Mid-Year Business Update 2019

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Making homes and lives better

Contents

The first half of this year	03
Key areas of focus	05
The potential impact of Welfare Reform	05
External Credit rating view	05
Performance overview	06
Gross rent arrears as a percentage of rent due	06
Average re-let time in days	07
Rent loss due to voids	07
Commercial subsidiaries	08
Financial performance	09
Cash flow and liquidity	11
Strong liquidity and low refinancing risk	11

The first half of this year

For the third year running Wheatley Group was named the biggest developer of social housing in the UK with the completion of 640 houses for social rent and a further 240 for mid-market rent between April 2018 and March 2019. In the first half of this year we have continued our significant new-build programme with investment of c.£50m and the delivery of 493 new homes across the central belt of Scotland. With over 600 more expected to be completed by the year end, we are on track to deliver more new homes in 2019/20 than in any previous year.

The Group's largest subsidiary, Glasgow Housing Association ("GHA") also recently announced the completion of its 3000th new home since the stock transferred from Glasgow City Council in 2003. This is a significant milestone for the organisation whose £430m new-build programme, supported by the Scottish Government and Glasgow City Council, has seen communities regenerated with modern, energy efficient housing for people right across the city.

The first tranche of £85m from the Group's £185m European Investment Bank loan, signed in 2018, was drawn at the start of October at a record low interest rate of less than 1.5%. This will support the next phase of our new-build programme, providing 1400 affordable homes as well as improving thousands of existing properties through the upgrading of kitchens, bathrooms, internal common works and other refurbishment.

In summer 2019, Wheatley entered into partnership discussions with Dumfries and

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Galloway Housing Partnership ("DGHP") having been chosen as the preferred constitutional partner, following the consideration of three submissions by DGHP's Board. DGHP own and maintain almost 10,300 homes in the south west of Scotland and their tenants have until 18 November to decide whether they wish to join Wheatley Group with positive initial indications from tenants at consultation events held in the run up to the ballot.

Wheatley had unprecedented success at the 2019 European Foundation for Quality Management ("EFQM") awards held in Helsinki. Following a week-long visit by a team of assessors in May, we were awarded the highest seven-star grading in EFQM history, making us one of only six businesses to receive seven-star accreditation – and the first in the UK. This was a significant achievement, particularly as it was the first time Wheatley had been involved with EFQM as a Group. This success was compounded when we were named "Best in Class for Outstanding Contribution to Society".

We received four awards at the CIH awards in October, including Excellence in Housing Innovation for our 415 Livingwell Innovation Hub and Excellence in Leadership for GHA's managing director Jennifer Russell.

The safety of our customers in their homes continues to be a strategic focus for all parts of the Group. We have a regime for assessments for our multi-storey properties and have a dedicated in-house team which works in partnership with Scottish Fire and Rescue Service which in addition to inspections is focused on fire prevention measures.

