

## London & Quadrant Housing Trust Trading Update for the period ending 30 September 2020

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated trading update for the six months ended 30 September 2020 ('2020 Q2').

All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the six months ended 30 September 2019 ('2019 Q2') that do not include the trading activities of Trafford Housing Trust ('THT') that was acquired by L&Q on 1 October 2019.

### Highlights:

- There are 115,970 units in management (as at 31 March 2020: 115,003)
- L&Q has completed 700 residential units (2019 Q2: 1,505)
- Turnover was £450m (2019 Q2: £383m)
- EBITDA<sup>1</sup> was £201m (2019 Q2: £129m)
- EBITDA margin<sup>2</sup> was 40% (2019 Q2: 24%)
- EBITDA margin (excluding sales)<sup>3</sup> was 57% (2019 Q2: 38%)
- Gross sales margin<sup>4</sup> was 16% (2019 Q2: 14%)
- Net sales margin<sup>5</sup> was 7% (2019 Q2: 6%)
- EBITDA / interest cover<sup>6</sup> was 271% (2019 Q2: 166%)
- EBITDA social housing lettings interest cover<sup>7</sup> was 216% (2019 Q2: 126%)
- Operating surplus was £177m (2019 Q2: £130m)
- Debt to assets<sup>8</sup> was 41% (2019 Q2: 42%)
- Sales as a % of turnover<sup>10</sup> was 33% (2019 Q2: 45%)

Commenting on the results Waqar Ahmed, Group Director, Finance said:

"As expected, our Q2 results continue to reflect the decisive actions that we have taken during the onset of the Covid-19 pandemic to conserve cash flows whilst fulfilling our commitments to our customers, outlining the resilience and flexibility that we have in our business and the strength of our core rental operations. We are well prepared for any further lock-down measures that may be imposed by government supported by a strong balance sheet and robust liquidity position and will continue to review government guidelines as they become available and make any necessary changes at the right time.

Whilst all construction sites are open and have been operational since the summer, their initial closure at the onset of the Covid-19 pandemic has led, and will continue to lead to handover delays of new residential units as we adjust to revised working practices. Throughout the quarter, we have continued to implement core service recovery plans to address the management of backlog reactive maintenance repairs and the restarting of planned maintenance works which, together with our expectation for slightly improving sales performance and the stabilisation of arrears is reflected in our forward guidance for the year ending 31 March 2021."

### Forward Guidance to the year ending 31 March 2021

The following is subject to uncertainty on future business disruption caused by Covid-19. Included within these projections is the assumption that rent arrears double from pre Covid-19 levels and the assumption that L&Q will achieve c50% of its pre Covid-19 anticipated sales activity for the year ending 31 March 2021.

We project EBITDA to be in the range of £300m to £325m, net debt to be in the range of £5.8bn to £5.9bn and capital expenditure<sup>11</sup> to be in the range of £575m to £625m. Included within our EBITDA projections are £15m of

costs assigned to conduct fire remedial and safety works. Our projections for surplus after tax are expected to be in the range of £200m to £215m.

<b>Financial Metrics</b>	<b>Forward Guidance to 31 March 2021</b>
EBITDA margin <sup>2</sup>	27%
EBITDA margin (excluding sales) <sup>3</sup>	43%
Net sales margin <sup>5</sup>	8%
EBITDA interest cover <sup>6</sup>	220%
Social housing lettings EBITDA interest Cover <sup>7</sup>	172%
Debt to assets <sup>8</sup>	43%
Gross debt to EBITDA <sup>9</sup>	17.5x
Sales as a % of turnover <sup>10</sup>	46%

### Housing Completions

L&Q, including joint ventures, has completed 700 (2019 Q2: 1,505) residential units in the financial year to date. This comprises of 456 (2019 Q2: 656) completions for social housing tenures and 244 (2019 Q2: 849) completions for market tenures. During that same time, 1,598 new build residential units commenced on site (2019 Q2: 2,454).

### Development Pipeline

L&Q, including joint ventures, is operating from 158 (2019 Q2: 174) active sites. L&Q has approved an additional 358 residential units during the financial year bringing total units in the approved development pipeline to 30,472 (2019 Q2: 31,575). Of the units approved in the development pipeline 62% are for social housing tenures and 38% are for market tenures. Some 70% of the approved pipeline (21,348 units) is on site (2019 Q2: 65%). L&Q holds a further potential 72,799 (2019 Q2: 56,900) strategic land plots.

