

**CONFERENCE CALL TRANSCRIPT - 17 December 2024****Introduction**

Morning everyone, and welcome to the Annington investor update conference call on the announcement today of the sale of Annington's interests in the Married Quarters Estate to the UK's Ministry of Defence. The call today is presented by myself, Ian Rylatt, Annington's CEO with Stephen Leung, Annington's CFO.

The commentary we are going to provide is based on two RNS announcements we issued this morning. I will give you a brief overview of what has been announced. Stephen will then walk through what this means for noteholders. Then I will come back to provide some reflections on the strategic opportunity and future direction of the ongoing business. We published some Q&As on our website earlier this morning and will also publish a transcript of this call immediately after this call.

The telephone call contains forward looking statements which reflect our current views with respect to future events and anticipated financial and operating performance. Whilst they are made in good faith, any forward-looking statements made in this telephone call are subject to the same caveats as our latest Annual Report and Accounts

**The announcement**

This is clearly an important and transformative moment for Annington in our 28-year history.

As you know, in July 2024, Annington and the MoD agreed to vacate the enfranchisement proceedings at the Court of Appeal with the aim of exploring a negotiated settlement. Since then, Annington's shareholder and the MoD have been working towards an agreement that would remove the legal cases that have hung over Annington and the MoD since 2022, which created economic and operational uncertainty for our business. A deal has now been reached.

Here are the highlights of what has been agreed:

- The MOD will pay Annington £5,994.5 m in consideration for the surrender of its 999-year leases of approximately 36,000 MQE properties, together with adjoining land;
- It has been agreed that the transaction will close on 9th January 2025, without any conditions to completion;

- The MOD will continue to pay rent until closing and a further top-up payment will be made on closing;
- The MOD has continued to release houses which are surplus to requirements and currently there are 159 units which have already been identified for future release by the MoD but which have not yet been transferred. Those 159 units will be handed back to Annington within c. 4 months of closing;
- In addition, the MOD will transfer to Annington additional property with an aggregate value of £55 m following closing. The MOD will identify these units within 12 months of closing and Annington will acquire the freehold of these units thereafter;
- The agreements covered by this comprehensive announcement will end all of Annington's contractual arrangements with the MOD relating to the MQE with certain exceptions for dilapidations and base dependent utilities;
- The agreements will also end all ongoing and future legal proceedings between Annington and the UK government relating to the MQE.

We recognise that some noteholders will have questions of what this means for the next stage of Annington, both today and in the weeks ahead. However, it is important to remember that when this transaction closes on 9th January, Annington will continue to own and manage a substantial property portfolio and plans to continue its business as a property investment company investing in UK residential real estate assets.

Following the redemption and tender processes that Stephen will outline shortly, Annington will look to invest available proceeds after the transaction into UK residential assets to enable further investment. We have significant expertise as a management team in maximising value through rental, sales, refurbishment and redevelopment.

We believe:

- The sale of the MQE leases will unlock opportunities for Annington to capitalise on its experience and build a leading UK long-term residential real estate portfolio.
- Capital provided by the transaction can be invested in Annington's retained portfolio and the wider UK residential real estate market.

- This transaction removes the ongoing legal uncertainty that we have faced and means that Annington's future business will no longer be dependent on the MoD's decisions about when to release its assets, and where they are based.

I will come back to the opportunity we see ahead after Stephen first walks through what today's announcement means for noteholders.

**Stephen:**

Thank you Ian.

Currently there are seven series of unsecured fixed rate notes issued by Annington Funding plc totalling £3.354bn outstanding under its EMTN programme. Additionally, Annington Funding plc has a £400m floating rate Term Loan and an undrawn £100m revolving credit facility.

Annington intends to utilise the proceeds from the sale of the MQE as follows:

1. redeem the 2025 and 2033 notes using the optional redemption provisions within these notes. We also intend to prepay the Term Loan and cancel the undrawn Revolving Credit Facility. In aggregate, this will utilise c. £1bn of proceeds received from the MOD.
2. invite holders of the 2029, 2032, 2034, 2047, and 2051 notes to tender their notes at prices which represent significant premia to the market value of these notes prior to these announcements, providing noteholders with an attractive and immediate option to receive cash for all of their holdings:
  - a. Noteholders will also be eligible to receive an Early Tender Payment of £10 per £1,000 of Notes to the extent they accept the Tender offer by 23- December
  - b. The tender period is expected to expire on 7 January and settlement is expected to occur on 14 January. Full details of the tender offers are laid out in the RNS announcement but I would note that the only condition to the tender offers is the receipt of funds from the MoD under the agreements announced today, which are not subject to any other conditions
  - c. We recognise that this process is taking place during the Christmas period which may be inconvenient for some noteholders. However, we wanted to provide an update to noteholders as soon as the transaction was concluded

