

Onward
Investor Update

28th January 2022



Mike Gerrard
**Executive Director
of Finance**

Introductions & Onward Overview



Onward Recap

Key Credit Strengths

c.29,000 homes concentrated in the North West – size and focus, enables an efficient use of resources and leverage in negotiations with key stakeholders

Focused on social housing with minimal non-core activity – 96% of turnover from social housing activities (FY21) and limited exposure to market sales risk

A robust governance framework and highly regarded management team – united and focused Board and Executive team with a wealth of experience

Strong asset management strategy with measured plan to grow – delivering 500 units p.a. within a clear and well defined development criteria

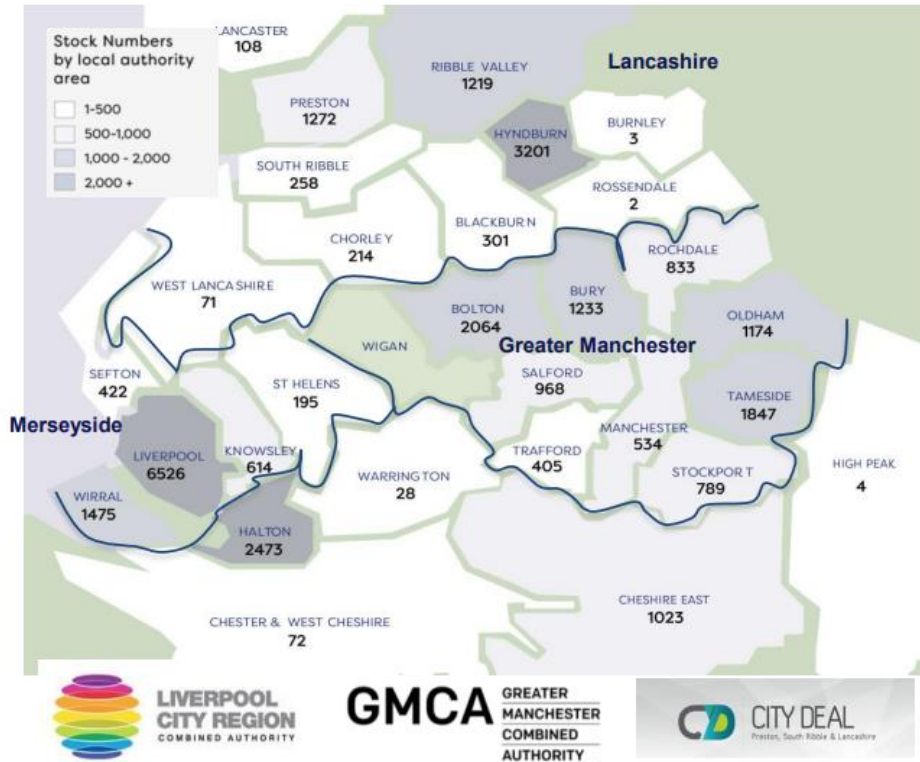
Ultra low gearing with strong financial metrics – consistently low gearing of 23.2% with strong interest cover at 263% (FY21*) / and 2.5x Social Housing lettings interest cover (FY20**)

G1, V1, A1: top third party ratings – a rare A1 (stable) Moody's Housing Association with top G1 / V1 regulatory rating

*Onward Annual Report & Financial Statements 2021

**Onward Group Limited, Moody's Credit Opinion 5 Feb 2021

A leading landlord in a strong economic region



- We serve 59,544 customers living in 29,084 homes **across the North West**
- Our stock is **concentrated in one region** and the majority of our homes are located within **boroughs that we know very well**
- We have **strong relationships with City Region Mayors** and other local government leaders and play a leading role in sector alliances
- Our density means that we can use our **detailed local knowledge** to achieve a **sector leading cost position**
- We are a **leading landlord in the North West** an area regarded nationally for our political stability, economic strength & good governance

Rating Agency Opinion – “A1 (stable)”

“Very strong balance sheet with low debt, strong liquidity”

“Onward’s **exceptional debt metrics** are in part driven by the organisation’s **conservative historical strategy**. Unlike most of its rated UK peers, Onward’s strategy has not been focused on growth over the last few years”

“Because borrowing is driven by development of new homes and Onward had a **minimal development programme**, in addition to its high share of amortising debt, **the group’s debt has fallen to £301m** from £452m in fiscal 2017.”

