MORhomes PLC

Investor Presentation

12 October 2022

Overview

A robust capital structure designed to weather the current market

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Unique for an aggregator – providing credit enhancement for bond investors

£28.6m of equity and subordinated debt = 5.5% of loans (av. loan £23.6m; av. asset cover 1.3x minimum)

Aligns interests of bond holders with borrowers

- Equity from HA's incl borrowers:
  - Over 0.5% of the Bonds
- Contingent Capital from borrowers
  - 1.15% loans
- 2nd Charge secured debt from a 3rd party lender
  - 3.5% of loans
- Standby liquidity facility (undrawn)

No funding or rate risk on the platform

- back to back lending
- margin charged over own cost of debt
- interest paid by HA's before due on MORhomes' own funding

		2021	2022
Provided by HAs	Equity and retained earnings	£3.5m	£3.8m
Provided by HAs	Contingent Convertible Debt	£4.8m	£5.5m
	Secured 2nd Charge Debt	£16.4m	£19.3m
Your Bonds	Senior Note EMTN Programme 1st Charge Debt	£452.2m	£512.8m
	Liquidity facilities	£10.0m (undrawn)	£10.0m (undrawn)

Supported by a strong proactive credit process

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- **Internal credit rating process**
  - Portfolio limits to maintain overall strength and quality
  - Borrower limits set by robust internal credit rating process
  - 10 years of performance, five historic, five from the FFR to set credit limits
- **Continuous surveillance and monitoring of borrowers**
  - Access to regular “non public information”
  - Performance measured ¼erly against budget, detailed analysis of any deviations
  - Formal credit review/reset at least annually
- **Pro-active, legally enforceable process for credit remediation**
  - Collateral deposits rise as credit declines – improves liquidity, strengthens security
  - Additional deposits required to address merger concentration risk
  - Rising levels of cash collateral to address any failing credit

Good MORhomes S&P rating – upside potential

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- **Outlook revised upwards by S&P in December 2021 to A- (Stable)**
  - Rated based on own capital, not as "sum of underlying borrowers"
  - No direct linkage to sovereign

S&P - "*The outlook revision reflects our view that MORhomes will continue strengthening its business operations and its borrowers will maintain solid credit quality.*"

- **Still "start-up" as at December 2021 for 12-18 months, implying upside potential**

S&P – "*We continue to adjust the rating down because of our view that MORhomes will continue operating as a startup-like entity in the next 12-18 months.*"

MORhomes Portfolio

High quality loan portfolio

- **21 borrower groups (22 entities)**
- **23 loans**
  - Split between rated (1x AA-, 5x A+, 2x A, 1x A-) and unrated borrowers
  - Broken down between public and non public ratings
  - Significant skew towards better credit quality
  - 63% of portfolio rated Level 2 or better – equivalent S&P A+
  - Programme commitment – >50% Level 2 or better

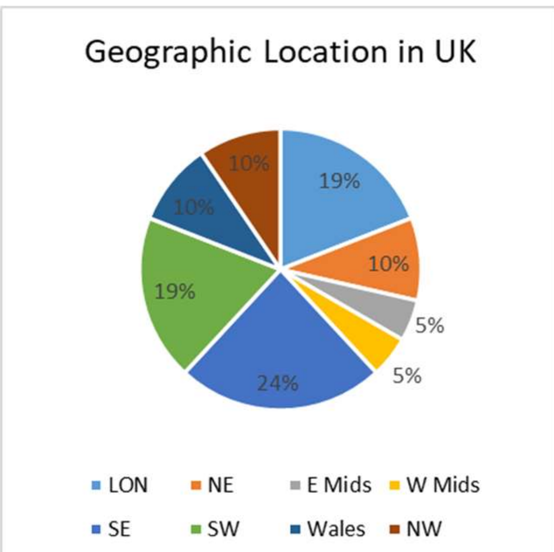
Mix of borrowers			
Public Rating	#	% of Loans	Total loans
Rated	9	51%	£274.2m
Unrated	13	49%	£268.2m

