UNAUDITED HALF YEAR RESULTS

Six months to 30 September 2022



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Upcoming key dates

Merger completion target date
Q4 2022 / Q1 2023

Post-merger investor presentations
Q1 / Q2 2023

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CFO Summary



Sarah Smith, Chief Financial Officer
4 November 2022

Half 1 22/23: merger on course; tough external environment

Optivo's and Southern Housing Group Limited's respective boards have approved amalgamation, subject to final consents from lenders and others. We aim to complete our merger in the coming months and so come together with greater combined resilience in a new entity to be named Southern Housing. Together we will be better able to withstand future economic pressures than either of us alone.

Government's one-year 7% social rent cap announced yesterday adds more challenge to a sector-wide business model that is already under pressure. This decision, which we support and indeed have voluntarily extended to our shared ownership rents, limits our income growth even while our operating costs are still rising. We, along with others, have advocated for a rent catch-up mechanism in future years to support our operating margins. We have been monitoring potential financial implications by stress testing the financial plan and we are working through scenarios and risk-mitigating actions.

And we're joining Government in protecting residents who aren't in receipt of housing benefit from some of the household budget pressures they face. We have set aside funds to provide support where required and we keep this under review.

For our housing stock while the end is in sight for building safety work and those costs are now well understood, decarbonisation clearly needs more sector-wide research both on the scope of works and the longer-term asset upgrade costs we face.

Inflation this year has outpaced all previous expert forecasts and Bank of England interest rates have risen faster to counter it than previously anticipated, with predictions of more rate rises to come.

Our building contractors too have been experiencing construction cost inflation. Some have requested financial support from us and there has been some related slippage in completion numbers.

September's mini-budget was accompanied by significant debt capital markets volatility and rapid retail mortgage market tightening. This was followed by a weakening property market outlook and some early signs of a possible slowdown in property sales.

We sold £81.5m of Optivo retained bonds in July and August before the recent market volatility affected bond yields and our high proportion of fixed rate debt protects us against rate rises. We are well funded and can rely on existing debt facilities until June 2024 if we continue to develop at the current rate. We did, however, reduce our future build programme at the start of this financial year and we may yet have to scale back further if headwinds continue.

Following their recent change in UK sovereign credit rating outlook, Moody's has revised its rating outlook for several housing associations from stable to negative, including Optivo. They have affirmed the credit rating at A3. We know the importance of ratings consistency to our investors and we believe the more challenging outlook only strengthens the case for our upcoming resilience-building merger.



Moody's Rating

A3 (negative)

Regulator Judgements

G1/V1

Financial performance

Income & expenditure (£m)	FY 2021/22 audited	H1 2021/22 unaudited	H1 2022/23 unaudited
Total turnover	340	175	188
Of which:			
Rent, service charge & grant income	295	150	157
Initial sales[1]	45	25	31
Operating surplus	97	54	49
Operating margin excluding sales	22%	26%	23%
Surplus after interest [2]	46	32	27

Cash flows (£m)	FY 2021/22 audited	H1 2021/22 unaudited	H1 2022/23 unaudited
Cash from operations	195	59	76
Investing activities	(204)	(79)	(98)
Financing activities	7	8	13
Net change in cash	(2)	(13)	(9)

Balance sheet (£m)	31.03.2022 audited	30.09.2021 unaudited	30.09.2022 unaudited
Social housing assets (historical cost)	3,281	3,152	3,361
Investment properties (valuation)	136	132	136
Total debt [3]	1,567	1,524	1,605
Cash & cash equivalents	85	74	76

- Rent, service charge and grant income is in line with expectations. But initial sales income is nearly 10% behind budget due to build programme slippages caused by labour and materials shortages as well as financial support requests from some contractors suffering build cost inflation. We have reforecast this reduced pace of sales continuing for the rest of the financial year.
- Overall we've recorded a half-year surplus after interest that's £2m ahead of budget where reduced income from initial sales as well as fixed asset sales are offset by prudent spending control in other areas, as well as interest costs below budget because of a slowing rate of development capital expenditure and debt growth. By year end we forecast to be back in line with budget.
- Healthy cash flow generation was in line with expectations.