“Strong interest cover ratios”

“... social housing lettings interest cover (SHLIC) of 2.5x in fiscal 2020 which is **in line with the A1-rated peer group median of 2.5x** (fiscal 2020) and **well above the overall rated peer median** of 1.3x (median: fiscal 2020). SHLIC will remain strong over the next three years, averaging 2.3x”

“... The CVIC ratio is also **expected to remain robust driven by the group’s stable operating cash flows**... CVIC for FY20 was 2.3x, up from 1.5x in fiscal 2019 (impacted by one-off breakage cost)”

“Conservative strategy with focus on social housing, moderate capital exposure”

“... **continued focus on low-risk social housing lettings, moderate development targets** with modest diversification into market sales”

“... **92% of Onward’s income was derived from social housing lettings** compared to a rated peer median of 79% of income.”

“... development ambition and [capex] will remain moderate compared to peers. **Net capex to turnover was 7%** compared to a rated peer median of 34%.”

“Supportive institutional frameworks”

“The operating environment for English HAs has improved under **more supportive policies** for social rent increases and capital grant.”

“Following 4 years of social rent reductions, **HAs now benefit from a return to inflation-linked rent increases from April 2020 for five years.**”

“In addition, the government has **committed to increased capital grant on more flexible terms for new social housing.**”

The Moody’s public rating was published in February 2021 – link below:

[Research: Rating Action: Moody's assigns A1 rating and stable outlook to Onward Group Limited - Moody's \(moody.com\)](#)

Our focused 5-year Corporate Plan

We are focused on social housing, with modest and measured non-core activity.

We are all about making a positive social impact, by providing good homes and services, promoting independence and resilience.

Our new build programme is modest and based upon a realistic assessment of need.

Our Corporate Plan has **three strategic objectives**:

1. Become the social landlord of choice
2. Improve our neighbourhoods
3. Grow where we can make a positive difference

5-year Corporate Plan (2018-2023):

consolidate the organisation, provide good homes and services for independent customers and resilient communities.

30-year Business Plan: places our Corporate Plan cycle in a robust long-term context characterised by financial strength.



Governance & Risk Management

Group structure and governance

We **operate as a single business**, with a unitary Board of skilled and experienced leaders

NEDs form a majority and serve for a maximum of 6 years

Our **Board takes a strategic focus** and detail is explored through specialist committees

Our journey of consolidation is concluding, now we want to leverage our scale and inherent financial strength to do more good

Our **subsidiaries reflect our growth strategy**, so they are tailored to deliver strategic goals in the most effective way