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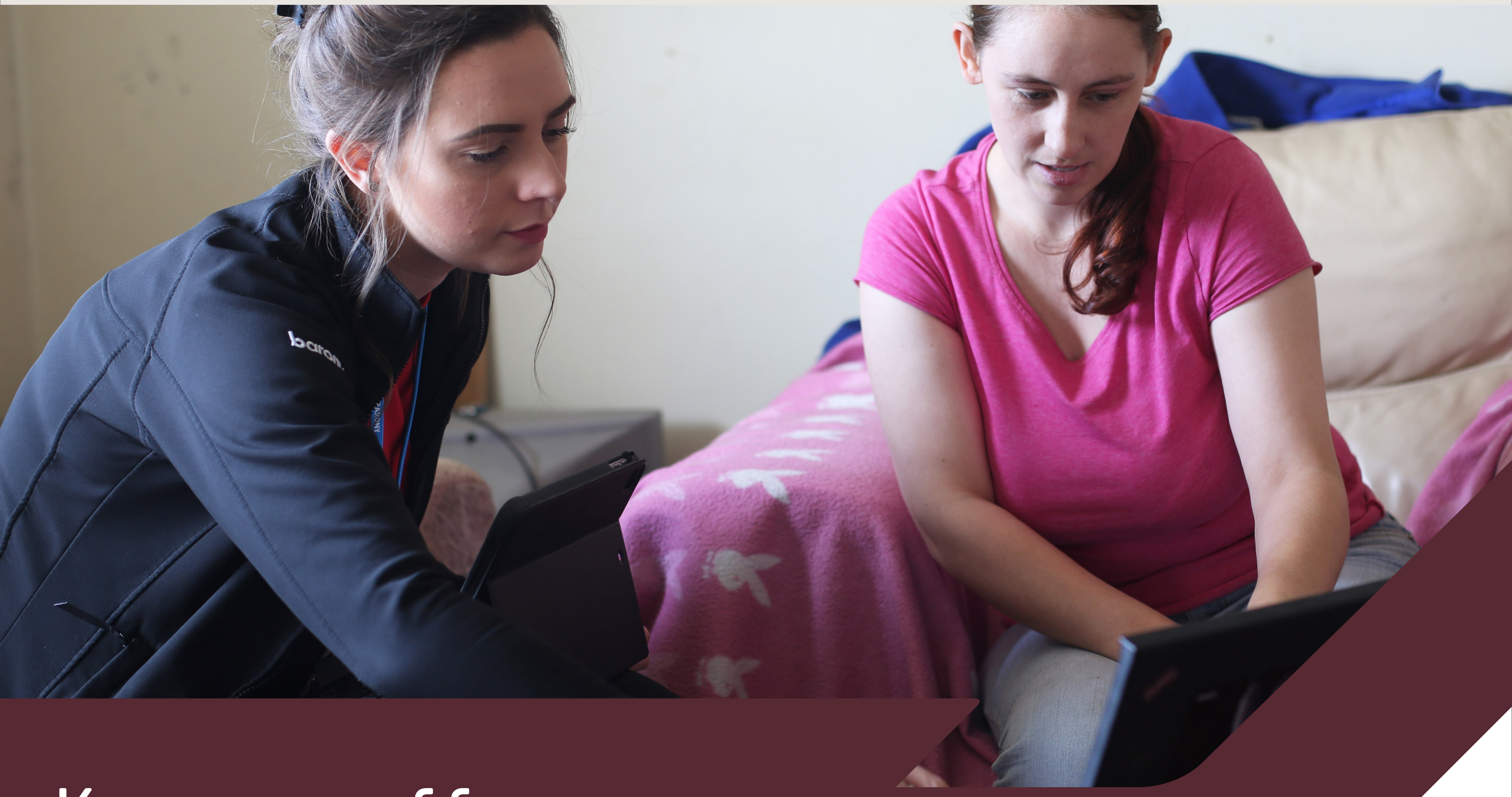

Key areas of focus

The potential impact of Welfare Reform
The full roll out of Universal Credit was completed in December 2018 and at the half year almost 12% of Wheatley tenants had transferred. While it remains a positive aspect that in Scotland people can register to have their rents paid directly to their landlord, we retain a prudent level of financial resources in our business plan for any potential increase in rent arrears. To date, the allocation made has provided more than sufficient coverage for arrears levels.

We have committed additional resources to support our tenants with the implications of Universal Credit providing expert help in all six of our social landlords. This includes help to get online and navigating through the application process through to wider benefits advice and access to fuel and money advisors.

External Credit rating view
Our annual credit rating review was published in May 2019 by Standard & Poor's with the financial outlook revised upward to 'stable' from 'negative'. In addition to affirming the Wheatley Group rating at A+, Wheatley's Stand Alone Credit Profile was also upgraded from A to A+.

S&P Global ratings commented that 'The stable outlook reflects our view that Wheatley will continue to focus on strengthening financial performance, while at the same time retaining its strong liquidity position'. The outlook revision recognised Wheatley's improved financial profile and stronger liquidity as a result of the funding secured from EIB and a private placement. It also reflected S&P's expectation that 'Wheatley will continue to improve financial performance, driven by cost savings and the ability to increase rents on its expanding asset base'.

