

# Presentation to fixed income investors

October 2018



<https://investors.bpha.org.uk/>

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# Agenda



1. **Overview**
2. **Governance and Strategy**
3. **Financials and Operations**
4. **Development**
5. **Treasury and Funding**

# Overview

# Our highlights

March 2018



385

homes built or acquired



18,253

homes owned or managed



£42m

surplus before tax



44%

operating margin on social housing lettings



£61m

EBITDA MRI  
(earnings before interest, tax,  
depreciation and amortisation,  
major repairs included)



176%

EBITDA MRI  
(% of interest payable  
and similar charges)



£22m

invested in maintaining and  
improving our existing homes



A+

credit rating  
from Standard & Poor's



£215m

Facility headroom



£129m

Security headroom



V1

Regulator of Social Housing  
viability rating



G1

Regulator of Social Housing  
governance rating

# Core operating area

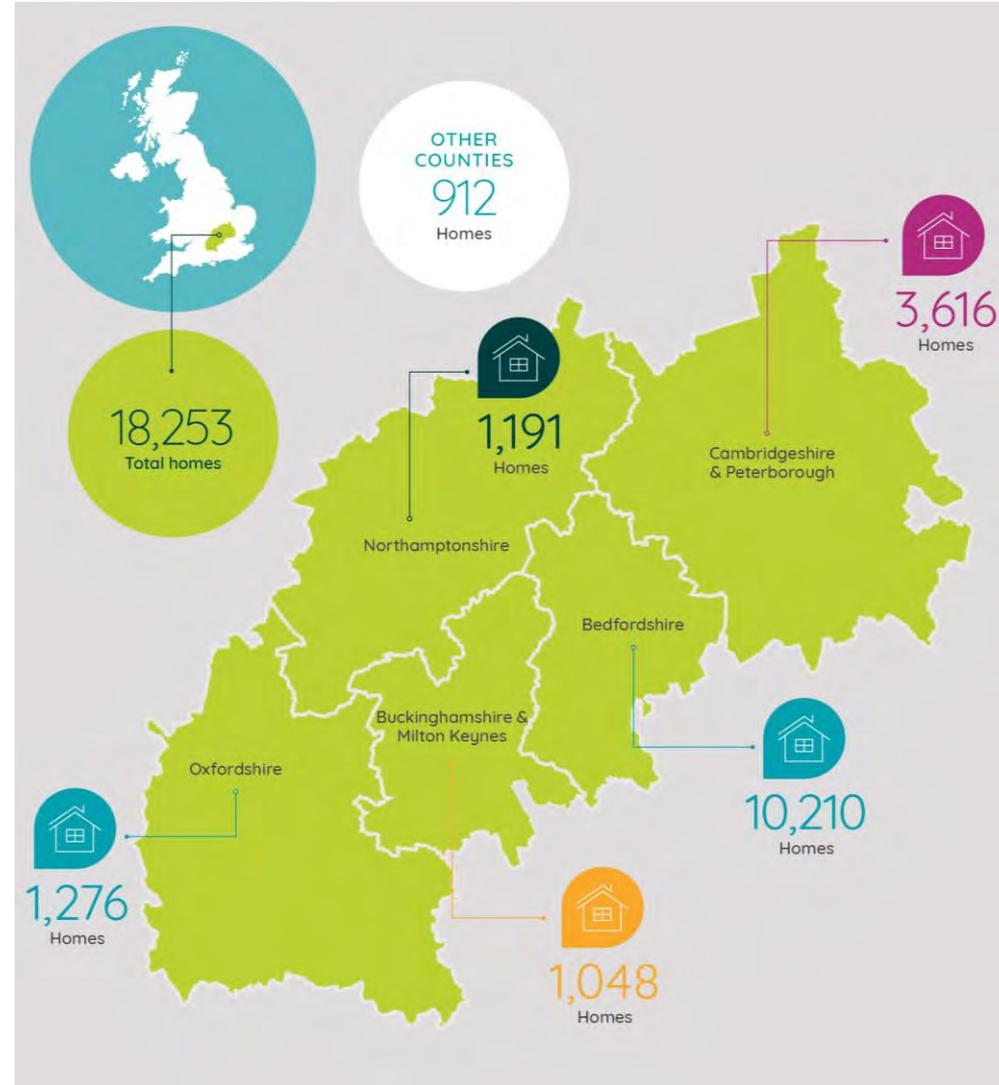
- Core operating area between Oxford and Cambridge.
- Over the last 3 years, provided more than 1,300 new homes and in the past year invested more than £100m into new and existing homes.
- Development programme continues to be focused on core social housing for rent and shared ownership.

## CORE DEVELOPMENT ACTIVITIES

Our development programme continues to be focused on core social housing for rent or shared ownership.



