



Investor update

2022/23 Financial Results

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Agenda



Summary and sector overview



ESG credentials



Operational performance



Development



Finance and Treasury



Summary and sector overview

Executive summary

- Founded in 1925, we are a leading housing organisation in the Midlands that has successfully **consolidated 13 Housing Associations** over a period of 50 years.
- We own and manage **c.34,000 homes** and provide a range of quality services for **c.70,000 customers**.
- Our purpose is to be a leading housing association, delivering homes and services across the Midlands that enable people to live independently.

We are committed to our founding charitable aims and focusing on delivering:



Core landlord service

We are focused on delivering a high-quality landlord function, with limited market sales development plans.



Building affordable homes

We will grow, modernise and concentrate our asset base through an ambitious new build programme alongside strategic stock acquisition and disposal.



Net zero landlord by 2050

We are deeply committed to our ESG agenda and an early adopter of ESG and pay equality reporting.



G1 / V1

Regulatory Rating



A1 Negative

Moody's

Sector overview



Prudent financial plan

- Money Advice teams to support customers
- Focus on building safety
- 100% compliance and low risk buildings
- Listening to customers to enhance services
- Developing next Corporate Plan (2025-30)

Government

- Political uncertainty
- Another possible rent cap & no new post 2025 rent settlement yet
- Cost of living crisis
- Decent homes 2
- Professionalism

Economic

- Inflation and interest rates
- Increasing cost of materials and labour
- Recruitment challenges

Regulator

- Under pressure following media scrutiny
- Greater focus on consumer standards
- Building Safety regulator and high profile Ombudsman

Customers

- Significant scrutiny
- Building safety
- Damp and mould, disrepair, complaints and extreme weather - higher levels of investment needed

Timeline

External environment

November:
Government caps social housing rent at 7%

November:
Regulator requests damp and mould information from providers

January:
Social Housing Regulation Bill to include 'Awaab's Law'

April:
New Building Safety Regulator

Autumn 2023:
Rent standard for 2024/25

Early 2024:
Professionalisation guidance to be published

Summer 2024:
Providers submit TSM data to Regulator



Nov 22

Jan 23

Jan 24

Autumn 24

Our response

Financial modelling of the rent consultation, we modelled 5% in FFR

We have a specialist damp and mould team who report cases through a dashboard. They are able to quickly escalate issues to reduce response times. We will decant our customers from any homes with severe cases of damp and mould'

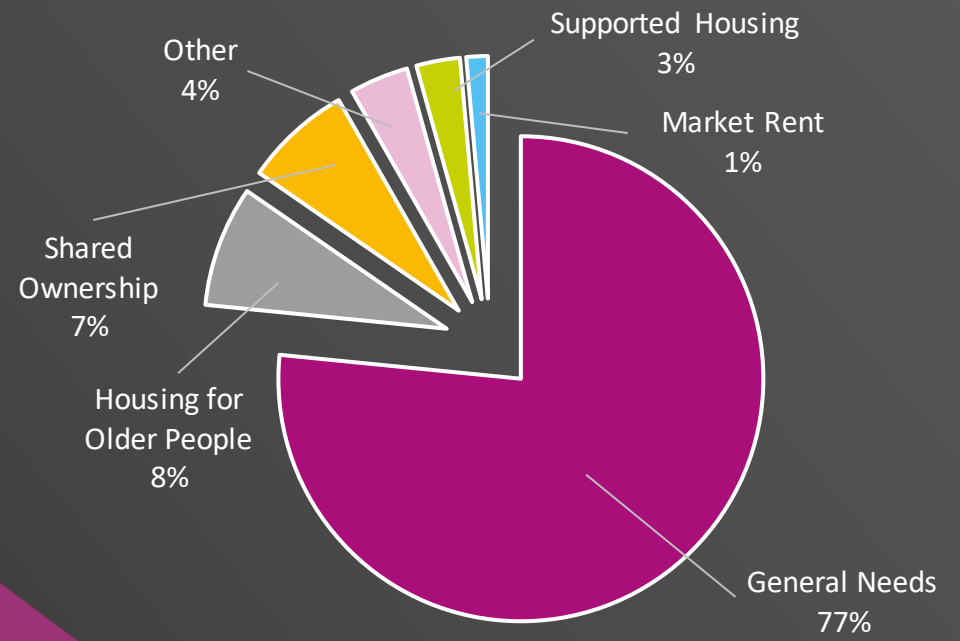
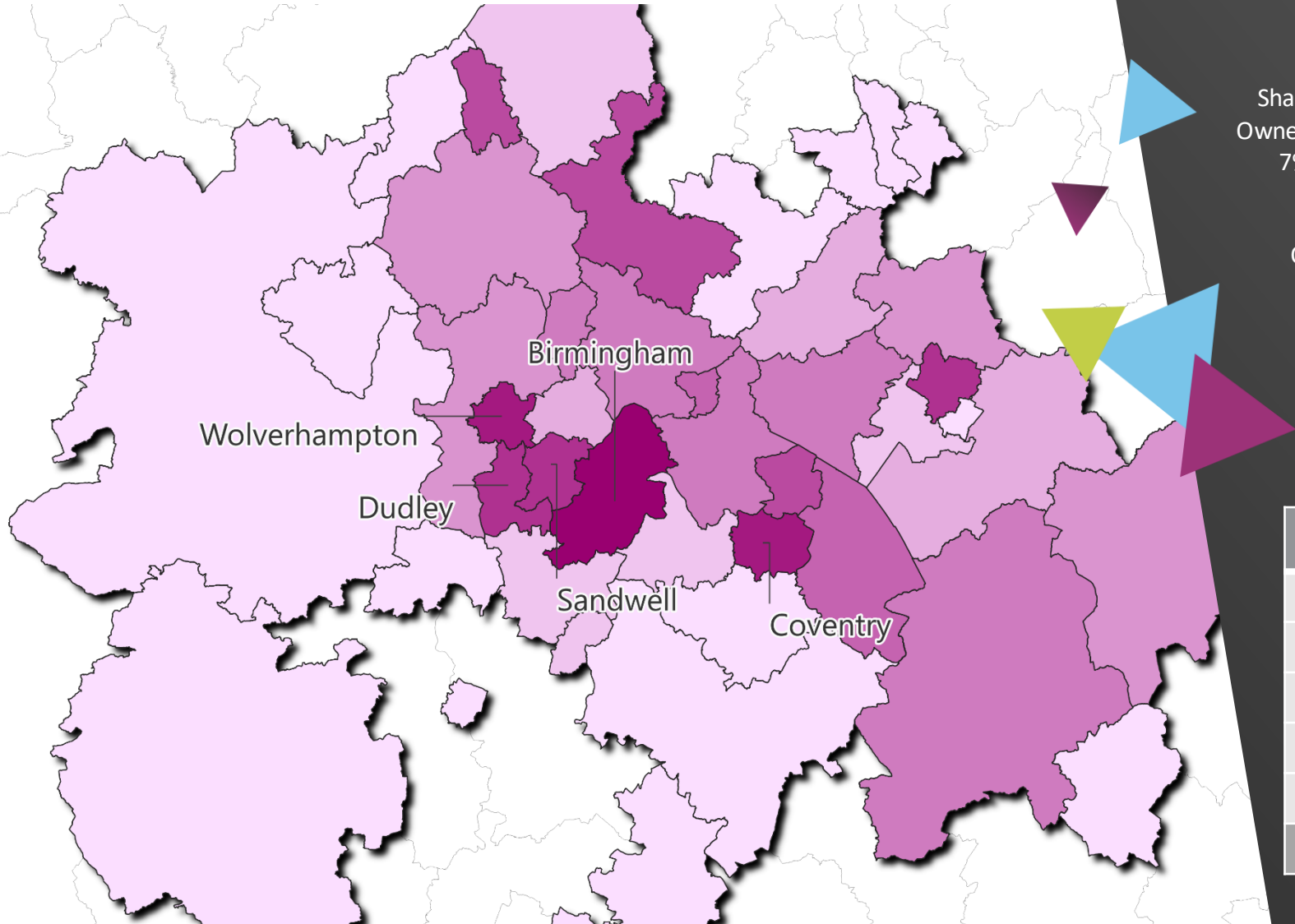
We have been marking our progress against the actions highlighted in the Building Safety Act through our Safe & Strong Committee.

