26 May 2023

Platform Housing Group's Trading Statement for the Year to March 2023

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 5.8% to £248.2m (Mar-22: £234.6m)
- Total turnover growth of 1% to £300m (Mar-22: £296.9m), with 94.4% coming from core social housing activities
- Robust shared ownership sales margins of 17.7% / 45% on first tranche / staircasing (Mar-22: 19.9% / 43%)
- Operating surpluses reduced 11.5% to £79.6m (Mar-22: £89.9m), driven by investment in homes, services to customers and increased maintenance and energy costs
- 55% increase to investment in existing homes, reflecting component replacement and energy efficiency works
- Increased spend on customer focussed activities: front line colleagues recruited to enhance the customer experience
- Arrears of 2.6% consistent with prior year (Mar-22: 2.4%)
- A+ (stable outlook) credit rating with S&P affirmed
- Highest governance and viability ratings of G1 / V1 with Regulator for Social Housing

At or for the year ended 31 March	2022	2023	Change
Turnover	£296.9m	£300.0m	1.0%
Social housing lettings turnover	£234.6m	£248.2m	5.8%
Operating surplus(1)	£89.9m	£79.6m	-11.5%
New homes added	1,171	1,114	-4.9%
Investment in new homes	£201.3m	£250.9m	24.6%
Investment in existing homes	£15.7m	£24.4m	55.4%
Share of turnover from social housing lettings	79.0%	82.7%	+3.7ppt
Social housing lettings margin(2)	35.2%	31.3%	-3.9ppt
Current tenant arrears(3)(4)	2.4%	2.6%	+0.2ppt
Gearing(2)(4)	42.3%	43.4%	+1.1ppt
EBITDA-MRI interest cover(2)	188%	187%	-1.0ppt

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 March (as opposed to accumulated over the period to March)
(5) Investment in existing homes includes capital expenditure on maintenance and decarbonisation works

Elizabeth Froude, Platform's CEO commented:

"The environment in which we and all businesses are operating continues to be difficult and the impacts of cost inflation very visible. Our results for the year reflect our need to focus on making the standard of our homes and lives of our residents our primary focus.

The reduction in Operating Surplus (£9.7m) reflects this with £8.7m additional expenditure on maintenance and investment in our existing homes. We focussed on accelerating catch-up on backlogged repairs and invested £5.5m on sustainability works such as air source heating systems and photovoltaic panels.

We have also continued to build much needed new homes and retained our focus on building affordable tenures in the year, adding 1,114 homes to our stock, with all developed homes EPC B or above. Our shared ownership sales programme was smaller year on year, due to the timing of scheme handovers and our focus on quality standards. At the end of the year we had only 29 homes available for sale and are seeing continued demand for our homes with values, first tranche proportions and staircasing holding above budgeted levels.

The demand for our customer Wellbeing Fund continues to assist those customers most in need, assisting with some of the most basic items such as food, energy costs and furniture or white goods, and as the year progressed, our Board took the decision to increase the fund to £2m.

Damp & mould was the most recent issue to impact our sector and the strength of our asset data and our use of technology as an organisation has been powerful in helping us to verify and prioritise the homes needing more focus. Whilst we currently have no Category 1 cases we, like all landlords, are dealing with the tail of a flurry of activity. We are seeing damp, mould and condensation as a new compliance category and are treating it as such as we anticipate it being an issue for some time as it is exacerbated by fuel poverty.

Despite all of this our financial metrics remain strong and rank amongst the best in sector, with any degradation being intentionally applied to improve the quality of homes and services, a theme which will continue in the coming year, as life continues to be hard for those we serve.

I hope you find our results to represent a strong organisation, focussing on its core purpose and strategy despite the headwinds as we strive to deliver the highest standards for our investors and stakeholders."

Financial review

Turnover
In the year to 31 March 2023 total turnover increased by 1% to £300m (Mar-22: £296.9m).

Social housing lettings turnover increased by 5.8% to £248.2m (Mar-22: £234.6m) as a result of inflationary rental increases and a year-on-year increase in social housing units.