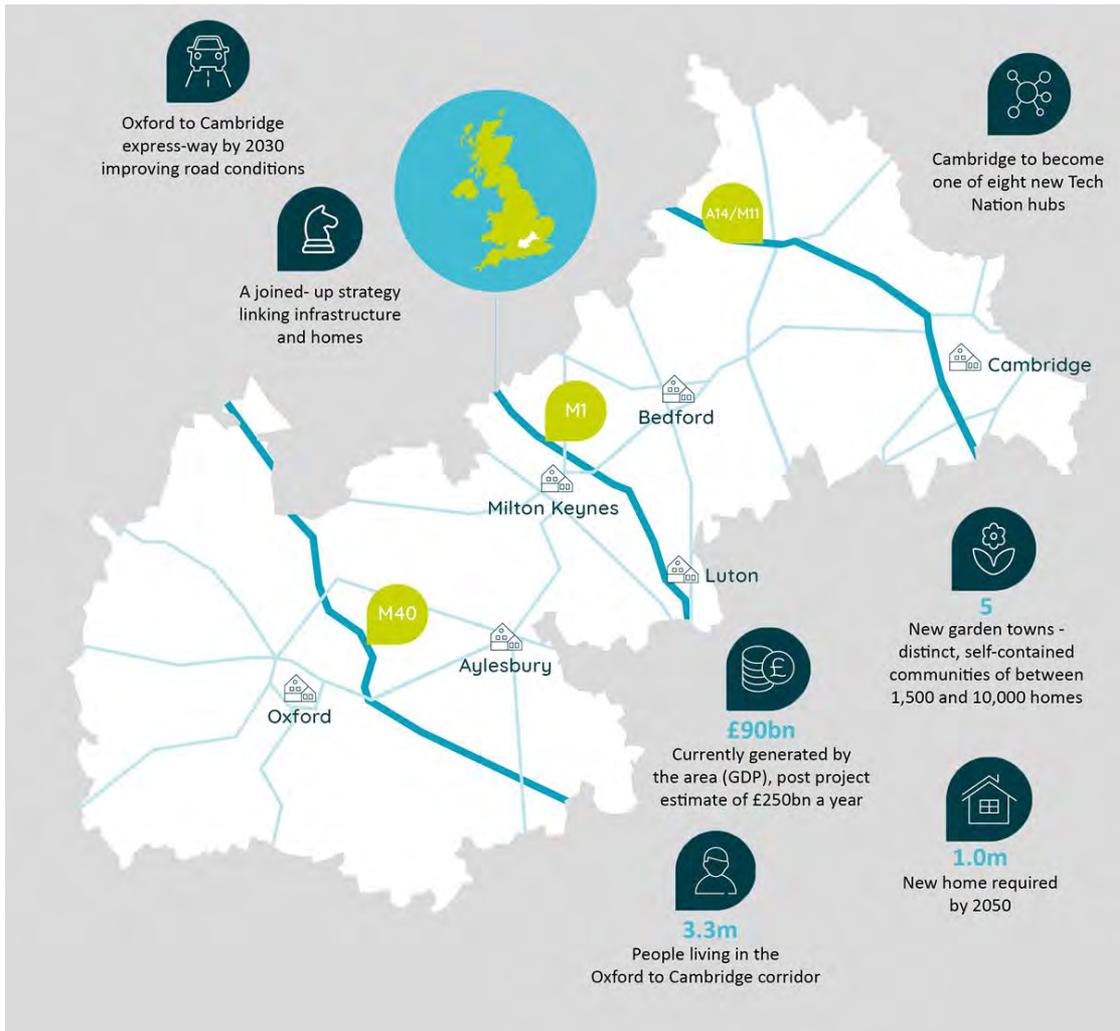
Affordable rent	55%
Private sale	2%
Shared ownership	43%



# Uniquely positioned



## Realising the potential of the Oxford to Cambridge corridor



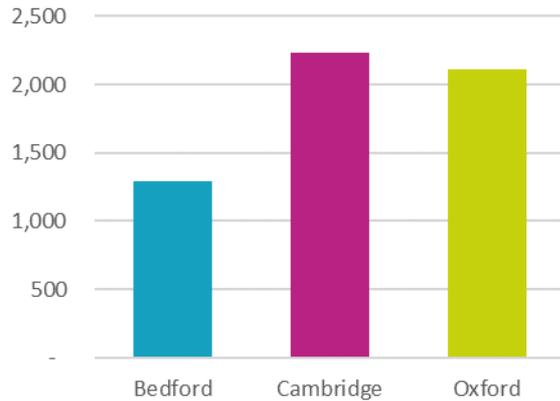
Right blend of experience and knowledge to take advantage of the opportunities including:

- An established presence in Cambridge following delivery of over 2,000 homes under the 'Cambridge Challenge'.
- Extensive relationships with developers, land owners and local authorities across the corridor.
- Track record of delivering new communities such as Wixams and Cambridge Southern Fringe.
- Experience of strategic partnerships with universities, hospitals, businesses and other housing associations.
- Financial strength and capacity.