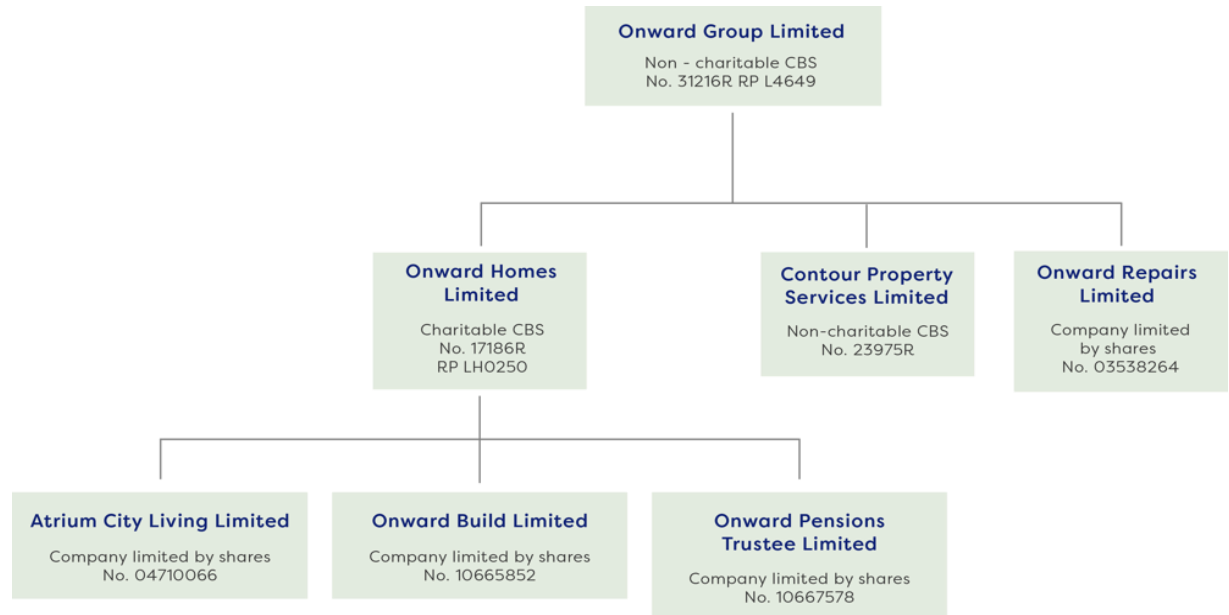
Structure Update

Changes

On the 1st of April 2021 Contour Homes transferred into Onward Homes, finalising our group consolidation project.

We have also formed Onward Pensions Trustee Limited. This entity has enabled us to bulk transfer out of SHPS and manage the rising deficit contributions / last man standing risks.

Current Structure



Governance Update

Changes

Dr Neil Goodwin, our previous chair, stepped down from the board in 2021 after reaching our 6 year term limit.

Our new Chair, Tim Johnston, brings a wealth of experience to the Board.



Tim Johnston

- Tim is a graduate economist, Chartered Accountant and experienced leader
- He qualified with KPMG, became a Senior Partner, and UK Head of Infrastructure and Government
- Co-founded and now Chairs a successful specialist economic and financial advisory business, AMION Consulting
- Holds range of senior leadership positions as a non-executive director and trustee, including:
 - Langtree Property Partners (a public sector focused JV developer)
 - Liverpool University Hospitals NHS Trust
 - The Big Trust

Risk management approach

Onward balances **strategic assessment of risk** with detailed risk appraisals in each part of the business

Strategic risks are assessed in **four areas**:

- Performance – customer service, repairs service
- Regulatory/compliance – fire safety assessment, safe working systems
- Finance and people – inflation and recession, interest rates, recruitment/retention, board performance
- Covid and Brexit – rent collection and voids, increasing customer need

Robust **stress testing and mitigation** is in place, including:

- Detailed tracking of rent collection reflected in the financial plan
- “Quadrant” approach to risk scenarios, supplemented with individual tests

Comprehensive building safety approach

- Building safety is a core business function of Onward. We have invested heavily in our people and our homes, are in a strong position and have a clear future strategy

Strong leadership via central strategy and assurance team, plus regional compliance teams

99.97% gas safety compliance as at Dec 2021, currently close to 100% - 7 overdue properties

£5.2m annual spend on compliance and health and safety (FY21 forecast)

100% of our assets have an Fire Risk Assessment (FRA) where required

Limited high rise exposure we own 7 high rise buildings

No exposure to ACM cladding. HPL cladding being removed from three high rise blocks in Preston

We have spent c.£11m on Fire Risk over the last three years and intend to spend a further c.£10m in next three years

FRA actions are tracked and completed – 17,000 in 2017 and <1,000 now

We already implementing our Fire Risk Strategy to deliver the Hackitt Report / Building Safety Bill