We have modelled a 10-year rent freeze in our financial plan which did not break our covenants.

We have begun planning for the professionalisation requirements, exploring options in advance of the published guidance.

We have been trialling the collection of TSMs throughout 2022/23 to ensure we adhere to the guidance and have an established baseline.

Our stock



Top 5 local authorities	Properties	Percentage
Birmingham	12,193	38%
Coventry	3,753	12%
Wolverhampton	2,478	8%
Sandwell	1,656	5%
Dudley	1,280	4%
Total	21,360	66%

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 service 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 six 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.

Key milestones

Repairs online

Pilot launched in Wolverhampton and Coventry, provides customers with choice and convenience to raise, amend and track repairs.



Croftpool acquisition:

Acquired 173 properties for £5.5m in Nuneaton and Bedworth from Stonewater. We became the preferred bidder in July 2022 and completed in February 2023.

107 flats and 66 houses in an area where we already had a General Needs presence.

Launched Home Checker

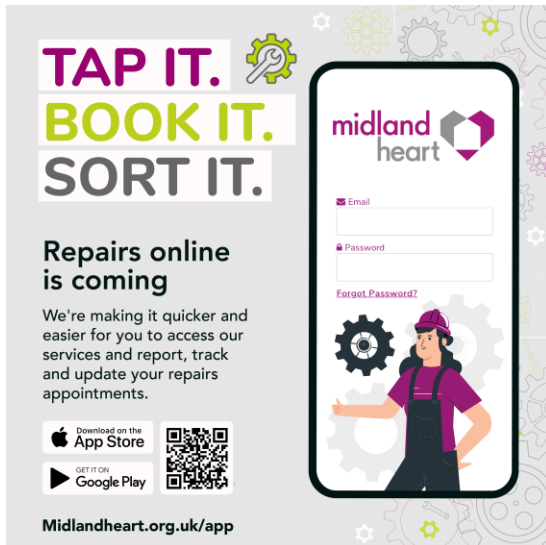
Home Checker is an internal Midland Heart online tool created to provide assurance that our properties are safe, secure, and well-maintained. Over 44k forms completed.



Shaping policy - ASB All-Party Parliamentary Group

We published the APPG's first report to English MPs, Lords, all Police and Crime Commissioners and partner HAs. The report was publicly endorsed by Mayor Andy Street and PCC Simon Foster.

Meetings with Home Office and DLUHC Civil Servants already been held. The Deputy Chief of Staff at Downing Street has agreed to a follow up session.



TAP IT.
BOOK IT.
SORT IT.

Repairs online is coming

We're making it quicker and easier for you to access our services and report, track and update your repairs appointments.

Download on the App Store
GET IT ON Google Play

Midlandheart.org.uk/app

The advertisement features a smartphone displaying the Midland Heart logo and a login form with fields for Email and Password. Below the phone is an illustration of a woman in a purple shirt and a hard hat, with a gear icon next to her. The background is decorated with various gear icons.