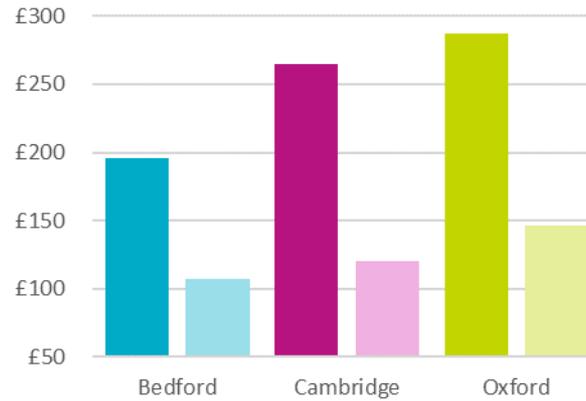
# Demand for affordable housing



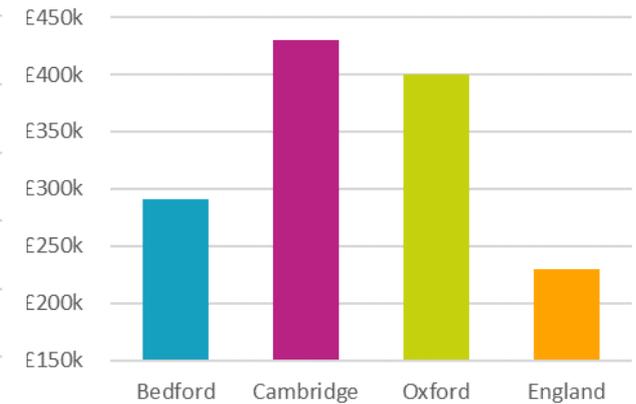
Number of households on waiting list



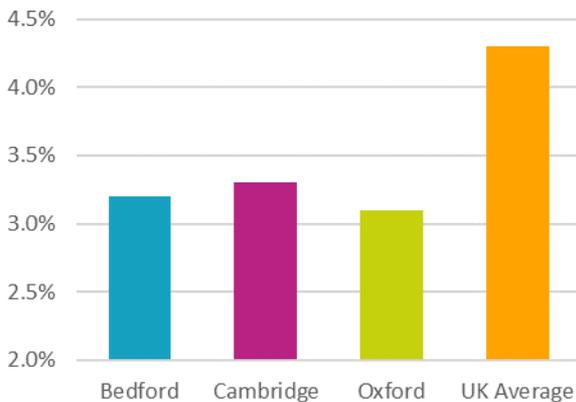
Market vs bpha - weekly rent



Median house price



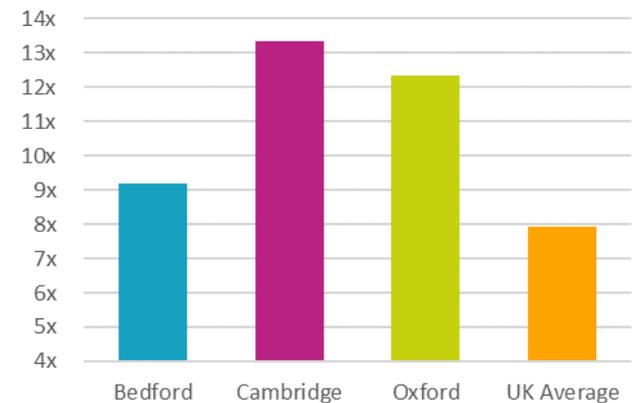
Unemployment



Market rent as % of pay



Median house price / earnings



Sources: ONS & Nomis - Official Labour Market Statistics 2017/2018

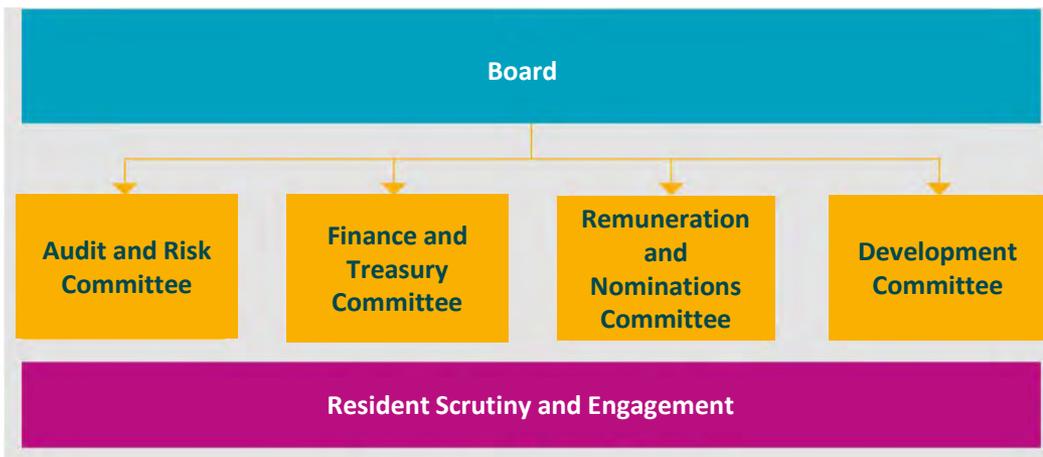
# Governance and Strategy

# Governance structure

## Governance and Executive has been strengthened



- As at 31 August 2018, our Board was made up of 6 Non-Executive Directors and 4 Executive Directors, providing a balance between the detailed executive knowledge of the business and the need for independent scrutiny and challenge.
- Professor Paul Leinster CBE was appointed as our new Chair from 23 April 2018. He brings extensive experience of the environmental, planning and infrastructure opportunities and challenges within bpha's area of operation having been Chief Executive of the Environment Agency.



### Non-Executive Directors



**Professor Paul Leinster CBE**  
*Chair of the Board*



**Jill Ainscough**  
*Chair of Remuneration & Nominations Committee*



**Martin Hurst**  
*Chair of the Finance & Treasury Committee*



**Ian Ailles**  
*Chair of the Audit & Risk Committee*



**Shan Hunt**  
*Non-Executive Director*



**Paul High**  
*Chair of Development Committee & Bushmead Homes Ltd Board*

# Governance – Risk management



Risk management is a core part of our approach to delivering our organisation goals

Our principal risks and mitigations are:

	Health and Safety and HR Resources	Financial and Economic	IT Service Disruption and Data Compliance	Political and Welfare Reform
Impact	<ul style="list-style-type: none"> <li>• Risks arising from failure to comply with Health and Safety regulations.</li> <li>• Dependency on key employees.</li> </ul>	<ul style="list-style-type: none"> <li>• Uncertainty in financial markets and other global economic challenges could adversely affect the UK's economy and housing market with consequent financial impact.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased dependence on technology means any loss of core operational systems and technology would disrupt our ability to operate.</li> <li>• Increased risk of malicious attack from hackers or malware.</li> </ul>	<ul style="list-style-type: none"> <li>• Rollout of Universal Credit and changes from the Housing and Planning Act 2016 could impact rental income and debt.</li> <li>• Uncertainty about Government's housing policy and initiatives pre-Brexit.</li> </ul>
Mitigation	<ul style="list-style-type: none"> <li>• H&amp;S focus at all levels managed by a cross functional Strategic Health and Safety Group.</li> <li>• The Board is kept updated on compliance on a regular basis.</li> <li>• Manager training introduced to increase resilience.</li> </ul>	<ul style="list-style-type: none"> <li>• Business plan is fully funded and liquidity further improved.</li> <li>• Our treasury strategy and policy is approved by the Board annually for amongst others; financial market risk, liquidity risk and counterparty risk.</li> <li>• Quarterly monitoring.</li> </ul>	<ul style="list-style-type: none"> <li>• Business continuity plans are maintained and tested and externally validated</li> <li>• Ongoing investment in software systems and IT infrastructure, which is designed to reduce the risk of external threats and other disruptions to core services.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased focus on debt management and mobile working has facilitated closer customer contact to ensure risks are tightly managed and controlled.</li> <li>• Contractor relationships assessed for exposure levels and actions taken as required.</li> </ul>

# Corporate strategy

Improved metrics give us choices



## VISION

To build communities where people can live happily in a home they can afford.

## MISSION

To build and maintain quality homes and thriving communities by being increasingly efficient and always considering the needs of those we house.