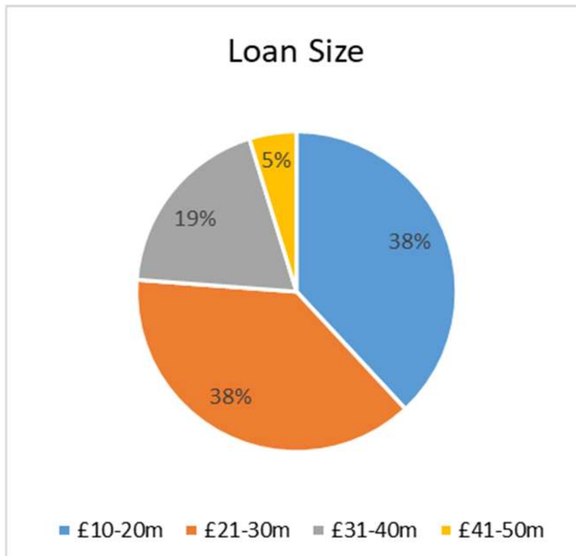
Public rating of MORhomes portfolio (where available)		
S&P	Moody's	Fitch
AA-/ A+ / A	-	A / A-

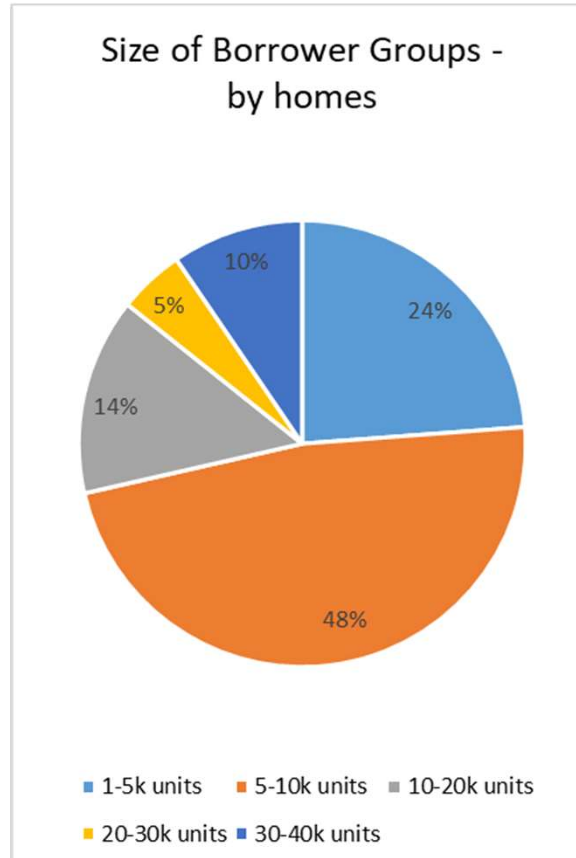
Lending Level	Max % of Loans permitted (Level & below)	Actual No of loans made	% of loan portfolio by amount	Total Loan value by category
Level 1	100%	1	3%	£19.3m
Level 2 (S&P A+)	100%	13	60%	£323.6m
Level 3 (S&P A)	50%	6	26%	£139.5m
Level 4	20%	2	11%	£60.0m

Diverse mix of borrowers

- High diversity scores
  - Broad geographic spread
  - Wide spread of unit sizes
  - Loans ranging from £10m – £50m
  - Mix of different business models
  - Differing commitments to development







Data includes all borrower Groups as at 31 March 2022. Ratings source: Chatham Financial, rating agencies. Geographic location refers to Head Office.

