Wednesday 15 July 2020

McCarthy & Stone plc

Half year results announcement for the six months ended 30 April 2020

McCarthy & Stone (the 'Group'), the UK's leading developer and manager of retirement communities, announces its financial results for the six months ended 30 April 2020 (2020). All comparatives are to the prior year deemed equivalent six-month period ended 28 February 2019 (2019) unless otherwise stated.

Summary

- Responded early to Covid-19 with absolute focus on our customers and our people resulting in Covid-19 infection rates being 27% lower than the over 65's UK population and four times lower than the over 85's
    - Currently only one confirmed case on our developments
- Acting decisively to protect the financial health of our business
    - Available cash balance as at end of June was c.£122m
    - Access available to £300m CCFF
    - Monthly cash burn reduced from c.£10m to c.£7m during the lockdown period
- Remobilisation of both sales and build activities will continue to be gradual, reflecting the nature of our customer base
- While we have passed the peak of the crisis, the financial effect will be weighted towards H2
- Covid-19 backdrop has illustrated the unique benefits of independent retirement living – the 'Third Way'
- Reaffirmed we have the right strategy in place with an increasingly attractive rental proposition for both customers and investors
- Beyond Covid-19, we see exciting opportunities due to our unique proposition and our strong brand, enhanced by recent Government policy announcements around stamp duty, planning and adult social care reform, the evolving land market and the emergence of a new and attractive retirement living property asset class

	H1 2020	H1 2019	Change
Legal completions, including rentals[1]	471	845	(44%)
Revenue	£101.1m	£280.5m	(64%)
Average selling price[2]	£297k	£319k	(7%)
Gross (loss)/profit	(£7.9m)	£39.0m	(120%)
Underlying operating (loss)/profit[3]	(£24.8m)	£21.3m	(216%)
Exceptional items	(£63.4m)	(£14.3m)	(343%)
Operating (loss)/profit	(£89.2m)	£6.0m	(1587%)
Underlying operating margin	(24.5%)	7.6%	(32.1ppt)
Operating margin	(88.2%)	2.1%	(90.4ppt)
Underlying (loss)/profit before tax[3]	(£26.9m)	£18.9m	(242%)
Profit (loss)/before tax	(£91.3m)	£3.6m	(2636%)
Underlying basic earnings per share[3,4]	(4.1p)	2.9p	(7.0p)
Basic earnings per share	(13.9p)	0.5p	(14.4p)
Available cash	£146.5m	£31.8m	361%
Net debt[5]	£53.5m	£57.2m	£3.7m
Return on capital employed[6] (ROCE)	4%	10%	(6ppt)
Interim dividend per share	0.0p	1.9p	(1.9p)

John Tonkiss, Chief Executive Officer commented:

"It has been an extraordinary period, with a positive trend following the General Election curtailed by the onset of Covid-19. This has had a significant impact on our financial performance, but thanks to our early and decisive actions to safeguard our homeowners, protect the health of the business and preserve cash, we believe we'll emerge from the crisis in a stronger position.

"Independent retirement living has played a vital role during this pandemic, proving to be a safe haven for older people, with significantly lower infection rates than within the general over 85 population. An increased focus on the wellbeing of older people as a consequence of Covid-19 also presents an exciting opportunity for our sector to better communicate its unique proposition and promote its many benefits. Working with Government, we want to develop a long-term plan to provide more options to keep older people safe at home, rather than in a home, and ensure this is fully understood by the public. We are pleased that this call is beginning to be heard with the decision to lift stamp duty, the proposals to reform planning and potential changes to adult social care.

"Going forward, we will continue to focus on our long-term strategy to transition to a service-led organisation, offering a choice of tenures and a range of services – a strategy we know is the right one and which has supported our homeowners during this difficult time. We remain particularly excited about our rental offering in terms of its benefits to customers and increased attractiveness to investors.

