. The new Standard will reduce carbon emissions by 80%.

We are working in partnership with SME developer Tricas on our first site in early 2021: a **£2.8m development of 12 Future Homes**. We are also working with research partners from Birmingham City University to assess the impact of the new standards on occupants. We hope to be handing over keys to our first new customers Spring 2022.

Our Future Homes Standard development will feature:

- A mixture of 2, 3 and 4 bedroom family houses
- Newly planted shrubs, trees and lawns
- Photovoltaic panels
- Waste water heat recovery
- Air source heat pumps
- High standards of insulation and modern double-glazed windows and doors

Grosvenor Road, Handsworth

PEOPLE FOCUSED

- Working safely & supporting colleagues.
- Record investments in talent – Apprenticeships, Degree Apprenticeships, Aspiring Managers, Cranfield and professional development
- Service First program – landlord first.
- Competitive reward & benefits (pensions increase, voluntary living wage, competitive pay award). Sickness levels below 3% (12 months) and staff turnover 12.3% 12 months to July 21.
- New HR, Payroll & Learning system – now live
- Post Covid Smart Working

COVID response and impact

- The Board approved a temporary governance structure and increased the frequency of Board meetings.
- We put colleague and customer wellbeing at the forefront.
- We modelled the financial impact – arrears, potential repairs backlogs etc.
- We managed to minimise the impact of the pandemic:
  - We continued to deliver strong building safety compliance
  - We kept arrears levels to below 5%
  - We did not furlough any staff or sought assistance from the Government/tax deferment
  - We have no repairs backlog and delivered on our annual capital component investment programme
  - We completed on 350 homes in 2020/21 despite delays in the construction industry, we are on target to hit 4,000 homes by 2025.

SERVICE FIRST

- Consistently high rates of overall and repairs satisfaction
- 1st Class repairs rolled out to customers, focusing on first time fix and moving to 14 day completions
- Digital roll out - Rent App, over 8,000 customer users, over £300k per week collected, repairs online to launch in March 2022
- Embracing the social housing white paper – strong customer voice
- Embedded our approach to build more Balanced and Sustainable communities

MAKING WHAT MATTERS Brilliant

Strong

Resilient performance

Clearly defined strategy, incorporating low carbon

Simplified

Simple governance structure

Focus on core landlord services

Growing

Plan to deliver 4,000 homes by 2025

Safe

Strong track record in compliance

Robust risk mitigation

Q&A