## LAST FIVE YEARS

Over the last 5 years we have:

1. Strengthened our finances
2. Developed a strong business model tightly focused on the Oxford to Cambridge corridor
3. Grown through tightly controlled development
4. Improved customer services
5. Invested in:
  - IT systems
  - People
  - New business unit operational structure

## SIX KEY STRATEGIC THEMES

## OUR CHOICES FOR OUR FUTURE

- 1. Customer services**
  - Accelerate digital services offering, to reflect changing customer requirements
  - Develop range of services and tenancy pathways to meet diverse needs
  - Improve engagement and satisfaction metrics
- 2. Delivery of new homes**
  - Increase the delivery of new affordable homes across the corridor
  - Reduce dependence on Section 106 development with move to land-led schemes
  - Consider partnerships
  - Maintain strict development viability criteria
- 3. Asset management**
  - Reinvest in existing stock to provide the homes our customers require and to maintain long term value
- 4. Internal efficiency**
  - Invest in IT systems to improve efficiency
  - Increase use of information to support business unit decision making
- 5. Financial viability**
  - Further strengthen business modelling
  - Maintain conservative approach to funding
  - Take commercial decisions to enhance financial viability
- 6. People, leadership and management**
  - Invest in training and recruitment to improve capability through new skills
  - Build capacity and resilience to reduce risk and provide succession

# Technology strategy



## Technology development programme

We will continue to invest in digital services and IT infrastructure such as:

- ◆ ***The delivery of digital services and migration of customers***
  - Enhancement of customer facing mobile application.
  - Extended rollout of our Customer Relationship Management system to create a single reference database for all our customer interactions.
  - Viewpoint, our digital platform, allows customers to share their views and experiences as a bpha customer through online surveys and engagement tools.
- ◆ ***The creation of an integrated and automated digital platform*** – invest in modern systems including replacement of a number of legacy business systems such as an updated Finance solution and a new HR system.
- ◆ ***The evolution of our skills base and culture to support customer engagement through a digitally integrated approach*** – a transformative mobile staff app for our customer facing Home Agents and the implementation of technology to support mobile working.

# Financials and Operations

# Our financial results



## Group statement of comprehensive income

	Previous UK GAAP	FRS 102			
	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m
<b>Group statement of comprehensive income</b>					
Social housing turnover	94.3	113.0	114.2	115.6	111.9
<b>Turnover</b>	<b>113.5</b>	<b>117.7</b>	<b>123.1</b>	<b>122.4</b>	<b>117.3</b>
<b>Operating surplus</b>	<b>37.0</b>	<b>47.1</b>	<b>48.6</b>	<b>54.9</b>	<b>55.4</b>
<i>Operating surplus as a % of turnover</i>	38.7%	40.0%	39.5%	44.8%	47.2%
Net interest	(33.6)	(34.9)	(34.4)	(33.0)	(31.5)
Surplus from asset sales	2.3	4.2	3.5	8.6	11.2
<b>Underlying surplus for the year</b>	<b>5.7</b>	<b>16.4</b>	<b>17.7</b>	<b>30.5</b>	<b>35.1</b>
Gains/(losses) on financial instruments, investment properties and termination of hedging agreements	(11.9)	(66.3)	0.1	(1.5)	6.6
<b>Surplus before tax</b>	<b>(6.2)</b>	<b>(49.9)</b>	<b>17.8</b>	<b>29.0</b>	<b>41.7</b>

- Over the last 5 years, total operating surplus has grown to £55.4m and underlying surplus to £35.1m in 2018 from £37.0m and £5.7m respectively in 2014.
- These improvements continue to be underpinned by strong operating performance from core social housing lettings activities which has been achieved despite the 1% social housing rent cut which took effect in 2016.
- This is complemented by contributions from development and asset sales and benefits from the derivative restructure undertaken in previous years.

# Operating model



A conservative but commercial operating model generating a 47.2% operating margin

## Turnover breakdown



- Majority of our income is from social housing lettings which has steadily increased since 2014.
- Non-social housing activities accounted for just 4% of turnover in 2018.
- We operate in a region with a high demand for affordable homes and our focus on our core social housing business, together with a carefully controlled development programme, has resulted in improvements in our finances over the five-year period from 2014 to 2018.
- Our core business model does not rely on asset sales.**