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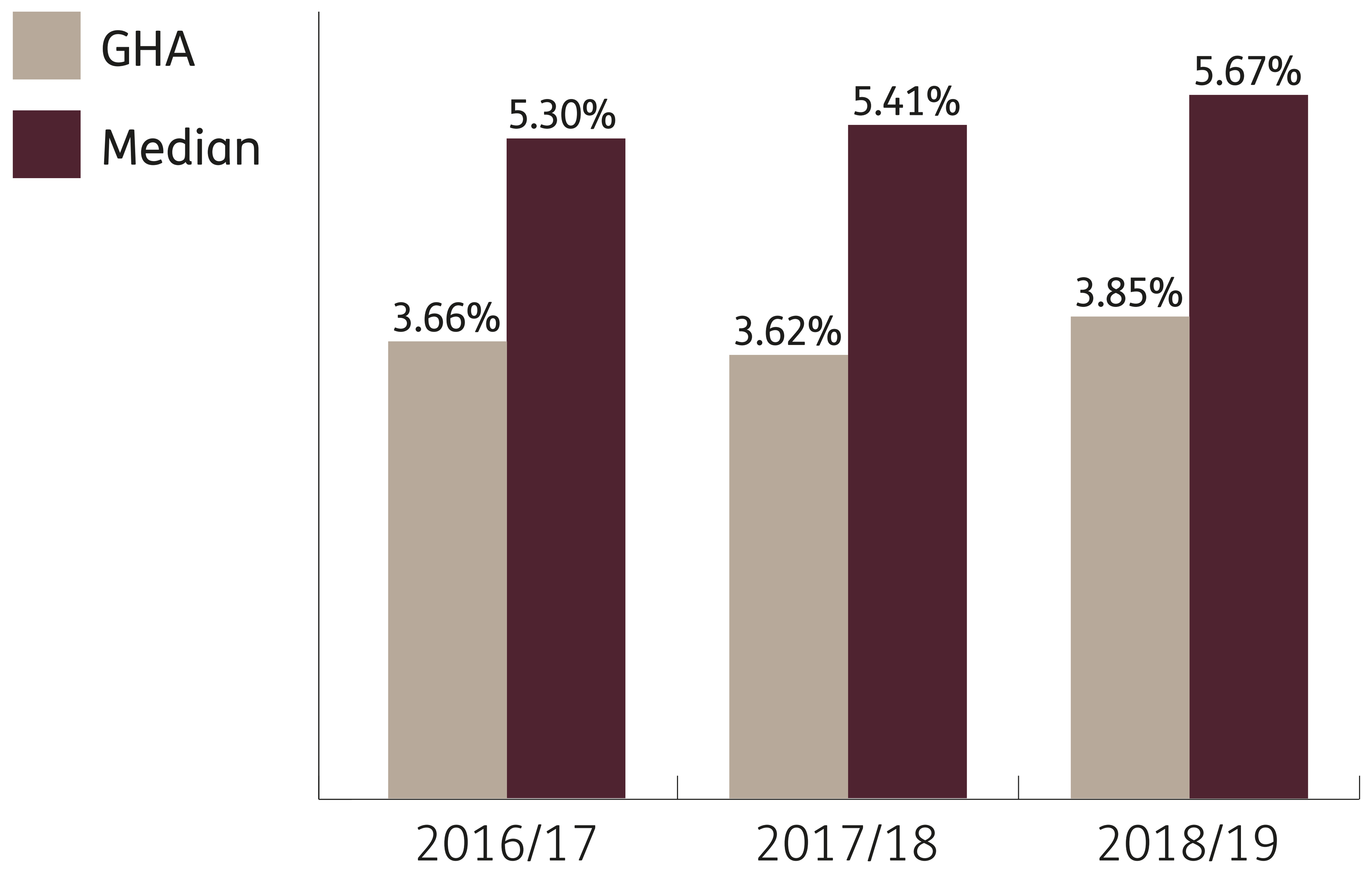
Performance overview