The future projected cost of the entire development pipeline (including work in progress and developments not yet committed or on site) that extends until the financial year ending 31 March 2040 is estimated at £5.1bn (2019 Q2: £6.9bn) of which £4.1bn (80%) is currently committed (2019 Q2: £5.2bn).

### Unaudited Financials

The unaudited financials exclude further adjustments that are subject to audit review:

<b>Statement of Comprehensive Income</b>	<b>2020 Q2 (£m)</b>	<b>2019 Q2 (£m)</b>	<b>Change</b>
<b>Turnover</b>			
Non-sales	344	307	
Sales	106	76	
	<b>450</b>	<b>383</b>	<b>17%</b>
<b>Operating costs and cost of sales</b>			
Non-sales	(201)	(218)	
Sales	(103)	(76)	
	<b>(304)</b>	<b>(294)</b>	<b>3%</b>
Surplus on disposal of fixed assets and investments	22	25	
Share of profits from joint ventures	9	16	
Change in value of investment property	-	-	
<b>Operating surplus</b>	<b>177</b>	<b>130</b>	<b>36%</b>
Net interest charge	(50)	(60)	
Other finance income/ (costs)	(1)	2	
Taxation	-	-	
<b>Surplus for the period after tax</b>	<b>126</b>	<b>72</b>	<b>54</b>
<i>Capitalised Interest</i>	<i>(24)</i>	<i>(17)</i>	

<i>Statement of Financial Position</i>	<i>2020 Q2 (£m)</i>	<i>31 March 2020 (£m)</i>	<i>Change (£m)</i>
Housing properties	10,677	10,555	122
Other fixed assets	78	81	(3)
Investments	1,600	1,622	(22)
Net current assets	1,038	926	112
<b>Total assets less current liabilities</b>	<b>13,393</b>	<b>13,184</b>	<b>209</b>
Loans due > one year	5,589	5,528	61
Unamortised grant liabilities	2,128	2,105	23
Other long term liabilities	323	324	(1)
Capital and reserves	5,353	5,227	126
<b>Total non-current liabilities and reserves</b>	<b>13,393</b>	<b>13,184</b>	<b>209</b>

### Non-Sales Activities

<i>Activity</i>	<i>2020 Q2 (£m)</i>	<i>2019 Q2 (£m)</i>	<i>Change (£m)</i>
Net rents receivable	318	282	36
Charges for support services	5	4	1
Amortised government grants	12	12	-
Other income	9	9	-
<b>Turnover</b>	<b>344</b>	<b>307</b>	<b>37</b>
Management costs	(28)	(26)	(2)
Service costs	(44)	(40)	(4)
Maintenance costs	(62)	(81)	19
Support costs	(6)	(5)	(1)
Depreciation & impairment	(46)	(38)	(8)
Other costs	(15)	(28)	13
<b>Operating costs</b>	<b>(201)</b>	<b>(218)</b>	<b>17</b>
Surplus on disposal of fixed assets	22	25	(3)
<b>Operating surplus</b>	<b>165</b>	<b>114</b>	<b>51</b>
<i>Capitalised Major Repairs</i>	<i>(10)</i>	<i>(32)</i>	<i>22</i>

### Sales Activities

The cost of sales is inclusive of capitalised interest and overhead costs:

<i>Activity</i>	<i>2020 Q2 (£m)</i>	<i>2019 Q2 (£m)</i>	<i>Change (£m)</i>
Property sales income	76	74	2
Land sales income	30	2	28
<b>Turnover from sales (excluding JV's)</b>	<b>106</b>	<b>76</b>	<b>30</b>
Cost of property sales	(68)	(63)	(5)
Cost of land sales	(21)	-	(21)
Operating costs	(14)	(13)	(1)
<b>Total costs (excluding JV's)</b>	<b>(103)</b>	<b>(76)</b>	<b>(27)</b>
<b>Operating Surplus (excluding JV's)</b>	<b>3</b>	<b>-</b>	<b>3</b>
Joint venture turnover	66	176	(110)
Joint venture cost of sales	(55)	(154)	99
Joint venture operating costs	(2)	(6)	4
<b>Share of profits from joint ventures</b>	<b>9</b>	<b>16</b>	<b>(7)</b>

## Average Selling Price

The average selling price, including JV's, for outright market sales during the financial year to date was £458k (2019 Q2: £524k) of which 40% were conducted under Help to Buy (2019 Q2: 78%). The average selling price of first tranche shared ownership sales during the financial year to date was £382k (2019 Q2: £376k) with an average first tranche sale of 35% (2019 Q2: 34%).

