**16 February 2023**

**Platform Housing Group's Trading Statement for the Nine Months to December 2022**

The following report provides a trading update for Platform Housing Group (Platform), covering unaudited financial performance, development and treasury activities.

Highlights

- Social housing lettings turnover growth of 7.1% to £187.4m (Dec-21: £174.9m)
- Robust shared ownership sales margins of 20.1% / 45% on first tranche / staircasing (Dec-21: 19.7% / 43%)
- Total turnover growth of 2.1% to £228.5m (Dec-21: £223.8m)
- 94.7% of turnover from social housing activities (Dec-21: 96.2%)
- Operating surpluses reduced 5.1% to £66.7m, driven in particular by increased maintenance and energy costs
- A+ (stable outlook) credit rating with S&P affirmed
- Stable outlook for full year margins

| **At or for the nine months ended 31 December** | **2021** | **2022** | **Change** |
|---|---|---|---|
| Turnover | £223.8m | £228.5m | 2.1% |
| Social housing lettings turnover | £174.9m | £187.4m | 7.1% |
| Operating surplus(1) | £70.3m | £66.7m | -5.1% |
| New homes completed | 971 | 775 | -20.2% |
| Investment in new homes | £157.4m | £163.2m | 3.7% |
| Investment in existing homes(5) | £9.5m | £13.8m | 45.3% |
| Share of turnover from social housing lettings | 78.2% | 82.0% | +3.8ppt |
| Social housing lettings margin(2) | 36.7% | 33.9% | -2.8ppt |
| Current tenant arrears(3)(4) | 2.7% | 3.1% | +0.4ppt |
| Gearing(2)(4) | 42.0% | 43.5% | +1.5ppt |
| EBITDA-MRI interest cover(2) | 196% | 215% | +19.0ppt |

Notes
(1) Surplus excluding gains on disposal of property, plant and equipment
(2) Regulator for Social Housing Value for Money metric; for more information go to https://www.gov.uk/government/publications/value-for-money-metrics-technical-note
(3) Current tenant arrears includes all general needs tenants (this excludes shared ownership properties)
(4) Figures as at 31 December (as opposed to accumulated over the period to December)
(5) Investment in existing homes includes capital expenditure on maintenance and decarbonisation works

Elizabeth Froude, Platform's CEO commented:

"I am pleased to share our results for quarter 3 which deliver a positive outcome in an ever difficult environment. The turnover in our core social lettings business is up year on year by 7.1%, as a result of both annual rental increases and a further 775 units coming in to management.

Costs of maintenance and investment remain high as we continue to reduce back-logged works and absorbed ongoing cost inflation. This has meant a reduction in social housing lettings margin (36.7% in Dec-21 to 33.9% in Dec-22). As a business, we have agreed with our Board a short term reduction to our Golden Rule of 35% as we step up the investment levels in existing stock. Given the current cost of living crisis, we remain committed to energy improvement works and supporting our customers, which is a commitment we will see carried in to the coming 2023/24 financial year. In the nine months to December we retrofitted approximately 200 homes, improving the average Energy Performance Certificate rating of those homes from an E to a C.

Our customer Wellbeing Fund continues to be in demand and gives us a good insight in to the difficult environment our customers are dealing with and much of the monies paid out are focussed on much needed essentials. This has motivated our Board to increase the total budget from £1.75m to £2.0m for this financial year.

Sales of shared ownership homes remains robust with strong demand for our well-priced homes, with both first tranche proportions and margins being above the prior year. We remain focussed on delivering affordable homes of all tenures we build, and the decline in sales turnover simply reflects the profiling of our development programme. As at the end of December we had only 66 unsold units, almost all of which had completed in late December.

Our Statement of Financial Position metrics remain amongst the best in the sector with the increase in debt and gearing being as a result of ongoing investment for future new homes.

Damp and mould has created higher volumes of customer and stakeholder enquiries, complaints and surveying work. At Platform we have a solid and clear process for dealing with these, to ensure all cases reported are tracked to resolution and have increased resources to accommodate current levels. We have re-run our damp and mould training with all staff to ensure their ability to support our customers and our in-house maintenance team are all equipped with appropriate equipment to deal with the low level and immediate cases they encounter."

**Financial review**

*Turnover*
In the period to 31 December 2022 total turnover increased by 2.1% to £228.5m (Dec-21: £223.8m).

Social housing lettings turnover increased by 7.1% to £187.4m (Dec-21: £174.9m) as a result of inflationary rental increases and a year-on-year increase in social housing units. The increase in turnover was in spite of a slight increase in rental arrears as customers begin to be affected by the cost of living crisis.

Turnover from shared ownership first tranche sales was down 29.6% to £27.8m (Dec-21: 39.5m) due to timing of the development cycle. The demand for shared ownership homes remains robust, with margins and unsold homes performing more favourably than the prior year as outlined later in this report.

Turnover from all social housing activities of £216.3m (Dec-21: £215.4m) accounted for 94.7% (Dec-21: 96.2%) of Platform's total turnover in the period.

*Surpluses and margins*
Operating surpluses excluding fixed assets sales decreased by 5.1% to £66.7m (Dec-21: £70.3m) and operating surpluses including fixed asset sales decreased by 1.2% to £75.8m (Dec-21: £76.7m). Surpluses from social housing lettings decreased by 0.9% to £63.5m (Dec-21: £64.1m).

Operating margins were 29.2% excluding fixed asset sales (Dec-21: 31.4%), 33.2% including fixed asset sales (Dec-21: 34.3%) and 33.9% from social housing lettings (SHL) (Dec-21: 36.7%). The Platform Group Board have accepted a temporary divergence from the golden rule for SHL margin (which targets 35% minimum), in order to continue to invest in improving the quality and energy efficiency of our homes and in continuing the programme for change and improvement, at the same time as continuing to provide planned services and support to our customers but recognising the pressure of catch up works costs and the unprecedented levels of cost inflation incurred in the year to date. No covenants are linked to SHL margin and all other golden rules continue to be comfortably met.

