



Incommunities Group Limited

**Consolidated Financial Report
for the 6 Months Ended
30th September 2020**

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Incommunities Group Limited ('Incommunities', the 'Group') is one of the leading providers of affordable housing in the UK and is pleased to announce its consolidated results for the 6 months ended 30th September 2020.

These results are unaudited and are for information purposes only.

1. Headlines

- 1.1 Despite the ongoing Covid-19 pandemic, the Group's financial performance remains strong. However, there continues to be much uncertainty as a result of the pandemic and the Group continues to be prudent in its forecasts for the remainder of the year.
- 1.2 During the period, the Group Board authorised the issue of £25m of the current £50m retained bond. The approach to market is being discussed with the Group's Treasury advisors and it is expected that an announcement will be made shortly.
- 1.3 The Group's Chief Executive announced her retirement during the period and is due to leave in early 2021. Following an extensive recruitment process her replacement will be joining the Group in February 2021.
- 1.4 During the period, the Group commenced a project to replace its stock inventory control system. This will significantly increase the efficiency with which the Group manages its stock and have a corresponding beneficial effect on the future delivery and costs of the repairs service.
- 1.5 Following the UK Government climate emergency declaration in 2019, and in light of the recent focus on the role of Social Housing in tackling climate change, the Group has prepared a new 10-year Sustainability Strategy to deliver rapid change at Incommunities focusing on carbon reduction, sustainable housing development, low carbon transport and affordable warmth.
- 1.6 During the period, the Group continues to deliver on new development schemes and has set a revised 10-year development target. Details of the Group's property development activities are set out in Section 5.

2. Financial and Operating Highlights

- 2.1 Income and expenditure amounts are for the 6 months ended 30th September 2020. Comparatives are for the prior year corresponding period (PYCP) (6 months ended 30th September 2019). Balances and other financial information are as at 30th September 2020. Comparatives are as at the prior year end (PYE) (31st March 2020), unless otherwise stated.
- 2.2 The Statement of Comprehensive Income for the 6 months ended 30th September 2020 and the Statement of Financial Position as at 31st March 2020, together with the comparatives, are set out in Appendix 1.

- 2.3 Other financial information for 30th September 2020 and the corresponding comparatives are set out in Appendix 2.
- 2.4 A number of key financial performance indicators and financial loan covenant calculations, based on the results for 30th September 2020 and the corresponding comparatives, are set out in Appendix 3.
- 2.5 The financial and operating highlights are as follows:

Income and Expenditure

- Turnover for the period is £49,941k (PYCP: £49,141k)
- Turnover from social housing lettings for the period is £47,975k (96.1%) (PYCP: £47,040k (95.7%))
- Operating surplus for the period is £14,088k (PYCP: £12,617k)
- Operating margin for the period is 28.2% (PYCP: 25.7%)
- Net interest payable for the period is £5,304k (PYCP: £5,386k)
- Surplus for the period is £8,784k (PYCP: £7,231k)
- Interest cover is 3.37 (PY: 2.56)

Balances and Capital Expenditure

- IGL owns and manages 21,892 units (PYE: 21,885 units), and had a leasehold interest in 1,106 units (PYE: 1,106 units)
- Housing properties at cost (excluding accumulated depreciation) are £622,822k (PYE: £614,818k)
- Investment in existing and new housing properties during the period is £8,841k (PYCP: £12,463k)
- New social housing units developed and acquired during the period is 32 (PYCP: 76)
- Total loans (net of loan issue costs) is £285,332 (PYE: £298,898k)
- Gearing (Assets) is 43.6% (PYE: 46.4%)
- Net debt per unit is £11,983 (PYE: £12,579)
- Income and expenditure reserves are £48,631k (PYE: £39,847k)

Other Information

- S&P Credit Rating (23rd November 2020) is A+/Stable
- Regulatory Judgement (23rd November 2020) is G2 - Governance, and V1 - Financial Viability

3. Results Overview

- 3.1 The Group continues to generate the majority of its income from social housing activities. The Group has produced a positive set of results in the 6-month period to 30th September 2020. This has been aided by the coming to an end of the statutory reduction in rents of 1.0% per annum. In addition, the pandemic has resulted in a temporary reduction in property costs and provided supplementary income from the Government's Furlough Scheme.
- 3.2 The Group also continues to benefit from the recent loan restructuring exercise, which has resulted in a continuing reduction in interest payable.

- 3.3 The Group's financial covenants, including Interest Cover, Gearing (Assets) and Net Debt per Unit are all within set parameters and show improvement in comparison with the prior year.
- 3.4 The annual review of the S&P credit rating was announced in March 2020 as A+ (stable). The Group's Regulatory Judgement was changed in November 2020 to G2-Governance. This continues to meet the requirements on governance set out in the Governance and Financial Viability Standard. The Group's Regulatory Judgement remains at V1-Financial Viability.

