



Investor Presentation

January 2019

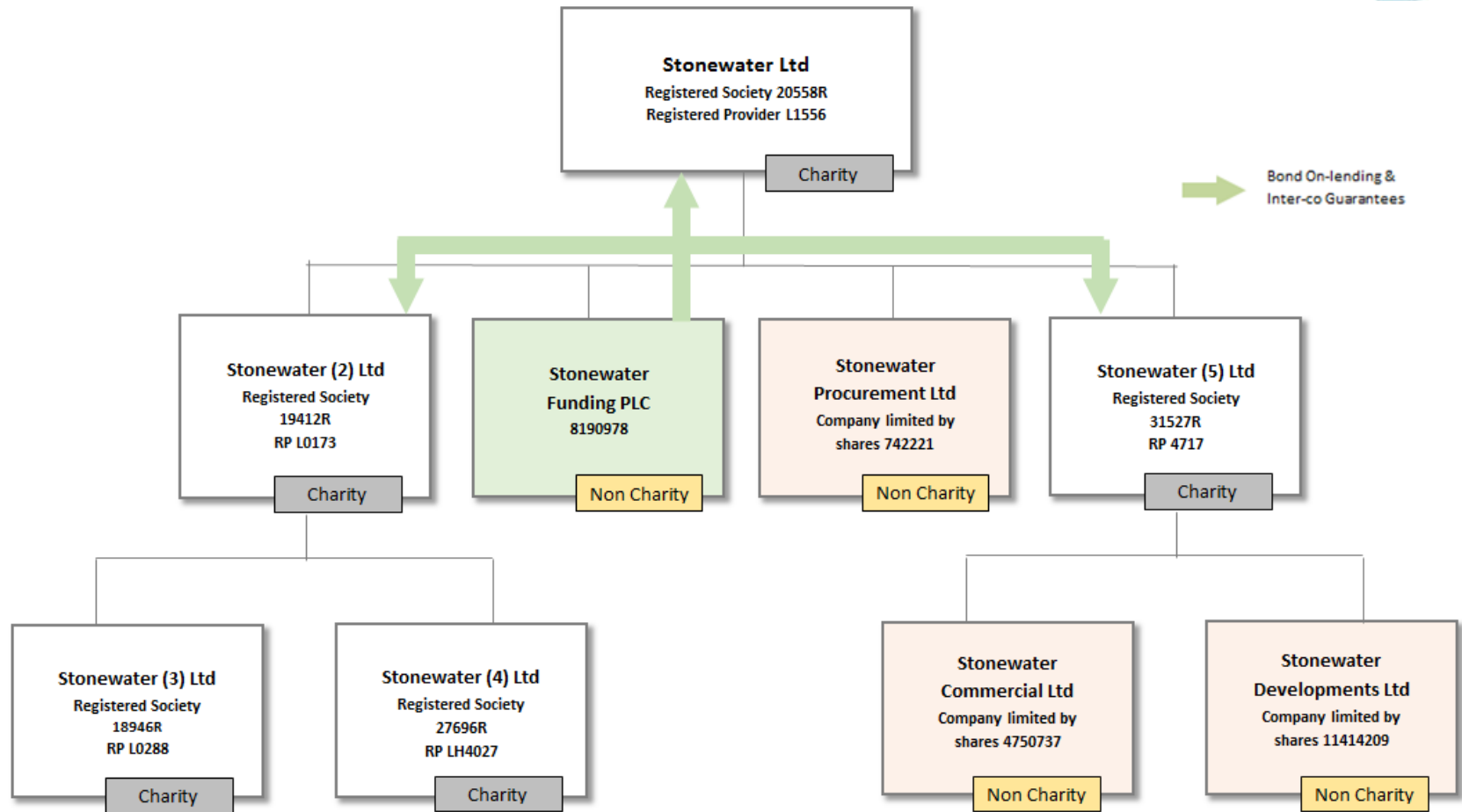
Contents

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2. Strategy
3. Operations
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5. Treasury

Summary

- Stable management; robust performance
- 31,000 units / £187m turnover / £1.7 billion assets
- Geographically diversified
- Predominantly regulated activities
 - Social Rent and Shared Ownership
 - Pilot programme of market sale / rent
- Significant scalable development programme
 - Strategic Partnership with Homes England
- Financially stable, strong liquidity