# Our financial results

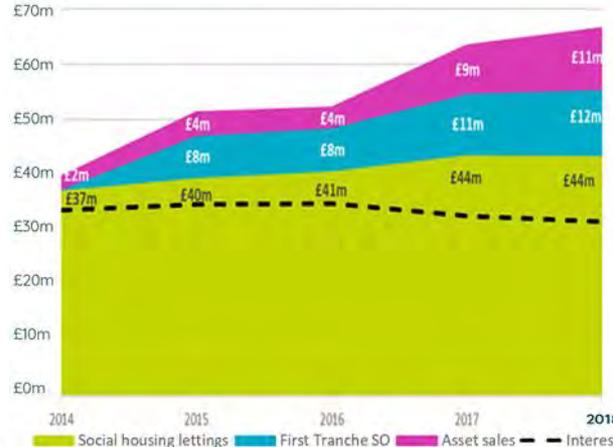
## Revenue, surplus growth and gearing



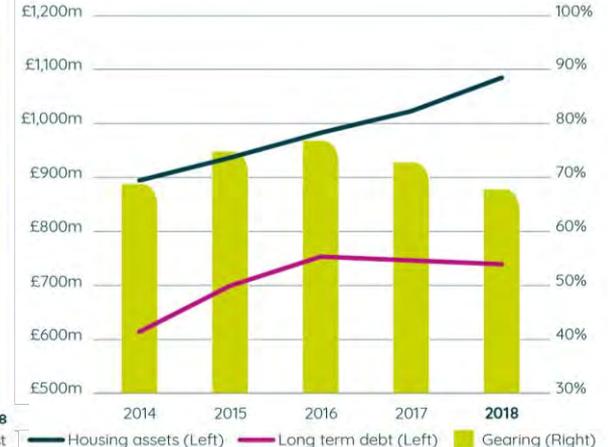
Turnover and surplus



Surplus contribution



Gearing, assets and debt



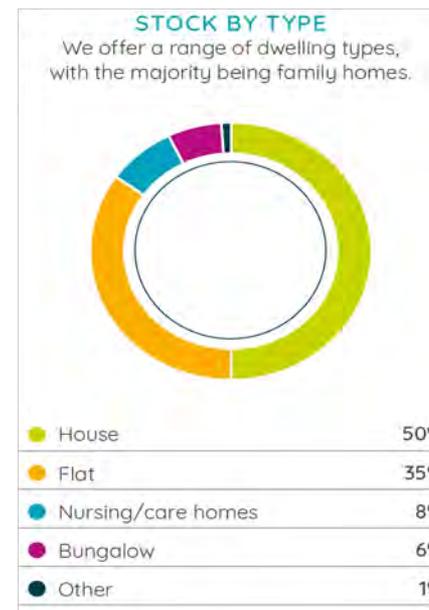
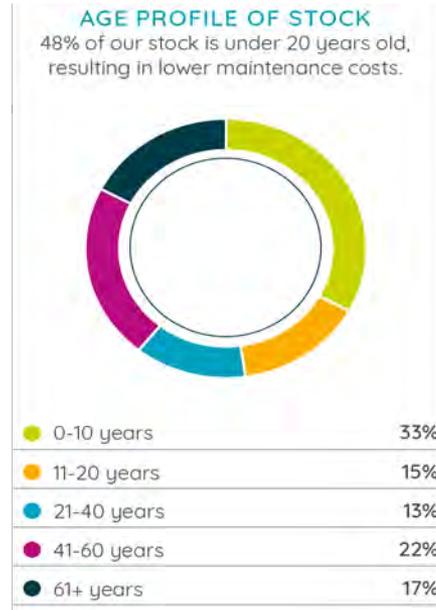
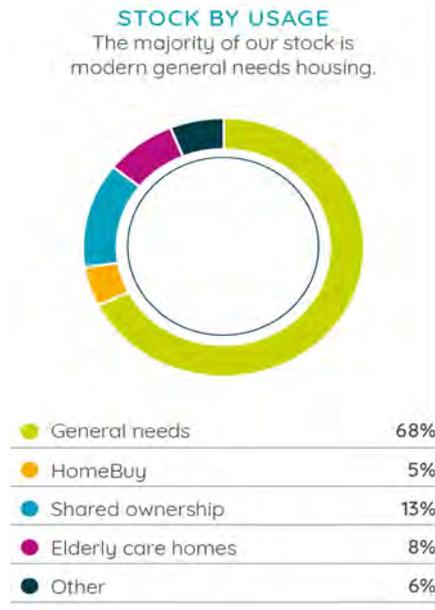
- As turnover has increased, operating margins have remained strong leading to increased operating and bottom line surpluses.
- 2017/18 shows our strong bottom line underlying performance at £35m.

- Social housing lettings contribution has steadily grown and is sufficient to cover all debt interest costs.
- Shared ownership works well in our operating area.
- Asset sales have also made an increased contribution to bottom line surplus.

- The value of our housing assets has continued to rise, and strong cash flow generation meant debt has risen at a slower rate.
- This has led to improvements in our gearing metrics.

# Stock Profile

## Young and well maintained housing stock



100%

of homes have met Decent Homes Standard since 2010



2 full time fire officers employed

- During the year, we invested £22.0m in maintaining and improving existing stock. (£11.8m on capitalised repairs)
- We have 14 high rise tower blocks in Bedford and 2 further blocks in Cambridge. In Bedford no blocks have been re-clad, only 7 blocks are higher than 10 storeys, of which 3 have sprinkler systems and the remaining 4 have two exit staircases.
- Our Cambridge blocks have a limited amount of cladding. Fire and Rescue Service confirmed the blocks are safe to occupy following tests and inspections.

# Operational performance



## Customer focus

- Aim to deliver exceptional customer service through our culture, communication and service delivery across our organisation.
- Proud of the work we do to support our tenants and ensure that they can continue to maintain their tenancies and live safely and securely in their homes.
- VfM and customer satisfaction levels are achieved through continued improvement of underlying operations.

## Survey of tenants and residents (STAR)

	2015/16	2016/17	2017/18	Target
General Needs (rent provides Value for Money)	85%	87%	<b>88%</b>	85%
General Needs (overall service provided)	82%	89%	<b>87%</b>	87%
Housing for Older People (rent provides Value for Money)	93%	88%	<b>83%</b>	85%
Housing for Older People (overall service provided)	95%	94%	<b>96%</b>	95%
Shared Ownership (rent provides Value for Money)	68%	73%	<b>72%</b>	70%
Shared Ownership (overall service provided)	62%	78%	<b>77%</b>	65%



Matching of scarce housing resources to specific customer needs delivers greatest value for money



Maintaining successful tenancies is good for the tenant and is cheaper than incurring eviction and void refurbishment costs



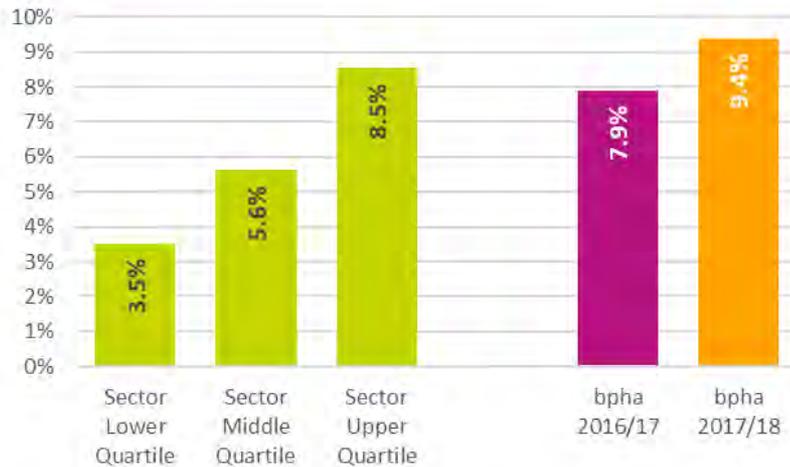
Early intervention is more cost effective, reduces estate operating costs and sustains successful communities