Any notes that are not tendered or redeemed are expected to remain outstanding in accordance with their terms and conditions. Once the redemption and tender offer processes have completed, Annington will return to its shareholders any proceeds that are not to be reinvested in Annington's business while complying with the terms and conditions of the remaining notes.

Annington's management will continue to ensure compliance with the covenants of the remaining notes, both financial and otherwise. We believe that retained proceeds from this transaction together with rental income generated from our asset portfolio and proceeds from any subsequent disposals will be sufficient to pay interest and maturities on the remaining Notes as they fall due.

However, following completion of the transactions, it is likely that we will maintain a higher leverage ratio. Annington expects that the principal of its outstanding remaining notes will be not more than around 55% of the value of its cash, property and other assets.

Following completion of the Transaction and the reshaping of the Group's capital structure, Annington will continue to be a property investment company with a business plan to make further investments in the UK residential real estate sector.

The 30 September 2024 interim accounts, which will be published in January, will reflect the value of the MQE as a result of the transaction with the MoD. It is expected that these accounts, once finalised, will reflect an LTV slightly above 55%.

I will now hand back to Ian to provide some more details on the opportunity we see ahead for Annington after this transaction completes in January.

### **ANNINGTON BUSINESS PLAN**

Thank you, Stephen.

#### **First, we have a strong track record as a major investor in UK real estate**

Annington has a great legacy and track record as a major investor in UK real estate, with over 20 years' experience of refurbishing, developing and managing residential real estate at scale to generate long term, attractive returns for shareholders, whilst contributing to addressing the UK housing crisis.

Annington has always had a core focus on delivering affordable homes and supporting the UK housing market. It has played a key role in returning homes that the MoD no longer needed for service personnel back to the national housing stock, refurbishing and refreshing the properties as needed. The average price for Annington's homes is currently c.£300,000, with around half of homes sold to first time buyers.

That means:

- We are uniquely positioned as a major investor in UK real estate.
- Annington has successfully managed a large portfolio over many years.
- Annington's management of the Non-MQE Portfolio means we are experienced at maximising value through rental, sales, refurbishment and redevelopment.
- Any retained proceeds from the sale of the MQE will unlock opportunities for Annington to capitalise on its experience and to focus on further growth of what is already a leading UK residential real estate portfolio.

### **Second, we will have a robust balance sheet**

Following the tender exercise, any retained proceeds will provide Annington with a key structural advantage since its low debt -costs will support its ability to reinvest sale proceeds remaining in the business to build on and enhance its long-term real estate portfolio.

### **Third, our strategic focus remains the same**

Annington's objective continues to be to own and manage stable quality residential real estate assets with an attractive levered yield. Our strategy will be to invest in our existing portfolio and the additional units to be released by the MoD and to make new long term residential property investments. We will be opportunistic in reinvesting any retained sale proceeds, but we believe the current market dynamics provide attractive opportunities.

### **Fourth, we will have more legal certainty**

Annington will have more certainty over its future portfolio, following settlement of the litigation with the MoD.

**Next steps**

We will:

- Complete on the underlying transaction with the MoD on 9 January
- Finalise the Term Loan and note settlements outlined by Stephen on or about 14 January.
- With the funds available to the Group following those two events, the exact amount of which will depend upon the uptake of the tender offer, determine investment priorities and review opportunities available to the Group for further growth.

We will update the market on our future plans when material events occur.

**Q&A**

We are not able to take any questions on this call. But we have anticipated a number of questions that you might have related to the announcement today and we have published a list of Q&A's on our website earlier this morning after the release of the RNS.

We appreciate you may have further questions in the coming days. If there are any clarification questions please submit them via our investor enquiries e-mail address available on our website ([investorenquires@annington.co.uk](mailto:investorenquires@annington.co.uk)). We will review any questions received and if appropriate we may update our list of published Q&A's to cover such questions.

A transcript of this call will be available on our website.