



Annual Investor Update

November 2020



Annual investor update

Sovereign and the Wider landscape

Mark Washer
Chief Executive



About Sovereign

- Major business: One of the largest housing associations in the country
- Geographic focus: Core area across South of England – no exposure to London
- High quality portfolio: quality asset base with low level of high rise
- Strong social purpose: 96% of homes built this year were for Social purpose
- Leading operational performance: Low arrears and voids
- Strong financial metrics: Strong margins, high income generation and low levels of gearing
- Leading affordable housing provider: £368m invested in 1,773 new homes, with plans to build 1,900 homes a year
- Leadership: Proven, experienced leadership team, mix of commercial and sector skills
- Strong External Endorsement: S&P reaffirmed A+ credit rating and upgraded outlook from 'negative' to 'stable'

£12bn MV assets
60,000 properties

£109m
Investment in our existing homes

£411m
Turnover

A+/A2 rating
S&P/Moody's

34.8%
Social housing operating margin

£368m
Invested in new homes

G1/V1 rating
Regulator of Social Housing

277
Residents into work or better work

Our corporate plan



**Quality services,
more opportunity**



**More homes,
better places**



**Strong foundations,
more choice**

Corporate Plan Progress

More Homes/Better places:

£368m in new homes, 1,773 homes built during the last year, £109m invested in existing homes;

Strategic Asset Management:

New Home and Place standard; £625m to upgrade 36,000 core units; low arrears and vacancy rate

Customer First and Digitisation:

Customer satisfaction up from 78% to 81%; £2.1m invested in communities; 277 residents helped into work, 1,461 into training



The impact of Covid19

- Our finances remain strong, but our surplus will reduce this year as a result of lower property sales
- We have made no-one redundant as a result of the pandemic
- We will complete fewer new homes this year
- Our planned works programme was suspended for a period
- We put the customer at the heart - eg:
 - 10,000 'resident check-in' calls in first 2 weeks of initial lockdown
 - Created partnership with domestic abuse charity WomanKind
 - Housed several long-term homeless households through Housing First
 - Brought forward £200k funding from Communities, to help feed vulnerable people
 - 14,000 emergency repairs during initial lockdown

Impact from the External Environment



Uncertain politics:
Brexit,
Conservative
party 4 years to
run, what next?



Boris Johnson's Conservative Conference Speech

"Millions of people are forced to pay through the nose to rent a home they cannot truly love or make their own"

Help for first time buyers to underwrite mortgages & deposits

Biggest expansion of home ownership since the 1980s

Planning Reform

PLANNING FOR THE FUTURE

White Paper August 2020



Planning Reform

Focus on:

1. Development
2. Beauty & Sustainability
3. Infrastructure & Connectivity

Section 106 to be replaced by a new Infrastructure Levy

Interim provisions planned: including increase in application of S106 from 20 to 50 homes

A new AHP, but
what impact will
Shared
Ownership
reform have...?



New AH Programme

£11.5 bn for 130,000
homes; 50% Shared
Ownership

New SO model, and a
new Right to SO;
Worsens SO economics
as currently framed

The sub-prime product
of the 2020s?

Annual investor update

Development,
Homes and
Place and
Sustainability

Tom Titherington
Executive Director –
Development and
Commercial



Developing through the pandemic

- First national lockdown led to site closures, followed by a slow return to 70% efficiency
- Fewer handovers than anticipated with 457 handovers in first 6 months of year.
- Maintained quality of build and to build on strong relationships with developers.
- New sales interest and activity maintained with 192 homes completing in first 6 months and with 183 to sell with 80% reserved. Margins increased across all sales tenures.
- Active and successful in bringing in new development – both developer led and Land-led activity.

192
new homes
sales completed

80 % of 183
homes to
sell are
reserved

6,000
pipeline of
new
homes

457
handovers
April -Sept

Development Strategy

Delivering 1,900 homes
annually

Land led approach,
enabling greater
flexibility of Tenure

Working with
Developers / Joint
Venture Partnerships of
Choice

Strength of team to deliver Development strategy



Development Delivery

Strong track record

- 1,773 new homes delivered in 2019/20, delivery of 1,900 target impacted by Covid.