# Value for money & KPIs

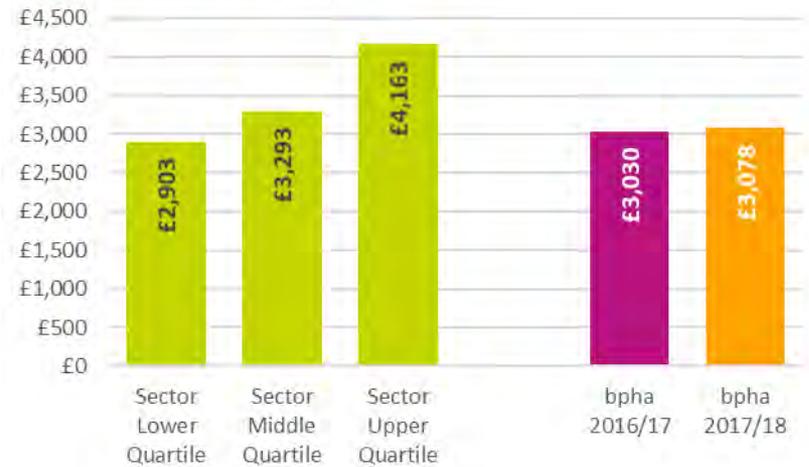
## Continued strong performance



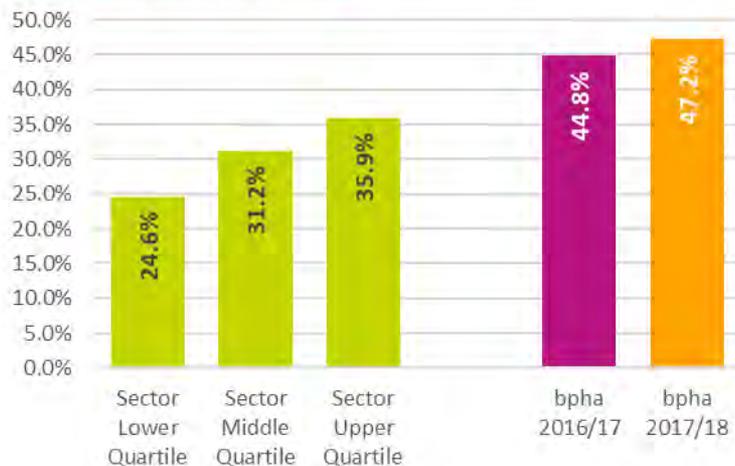
### Reinvestment



### Social housing cost per unit



### Operating margin (overall)



### Operating margin (social housing lettings only)



# Welfare reform



## Universal credit

- Already live in our areas of operation, full digital roll out will be in place by December 2018.

## Rent review

- The Government have agreed a new rent settlement of CPI + 1% p.a. for 5 years from 2020.

## Reduction of the Benefit Cap from Autumn 2016

- Money advice is offered to affected tenants and they are signposted for employment advice.

## Rents capped at LHA

- Following a U-turn by the government, the housing benefit rules to cap at LHA and the single room rate for the under 35s will no longer apply in social housing.

## Removal of the spare room subsidy (RSRS)

- Tenants facing financial difficulties are offered financial advice and the opportunity to downsize.

# Development

# Development strategy

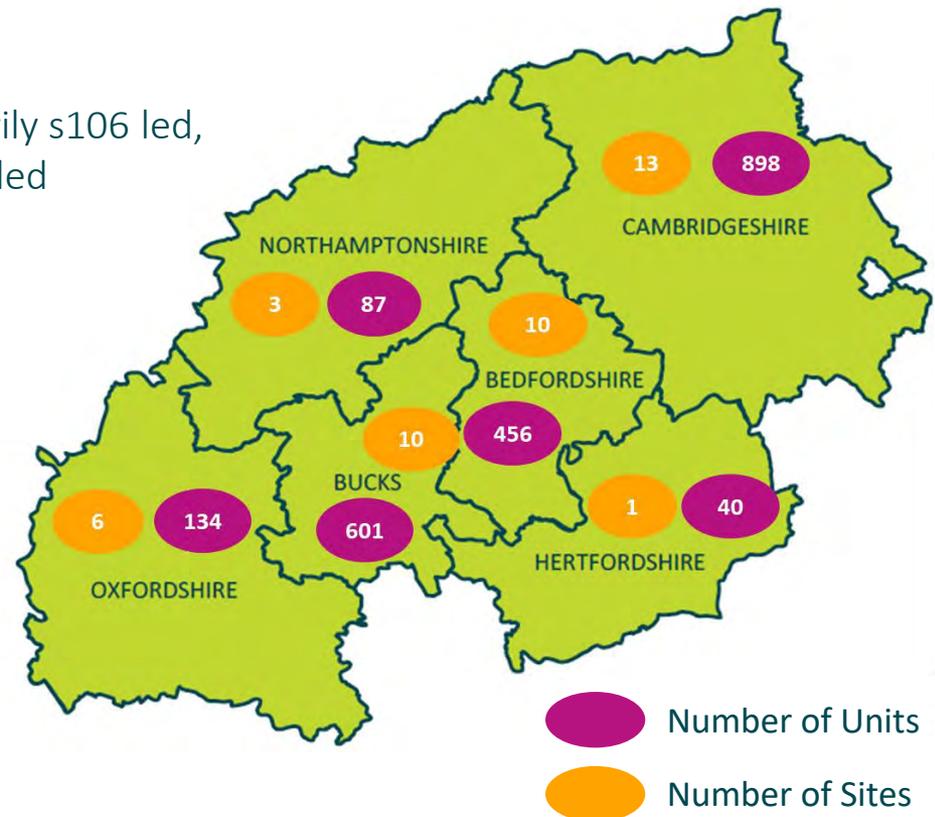


## 3,000 new homes by 2022

- Our strategy is to maintain our development at c.700 new homes per annum, delivering in the region of 3,000 new homes in total over the 5 years to 2022, of which at least 2,500 will be affordable homes.
- Our core operational area is the corridor between Oxford and Cambridge and centred on Bedford as this allows us to maximise efficiency of housing management.
- Current committed development pipeline is primarily s106 led, but it is our intention over time to have more land led schemes within our development programme.

## Current development sites (affordable homes)

- As at the end of July 2018 we are developing on 43 sites across our 6 counties of operation.



# Development delivery



## New Experience and skills to deliver the development pipeline

- ◆ In January 2018, Jeff Astle joined bpha as Director of Development and Sales. Jeff was previously Director of New Business at the Guinness Partnership. He brings a wealth of experience of large scale development projects and land led development which will augment our current development.

## New Development organisational structure

- ◆ The development team is adopting new ways of working with specialist teams who focus on either new development opportunities or project delivery.

## Development Committee

- ◆ The Development Committee provides additional assurance and oversight in relation to the development programme.
- ◆ It is chaired by a Non-Executive Board member, supported by the Chair of ARC and the Chair of FTC, allowing for close alignment of the work of those committees.
- ◆ The executive members of the committee are the CEO and the Director of Development and Sales.