4. Comments on Results

- 4.1 Greg Robinson, Assistant Chief Executive – Resources, commented:

“Incommunities is pleased to announce a solid set of results, which fully reflect the impact of the Covid-19 pandemic, reducing some operating costs, whilst income collection has remained strong. The continuing impact of the loan refinancing exercise is particularly pleasing, which has resulted in a significant reduction in interest payable. Not only has this exercise reduced the interest payable, it is also providing additional funds for an accelerated development programme, and has reduced the Group's funding risk.”

- 4.2 Geraldine Howley, Group Chief Executive, commented:

“The success of our refinancing exercise means we are able to continue to invest in new housing stock and improve the services to our customers. The past 6-month period has been exceptional, but the underlying strength of our business is reflected in these financial results. Our investment in digital technology, such as Dynamic Repairs Scheduling and an Active Asset Management system has helped the Group maintain services and systems throughout the Covid-19 pandemic and will continue to yield financial benefits into the future.

The Group remains fully aware of the potential effects of the Covid-19 pandemic on our business, and I can confirm we have taken the necessary steps to deal with this and mitigate the impacts. We continue to monitor the pandemic closely and make appropriate plans and take appropriate actions.”

5. Property Development Programme

- 5.1 The Group develops its housing properties through a dedicated subsidiary, BCHT Development Company Limited. During the 6 months ended 30th September 2020, the Group delivered 14 new housing properties over one scheme. All of these properties related to affordable housing. The Group also purchased 18 S106 properties.
- 5.2 At 30th September 2020, the Group has some 65 units in development over a number of schemes. These consist of affordable housing and rent-to-buy units.
- 5.3 Following the loan restructuring exercise, the Group continues to progress its future property development programme. Further announcements on the Group's revised 10-year development programme will be made in due course.

6. Funding Facilities

- 6.1 Total loans (net of loan issue costs) at 30th September 2020 are £285,332k (PYE: £298,898k). No additional loans have been drawn during the period. The reduction in debt of £13,566k is made up of £13,500k in repayments of the Barclay's RCF, a repayment of £1k against other loans, a discount on issue of £16k re-credited to the bond, and a write-off of £81k made to the fair value adjustment on consolidation.
- 6.2 At the period end, the Group's consolidated loan portfolio is made up of the following:

Funder	Facility Type	Facility Amount £'000	Debt Amount £'000	Available Amount £'000	Final Repayment Date
Bond	Fixed Rate	250,000	200,000	50,000	21 Mar 2049
Barclays	Fixed Rate	40,000	40,000	0	26 Nov 2043
Barclays	Variable Rate	55,000	37,500	17,500	20 Feb 2025
NatWest	Variable Rate	40,000	0	40,000	08 Feb 2029
RBS	Variable Rate	20,000	10,000	10,000	12 Jul 2029
THFC	Fixed Rate	650	650	0	31 Oct 2023
Other loans	Fixed Rate	277	277	0	30 Sep 2051
		405,927	288,427	117,500	
Discount on issue			(1,582)	1,582	21 Mar 2049
Loan issue costs			(2,925)	2,925	21 Mar 2049
Fair value adj.			1,412	(1,412)	30 Sep 2051
Total		405,927	285,332	120,595	

- 6.3 Interest Cover for the 6 month period is 3.37 (PYE: 2.56) and Gearing (Assets) at the period-end is 43.6% (PYE: 46.4%).

7. Outlook

- 7.1 Due to the Covid-19 pandemic there remains some uncertainty about the future operating environment. However, the current economic environment remains relatively benign with low interest rates and low inflation. We anticipate that there will be some pressure going forward on wage increases, which form a significant element of our operating expenditure, but this should be manageable.
- 7.2 The Covid-19 pandemic aside, the business outlook is relatively positive with continuing opportunities for growth and development and the Group's improved operational and financial capacity to take advantage of these opportunities.
- 7.3 On a more cautionary note, the impact of Covid-19 on the delivery of our repairs service inevitably means we will need to address this backlog next year, this will mean a reduction in operating margin and surplus more aligned to our business plan.
- 7.4 As noted in Section 1, the Group is looking to issue £25m of its £50m retained bond to support its development programme and to allow it to take advantage of the opportunities available where these compliment the Group's existing activities and meet with its strict appraisal criteria.

Enquiries: Please contact Greg Robinson, Assistant Chief Executive – Resources, on 01274 257 013 or at Greg.Robinson@Incommunities.co.uk

Disclaimer

The information in this announcement has been prepared by Incommunities Group Limited and is for information purposes only. The Results Announcement should not be construed as an offer or solicitation to buy or sell any securities issued by the Parent, the Issuer or any other member of the Group, or any interest in any such securities, and nothing herein should be construed as a recommendation or advice to invest in any such securities.

This unaudited announcement contains certain 'forward-looking' statements reflecting, among other things, our current views on markets, activities and prospects. Actual and audited 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. We do not undertake to update or revise such public statements as our expectations change in response to events.