Company Structure



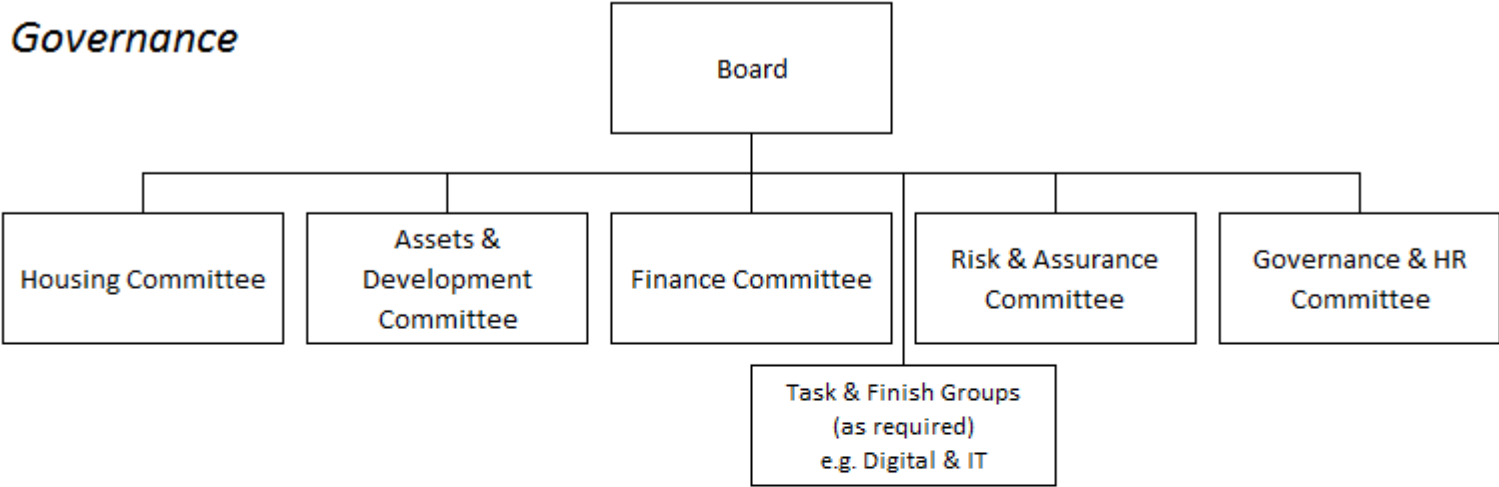
Structure & Governance

Simple single management

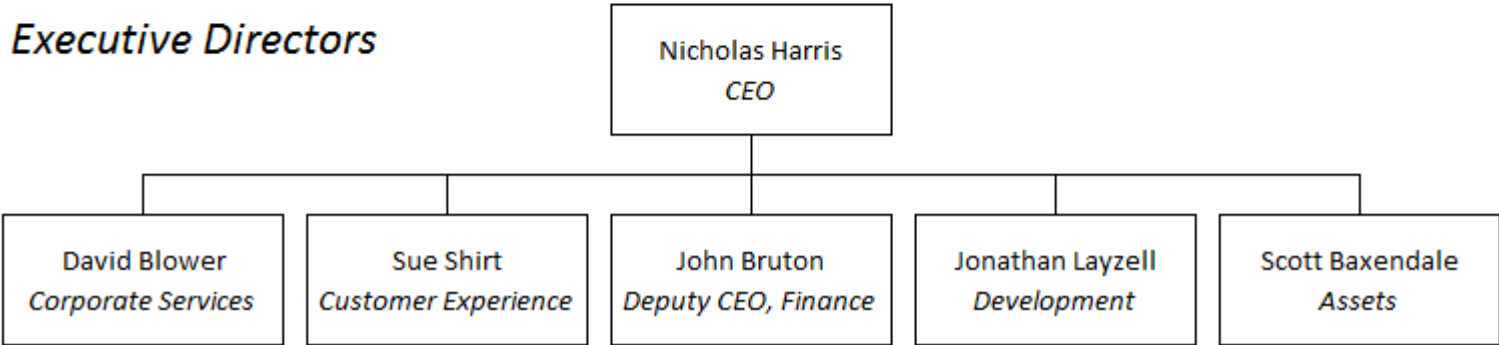
- 5 RP's but settled simple structure & governance
 - Common boards, single decision-making
- Ratings
 - S&P rating of A+, Moodys A2 (unsolicited)
 - G1 / V1 re-affirmed Nov 18
- Stable management team

Management Structure

Governance



Executive Directors



Executive Director Group



Chief Executive Officer - Nicholas Harris

CEO of Raglan Housing Association from 2010 until Stonewater merger in 2015. Previous to this, he held the CEO position at Raven Housing Trust for seven years and Group Operations Directors for the Swaythling Housing Group for seven years.