ESG credentials

Our commitment to ESG principles



We are an early adopter of ESG sustainability reporting standards, our third report is to be published in Sept 2023.

- Enhanced disclosures included with ambitions to report further
- Internal ESG Committee to monitor the progress of our ESG action plan, including low carbon interventions



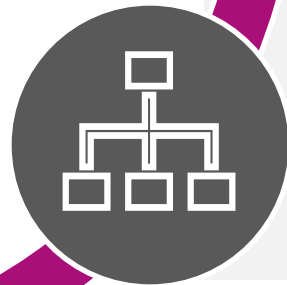
Environmental

- Low carbon action plan
- SECR accounts reporting
- Sustainable finance framework



Social

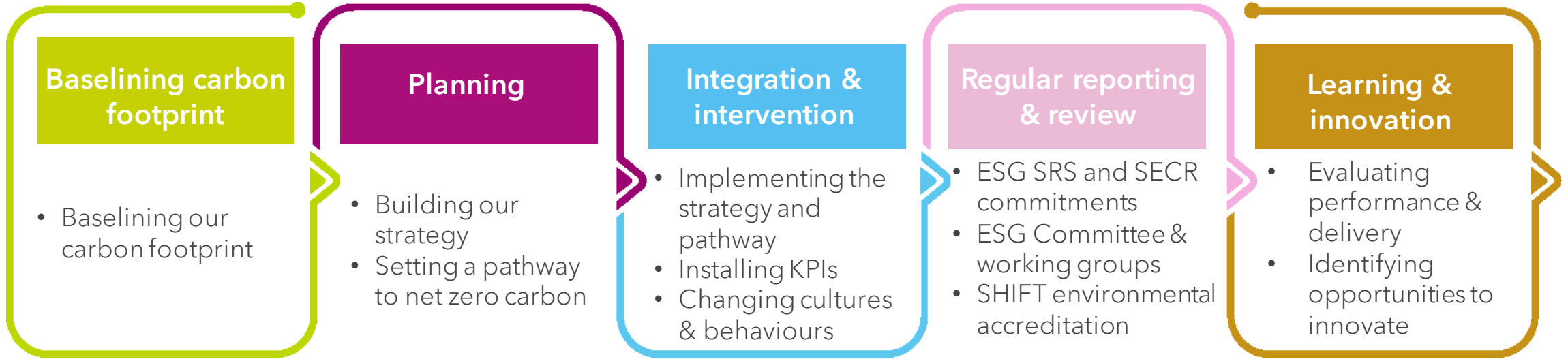
- Social Value - rents and supporting customers
- A great place to work
- Gender and Ethnicity Pay Gap



Governance

- Adopted the NHF 2020 Code of Governance
- Our colleague led Diversity & Inclusion Networks
- Our Partnership Council, made up of elected-colleagues, is consulted on all major initiatives

Our low carbon strategy



Baselining carbon footprint

- Baselining our carbon footprint

Planning

- Building our strategy
- Setting a pathway to net zero carbon

Integration & intervention

- Implementing the strategy and pathway
- Installing KPIs
- Changing cultures & behaviours

Regular reporting & review

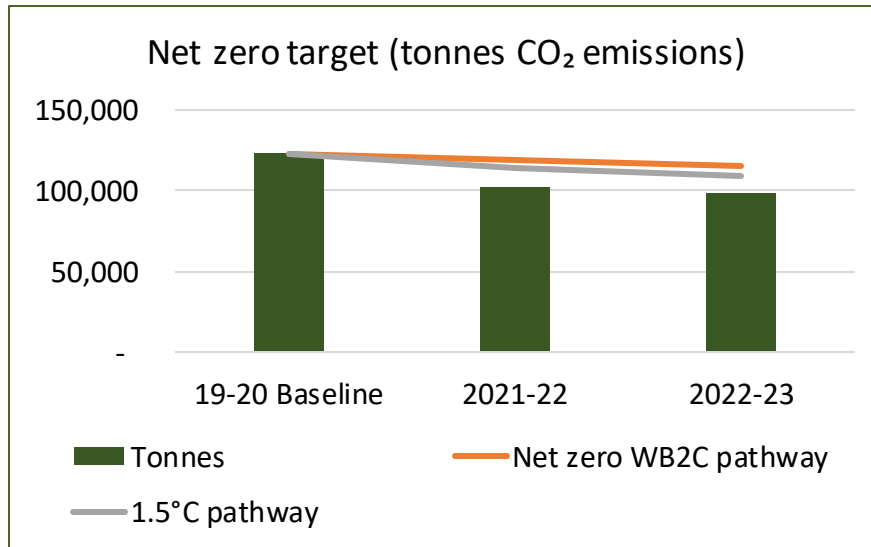
- ESG SRS and SECR commitments
- ESG Committee & working groups
- SHIFT environmental accreditation

Learning & innovation

- Evaluating performance & delivery
- Identifying opportunities to innovate

Total reduction:
24,625 tCO₂e

Scope 1 &
2 reduction:
3,913 tCO₂e



Corporate targets to EPC C 2030



£10m to ensure all our properties are at least EPC D by 2025.

£80m investment to bring all our properties to Band C by 2030.

Case study - Low carbon strategy

- A **strategic partnership** was formed with Centrica, British Gas and PH Jones to deliver a programme of improvements.
- We were **highly commended** at the Energy Efficiency Association Awards for the West Midlands region for our retrofit customer engagement framework.
- We work with SHIFT to enhance our data accuracy and reporting of our environmental performance.
- Attained SHIFT Silver award in our first year of operation.
- We have been successful for **£4.4 million grant funding** bids as part of the Social Housing Decarbonisation Fund (wave 1 and 2).