The 2018/19 Annual Returns on the Scottish Social Housing Charter showed that in 2018/19, GHA, the Group's largest RSL with around 40,000 homes for social rent, once again, compared strongly against other Scottish social landlords in the key measures of arrears, days to re-let empty properties and the amount of rent lost on empty properties. GHA's performance against the sector median in Scotland is shown in charts 1 to 3

Across the Group, GHA, Dunedin Canmore, West Lothian Housing Partnership and Barony achieved more than 80% of their performance measures on the Scottish Social Housing Charter in the top quartile.

Rent arrears remain well below the Scottish Social Housing Charter average with the rollout of Universal Credit during 2018/19.

Chart 1: Gross rent arrears as a percentage of rent due



Source: Scottish Housing Regulator Annual Return on the Charter

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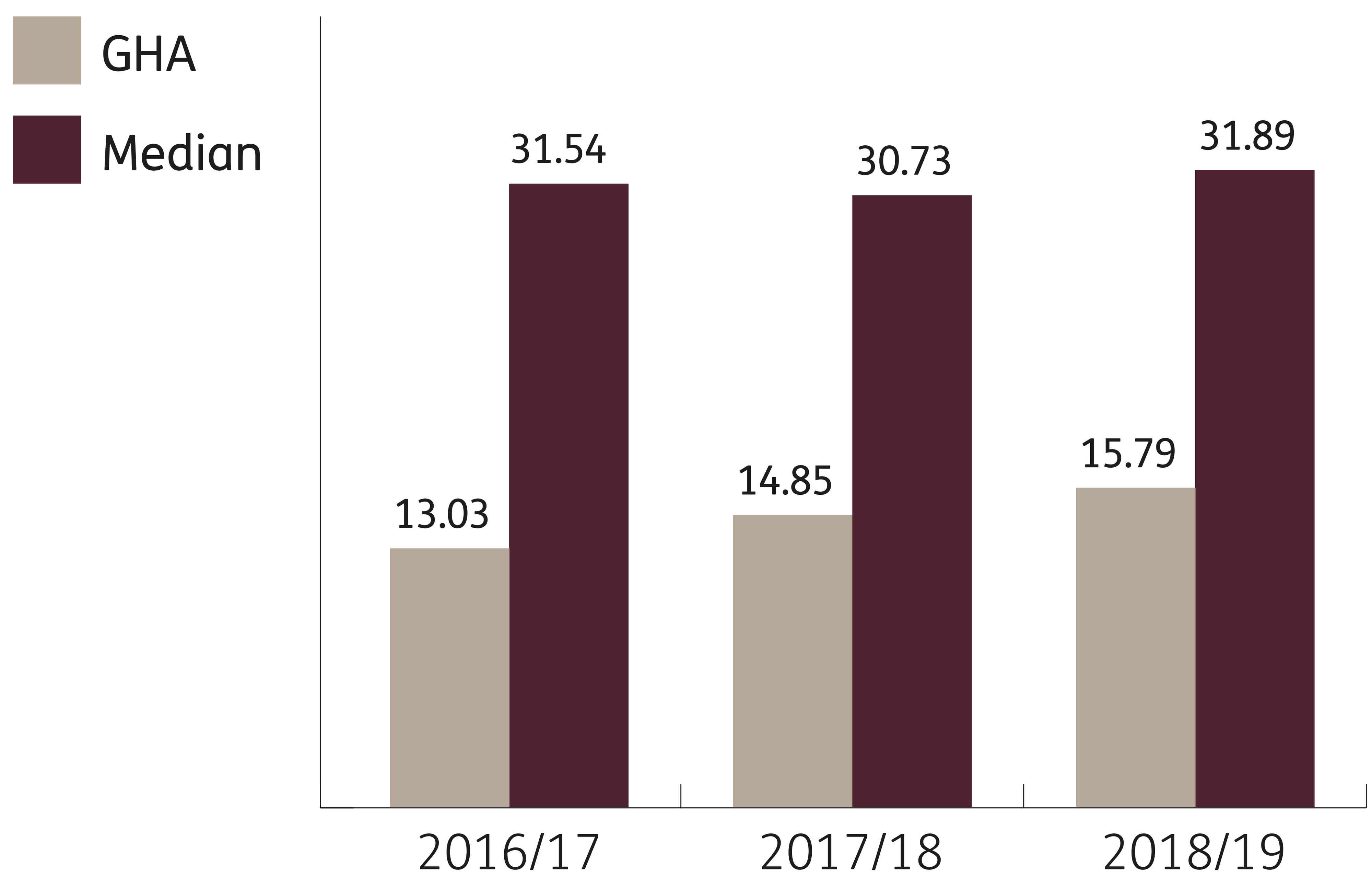
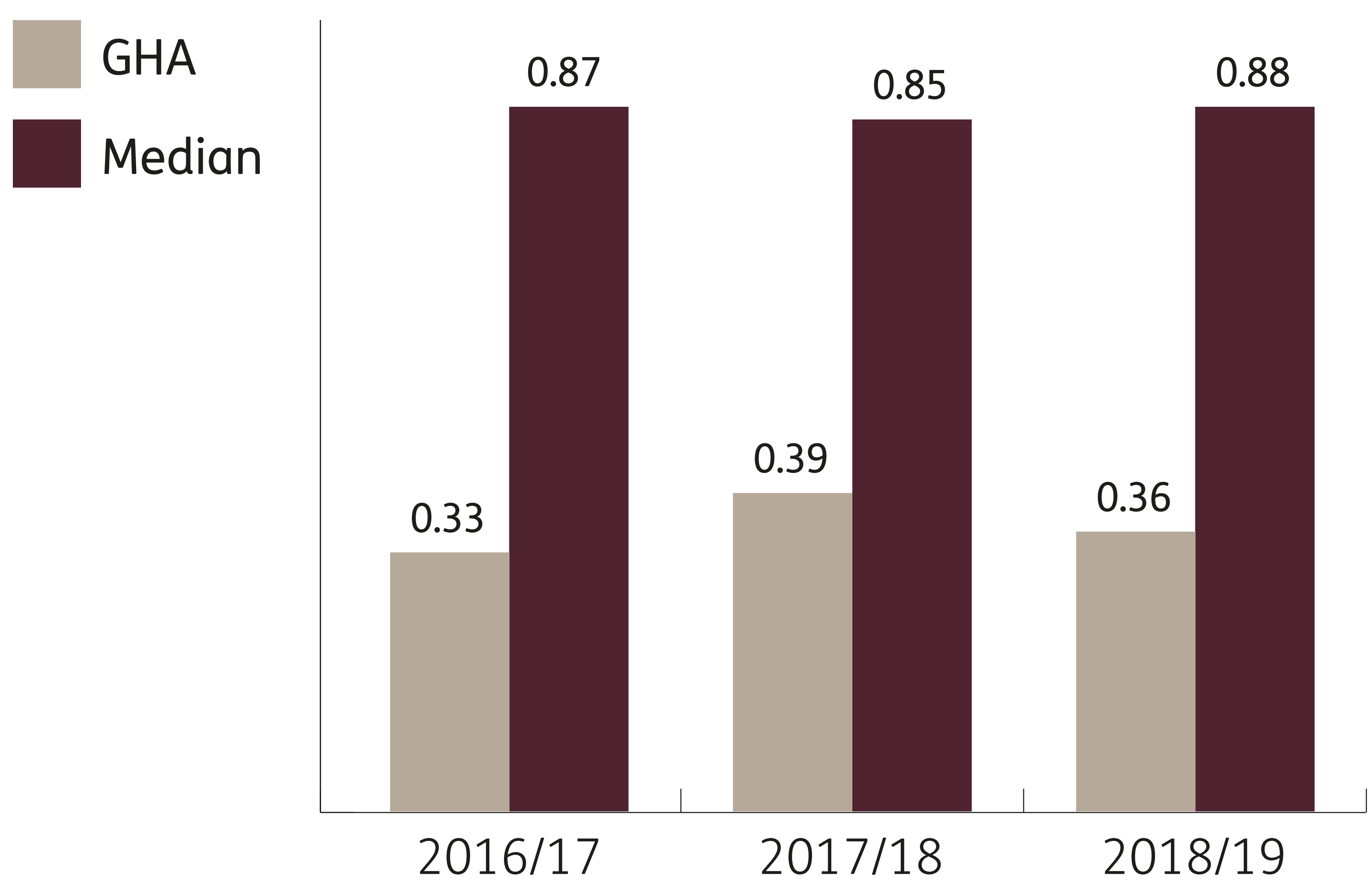
Chart 2: Average re-let time in days