# Development criteria

## Investment appraisal



We only approve schemes which enhance our financial strength by:

- ➔ Increasing ongoing surplus generation from core activities
- ➔ Delivering strong margins
- ➔ Enhancing overall balance sheet capacity

Development Criteria	
<b>Minimum IRR</b>	30 year cost of funds + interest cover requirements + risk buffer uplift
<b>Minimum Asset Value</b>	Security value > net development cost
<b>Positive NPV</b>	35 year NPV, no terminal value and no capital appreciation assumed

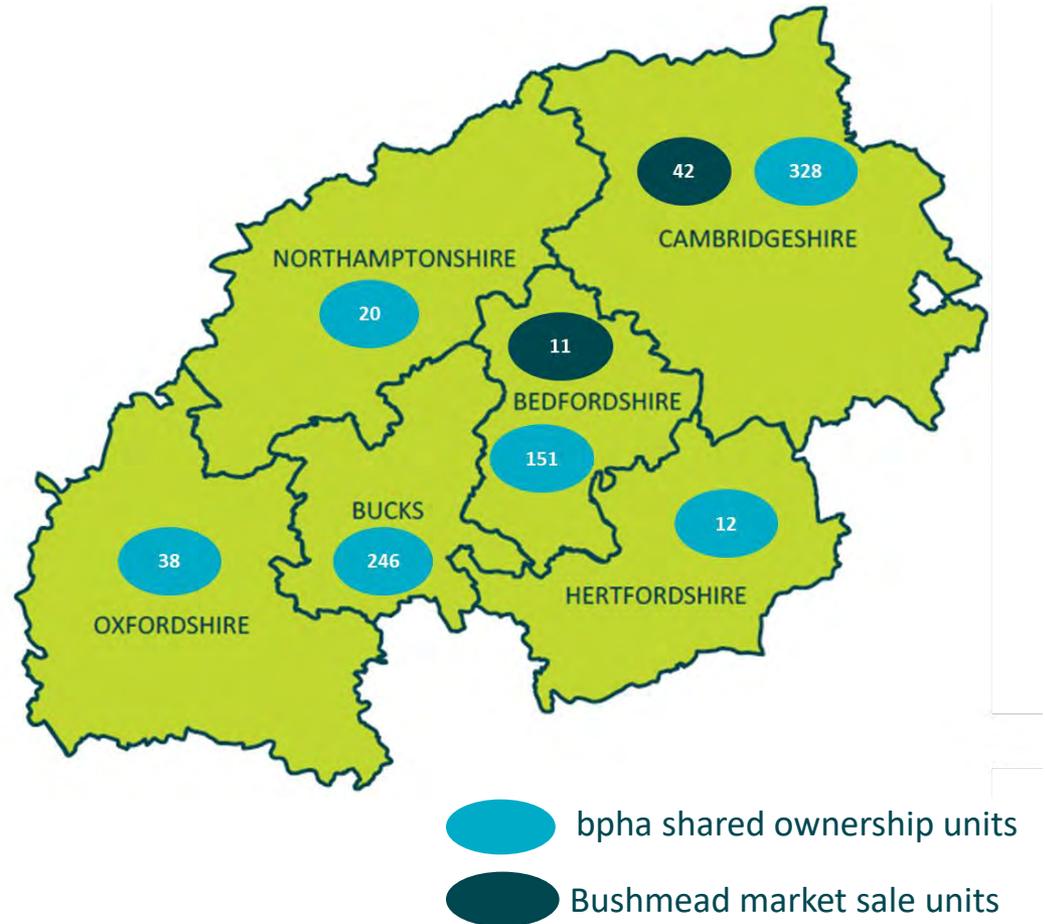
- Conservative development assumptions and all proposed schemes are subject to extensive internal scrutiny, both in terms of financial viability and strategic fit.
- Impact of potential future schemes is formally reviewed against up to date financial projections, to ensure continued liquidity and sufficient asset security as well as avoidance of over-commitment.

# Latest development pipeline

## Limited sales exposure



- ◆ Methodology in place to track monthly sales exposure which is reported to the Development Committee.
- ◆ Stress testing shows that even with a drop of 30% in property values we will continue to be fully covenant compliant and have sufficient liquidity to deliver our commitments.
- ◆ Our developments are spread across our core operating area, with no London exposure.



# Place making case studies

## Clay Farm, Southern Fringe, Cambridgeshire



- The scheme has 513 homes, 296 affordable and intermediate rent and 217 for shared ownership.
- With a community centre at its core we helped establish a variety of groups, community hubs and other support networks.
- Delivering and supporting projects that promote quality of life in our communities.



# Place making case studies

## Wixams Village, Bedfordshire

- ◆ Four new villages centred around lakes.
- ◆ New schools, community centres, shops and a railway station.
- ◆ During 2018 we completed 18 shared ownership and 25 affordable rent homes, adding to the 202 we already own there.
- ◆ Community development officers help establish and sustain our new communities.