UK's first homes to the Future Homes Standard, ahead of it becoming a legal requirement. Evaluation completed by Birmingham City University to assess the ongoing impact of the new standards on occupants.

Award winning £2.8m development of 12 Future Homes were made in partnership with SME developer, Tricas.

- 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

Social value

This **cuts across all that we do**. In 2022/23:

- 2,960 customers referred to our **Money Advice Team**. Of those seen, 99.9% sustained their tenancy.
- Income maximisation of **£2.5m** for customers, increasing income and reducing debt liability. We also obtained Universal Credit awards of **£434k** and **£34k** in Discretionary Housing Payment for customers struggling to meet their rent.
- Additional **£764k** claimed in Housing Benefit and **£85k** attendance allowance obtained for customers aged 65 and above to help with care and mobility needs.



£1,440 Tesco /Asda vouchers

165 food bank vouchers

£18k fuel vouchers

£76 from charities to purchase essential goods

Our ratio of general needs rent to market rent is 58% - providing sub-market rents which customers are more likely to afford.

A great place to work



Maintained industry leading levels of colleague engagement - c80% satisfaction for the last three years



A Real Living Wage Employer at £10



Reduced our median gender pay gap by c3% from 2020/21 to 15.02%



Voluntarily published our ethnicity pay gap - 7.23% median pay gap, down from 8.03% in 2021/22



Second cohort of dedicated development programmes for Black and Female colleagues to increase diversity in senior roles, as well as next cohort of Degree Apprentices



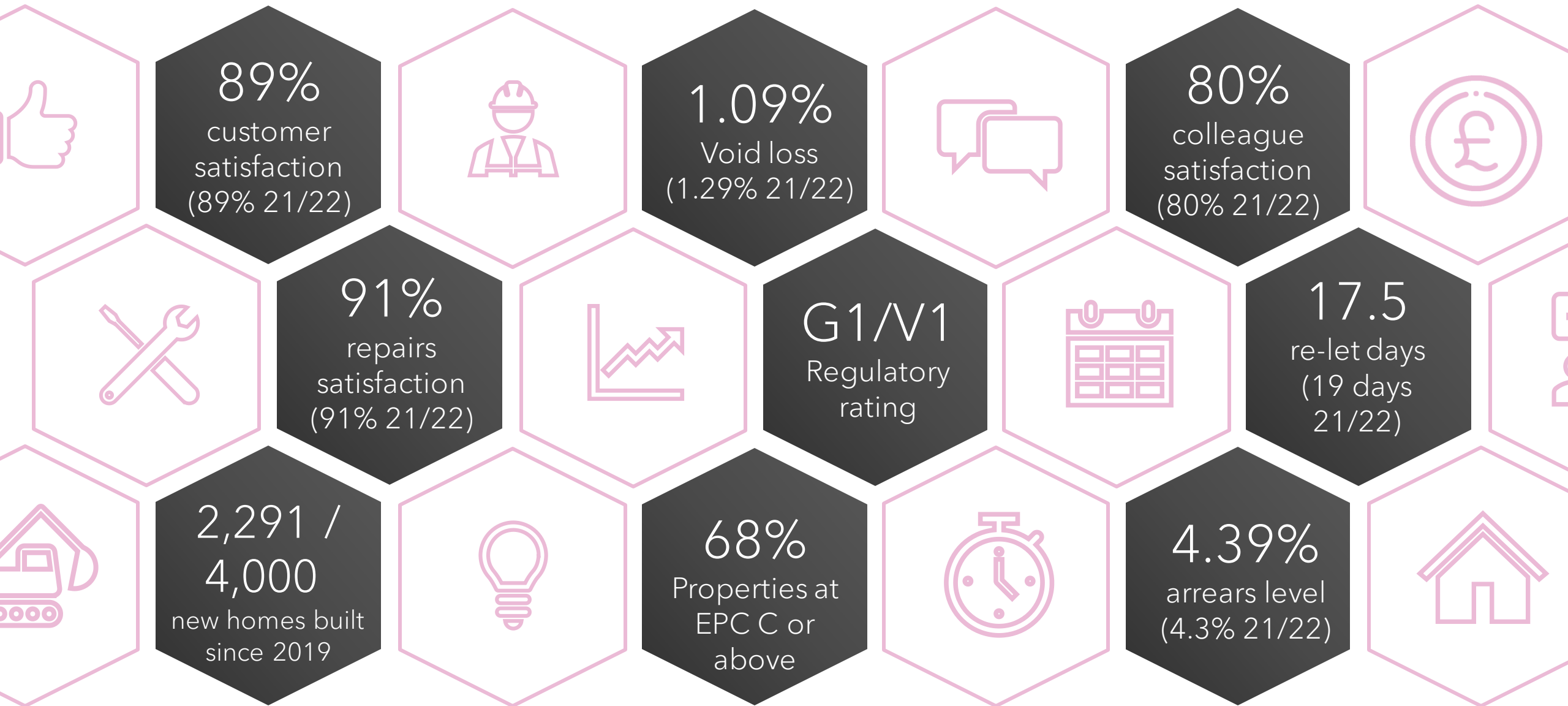
CIPD winners
Health & wellbeing





Operational performance

Operational performance in 2022/23



Safe and comfortable homes

- We continue to consistently **deliver on our statutory and regulatory compliance obligations** on Building Safety.
- **100%** of our properties that are subject to a Fire Risk Assessment, have an in-date fire safety certificate undertaken by a qualified assessor.
- We have minimal building safety exposure to buildings over 18m (**only 5**) with no cladding issues.
- We have a **Primary Authority Partnership Agreement** with West Midlands Fire and Rescue Service (WMFRS)