Source: Scottish Housing Regulator Annual Return on the Charter

Chart 3: Rent loss due to voids



Source: Scottish Housing Regulator Annual Return on the Charter

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Commercial subsidiaries

Half year results for our commercial subsidiaries are also encouraging, with both YourPlace, the Group's factoring business (the Scottish term for management of communal areas in and around privately owned properties) and Lowther Homes which owns and lets properties in the private rented sector. Both organisations reported year on year growth in profit before tax in line with their respective business plans generating half year earnings before interest and tax of £3.0m in Lowther and £1.0m in YourPlace.

Lowther's property portfolio grew in the first half of the year with the addition of 94 new-build mid-market rent homes leased from the Group's social landlords. Lowther provides services to the City of Edinburgh Council's mid-market rental and private sector rental companies and the number of homes managed under this contract grew by 112 homes.

The merger of Lowther and YourPlace is ready to complete subject to regulatory approvals by the Financial Conduct Authority. In the meantime, both businesses are working closely together to crystallise the benefits of operating under a common management structure and sharing resources, while still legally separate entities.

Financial performance

The Group delivered an operating surplus of c£50m to the half year (a margin of 29%); outperforming budget/business plan assumption by £19.9m. Of this budget outperformance, £17.2m related to grant income received on new-build property completions ahead of the assumed budget profile, with the remainder attributable to strong letting performance and efficiencies on overhead and repairs costs. Interest costs were £0.9m lower than the business plan assumption to 30 September; reflecting the prudent planning assumptions adopted in respect of variable interest rates as well as the timing of drawdown on loan facilities to fund the new-build programme.

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Financial performance

Table 1: Results for the 6 months to 30 September 2019

Statement of Comprehensive Income	2019/20 Actual £000	2019/20 Budget £000	Variance £000
Turnover	172.4	154.6	17.8
Operating expenditure	(122.5)	(124.6)	2.1
Operating surplus	**49.9**	**30.0**	**19.9**
Operating margin	***29%***	***19%***	
Net finance costs	(31.6)	(32.5)	0.9
Surplus before tax	18.3	(2.5)	20.8

Table 2 sets out a three-year summary of the Group's Statement of Comprehensive Income, including a full year forecast for the current year, 2019/20.

Table 2: Income and expenditure – three-year profile

Statement of Comprehensive Income	2017/18 Actual £000	2018/19 Actual £000	2019/20 Forecast £000
Turnover	304,551	333,552	364,578
Operating expenditure	(244,108)	(266,823)	(255,917)
Other income and gains	1,759	(10,637)	-
Operating surplus	**62,202**	**56,092**	**108,661**
Operating margin %	***20%***	***17%***	***30%***
Share of profit in joint venture	37	50	-
Gain on disposal of fixed assets	3,378	1	-
Net finance costs	(58,335)	(56,653)	(66,146)
Movement in fair value of financial instruments	(320)	(4,727)	-
Surplus before tax	**6,962**	**(5,237)**	**42,515**

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Note that a one-off non-cash adjustment relating to depreciation in 2018/19 led to the slight reduction in operation margin that year.