Land-led approach (Key acquisitions and Joint Ventures)

- Thornhill Road, Stalbridge (60 units)
- Yate Magistrates Court (45 units)
- Crown Yard, Thatcham (34 units)
- Sopers Lane, Poole (127 units)
- Clifton Down Shopping centre, Bristol (310 units*)
- Castle Court, Bristol (350 units*)
- JV with Crest Nicholson at Harry Stoke, near Bristol (656 units)
- JV with Linden Homes at Brockworth, Gloucestershire (143 units)

96% of new homes were affordable, either to rent or buy

245
Social rent

780
Affordable rent

30
Open market rent

677
Shared ownership

41 Joint venture sales

Strategic Asset Management

Improvements to our core existing asset base

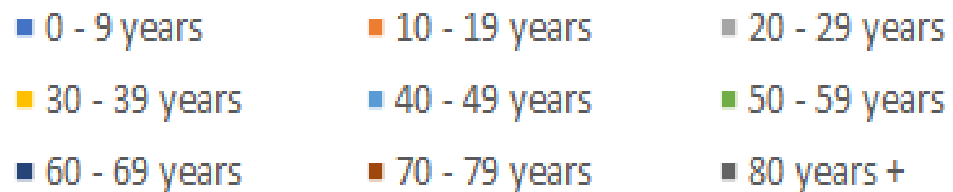
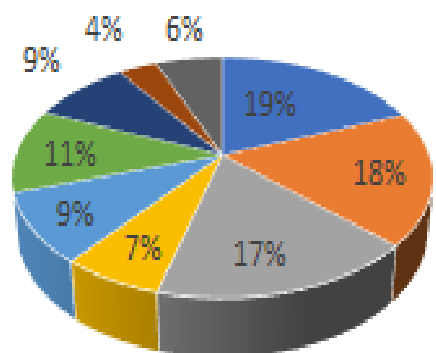
Regeneration projects

Replacement programme

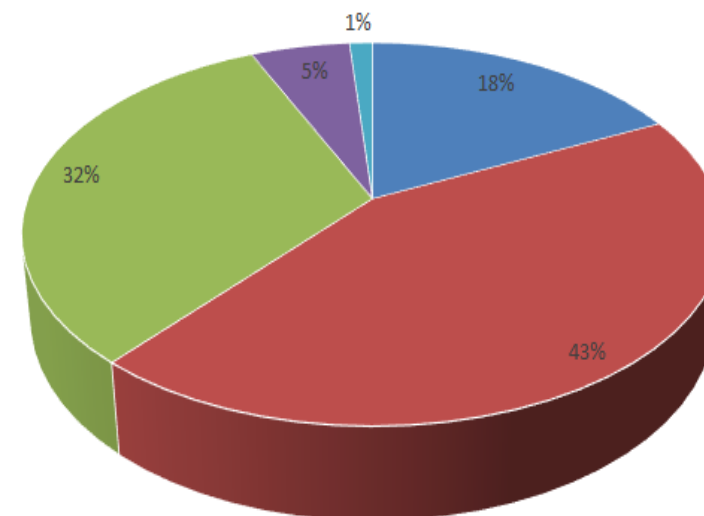
Where we are starting from

- Average age of our stock is 34.7 years, 54% of our stock is under 30 years old
- 61% of Sovereign's core social homes are EPC C or above, compared with 52% for social housing nationally.

Age of Sovereign Homes



Sovereign Core units EPC banding



There are four dimensions of the Homes and Place Standard

Customers

What our homes and places will deliver for those who live in them.