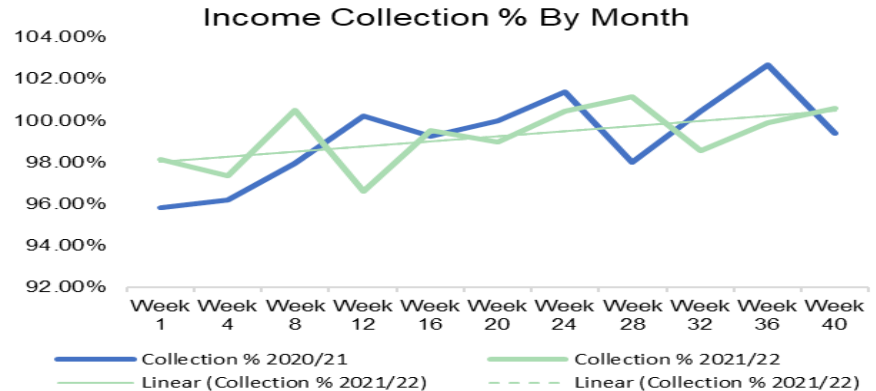
Disrepair – 255 new claims YTD. 251 cases closed/ready to close. Forecast spend £1.3m.

Effective Management of Rent Collection

- There is a strong focus on rent collection at Onward with collection above the sector average since March 20 and **>99.9% for the past 4 years**
- Our dedicated income support work has enabled **effective early identification** and support for people struggling with bills or moving into welfare
- Direct payments from DWP as required help to protect our position where tenants have struggled to pay
- We undertake **weekly reviews of risk indicators**, including failed payments and growth in universal credit claims

	Mar-18	Mar-19	Mar-20	Mar-21	P9 FY22
Void Loss %	1.7	1.7	1.6	2.4	1.65
Rent arrears %	5.3	6.2	6.4	6.8	6.5
Rent collection%	99.9	100.2	99.9	100.1	100.0
Housing Benefit income %	49.9	46.7	42.4	39.5	-
Universal Credit income %	2.1	2.8	4.3	6.9	-
Non-benefit income %	48.0	50.5	53.3	53.6	-

P9 2022 based upon unaudited Dec-21 Management accounts where information available





Financial Performance

Financial Performance

We have **low gearing** and a **modest development programme** based on low planning risk.

We have a **viable financial plan** and understand its drivers in detail.

We are **modelling investment options** that align with our objectives.

£'m	2018	2019	2020	2021
Turnover	168.9	146.8	155.8	156.1
Operating costs	(122.1)	(112.1)	(127.4)	(128.5)
Housing asset disposal gain	1.6	2.8	3.0	0.4
Interest payable	(15.6)	(24.3)	(14.7)	(12.4)
Surplus before tax	32.5	15.2	18.9	20.6
Total other comprehensive income	34.1	(3.9)	35.5	3
Historic cost of housing properties	1,290.8	1,311.8	1,338.9	1,373.0
Net current assets	100.1	27.3	14.2	170.1
Loan balance	377.4	289.3	300.9	440.7
Pension liability	0.9	35.1	13.6	28.5
Revenue reserve	356.7	352.8	388	391
Cash flow:				
Operating activities	53.1	46.7	35.3	36.6
Investing activities	(21.0)	(13.7)	(21.5)	(36.2)
Financing activities	(19.5)	-	(7.9)	130.1
Closing cash and cash equivalents	47.6	46.9	52.8	183.3



- General needs accommodation (69%)
- Older persons housing (12%)
- Support housing (9%)
- Low cost home ownership (2%)
- Other social housing activities (5%)
- Non-social housing activities (3%)

96% of turnover from social housing activities

NB: The difference between 2018 and 2019 performance is due to the demerger of Cobalt Housing

Value for Money

Stable, robust performance

Gearing

- On 1st April 2021 we refinanced two bank lenders incurring £36.1m in break costs
- This followed the transfer of Contour into Onward Homes and our bond issuance
- Gearing, excluding cash (£34m, Dec-21), remains well below peer average