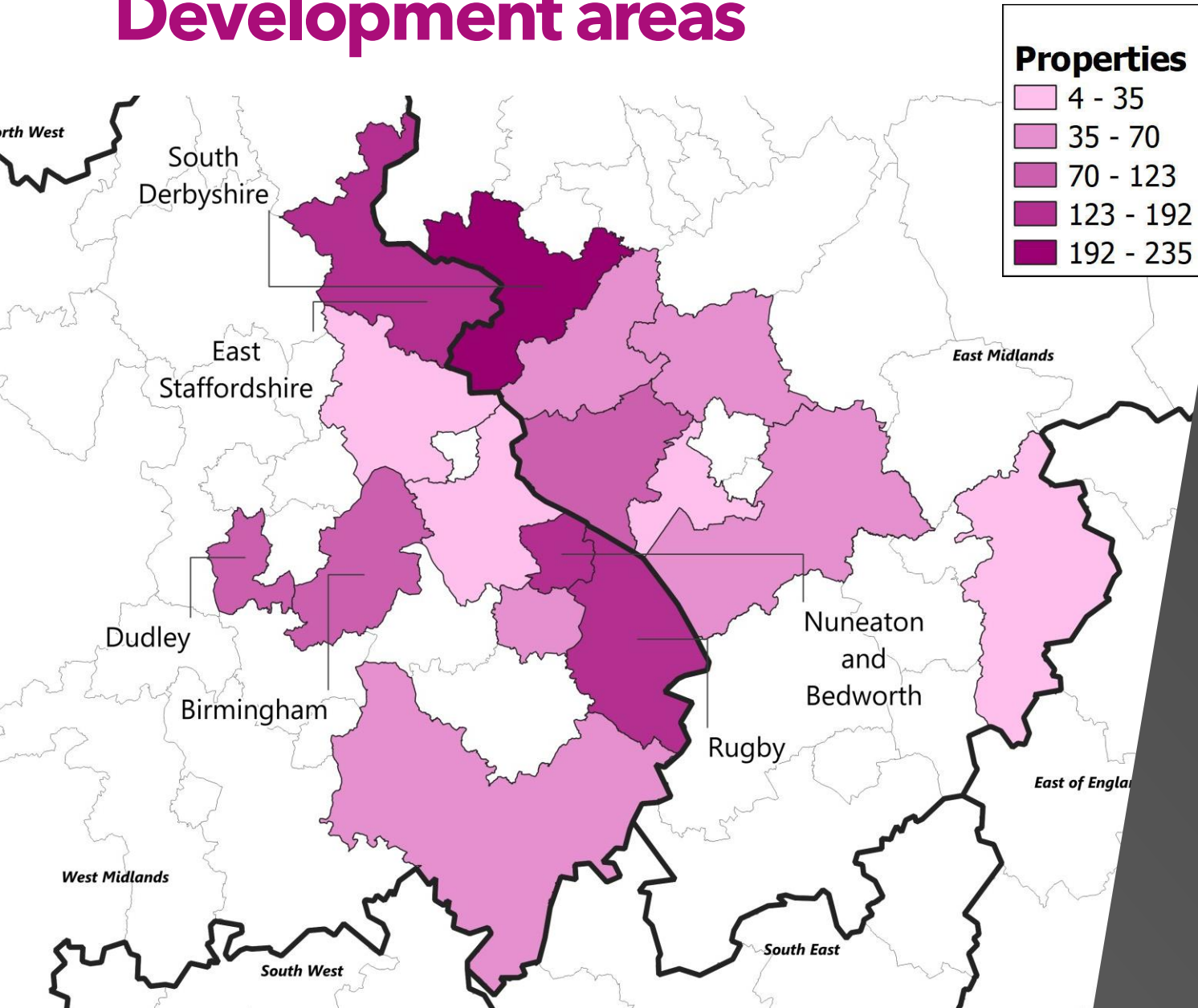
We embarked on a number of initiatives to ensure we follow best practice guidance:

- An **accelerated programme** of EICRs (electrical safety), moving from a 10 year to a 5 year cycle (99.9% complete).
- We have **completed Type 4 intrusion inspections** on our 5 buildings over 18m with no significant issues identified.
- Sprinkler retrofit programme in our Retirement Living schemes completed (14)