Turnover from shared ownership first tranche sales was down 31.8% to £33.3m (Mar-22: £48.8m) due to timing of the development cycle. The demand for shared ownership homes remains robust, with margins and unsold homes performing in line with the prior year as outlined later in this report.

Turnover from all social housing activities of £283.1m (Mar-22: £285.2m) accounted for 94.4% (Mar-22: 96.1%) of Platform's total turnover in the period.

Surpluses and margins
Operating surpluses excluding fixed assets sales decreased by 11.5% to £79.6m (Mar-22: £89.9m) and operating surpluses including fixed asset sales decreased by 8.9% to £90.4m (Mar-22: £99.2m). Surpluses from social housing lettings decreased by 6% to £77.6m (Mar-22: £82.6m).

Operating margins were 26.5% excluding fixed asset sales (Mar-22: 30.3%), 30.1% including fixed asset sales (Mar-22: 33.4%) and 31.3% from social housing lettings (SHL) (Mar-22: 35.2%). Operating surpluses and margins have been affected by higher levels of investment into improving the energy efficiency of our homes, improving services for customers and cost inflation. Over 500 homes were retrofitted with low carbon heating systems and photovoltaic panels which, when added to other works, resulted in expenditures to improve the sustainability of homes of over £5.5m. Revenue maintenance expenditures increased by 22% to £59.7m (Mar-22: £46.6m) as a consequence of cost inflation, a shortage of labour availability (impacting sub-contractor costs) and higher volumes of maintenance works as the backlog of jobs established during covid has been cleared. In the year to March over 9,400 jobs were completed from the backlog at a cost of £2.3m.

Service costs of £27.5m (Mar-22: £22.6m) have increased at twice the rate of associated incomes as higher costs, driven by rising energy prices, 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.

Shared ownership sales surpluses were £5.9m, representing 6.5% of total operating surplus (Mar-22: £9.7m / 9.8%), with associated margins of 17.7% (Mar-22: 19.9%).

Staircasing sales of shared ownership properties, where a customer buys a further stake in their home, continue to perform robustly with surpluses and margins of £6.4m and 45% (Mar-22: £6.3m / 43%).

The overall net surplus after tax, which incorporates interest costs, and is stated before pension actuarial valuations (which are expected to be favourable), was £47.5m in comparison to £42.9m in the prior year. There were a number of one-off costs and incomes in the current and prior year including favourable loan breakage costs/credits (£10.5m), one-off depreciation charges (£5.6m) and maintenance costs incurred in the current year in order to clear the backlog of jobs (£2.3m). When these are adjusted for, surplus after tax of £33.7m is £9.2m lower than the prior year figure of £42.9m, driven by investment into sustainability, customer focus and cost inflation as outlined above.

Outlook
For the year to March 2024 turnover is expected to continue to grow as a consequence of rental increases of 7% and new units coming into management. Operating costs are expected to continue to be affected by continued reinvestment into the sustainability of our homes, however, some favourable movements are expected as one-off maintenance backlog costs fall away and service charges begin to better reflect costs. When taken together these movements may have a positive impact on margins.

Development review

Platform's home building programme continues to produce new affordable homes for those in need across the Midlands. There were 1,114 new homes added in the year (Mar-22: 1,171), with 962 completions and a further 152 homes taken on as part of stock acquisitions. Of these, 223 (20%) were built for social rent, 486 (44%) for affordable rent and 405 (36%) for shared ownership. All new homes developed had an EPC rating of B and above as Platform continue to push towards bringing all homes to an EPC rating of C or better by 2030, and all homes to net zero carbon emissions by 2050. Development expenditures were £251m in the period (Mar-22: £201m). At 31 March 2023, Platform owned a total of 48,082 homes (Mar-22: 47,119).

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, although these things have improved over the course of the year. Resourcing challenges in local authorities have caused delays in negotiation and signing off planning, highways and building control agreements and certification. In addition, higher standards have been set for the quality of homes accepted from developers, which has slowed some homes being handed over as we improve the standard of new homes provided to our customers.