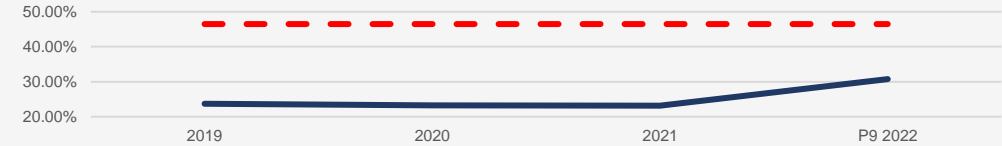
Operating Margin

- P9 showing slight improvement
- Full year outturn expected to be stable vs prior year

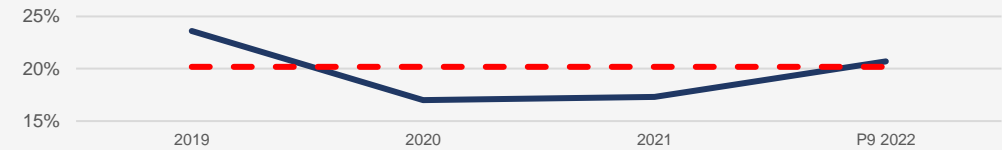
EBITDA MRI

- Historically robust, benchmarking well vs peer group average
- Enhanced by underlying operating performance and refinancing

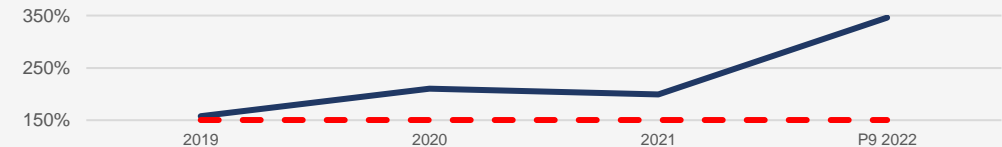
Gearing %



Operating Margin % (overall)



EBITDA-MRI %



--- Peer group average 2021

P9 2022 based upon unaudited Dec-21 Management accounts



Stock Investment & Development Update



Asset management strategy remains on target

Decarbonisation

- We are well positioned to achieve EPC C by 2030 with nearly 75% of our stock at EPC C or above; over 90% surveyed
- Where below EPC C, only 2% of our stock is rated below EPC D
- EPC project in 2022 to identify optimal investment and disposal strategy

Stock Investment

- Our investment programme will see c.£250m invested over the next 10 years
- FY21 investment was slightly subdued due to Covid, but investment pace is now in line with programme