Executive Director - Development – Jonathan Layzell

Jonathan is responsible for the strategic delivery of Stonewater’s housing development programmes including the implementation of innovative affordable rental and shared ownership schemes.



Deputy Chief Executive and Executive Director – Finance – John Bruton

Before the formation of Stonewater John had been Director of Finance at Raglan since 2001. Previously he was Financial Controller at Metropolitan Housing Partnership and practised audit and advisory work at KPMG.



Executive Director – Housing - Sue Shirt

Sue has 30 years of housing experience operating at an executive level in a range of organisations for the last 16 years.



Executive Director – Corporate Services – David Blower

David is Stonewater's Corporate Services Director, having previously been Jephson Group Finance Director since 2005. Previous to this he held a number of senior finance positions at Orbit Housing Group and has worked in the sector since 1993.



Executive Director – Assets – Scott Baxendale

Scott has 30 years experience in the housing sector with extensive knowledge of change management and performance improvement.

Strategic Plan 2018-22

Nine Targets

Customer experience	Effective service
	Retirement Living
	Supported Housing
Growth & Influence	Provide more homes
	Broader range of tenures
	Thought leader
Business Excellence	Critical KPI's: Income & Compliance
	Invest in people
	Resource efficiency

Strategic Board Priorities

- Development
 - Strategic Partnership with Homes England
 - Minimal market exposure – 4 yrs x 40 homes/yr
 - Inorganic growth
- Future Operating Model
 - Customer Focus
 - Digital transformation / ConnectedD

Strategic Priorities 2

- Value for Money
 - Finance – focus on margin
 - Procurement - new maintenance and estate management contracts
- Charitable arm – Longleigh Foundation
 - Initial commitment £5m
 - Customer engagement & community development
 - Services for older & vulnerable residents