Development

Development areas



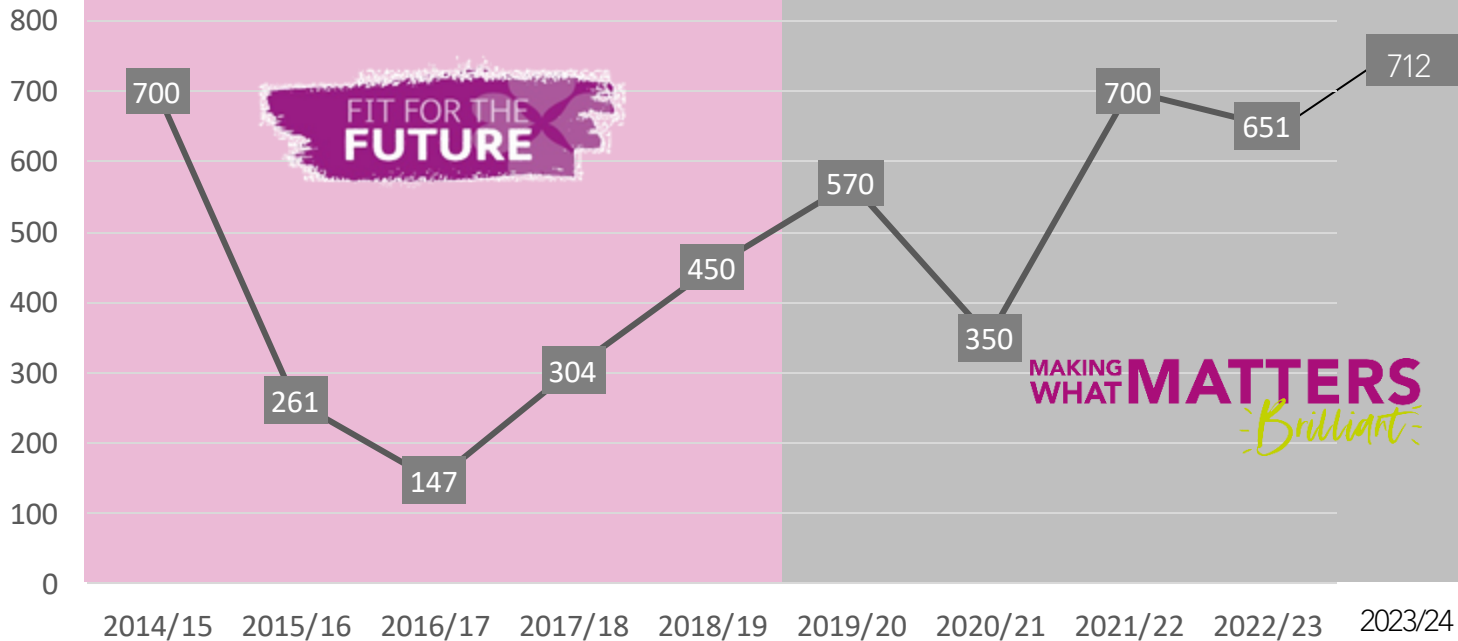
Housing Delivery Strategy

- On target to deliver 3,750 new homes by 2025. 2,343 completed at May 23.
- Over 700 social housing completions forecast in 2023/24.
- No outright sale or market rent homes in our development portfolio – growing through our core offering.
- New Homes England Affordable Homes Programme £112million funding secured until 2028.
- Virtually all EPC “B” rating for completed new homes.
- First tranche shared ownership sales remain positive, with over 25% of surplus target achieved in first two months of the current financial year.

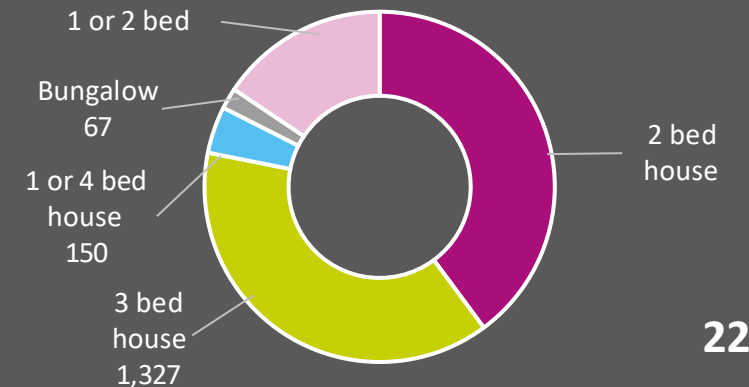
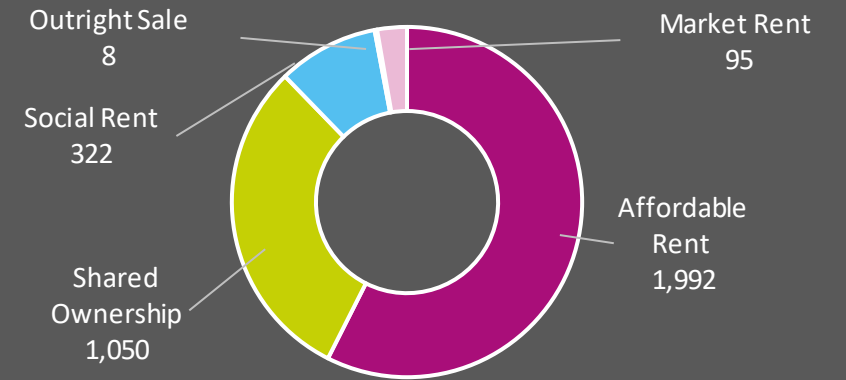
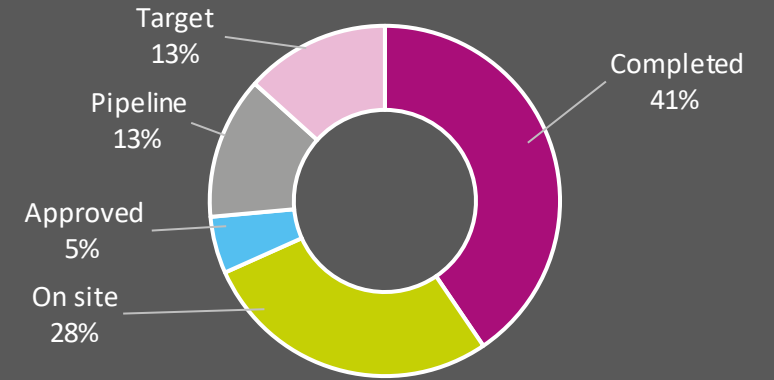
Development - Performance

as at March 2023

Development plan by number of units



Size and tenure of the 4,000 home target:





Finance and Treasury

Financial strength



Retained a sector leading **A1 rating** with **negative outlook** from Moody's



Immediate **availability of c£247m of cash** & undrawn facilities plus £75m retained bond