## Sales Margins

The cost of sales is inclusive of capitalised interest and overhead costs:

<b>Activity</b>	<i>Shared Owner- ship (£m)</i>	<i>Outright Sales (Non-JV) (£m)</i>	<i>Land Sales (£m)</i>	<i>Outright Sales (JV's) (£m)</i>	<b>2020 Q2 (£m)</b>	<b>2019 Q2 (£m)</b>	<b>Change</b>
Turnover	16	60	30	66	<b>172</b>	252	(80)
Cost of sales	(15)	(53)	(21)	(55)	<b>(144)</b>	(217)	73
<b>Gross profit</b>	<b>1</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>28</b>	<b>35</b>	<b>(7)</b>
Gross sales margin	6%	12%	30%	17%	<b>16%</b>	14%	2%
Operating costs	(1)	(5)	(8)	(2)	<b>(16)</b>	(19)	3
<b>Operating surplus</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>9</b>	<b>12</b>	<b>16</b>	<b>(4)</b>
Net sales margin	-	3%	3%	14%	<b>7%</b>	6%	1%

## Unsold Stock

As at 30 September 2020, L&Q, including joint ventures, held 426 completed units as unsold stock with a projected revenue of £119m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock, 39% has been held for less than one month.

L&Q's forward order book excluding joint ventures consists of 35 exchanged units with projected revenue of £13m and 262 reservations with projected revenue of £76m.

<b>Tenure</b>	<b>Projected Revenue (£m)</b>	<b>No. of Units</b>	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	21	180	89	2	12	26	51
Outright Sale (non-JV's)	62	146	25	0	11	55	55
<b>Total excluding Joint Ventures</b>	<b>83</b>	<b>326</b>	<b>114</b>	<b>2</b>	<b>23</b>	<b>81</b>	<b>106</b>
Outright Sale (JV's)	36	100	52	11	12	5	20
<b>Total Joint Ventures</b>	<b>36</b>	<b>100</b>	<b>52</b>	<b>11</b>	<b>12</b>	<b>5</b>	<b>20</b>
<b>Total Unsold Stock</b>	<b>119</b>	<b>426</b>	<b>166</b>	<b>13</b>	<b>35</b>	<b>86</b>	<b>126</b>

## Net Debt and Liquidity

As at 30 September 2020, net debt (excluding derivative financial liabilities) was £5,499m (as at 31 March 2020: £5,430m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £901m (as at 31 March 2020: £595m). Approximately 52% of L&Q's loan facilities and 60% of drawn loan facilities are at a fixed cost. On 20 October 2020, L&Q issued £250m of 2.000% secured debentures due 2038 that further increases short-term available liquidity.

## Unencumbered Assets

	2020 Q2	31 March 2020
No. of units under management	115,970	115,003
No. of social housing units provided as collateral against debt facilities	(59,612)	(55,013)
No. of private rented units provided as collateral against debt facilities	(1,107)	(1,107)
<b>Total no. of unencumbered units under management</b>	<b>55,251</b>	<b>58,883</b>
% of units under management held as collateral against debt facilities	52%	49%
Unencumbered asset ratio <sup>12</sup>	42%	41%

#### L&Q Credit Ratings – as at date of trading statement release

Rating Agency	S&P	Moody's	Fitch
Long-term credit ratings	A-/Stable	A3/Stable	A+/Negative

#### Notes:

<sup>1</sup> Operating surplus + depreciation and impairment – amortised government grant – capitalised major repairs +/- actuarial losses/gains in pension schemes

<sup>2</sup> EBITDA / (turnover + turnover from joint ventures – amortised government grant)

<sup>3</sup> EBITDA from non-sales activities / turnover from non-sales activities

<sup>4</sup> Gross profit from sales / turnover from sales including joint ventures

<sup>5</sup> Operating surplus from sales / turnover from sales including joint ventures

<sup>6</sup> EBITDA / net cash interest paid

<sup>7</sup> EBITDA from social housing lettings / net cash interest paid

<sup>8</sup> Net debt (excluding derivative financial liabilities) / total assets less current liabilities

<sup>9</sup> Gross debt / EBITDA

<sup>10</sup> Sales turnover (including joint ventures) / (turnover plus turnover from joint ventures)

<sup>11</sup> Capitalised development expenditure + acquisition of investment property + purchase of other fixed assets

<sup>12</sup> 100% less (loans due after more than 1 year + derivative liabilities + unamortised grant liability) / total assets less current liabilities

**This trading update contains certain forward looking statements about the future outlook for L&Q. Although the Directors believe that these statements are based upon reasonable assumptions, any such statements should be treated with caution as future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.**

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