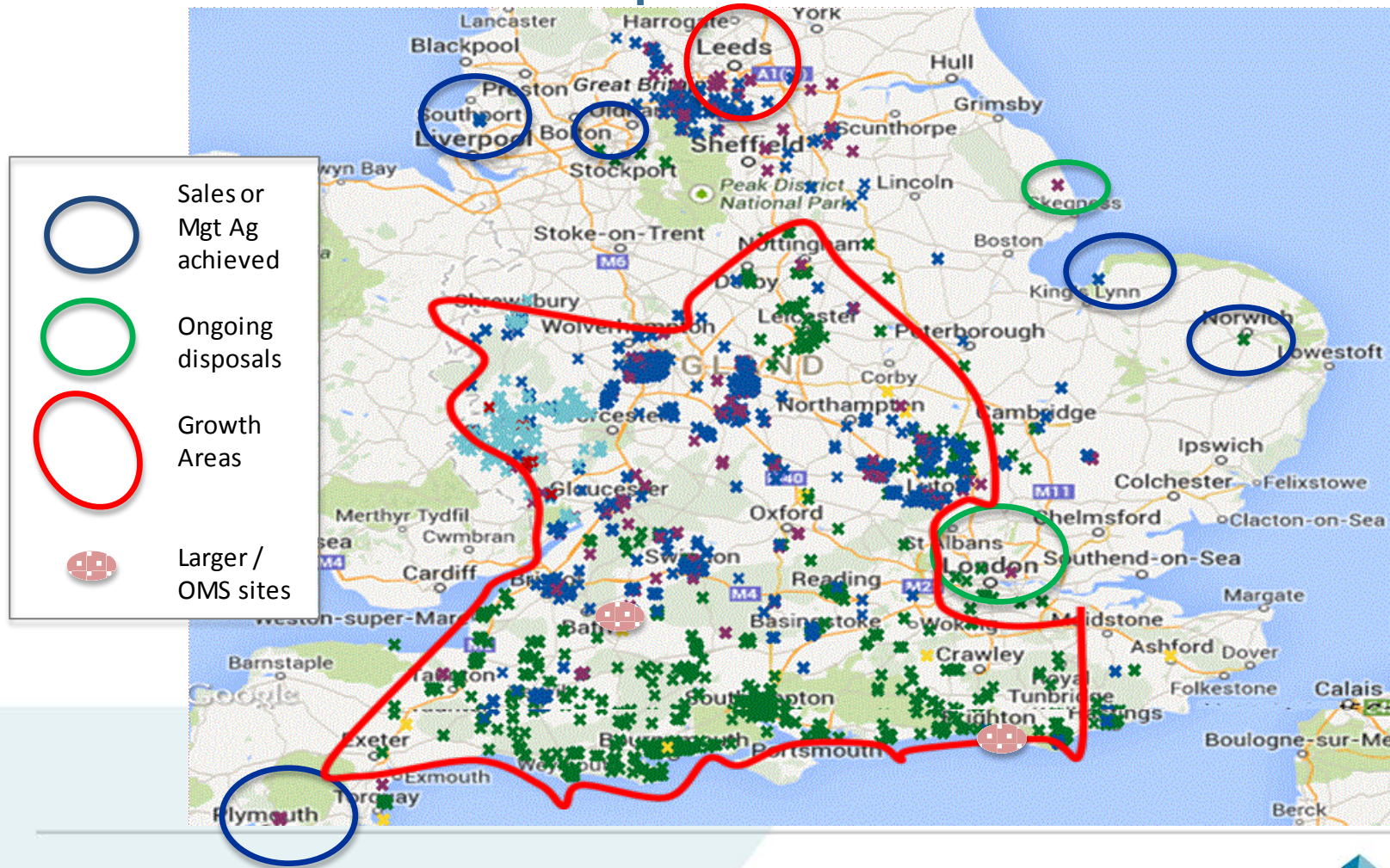
Operating Environment

Promising policy trend – challenging economy

- Supportive Government Policy & Regulation
 - Return to indexed rents @ CPI+1
 - Strategic Partnership grant programme
 - Voluntary Right-to-Buy
 - Labour housing policy
 - Amendments to Universal Credit
- Markets & Brexit
 - Inflation, interest rates, housing & devpt markets
 - Stress-testing

Strategic Growth

Consolidate Footprint



Customer Focus / Future Operating Model

- Customer Focused Operations
 - Limited re-organisation - Customer Experience
 - Involvement, insight, incentives
- ConnectedD
 - Large number of digitally-enabled operating tools