Homes

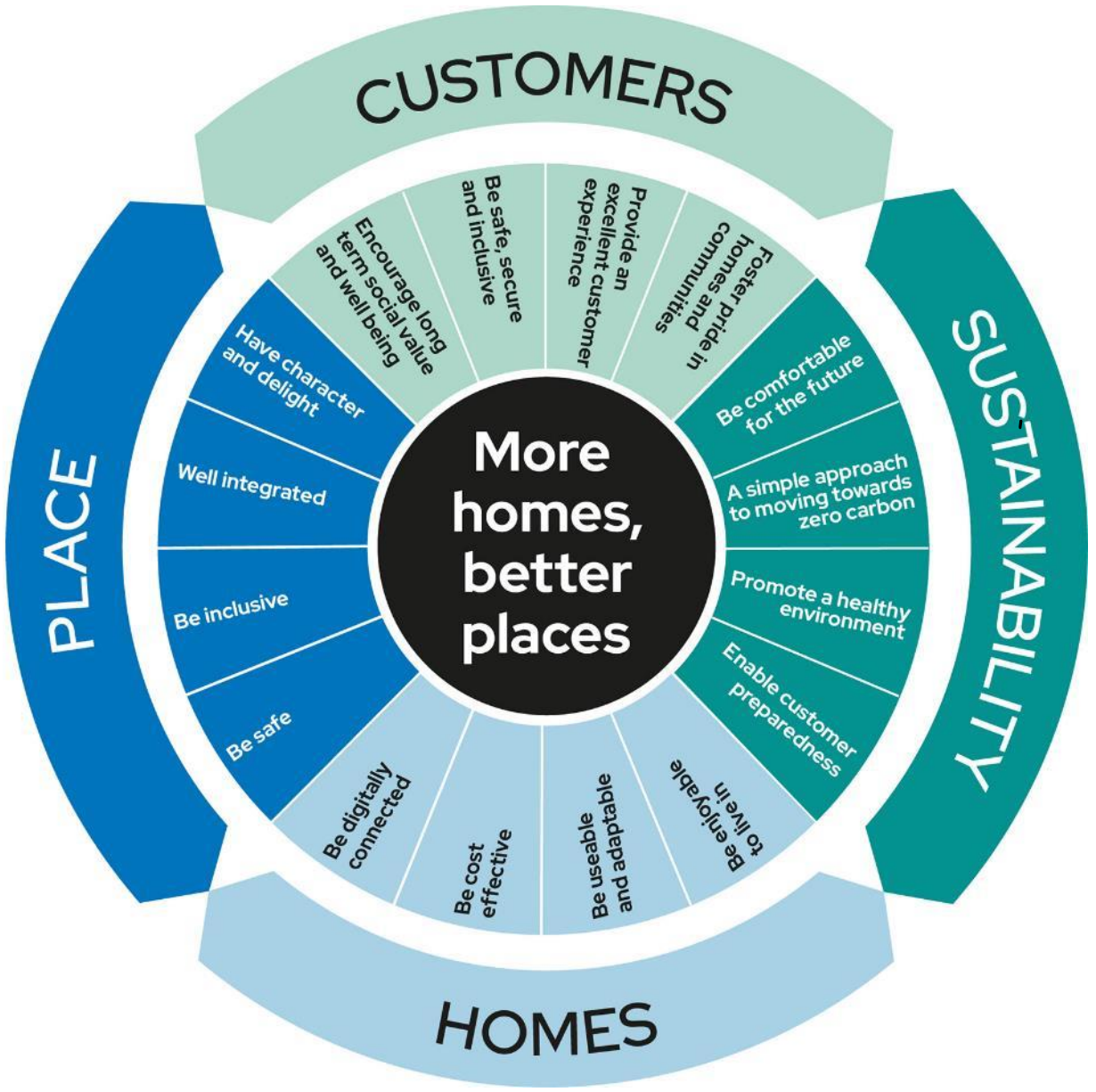
The elements of the houses that we want to create and adapt.

Places

The elements of the places that we want to deliver.

Sustainability

How we will embed our sustainability ambition into our homes and places.



Environment:
Sovereign can
be a leader



Springfield Meadows

Annual investor update

Year End
Performance
and Sept YTD

Tracey Barnes
Chief Financial Officer





G1/V1

Regulatory ratings

A+ and A2

A+ Standard and Poor's

A2 Moody's credit ratings

A major business with sector leading ratings

£368m Investment in
new homes

£109m Investment in
our existing homes

£411m Turnover

59,517 Homes managed

£79.3m Surplus before tax

Sovereign delivered strong results in uncertain times and during a period of transformation

Measure	2020
Operating surplus	£135.9m
Operating margin %	33.0%
Overall surplus £m	£79.3m
EBITDA MRI £m	£131.0m
EBITDA MRI %	31.9%

EBITDA MRI = Earnings before interest, tax, amortisation and major repairs included

Continuing to deliver strong value for money

Investment & Efficiency Regulator VfM metrics	2018-19			2019-20	
	Lower quartile	Median	Upper quartile	Sovereign	Sovereign
Reinvestment	4.2%	6.2%	8.7%	6.3% (median)	7.6%
New supply (social)	0.6%	1.4%	2.5%	2.6% (upper)	3.0%
Headline social housing cost per unit £'000	4.69	3.69	3.18	2.93 (upper)	3.36
Return on Capital Employed	3.0%	3.8%	4.7%	3.9% (median)	3.3%