Retained our **G1 V1 status** from the Regulator

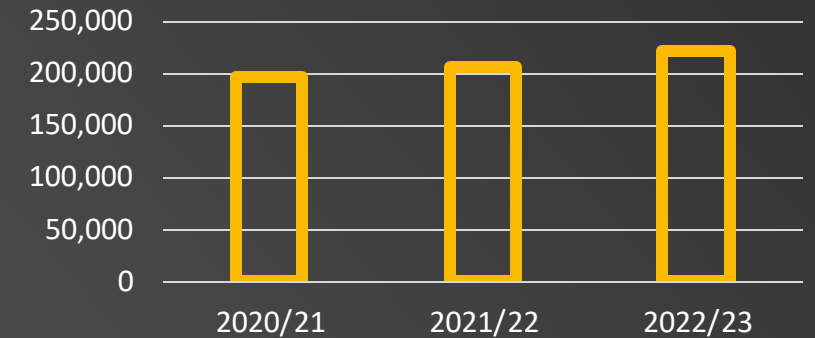


Maintained **a robust financial plan** capable of withstanding realistic downside scenarios

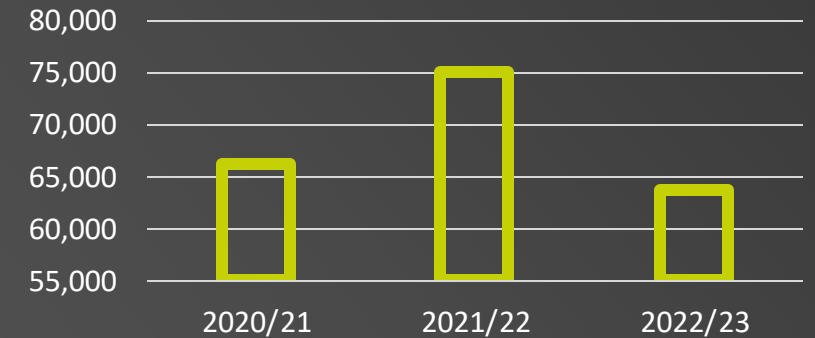


Strong VFM metrics

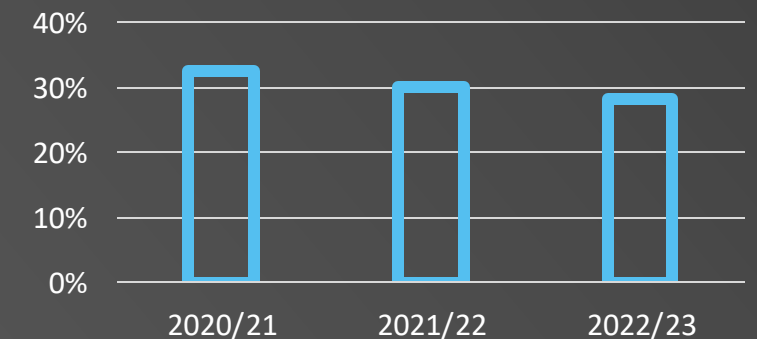
Turnover



Operating Surplus



Operating Margin %



2022/23 financial performance

Group statement of comprehensive income

	2023	2022	
	£'000	£'000	
Turnover	221,127	207,038	Increase of £14.1m due to increase in first tranche sales, new units, and CPI +1% rent
Operating expenditure	(161,834)	(147,507)	
Surplus on disposals of property, plant and equipment	4,014	13,842	Decrease of £9m due to £7.5m sale of stock in swap in 2022 only
Surplus on revaluation of investment properties	410	1,735	
Operating surplus	63,717	75,108	
Interest receivable	2,606	345	
Interest and financing costs	(25,502)	(19,895)	Due to increase in interest rates
Surplus before tax	40,821	55,558	
Taxation	(126)	(25)	
Surplus for the year	40,695	55,533	
Movement in fair value cash flow hedged financial instruments	28,446	18,280	
Actuarial gain/(loss) on defined benefit scheme	(4,140)	9,353	
Total comprehensive income for the year	65,001	83,166	