 - Improving workforce agility
 - Most effective service
“always on”



ConnectedD – Delivery Roadmap



Customer Experience



Business Excellence



Q2/2018

- FRA and GRA
- SAM
- Rent Review Automation
- Enabled Pilot

Q2/2018 – Q3/2018

- Customer Data Collection Capability
- Reward
- South East Repairs and Gas Interface
- Content Management System
- Procurement
- Asbestos
- Estate Services
- All ConnectedD projects in tandem with development and implementation of the future operating model
- Introduction of the Pathway Project Management Framework

Q3/2018 – Q1/2020

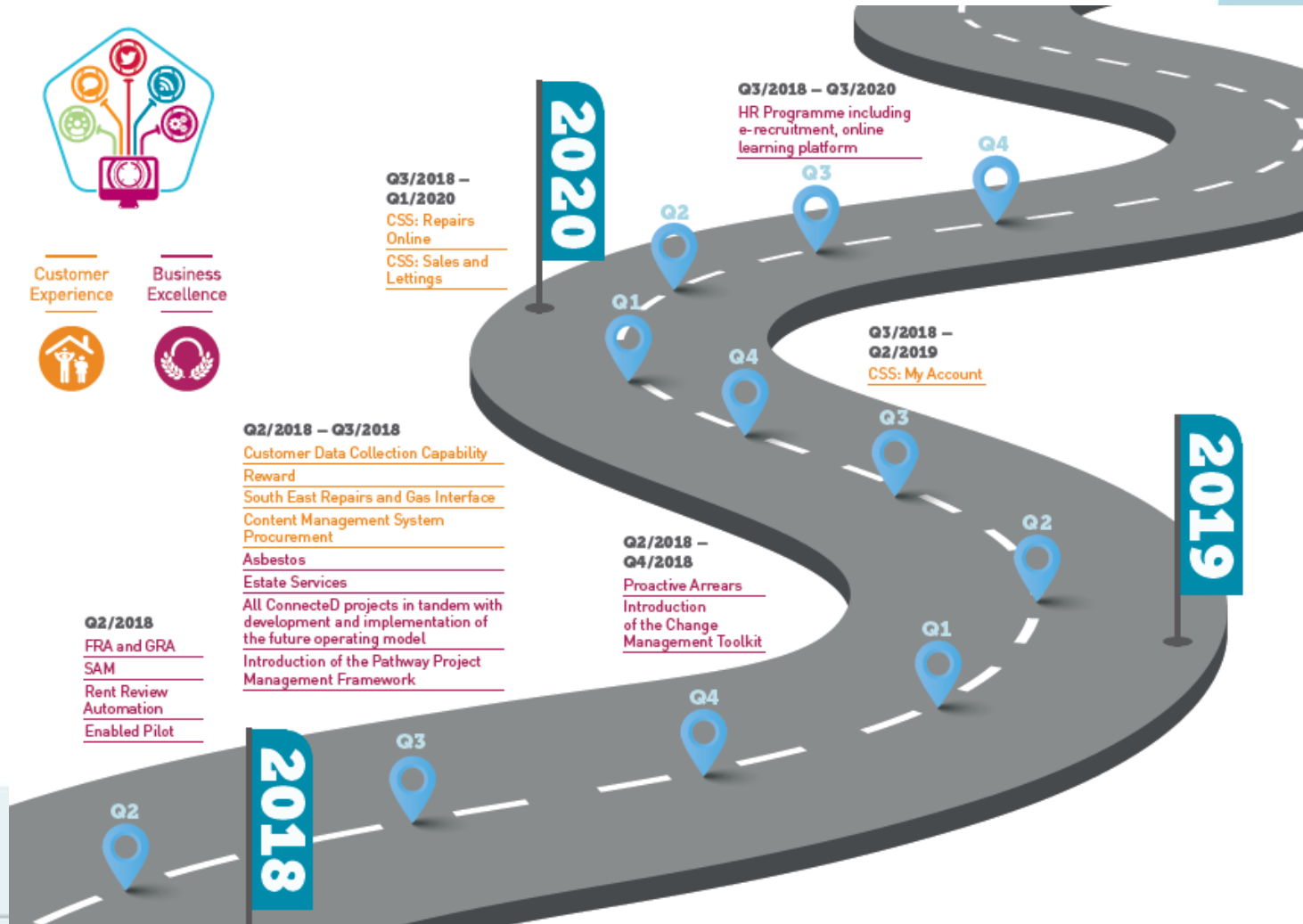
- CSS: Repairs Online
- CSS: Sales and Lettings