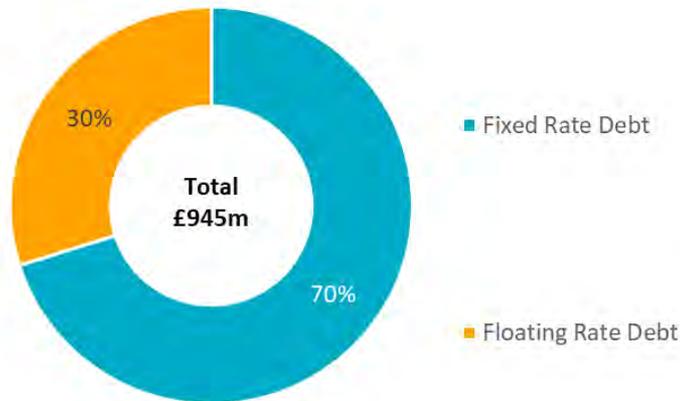
# Treasury and Funding

# Debt portfolio – March 2018

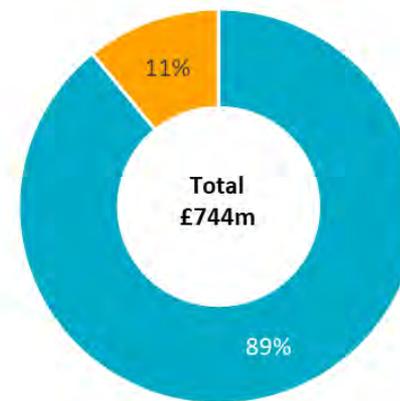
Highly fixed and low refinancing risk



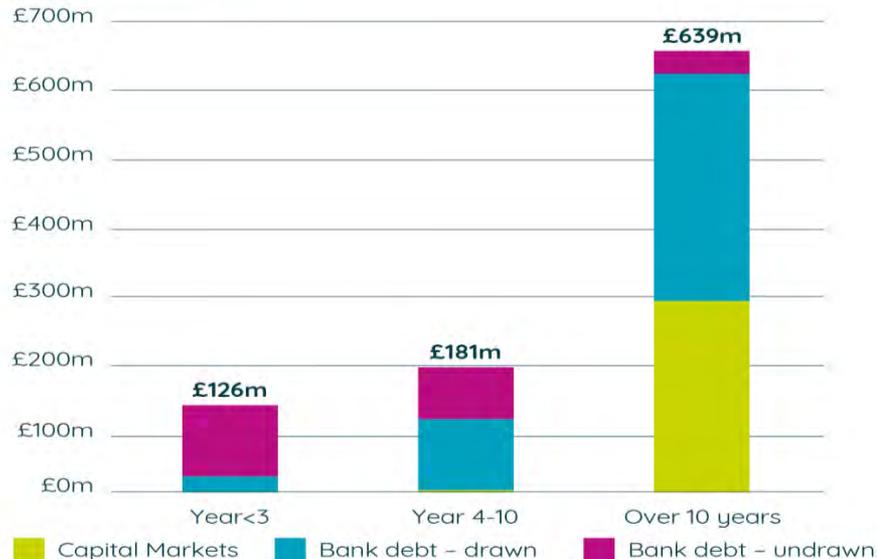
Total Committed Facilities



Total Drawn



## Loan maturity profile



As at 30 September 2018:

- £50m of undrawn RCFs due to expire in 2019.
- Low refinancing risk.
- Drawn RCF to be replaced by long-term debt capital markets funding.

# Liquidity and treasury policy

## High levels of liquidity



### Treasury policy limits

- ❖ Liquidity headroom – defined target and minimum levels by reference to net development spend
- ❖ Maximum proportion of debt allowed to mature within a 12 month period
- ❖ Target security buffer in relation to minimum level of unencumbered assets

- ◆ £215m liquidity headroom (cash + undrawn debt facilities).
- ◆ New debt to be raised in 2018/19, to replace maturing facilities and provide additional funding for development of new homes in line with our strategy.

# Bond security

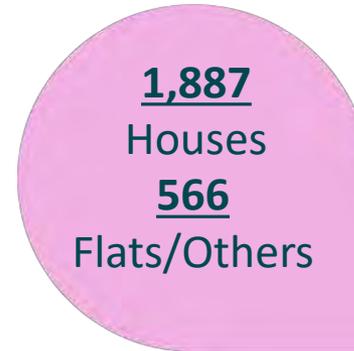
## High levels of security



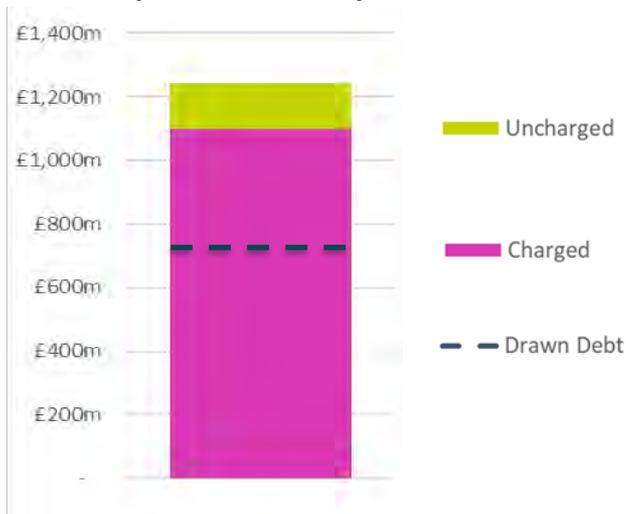
Bond security



■ Houses ■ Flats/Others



## Total bpha security



- ◆ Unencumbered assets remain after tap of bond fully secured.
- ◆ Excess within existing facilities still exists.
- ◆ Capacity for further fundraising in the future.
- ◆ Development criteria means all schemes are security 'enhancing'.

# Refreshed Investors Website



## Enhancing external relations

- In 2018 we updated the investors section of our website improving the platform in which we provide regular business updates
- Highlights:
  - ❖ Interactive digital Annual Report
  - ❖ Improved navigation
  - ❖ Frequent investor updates

Please visit: <https://investors.bpha.org.uk/>

Investors

Wixams

Our Financial Strength

Investors Update

Our Bond

Securing Our Future

**Our investors are key to achieving our goal of creating places where everyone feels proud to live.**

Centred in Bedford, we own or manage over 18,000 homes across the Oxford to Cambridge corridor and employ around 400 people. We operate in some of the most expensive housing areas in the country where house prices can reach up to 10 to 12 times the average salary. 95% of our turnover comes from social housing activities.

### 2018 Performance at a glance



# Credit highlights



**18,253**  
Homes  
owned or  
managed

Uniquely positioned in the Oxford to Cambridge corridor

**A+ (S&P)**  
Credit Rating

**385**  
Homes  
built/acquired  
17/18

Proven track record and sector leading operating performance

**G1 / V1**  
Regulatory  
Rating

**£55m**  
Operating  
surplus

Strong Board and Executive Leadership Team

**44%**  
Social housing  
margin

Significantly enhanced financial strength and liquidity since bond issue in 2014

**£117m**  
Turnover

Conservative development programme supported by robust controls

**176%**  
EBITDA  
MRI cover

# Term sheet



## Proposed Structure

Issuer	bpha Finance plc
Issue Ratings (S&P)	A +
Coupon	4.816% due 11/04/2044
Permanent ISIN	XS1052218358
Tap Size	Up to £150m (of which £75m retained)
Total Deal Size	£350m (of which £75m retained)
Asset Cover Test	1.05x EUV-SH , 1.15x MV-ST
Use of Proceeds	General Corporate Purposes

*Note: See Prospectus for further detail*



**Kevin Bolt**

Chief Executive

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**Paul Gray**

Chief Financial Officer

**Gosia Motler**

Head of Corporate  
Finance & Strategy