Our full year forecast projects a turnover of c.£365m generating an operating surplus of c£109m, excluding any potential gain on business combination from Dumfries and Galloway Housing Partnership.

The Group recognises grant income on new-build properties in full in turnover at the point of their completions, as is required by FRS 102 for organisations that carry their housing properties at valuation rather than cost on the Statement of Financial Position. This can create some volatility in turnover. The expected completion of over 600 new-build homes in the second half of the year is therefore a factor in the strong growth in full year forecast operating margin from 17% to 30%.

The underlying trend in the Group's EBITDA (excluding new-build grants) and interest cover position continues to be one of continuous improvement. This reflects the strengthening of our core business, our focus on cost efficiencies and the impact of the Group's new-build programme, and is illustrated in table 3 below.

Table 3: EBITDA and interest cover profile

EBITDA	**2019/20 £000 Forecast**	**2020/21 £000 Projection**	**2021/22 £000 Projection**	**2022/23 £000 Projection**	**2023/24 £000 Projection**	**2024/25 £000 Projection**
Operating Surplus	108,661	82,268	93,056	99,640	111,785	106,563
Depreciation	76,956	79,108	82,619	86,106	89,917	93,865
Revaluation movements	-	7,244	4,873	9,869	7,890	3,555
Grant income on new-build properties	(68,665)	(44,321)	(42,939)	(46,851)	(49,376)	(34,974)
EBITDA	**116,952**	**124,299**	**137,609**	**148,764**	**160,216**	**169,009**
Interest Cover	**1.84**	**1.90**	**2.03**	**2.11**	**2.21**	**2.23**

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Cash flow and liquidity

We manage our business within a number of 'Financial Golden Rules' which are reviewed annually by our Group Board and are set out below. These rules were all comfortably met at the half year.

Golden Rule	Description
Liquidity	Cash requirement for next 15 months + 25% contingency to be met through available cash and undrawn debt capacity.
Contracted Development	Contracted development + 25% contingency to be covered by cash and available facilities.
Gearing	Net debt/asset valuation for RSL borrower group not to exceed 70%.
Gross Debt Per Unit	Always at least £50m headroom to covenant level.
Interest Cover	Always at least 25% headroom to covenant level.

Strong liquidity and low refinancing risk

At 30 September 2019, the Group had £1.6bn of capital markets and bank funding facilities in place, with two funding vehicles supporting the business: Wheatley Funding No. 1 Ltd ("WFL1") provides funding facilities to a number of the RSLs, secured on core RSLs assets, whilst Wheatley Funding No. 2 Ltd ("WFL2") supports the operations of the commercial subsidiaries within the Group. The funding facilities in place on 30 September 2019 comprised the following:

Group Company	Facility	Principal
WFL1	Bond	£300.0m
	Private Note Placement (2017)	£100.0m
	Private Note Placement (2018)	£50.0m
	HSBC Revolving Credit Facility	£100.0m
	Commercial bank syndicated facilities	£658.4m
	European Investment Bank facility 1	£100.3m
	European Investment Bank facility 2	£185.0m
DCH	THFC facility	£16.5m
	Allia	£16.0m
WFL2	Private rented sector bank finance	£76.5m
	Total	**£1,602.7m**