Q3/2018 – Q3/2020

- HR Programme including e-recruitment, online learning platform

Q2/2018 – Q4/2018

- Proactive Arrears
- Introduction of the Change Management Toolkit



Development

Wave 1a / Homes England Strategic Partnership

- Partnership with Guinness
- £76m grant for 1500 starts before 2022 (Stonewater share)
- 3-year programme, though accompanied by 10-year model
- Shift from s106 to own “land & build”
 - Reduces dependence on heated s106 market
 - Much of programme increase already identified in pipeline
- Funding impact only in 2021-24
 - Increase in programme expenditure in 2nd half of 5-yr Plan

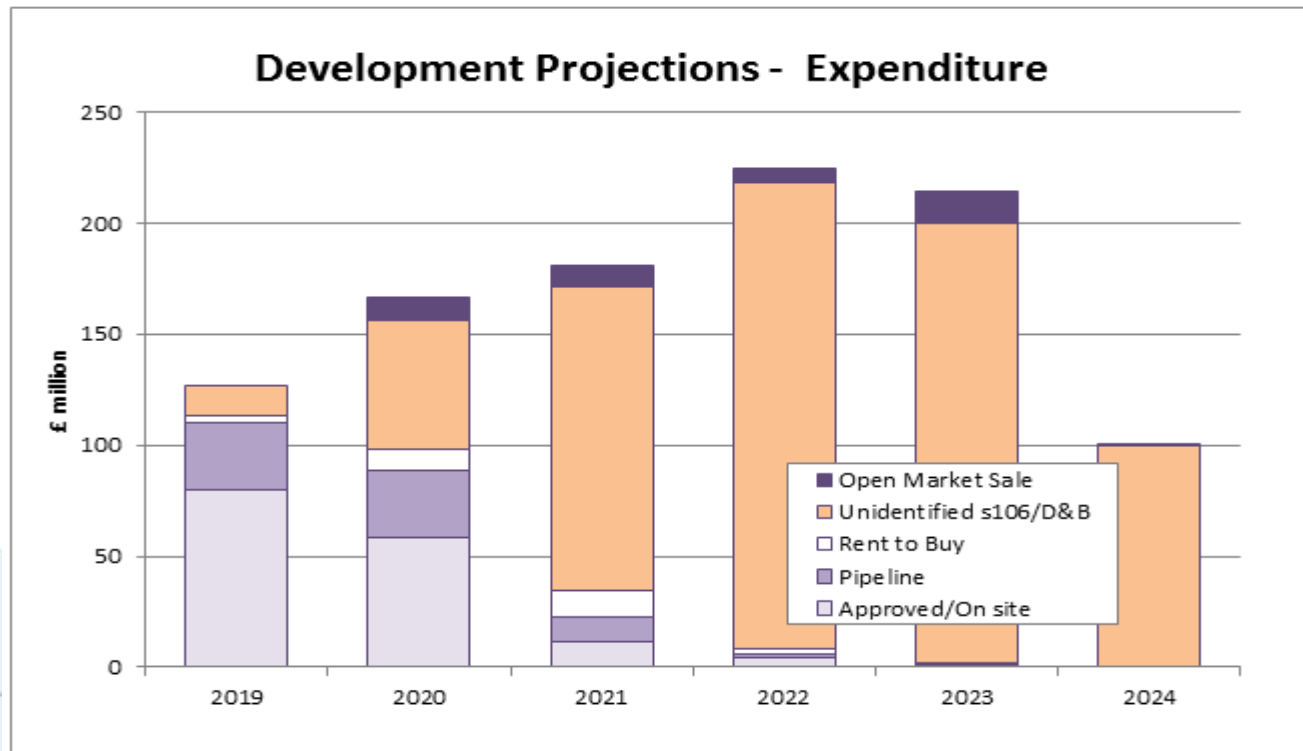
Development

Responsive to market and economic drivers

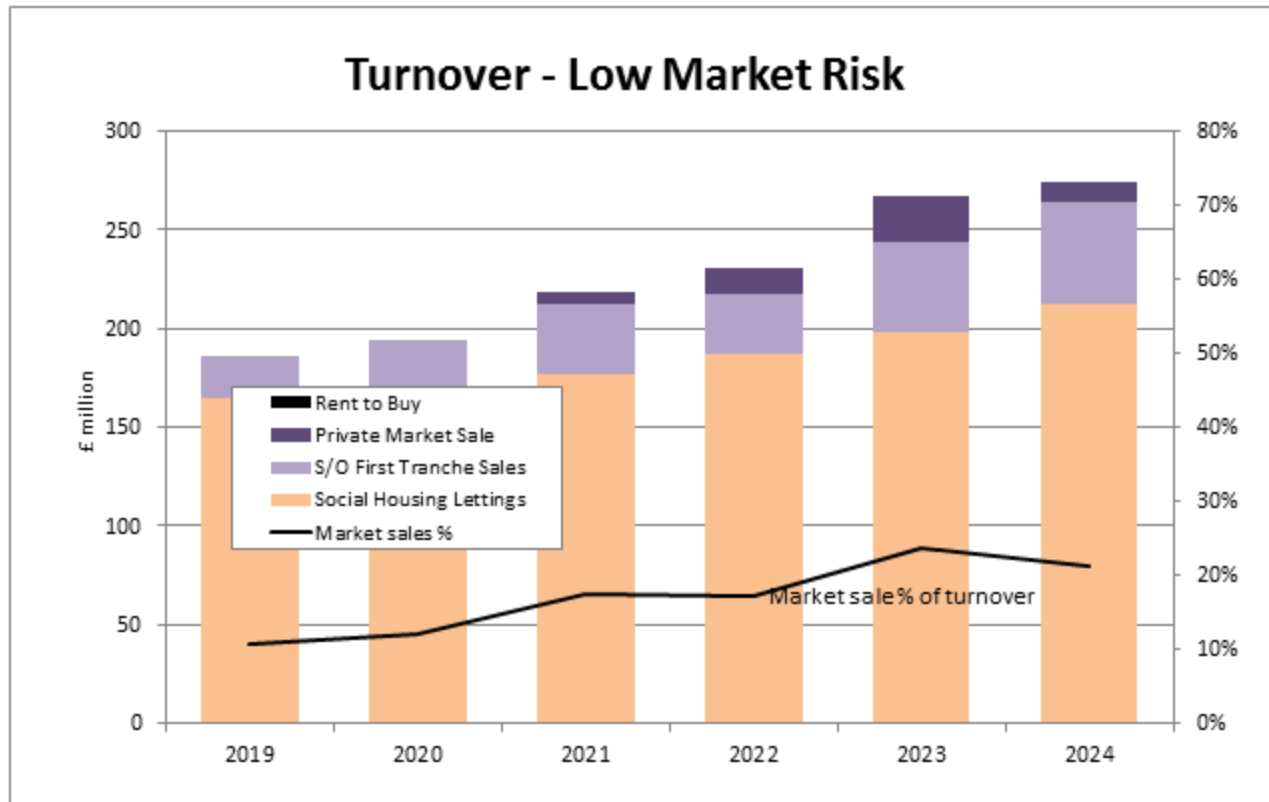
6,350 homes over 5 years (subject to ongoing approval)