[1] First tranche sales of shared ownership homes and open market sales are included in turnover and contribute to operating surplus

[2] Including fixed asset sales (shared ownership staircasing, Right-to-Buy sales and strategic asset management disposals) and before fair value, tax and pension scheme movements

[3] Excluding capitalised debt arrangement costs

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Operating performance

General needs and HOPS[4] key operational indicators	FY 2021/22 audited	H1 2021/22 unaudited	H1 2022/23 unaudited
Void rental losses	1.0%	1.0%	1.0%
Overall rent arrears	4.1%	4.1%	4.2%

Resident satisfaction	FY 2021/22 audited	H1 2021/22 unaudited	H1 2022/23 unaudited
Overall service	89%	88%	89%
Repairs	97%	97%	98%
Neighbourhoods	91%	90%	92%

- Voids continued to be steady. Our teams work hard to minimise turnaround times.
- Arrears increased slightly to 4.2%. Our target is to be below 4.5%.
- We maintained customer satisfaction measures at a high level.

[4] Housing for older people



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Property portfolio management

Expenditure on homes (£m)	FY 2021/22 audited	H1 2021/22 unaudited	H1 2022/23 unaudited
Routine maintenance	31	16	16
Planned maintenance	51	24	28
Major repairs	7	2	3

- Compared with last year we've succeeded in delivering more planned maintenance works, although still 10% lower than we budgeted in the first half. We forecast catching up by the financial year-end.
- We are at 72.5% band C or better EPC ratings across our portfolio and target 100% by 2030. We've undertaken 120 energy efficiency retrofits so far in this year and 337 Energy Company Obligation (ECO3) cavity wall insulations.
- In line with Government's January 2022 announcements regarding building façade remediation costs, we are seeking cost recovery from developers, contractors, Building Safety Fund, and other third parties rather than from leaseholders.



Property development & sales

New homes delivery (units)	FY 2021/22 audited	H1 2021/22 unaudited	H1 2022/23 unaudited
Started in the period	722	211	436
Completed in the period	621	262	202
In contract at the reporting date	3,087	2,800	2,956

New homes unsold (units)	31.03.2022 audited	30.09.2021 unaudited	30.09.2022 unaudited
Open market sales	34	1	42
Of which unsold over six months	0	0	18
Shared ownership first tranche sales	169	172	112
Of which unsold over six months	88	95	91

Development commitments (£m)	FY 2021/22 audited	H1 2021/22 unaudited	H1 2022/23 unaudited
Invested during the period	228	112	114
In contract at the reporting date	433	421	419

- While development activity has been somewhat hampered by material and labour shortages, as well as cost increases putting suppliers under pressure, we have been completing projects and making new properties available for rent and sale. We continue to work with Sage on 420 homes under construction; Sage are financing these homes. We will manage some of the homes on behalf of Sage.
- The rise in unsold open market sales properties in the last 12 months is due to a small number of large building completions bringing a relatively large number of properties into the 'available for sale' category all at once. We are progressing with sales. There is still positive activity although the September mini-budget and related mortgage market tightening did feed through to a small number of cancelled reservations which we are now re-marketing.
- The shared ownership unsold balance has reduced. The remaining unsold homes are concentrated in two sites. We are considering converting some to London Living Rent tenure, which allows tenants to save towards their deposit.
- We regularly review potential property impairment risks but have not yet identified any properties that require a write-down.