Client Performance

Borrowers - strengthening underlying portfolio in turbulent times

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- **Overall portfolio strength gradually improving over time**
  - % rated Level 2 (equivalent S&P A+) or better increased from 53% to 62%
  - Majority of ratings stable, with 3 upgrades since 2019 launch and only 1 downgrade
  - Average credit score improved every year

Internal Credit Ratings (annual review)	2019	2020	2021	2022
% Level 1 + 2 (min. 50%)	53%	60%	60%	62%
Average credit score (lower = better)	2.33	2.29	2.14	2.07
# Upgrades	1	0	2	0
# Downgrades	0	1	0	0
# Unchanged	8	11	14	20

Borrowers consistently out-performing plan

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- **On average, borrowers have beaten budget on key metrics across all of the last 4 years**
  - Turnover slightly ahead of plan
  - Operating surplus significantly ahead of plan, with operating margin higher than plan
  - Strong P&L performance achieved and net debt lower than plan

vs Budget	2019	2020	2021	2022
Turnover	+1.4%	+0.5%	+0.7%	+1.5%
Operating surplus	+4.5%	+3.4%	+8.3%	+2.7%
Operating margin	+0.8%	+0.5%	+1.6%	+1.0%
Net Debt	-1.6%	-4.0%	-6.4%	-5.8%

Portfolio heavily over-secured vs required minima

- **Minimum asset cover 105% EUV-SH / 115% MV-T**
- **On average, borrowers c.30% above minimum required (i.e. 140%+ cover)**
- **Full security typically in place within 6 months - 97% of portfolio fully secured at July 22**
  - Must be available and unencumbered at drawdown
  - Additional fees if not in place within 6 months
  - Maximum 12 months to complete charging "admin"

At annual valuation	2019	2020	2021	2022
Average security vs minimum	n/a	132%	129%	131%
% portfolio secured	0%	86%	89%	97%

MORhomes borrowers using levers to manage financial position

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June 2022 vs June 2021 - ahead of Regulator's own analysis (not yet published)

- **Overall credit score stable. No individual downgrades**
- **Increased stock investment, reduced development**
- **Borrowing levels controlled**
  - Debt per unit only up 8% by 2026 (~ inflation)
- **Improved liquidity and stock available as borrowing security**
- **Property sales resilient**

Current

- **We expect all borrowers to be updating financial plans now**
  - Previous plans cautious (eg average rent increase assumed for 2023: 7%)
  - Stress tests and mitigations previously modelled and reported to MORhomes
- **Borrowers must submit new model and business plan if material change**
  - We are engaging with borrowers in advance

Sector Developments

Conditions more challenging

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Economic / political landscape

- Increased inflation (esp. maintenance and construction)
- Increased interest rates
- Increased pressure to invest in stock (fire safety, tenant service, decarbonisation)
- Housing market uncertainty (affecting development SO and outright sales)
- Pressure on benefits and resident incomes

Rent cap

- Previous rent settlement CPI+1% (= approx 11% for April 2023)
- Consultation - 5% cap for 2023 strongly indicated
- Cost inflation ~10% (maintenance more, salaries less?)
- Cap and inflation for 2024 uncertain

How are our clients addressing these challenges

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- **Pause/ reduce new development**
- **Review/ re-prioritise/ rephase major repairs**
- **Efficiency/ cost restructure**
- **Cut discretionary spend/ services**
- **Review under-performing assets and activities**

Underlying strength of sector

- **Virtually unlimited demand**
- **Intrinsic stock value**
  - MORhomes borrowers: overall borrowing only 49% of stock value (MV-ST)
- **High percentage of interest fixed long-term**
- **Future investment controllable**
  - New development subject to viability tests (reflecting new economic reality)
  - Without development long-term cash flow strongly positive

Conclusion

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- Robust capital structure, aligning borrower and bond holder interests
- Rigorous process to assess and monitor borrower credit
- Good S&P credit rating, with upside potential
- Diverse, high-quality borrower portfolio
- Consistently strong borrower financial performance despite conditions
- Portfolio heavily over-secured
- Strong headwinds in the sector, but levers to pull