Capacity increased by:

- rent settlement, low / fixed rate funding
- Conservative estimate of Voluntary Right to Buy



Low Risk Business Model



Pilot-level Market Sales only – 40 units/yr x 4 yrs
Rent-to-Buy limited to 2016-21 grant programme

WAVE - Impact on Business Plan

Major features:

- Operating margin: 33.5% over 10 years (exc Shared Ownership 1st tranche sales)
- Op cashflow: £50m rising to ave £120m+ (Yr 5 on)
- Development programme
 - 6,350 homes over 5 years (subject to ongoing approval)
- Voluntary Right to Buy
 - Generating surplus in 2019-20, 3 for 1 replacement ratio
- Credit measures consistent with maintained rating
 - Plan managed to internal criteria well inside covenants
 - Stress-testing to Board-set combined “Perfect Storm”
- Limited financing requirement - £300m in years 3-5

Risk

New Risk Priorities

EXCEPTIONAL RISKS	
1	National policy volatility
2	Growth
3	Long term finance
4	Cyber security
STRATEGIC BUSINESS RISKS	
5	Digitalisation (to include future operating model)
6	Leadership
7	Recruitment and retention of skilled staff
8	Value for Money
9	Health & safety (inc fire)
10	Procurement

Value for Money

Efficiency: Value for Money

- 2017-18 savings: £3.6m one-off and £7m ongoing
 - Employee T&C's, offices, treasury
- 2018-19:
 - New standard from Regulator
 - Savings from:
 - Retender of contracts: kitchens, lifts, estate services & compliance
 - Negotiation of disposals & land purchases
 - IT revenue costs
 - Treasury savings from cash management
 - Volunteering / social value of Retirement Living activities

Operating Performance

Key KPI's

Ave Re-let time (days)	
YTD	
Dec-18	36.7
Sep-18	35.2
Jun-18	70.1
Mar-18	70.3
Dec-17	60.5
Target	40

Void Loss % of Rent	
YTD	
Dec-18	0.86%
Sep-18	0.83%
Jun-18	1.87%
Mar-18	2.20%
Dec-17	2.25%
Target	1.25%

Ave Cost of Responsive Repairs	
YTD	
Dec-18	n/a
Sep-18	£116.90
Jun-18	£113.70
Mar-18	£112.07
Dec-17	£83.81
Target	n/a

No of Properties Outside Gas Safety	
Quarter end	
Dec-18	2
Sep-18	0
Jun-18	2
Mar-18	0
Dec-17	5
Target	0

Overall Customer Satisfaction %	
Month	
Dec-18	78.9%
Sep-18	78.7%
Jun-18	78.1%
Mar-18	79.8%
Dec-17	80.6%
Target	82.2%

Gross Arrears %	
Quarter end	
Dec-18	5.05%
Sep-18	4.39%
Jun-18	4.52%
Mar-18	4.29%
Dec-17	4.28%
Target	3.41%

Core Arrears %	
Quarter end	
Dec-18	4.00%
Sep-18	3.59%
Jun-18	3.28%
Mar-18	3.31%
Dec-17	3.48%
Top Quartile	2.58%

Rent Received as % of Rent Due	
YTD	
Dec-18	98.7%
Sep-18	97.9%
Jun-18	97.4%
Mar-18	99.4%
Dec-17	98.6%
Target	99.0%

Group Financial Performance

Operating performance 2018-19

	2017-18	9 Mths (Mgt Accounts)		Full Year Forecast		
	£m	£m	Variance to Budget	£m	Yr on yr change	
Turnover	187.2	145.8	-0.6	192.6	2.9%	
Margin	32.9%	33.6%	0.9%	29.8%		Full year will include establishment of Longleigh
Operating Surplus	49.3	42.8	1.1	50.7	2.7%	
Surplus on 1st Tranche Sales	5.1	4.2	0.3	5.2	1.4%	23% margin (budget 21%)
Surplus on Disposal	15.6	7.1	2.0	12.5		Rationalisation & Voids
Surplus before Financial Instruments	36.6	31.7	6.5	37.3	1.7%	Includes benefit of close out of swap
Movement in Financial Instruments	18.1	4.3				

Group Financial Performance

Performance against Covenants

Gearing

	Covenant	KPI	2017-18		2018-19		Headroom (Borrowing) £m
			Q3	Q4	Q1	Q2	
S1	< 85%	< 80%	80%	79%	78%	78%	57.8
S2	< 65%	< 50%	39%	37%	37%	36%	175.0
S3	< 50%	< 40%	26%	30%	25%	32%	54.7

Interest Cover

	Covenant	KPI	2017-18		2018-19		Headroom for FY (Income) £m
			Q3	Q4	Q1	Q2	
S1	> 110%	> 150%	210%	201%	181%*	194%	9.6
S2	> 110%	> 150%	305%	270%	177%	231%	7.8
S3	> 105%	> 150%	465%	363%	385%	412%	7.0

“KPI”: Stonewater manages covenants to internally-set safeguard levels

S Ltd’s gearing is based on reserves, S2 & S3's on historic cost.