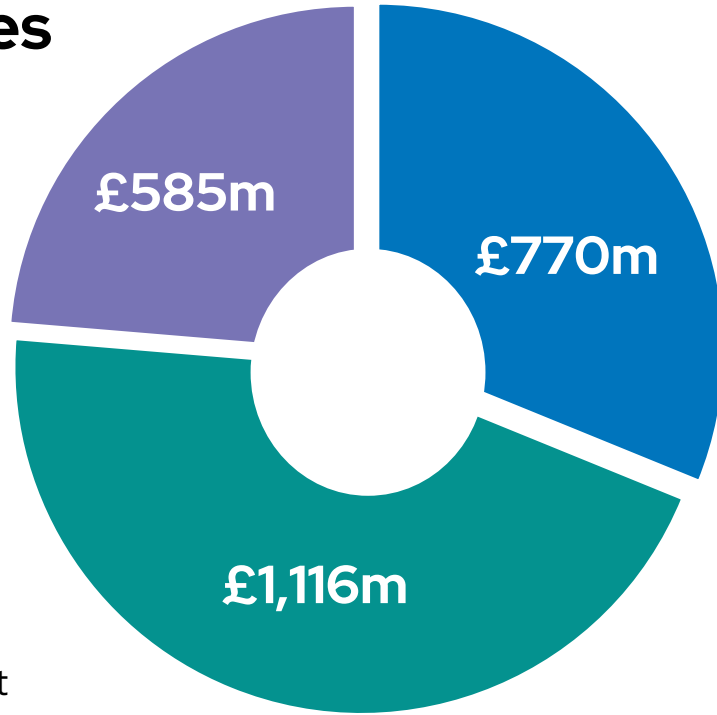
1,219
Kitchens
replaced

2,070
New boilers

90%
Satisfaction
with repairs
service
(target 95%)

958
Bathrooms

Total facilities £2,471m



- Bonds
- Drawn bank debt
- Undrawn bank debt

This financial capacity allows us to invest in the future

- £2bn invested in building new homes over next five years – 2,000 new homes pa
- £3.0m in 2020-21, increasing to £6.0m a year to improve our existing homes
- £3.5m via our Thriving Communities Strategy invested in our communities over next five years

Year End position Funding for the future

£650m of cash and facilities available

45.3% gearing

3.8% average interest rate

205% interest cover

£375m public bond issue, < **2%** interest rate achieved

£1.5bn of housing property still available for security

Strong Financial position to meet challenges (YTD Sept 20/21)

- £43m Retained surplus, which is slightly behind our original Budget (pre-C-19)
 - Driven principally by lower level of income from rent and lower sales due to lower unit handovers offset by lower operating costs.
- Current arrears levels are remaining stable.
- Strong liquidity position, £82m available cash and £860m of available undrawn facilities
- £1.5bn of uncharged social housing assets based on an average EUV-SH.
- Strong Regulator and Credit rating

£43m
retained
surplus

Below 4%
Stable level of
arrears

£0.94bn
Available
liquidity

£1.5bn
Available
security

ESG is integrated into Sovereign's values,

- Supporting our tenants
 - Homes and Place delivering more sustainable homes, reducing fuel poverty
 - Over 90% of our homes are of Social tenure
 - Residents Board partnership and Scrutiny Group providing strong Governance, with Tenancy and Communities support teams advisors and supporting our residents
- Supporting our employees
 - Accredited Living wage provider
 - Mental health awareness advisors supporting our employees
 - One extra day given to all employees not furloughed and Wellness Wednesday, introduced to ensure staff take time away from their desk while home working
- External reporting
 - Part of Working group creating a Sustainability reporting framework
 - Sovereign will be an Early Adopter for ESG reporting and we have an internal working group setup collating a report for 2019/20 data

943
Residents supported with employment and training advice

277
Residents supported into work or better work

20
Tenancy support advisors supporting with budgeting, UC advice

20
Environmental projects completed

A photograph of a building corner. The left side is covered in vertical wood siding. The right side is a textured orange wall. A dark grey horizontal trim piece runs along the top of the orange wall. The sky is a clear, bright blue.

**Thankyou
and time for
Questions**