Operating surpluses and margins have been adversely affected by higher maintenance and service expenditures. Revenue maintenance expenditures have increased by 30% to £53.1m as a consequence of cost inflation, a shortage of labour availability (impacting sub-contractor costs) and higher volumes of maintenance jobs as a consequence of clearing the backlog established during covid. In the nine months to December over 9,000 jobs were completed from the backlog at a cost of c£2m.

Service costs of £19.1m have increased at approximately twice the rate of associated incomes as higher costs, associated in particular with energy, have not been passed onto customers in full. Service incomes will catch up to an extent in the following year as new charges are set, but Platform may decide to implement gradual increases over several years to protect customers.

Shared ownership sales surpluses were £5.6m, representing 7.4% of total operating surplus (Dec-21: £7.8m / 10.2%), with associated margins of 20.1% (Dec-21: 19.7%).

Staircasing sales of shared ownership properties, where a customer buys a further stake in their home, continue to perform in line with the prior year with surpluses and margins of £5.2m and 45% (Dec-21: £4.8m / 43%).

The overall net surplus after tax, which incorporates interest costs, was £42.8m in comparison to £33.6m in the prior year due to favourable loan breakage costs/credits in the prior/current period (£10.5m) and one-off depreciation charges in the prior period (£5.6m). When these are adjusted for, surplus after tax of £26.7m is £6.9m lower than the prior year figure of £33.6m, driven by increases to maintenance expenditures and service charges as outlined above.

*Outlook*
For the year to March 2023 turnover is expected to continue to grow in line with new units coming into management. Operating costs are expected to continue to be adversely affected by higher maintenance and service costs. Overall margins are expected to be broadly in line with those for the year to date.

**Development review**

Platform's home building programme continues to produce new affordable homes for those in need across the Midlands. There were 775 homes completions to December (Dec-21: 971), all of which had an EPC rating of B and above. Of these, 201 (26%) were built for social rent, 299 (39%) for affordable rent and 275 (35%) for shared ownership. Development expenditures were £160m in the period (Dec-21: £155m). At 31 December 2022, Platform owned a total of 47,767 homes (Dec-21: 46,968).

The development programme has been affected by an increase in global demand for materials, the impact of Brexit and the war in Ukraine. These have resulted in increases to materials and labour costs, and extended supply times. Most schemes on site are subject to fixed price contracts, providing some protection from cost inflation in the short term. However, cost increase requests for schemes on site continue to be experienced and for new schemes it is becoming more difficult to enter into fixed price arrangements.

There were 279 shared ownership sales to December (Dec-21: 457). The number of unsold units at the end of the period was 66 (Dec-21: 124). The majority of these units (51 out of 66) were handed over during December 2022.

*Outlook*
Platform remains committed to developing in a prudent and sustainable manner, without compromising financial strength. Development cost inflation, which is expected to persist in the short/medium term, may affect the scale of our programme. The projected delivery for our identified and on-site programme for the full year is approximately 1,100 homes.

There are currently no signs that the unfavourable economic conditions are adversely affecting demand for shared ownership homes. Higher interest rates and the cost of living squeeze may have a detrimental impact on owner occupier housing demand going forwards, however, it is also possible that those looking to buy a home on an outright basis might be drawn towards the more affordable shared ownership product. Platform has no outright market sale units in its committed development pipeline.

The Group does not invest in speculative land and has no actual or expected material impairment in development sites.

**Treasury review**

*Ratings activity*
Platform retained its A+ (stable outlook) rating following S&P's annual review shortly after the period end. Platform is also rated A+ (negative outlook) by Fitch, with the rating outlook aligned to the UK Sovereign rating outlook, which was revised to negative following the UK's 'mini-budget' in September 2022.

*Debt and liquidity*
Net debt was £1,244m (Dec-21: £1,139m). Net debt comprised nominal values of £882m in bond issues, £80m in private placements and £444m in term loan and revolving credit facilities, partially offset by cash and equivalents of £150m and non-cash accounting adjustments of £12m.

Platform's weighted average cost of finance was 3.32% (Dec-21: 3.28%).

Platform had sufficient liquidity as at 31 December 2022 (over £550m including undrawn committed facilities and cash and cash equivalents) to meet all its forecast needs until into 2024 (on top of maintaining 18 months of liquidity in line with policy), taking into account projected operating cash flows, forecast investment in new and existing properties and debt service and repayment costs.

*Financial ratios*
Platform monitors its performance against various financial ratios, including Value for Money metrics reported to the Regulator of Social Housing, and ratios it is required to comply with under its financing arrangements.

Gearing, measured as the ratio of net debt to the net book value of housing properties, was 43.5% at 31 December 2022 (Dec-21: 42%). Gearing has increased in the last year due to cash and equivalents being used for development expenditures. In addition, £25 million of treasury deposits with a maturity in excess of three months existed in December 2022, which did not qualify as cash and equivalents for the purposes of the gearing calculation. Gearing was comfortably within Platform's target of maintaining gearing below 55%.

EBITDA-MRI interest cover was 215% (Dec-21: 196%). The movement from the prior year is largely driven by one off breakage costs that adversely affected the prior year comparative figure. The ratio remains well above Platform's target minimum (120%).

*Outlook*

Some upwards pressure in gearing and downwards pressure to interest cover is expected as Platform pushes ahead with its strategic development and maintenance objectives. However, gearing and EBITDA-MRI interest cover ratios are expected to remain well within Platform's targets.

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