S Ltd interest cover takes into account the cost of closing out swaps.

Treasury & Funding

Funding at 31st December 2018:

- Group facilities: £1,117m, £917m drawn
- Cash: £127m
- Liquidity covers: Contractual commitments 1.6x
2-year net approvals 1.7x

Policy: Cash & undrawn facilities > contracted development

5-year funding programme:

- Fully-retained £250m bond – £200m unissued
- EIB £100m facility – closing by 31st March
- Renewing and increasing revolving facilities

Treasury & Funding 2

Fixed proportion: 75% - policy 50-100%

Average interest rate: 3.6%

Standalone swaps Mark-to-Market: £93m (15th Jan 19)

- Collateral: unsecured threshold £39m, property £53m
- £30m of 2022 and 2041 swaps closed out in June
 - at £2.4m accounting profit / £0.8m economic gain

Uncharged & excess security covers future needs:

- Current charging pipeline: £275m in process
£150m remains

And finally

To summarise:

- Continuity of management (executive & Board)
- Out-performed Budget for 2017-18
- Good relationship with Regulator
- Positive trend in Government policy
- Conservative business model
- Scalable development

Appendix 1: Comprehensive Income

Statutory accounts, Business Plan presentation

INCOME & EXPENDITURE	2015-16	2016-17	2017-18
	£m	£m	£m
Rent and Service Charges	155.1	159.3	162.8
Less: Voids	-1.8	-2.6	-3.4
Amortised Government Grant	6.8	7.1	7.2
Income from Social Housing Lettings	<u>160.1</u>	<u>163.8</u>	<u>166.6</u>
Sales receipts	9.4	15.0	20.6
Other Income	2.3	1.8	0.0
Turnover	<u>171.8</u>	<u>180.6</u>	<u>187.2</u>
Management and Service Costs	51.8	45.4	48.2
Responsive & Planned Maintenance	30.5	33.1	37.7
Bad Debts	0.6	1.2	1.5
Property Depreciation	23.5	26.0	28.1
Other Costs	0.0	0.0	0.0
Total Operating Costs	<u>106.4</u>	<u>105.7</u>	<u>115.5</u>
Costs of Sales	8.7	12.1	15.5
Other Social Housing Activities Costs	3.5	3.5	1.8
Operating Surplus	<u>53.2</u>	<u>59.3</u>	<u>54.4</u>
Surplus on Sale of Properties	5.9	9.9	15.6
Surplus Before Interest	<u>59.1</u>	<u>69.2</u>	<u>70.0</u>
Net Interest	-31.0	-32.2	-33.4
Movement in FV	-2.2	-8.7	2.4
Retained Surplus	<u>25.9</u>	<u>28.3</u>	<u>39.0</u>
Actuarial Gains/Mvmt in FV of Hedged Inst	-5.9	4.7	15.7
Total Comprehensive Income	<u>20.0</u>	<u>33.0</u>	<u>54.7</u>
Capitalised Components	16.4	10.6	13.1

Appendix 2: Group Balance Sheet

BALANCE SHEET	Mar-16	Mar-17	Mar-18
	£m	£m	£m
Fixed Assets	1,631.6	1,666.5	1,700.4
Current Assets			
Properties held for sale	9.2	12.4	11.2
Debtors	10.2	11.7	16.3
Cash & ST Inv	61.4	41.9	112.4
	80.8	66.0	139.9
Creditors <1yr	-39.5	-51.2	-73.6
Net Current Assets	41.3	14.8	66.3
Total Assets less CL	1,672.9	1,681.3	1,766.7
Represented by:			
Creditors >1yr	1,501.2	1,480.6	1,513.6
Provisions & Other Liabs	19.7	16.4	14.4
Pension Liabilities	5.0	4.4	4.0
Cashflow hedge reserve	-99.2	-95.3	-80.0
I&E Reserve	246.2	275.2	314.7
Reserves & LT Liabilities	1,672.9	1,681.3	1,766.7