Consolidated Results for 30th September 2020

Consolidated Statement of Comprehensive Income	6 Months Ended 30.9.20 £'000	6 Months Ended 30.9.19 £'000	Movement £'000	Change %
Turnover	49,941	49,141	800	1.6%
Cost of Sales	0	(1,013)	1,013	100%
Operating Costs:				
Operating Expenditure	(37,048)	(38,354)	1,306	3.4%
Gain on Sale and Disposal of Housing Properties and Other Fixed Assets	1,195	2,843	(1,648)	(58.0%)
Operating Surplus	14,088	12,617	1,471	11.7%
Net Interest Payable and Finance Costs	(5,304)	(5,386)	82	1.5%
Surplus Before Tax	8,784	7,231	1,553	21.5%
Taxation	0	0	0	0%
Surplus for the Period	8,784	7,231	1,553	21.5%
Actuarial Gain on Pension Schemes	0	0	0	0%
Total Comprehensive Income for the Period	8,784	7,231	1,553	21.5%

Consolidated Statement of Financial Position	30.9.20 £'000	31.3.20 £'000	Movement £'000	Change %
Fixed Assets	439,100	440,072	(972)	(0.2%)
Current Assets	18,710	22,282	(3,572)	(16.0%)
Current Liabilities	(10,413)	(12,861)	2,448	19.0%
Net Current Assets	8,297	9,421	(1,124)	(11.9%)
Total Assets Less Current Liabilities	447,397	449,493	(2,096)	(0.5%)
Longer Term Liabilities	(361,880)	(372,760)	10,880	2.9%
Pension Schemes Liabilities	(36,886)	(36,886)	0	0%
Total Net Assets	48,631	39,847	8,784	22.0%
Income and Expenditure Reserve	48,631	39,847	8,784	22.0%
Total Reserves	48,631	39,847	8,784	22.0%

*The consolidated results for the 6 months ended 30th September 2020 and the corresponding prior period do not include a provision for corporation tax payable or receivable in the period, or any movements on pension schemes liabilities, both of which form part of the year-end adjustments.

Other Financial Information for 30th September 2020

Other Financial Information	6 Months Ended 30.9.20 £'000	6 Months Ended 30.9.19 £'000	Movement £'000	Change %
Turnover from Social Housing Lettings	47,975	47,040	935	2.0%
Surplus on Social Housing Lettings	13,776	11,193	2,583	23.1%
Amortisation of Government Grants	413	412	1	0.2%
Depreciation of Housing Properties	(8,738)	(8,698)	(40)	(0.5%)
Depreciation of Other Assets	(318)	(387)	69	17.8%
Capitalised Major Repairs	4,523	4,434	89	2.0%
Investment in New Build Properties	4,318	8,029	(3,711)	(46.2%)
New Social Housing Units Developed	32	76	(44)	(57.9%)

Other Financial Information	30.9.20 £'000	31.3.20 £'000	Movement £'000	Change %
Total Units Owned and Managed	22,998	22,991	7	0.0%
Total Units Owned	22,663	22,656	7	0.0%
Historic Cost of Properties (excl. Accumulated Depreciation)	622,822	614,818	8,004	1.3%
Cash and Cash Equivalents	13,769	13,903	(134)	(1.0%)
Total Loans (net of Loan Issue Costs)	(285,332)	(298,898)	(13,566)	(4.5%)

**Key Financial Performance and Indicators and Financial Covenants for
30th September 2020**

Key Financial Performance Indicators	6 Months Ended 30.9.20	6 Months Ended 30.9.19
Turnover from Social Housing Lettings ¹	96.1%	95.7%
Operating Margin on Social Housing Lettings ²	28.7%	23.8%
Social Housing Costs per Unit (£) ³	£1,684	£1,824
Operating Margin ⁴	28.2%	25.7%
EBITDA-MRI to Net Interest ⁵	3.43	3.13
Net Margin ⁶	17.6%	14.7%
Return on Capital Employed ⁷	3.1%	2.8%

Financial Covenants	30.9.20	31.3.20
Interest Cover ⁸	3.37	2.56
Gearing (Assets) ⁹	43.6%	46.4%
Net Debt per Unit ¹⁰	£11,983	£12,579

Notes

- 1 Turnover from social housing lettings / Turnover
- 2 Operating surplus on social housing lettings / Turnover from social housing lettings
- 3 Revenue and capital social housing costs (excl. Depreciation and amortisation) / Total units owned and managed
- 4 Operating surplus / Turnover
- 5 Adjusted operating surplus / Net interest payable
(Adjusted operating surplus = operating surplus + depreciation of housing properties + depreciation of other assets - capitalised major repairs - amortisation of government grants)
- 6 Surplus for the period / Turnover
- 7 Operating surplus / Total assets less current liabilities
- 8 Adjusted operating surplus / Net interest payable
(Adjusted operating surplus = operating surplus + depreciation of housing properties - capitalised major repairs - amortisation of government grants)
- 9 Net financial indebtedness / Historic cost of properties (excl. accumulated depreciation)
(Net financial indebtedness equals total loans - cash and cash equivalents)
- 10 Net financial indebtedness / Total units owned