Disposals

- Value-driven disposals programme, £2.2m sales and £1.5m surplus in 2020/21

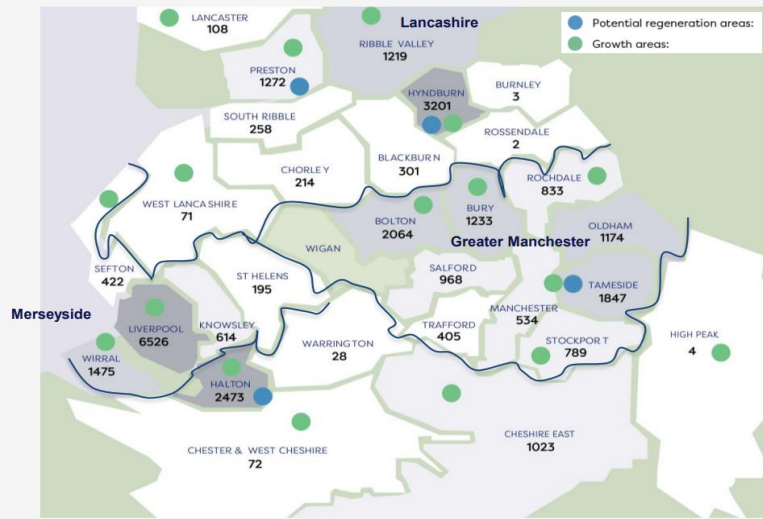
Low risk plan is funded and on track

Development

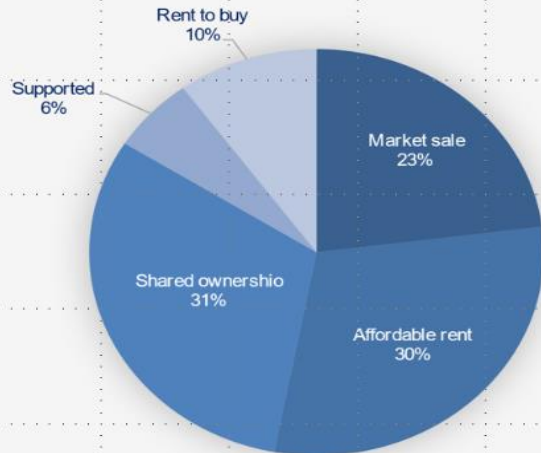
- We plan to build 500 new homes each year and are currently forecasting delivery of over 300 homes in FY2022
- Board Approved pipeline of 2,000 units
- As a Homes England Strategic Partner, we have secured £150m of grant to deliver 4,200 homes over the next 8 years
- Delivery target of 5,000 new homes by the end of 2030
- We are well on our way to achieving this modest and sustainable pace of delivery, in areas we know very well

Sales

- Sales demand remains robust
- No unsold units at December 2021 and 85% of reservations off plan in year to date
- We have currently sold 45 shared ownership units as of the end of Dec-21 against our full year budget of 77 units. The lag against budget is driven by construction delays
- First tranche sales average of 46.6% remains above our assumed 40% level



GROWTH PLAN TENURE SPLIT





Funding & Treasury

Funding and Treasury

We have **robust treasury policies and systems** in place with appropriate governance checks and balances

Our **treasury strategy** is the right approach to secure our viability and help deliver our objectives

We are guided by **golden rules** that focus on our operating margin and net cash requirement

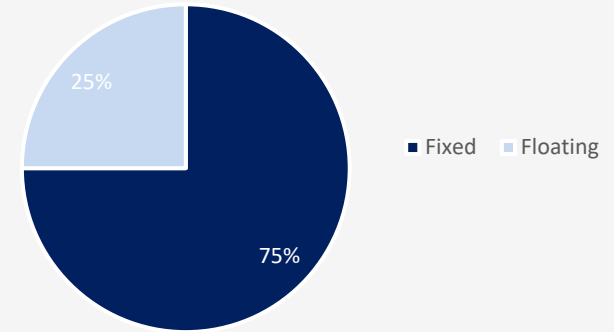
Treasury background

- Onward achieved an A1 public rating with Moody's in December 2020
- We issued our debut £350m public bond in March 2021; of this £135m was retained
- Concurrently we completed the transfer of engagements of Contour Homes Limited (CHL) into Onward Homes Limited (OHL)
- Together these actions reshaped treasury, enhanced risk management, and simplified the group structure

Existing portfolio

£000's	Drawn P9 2022	Total Undrawn	Total Facility
Total Term Loans	107,410	0	107,410
Total RCFs	0	100,000	100,000
Total Own Name Bonds	215,000	135,000	350,000
Total Multi-borrower bonds	20,578	0	20,578
Total Other	1,953	2	1,955
Total	344,941	235,002	579,943

Drawn Debt Fixed Ratio



- The recent bond / refinancing process has materially reduced refinance risk and increased liquidity
- Onward's hedging ratio has also been notably enhanced by the refinance, working to manage interest rate risk and protect long term business performance
- On a drawn basis, 75% of debt is fixed which is comfortably within the 60-80% range laid out in the treasury management policy
- Significant unencumbered assets with an estimated value of £539m on an EUV-SH basis

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