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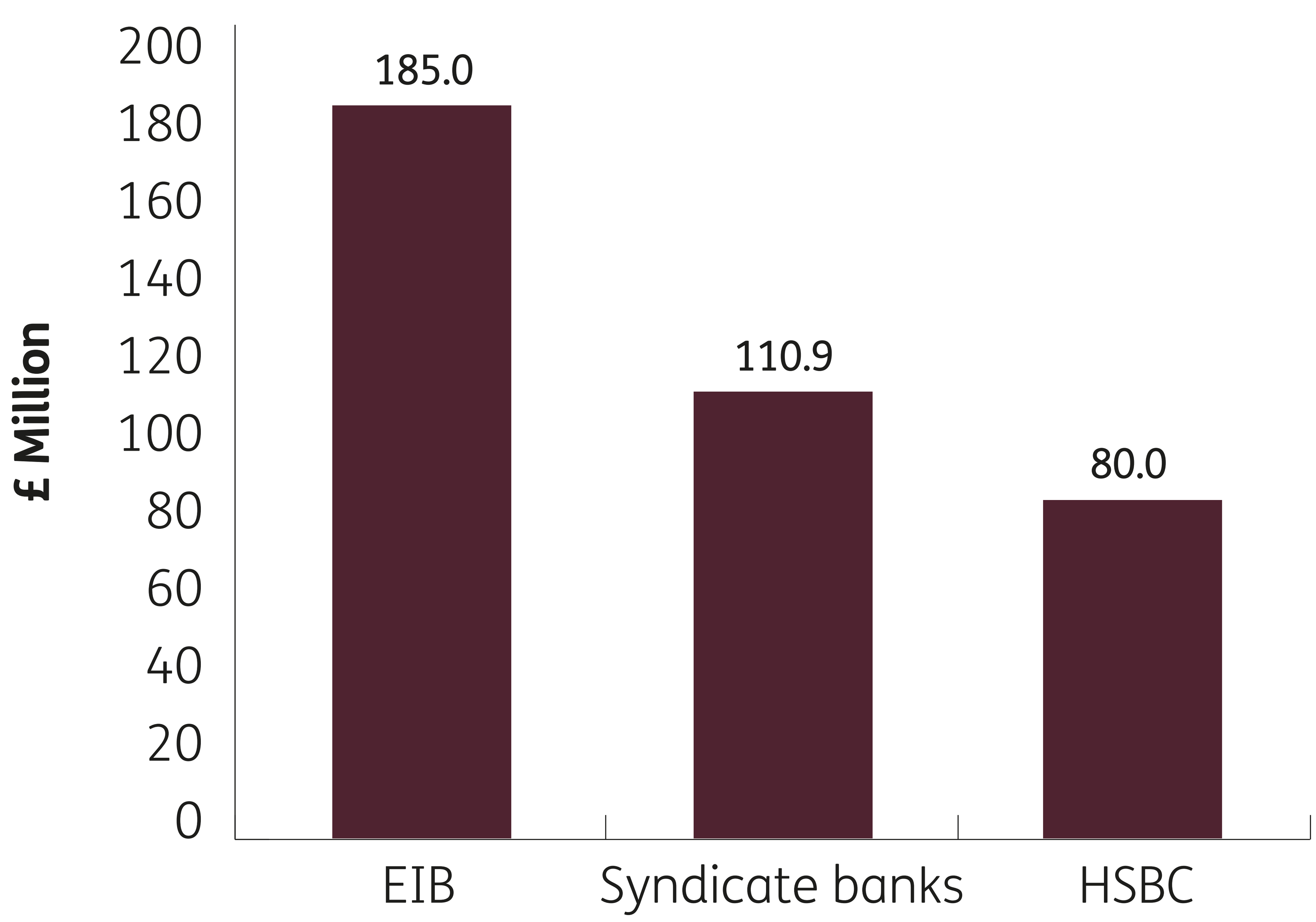
Twenty three per cent (£375.9m) of the Group's borrowing facilities were undrawn at 30 September 2019:



The Group maintains significant liquidity reserves via revolving credit facilities from our Syndicate lenders and commercial banking partners to support working capital requirements in relation to our new-build programme. There will be significant refinancing activity required in the second half of this year in relation to the proposed constitutional partnership with Dumfries and Galloway Housing Partnership ('DGHP'), contingent on a successful tenant ballot. DGHP will sit outside of the Group's cross guarantor RSL borrower group for the day one refinancing. We anticipate DGHP acceding to this borrower group structure during the course of the next financial year as we work through the consent process with our existing funders.

Note that the Group's full business plan, including the potential impact of DGHP joining, is set out in the "Partnerships" section of our Investor Relations website.

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