To mitigate the risk of cost inflation, 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. As a further mitigation of cost increases the Group is in discussions with Homes England in relation to increasing grant levels on its 2021-26 Affordable Homes Programme bid.

There were 340 shared ownership sales in the year (Mar-22: 457), with sales down due to the timing of the development cycle. The number of unsold units at the end of the period was 87 (Mar-22: 70). The majority of these units (58 out of 87) were reserved for purchase.

Outlook
Platform remains committed to developing in a prudent and sustainable manner, without compromising financial strength. Development costs and labour challenges may affect the scale of our programme, however, these issues have been easing over the course of the year and projected completions for the year to March 2024 are up on the prior year at approximately 1,300 homes, with a further 1,600 homes expected to start on site.

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, the shared ownership product (which Platform is principally exposed to) is a sub-set of housing that has its own demand drivers, including buyers migrating from outright sales when affordability is stressed. Platform has no outright market sale units in its committed development pipeline.

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

Treasury review

Ratings activity
Platform retained its A+ (stable outlook) rating following S&P's annual review in January 2023. Platform is also rated A+ (negative outlook) by Fitch earlier in the year (October 2022), 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 £1,275m (Mar-22: £1,161m). 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 £118m and non-cash accounting adjustments of £11m.

Platform's weighted average cost of finance was 3.33% (Mar-22: 3.28%).

Platform had sufficient liquidity as at 31 March 2023 (c£525m including undrawn committed facilities, short term investments and cash and cash equivalents) to meet all forecast needs until into 2026 (with new finance required in 2024 to maintain 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 43.4% (Mar-22: 42.3%). Gearing has increased in the last year as large cash balances (following bond issuances) has been deployed to fund development, maintenance and sustainability expenditures. Gearing was comfortably within Platform's target of maintaining gearing below 55%.

EBITDA-MRI interest cover was 187% (Mar-22: 188%) and 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 sustainability objectives. However, such objectives will be completed in a controlled way, ensuring that these key credit ratios remain well within Platform's targets.

For more information please contact:

Investor enquiries
Ben Colyer – +44 7918 160990 / +44 1684 579 566
investors@platformhg.com

Media enquiries
media@platformhg.com

management. No representations are made as to the accuracy of such forward looking statements, estimates or projections or with respect to any other materials herein. Actual results may vary from the projected results contained herein.

These materials contain certain information which has been prepared in reliance on publicly available information (the “Public Information”). Numerous assumptions may have been used in preparing the Public Information, which may or may not be reflected herein. Actual events may differ from those assumed and changes to any assumptions may have a material impact on the position or results shown by the Public Information. As such, no assurance can be given as to the Public Information’s accuracy, appropriateness or completeness in any particular context, or as to whether the Public Information and/or the assumptions upon which it is based reflect present market conditions or future market performance. Platform Housing does not make any representation or warranty as to the accuracy or completeness of the Public Information.

These materials are believed to be in all material respects accurate, although it has not been independently verified by Platform and does not purport to be all-inclusive. The information and opinions contained in these materials do not purport to be comprehensive, speak only as of the date of this announcement and are subject to change without notice. Except as required by any applicable law or regulation, Platform Housing expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any information contained herein to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such information is based.

None of Platform Housing, its advisers nor any other person shall have any liability whatsoever, to the fullest extent permitted by law, for any loss arising from any use of the materials or its contents or otherwise arising in connection with the materials. No representations or warranty is given as to the achievement or reasonableness of any projections, estimates, prospects or returns contained in these materials or any other information. Neither Platform nor any other person connected to it shall be liable (whether in negligence or otherwise) for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement in or omission from these materials or any other information and any such liability is expressly disclaimed.

Any reference to “Platform” or “Platform Housing” means Platform Housing Group Limited and its subsidiaries from time to time and their respective directors, representatives or employees and/or any persons connected with them.