Corporate finance

Interest rate risk management	31.03.2022 audited	30.09.2021 unaudited	30.09.2022 unaudited
Weighted average debt cost	3.57%	3.62%	3.49%
% of net debt on fixed basis	93%	92%	93%
Derivative mark-to-market liability/(asset)	£21m	£124m	(£29m)

Lender financial covenant headroom (£m)	31.03.2022 audited	30.09.2021 unaudited	30.09.2022 unaudited
Total debt outstanding (£m)	1,567	1,524	1,605
Of which without financial covenants:			
Long term publicly listed bonds	750	650	831.5
Other debt	16	166	21
Drawn debt proportion with no corporate financial covenants	49%	54%	53%
Actual interest cover test result (> 115%)	239%	265%	252%
Interest cover headroom vs test threshold			
Earnings could fall by	65	33	31
Interest expense could rise by	56	29	27
Actual gearing test result (<65%)	45%	44%	46%
Gearing headroom vs test threshold			
Debt could rise by	687	690	658
Assets could fall by	1,057	1,061	1,013

- Our weighted average debt cost continued to move downwards in the first half but we now expect this trend to reverse because of the changes seen in wider market conditions. However the impact will be gradual as it will affect incremental debt only, as and when we incur it, as well as the small proportion of our current debt that is exposed to floating interest rates.
- Our mark to market on derivatives has improved due to rising interest rates but all our derivative lines remain well collateralised in case of a return to low rates.
- Over half of our debt has no corporate financial covenants. At our last financial year-end we reported successful refinancing of Government's Covid Corporate Financing Facility through £150m bond sales. In the first half of this financial year we sold £81.5m more retained bonds.
- Lender interest cover is a little lower than this time last year, mainly due to slightly lower operating surplus. We still have a comfortable margin to absorb any shocks.
- Gearing rises gradually as we pursue our development ambitions, which are largely debt funded.
- We were in full compliance with all our loan financial covenants.

Funding sources (£m)	31.03.2022 audited	30.09.2021 unaudited	30.09.2022 unaudited
Total debt outstanding	1,567	1,524	1,605
Of which: listed own-name bonds			
2035	250	250	281.5
2043	250	150	300
2048	250	250	250
Retained bonds held for future sale			
2035	0	0	68.5
2043	50	0	0
2048	0	0	0
Undrawn revolving credit facilities	523	684	635
Cash and cash equivalents	86	74	76
Commited Funding Headroom			
Available vs capital commitments	140%	180%	170%
Forecast next funding need [5]	24 months	24 months	21 months

- During Half 1 we tapped and retained £100m bonds of our 2035 maturity. We sold £31.5m of this in August.
- We also sold our pre-existing £50m retained bonds from our 2043 maturity in July.
- We continue to have ample time before new funding is required. We carefully monitor the market and raise finance well ahead of time.

[5] Forecast funding needs are calculated using management estimates of capital expenditure requirements of our committed development programme as well as pipeline development activity. We manage our liquidity position by adopting a treasury policy to raise funds ahead of need.

About Optivo

Optivo is registered in England with limited liability under the Co-operative and Community Benefit Societies Act 2014 (registration number 7561) and is a Registered Provider of Social Housing whose activities are regulated by the Regulator of Social Housing (registration number 4851). Optivo has charitable status but is exempt from registration with the Charity Commission.

About Optivo Finance PLC

Optivo Finance plc (company number 07933814) is a wholly owned subsidiary of Optivo and issuer of secured bonds listed on London Stock Exchange, whose net proceeds it on-lends to Optivo for its general corporate purposes. **Bloomberg ticker: OPTFNC**

ESG

Optivo invests in building environmentally efficient new homes, decarbonising existing homes and a range of socially responsible projects aligned with United Nations Sustainable Development Goals. Optivo holds accreditations with Sustainable Housing for Tomorrow (SHIFT) and Inclusive Employers, and is an early adopter of Sustainability for Housing's Reporting Standard.

Important Note

This publication contains certain 'forward-looking' statements reflecting, among other matters, our current views on markets, activities and prospects. Actual outcomes may differ materially. Such statements are a correct reflection of our views only on the publication date and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Financial results quoted are unaudited. No reliance should be placed on the information contained within this update. We do not undertake to update or revise such public statements as and when our expectations change in response to events. This publication is neither recommendation nor advice. This is not an offer or solicitation to buy or sell any securities.

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