Treasury dashboard - March 2023



Cash and Liquidity

Cash: £100m
Available facilities:
£147m
Total: £247m



Drawn Debt

Outstanding loan balance: £632m



Unencumbered Assets

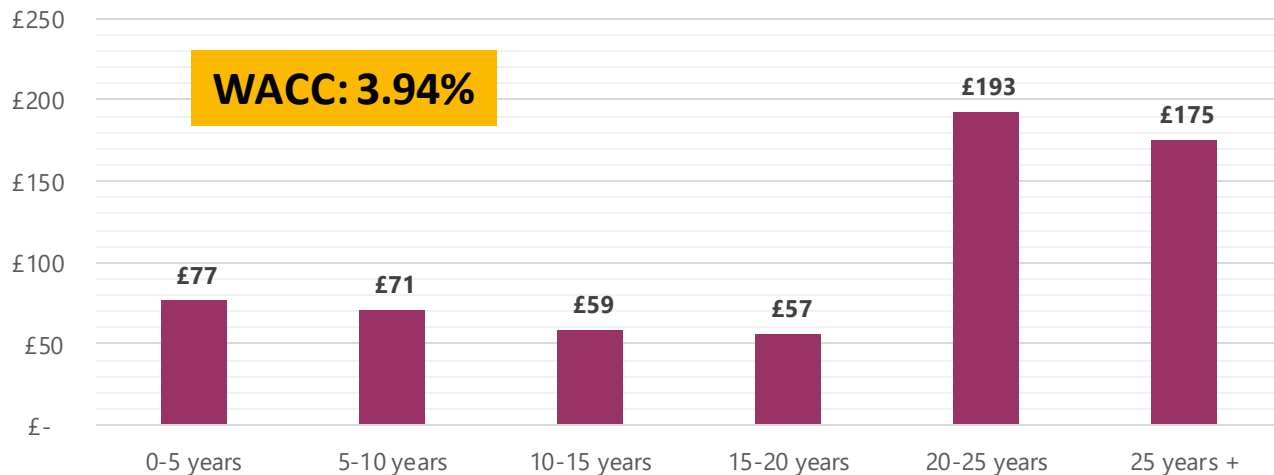
c8,806 units



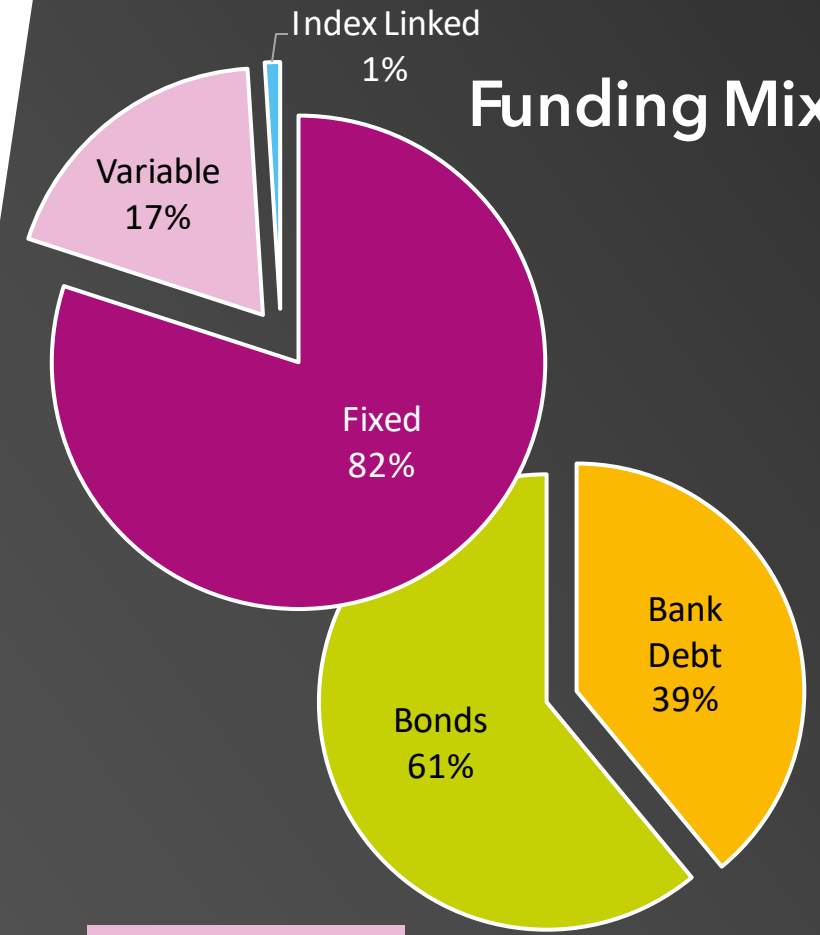
Swaps

£120m fully hedged and collateralised by property/credit threshold
Gross MTM £18m

Debt Repayments £m



Funding Mix



Liquidity Rule: 18 Months
Actual: 24 months

Golden Rules

Interest Cover Min: 150%
Current: 296%

Gearing Max: 70%
Current: 44%

VFM peer benchmarking

Metric	Lower quartile (all HA's 21/22)	Upper quartile (all HA's 21/22)	Midland Heart (2021/22)	Midland Heart (2022/23)
EBITDA MRI interest cover	1.07	1.98	2.74	2.37
Headline social housing cost per unit	£3,700	£5,180	£3,693	£4,012
Operating margin (SHL)	17.6%	28.5%	30.2%	28.2%
Operating margin (overall)	14.3%	25.4%	28.8%	27.0%
Gearing	32.1%	53.1%	29.6%	29.3%
Reinvestment %	4.7%	8.6%	7.7%	6.7%
ROCE	2.4%	3.9%	3.9%	3.3%



A1 credit rating



Low gearing



Strong EBITDA MRI interest cover (>200%)



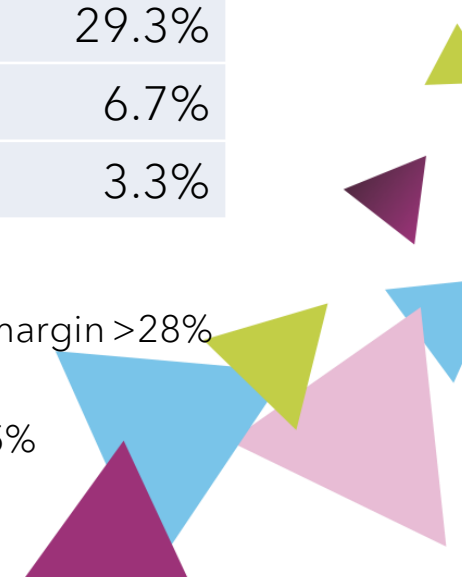
Low development risk (<3% units growth)



SHL operating margin >28%



SH revenue >85%





Summing up

MAKING
WHAT **MATTERS**
Brilliant



Strong

Resilient performance

Strong track record in compliance



Simplified

Simple governance structure

Focus on core landlord services



Growing

Plan to deliver 4,000 homes by 2025



Conscious

Strong ESG credentials

Commitment to net zero



Q&A