"Finally, I'd like to place on record a huge and heartfelt thank you to every one of our homeowners and our employees for their continued support, understanding and co-operation during this period, and helping to keep our people safe and well. It's been a challenging period, but there's nothing like a crisis to show what we're made of, and what we've shown is that our communities are made of much more than bricks and mortar."

Overview of HY20

There have been three discrete periods of trading: November and December were impacted by the uncertainty surrounding the 2019 General Election; there was then a strong post-election bounce in January and February; and this was followed by the Covid-19 lockdown and cessation in activities in March and April.

- Closure of sales offices and sites under construction from mid-March resulted in a 44% decrease in volumes to 471 legal completions (2019: 845), inclusive of 80 rentals (2019: nil) and a bulk sale of 135 units to Waverstone LLP, including all remaining units from our Scotland region, as well as sales offices and show flats (2019: nil), together with a 7% decline in the average selling price to £297k (2019: £319k)
- Gross loss impacted by fixed costs within the divisions and sales and marketing alongside increased empty property costs. The site profit margin of c.25-26%, excluding the bulk sale and rental income, largely consistent with the prior period
- Underlying operating loss of £24.8m (2019: underlying operating profit of £21.3m), primarily impacted by the lower level of completions as a result of Covid-19
- Statutory operating loss of £89.2m (2019: statutory operating profit of £6.0m) impacted by the impairment of goodwill and brand by £60.4m which has been treated as an exceptional charge
- Three first occupations brought to market in the period due to the cessation of construction activity prior to the period end (2019: 15)
- Strong performance in PX sales with 85 properties sold since 23 March

- Awarded the full Five Star rating for customer satisfaction by the Home Builders Federation ('HBF') for a record fifteenth consecutive year – the only UK developer of any size or type, to achieve this accolade every year the survey has been run
- Five Quality awards (2019: 10) at the 2020 National House Building Council ('NHBC') Pride in the Job awards, underpinning the Group's exceptional build quality
- 18 land exchanges and 11 planning consents achieved in the period (2019: 10 land exchanges and 21 planning consents)

Multi-tenure

- 127 multi-tenure transactions were completed during the period (80 rental completions, 22 part buy part rent transactions and 25 rent to buy)
- The total rental assets held on the Group's balance sheet as at 30 April were valued at £51.2m. The Group's overall portfolio as at 30 June 2020 stood at 192 rented units valued at £53.2m with a gross yield of 6.5% and expected gross to net leakage of 21%

Covid-19

Homeowners and Employees

Responded early to Covid-19 with absolute focus on our customers and our employees

- Rapid response focused on ensuring safety and wellbeing of our c.20,000 homeowners and c.2,500 employees
- Swift closure of all communal areas within developments, restricted visitors and implemented strict hygiene measures, including regular deep cleans
- Provided homeowners with additional tailored on-site assistance from our c.1,600 strong Services team, with a further c.500 volunteers joining our Buddy scheme to ensure that homeowners were never without the food, medicine or other supplies
- Positive feedback from employee engagement survey.
    - 84% felt well informed
    - 75% feel recognised for their contribution to the business
    - 55% on furlough were volunteering to help homeowners
- Ensured PPE provision for on-site staff early on
- Rolled out Buddying scheme and redeployment of staff to support customers
- Maintained regular communication with our employees, including furloughed staff through line managers, a weekly CEO video blog, on-line training and courses

Business

We are acting decisively to protect the financial health of our business with focus on cash preservation and increasing liquidity

- FY19 dividend payment withdrawn
- Voluntary 20% salary reduction by all members of the Board and wider leadership team
- Paused all sales, marketing and build activity and stopped discretionary spend
- Stopped land spend and minimised land liabilities
- Honoured payments to suppliers and maintained good relationship
- Employees in build and sales furloughed at 80% of salary

- Period-end net debt[5] of £54m (2019: £57m), equivalent to gearing[7] of 8% (2019: 8%)
- £300m Covid Corporate Financing Facility ('CCFF') funding secured on 2 June 2020, undrawn
- Monthly cash burn rate reduced from c. £10m from mid-March to c.£7m during lockdown period
- Further cost saving measures announced today as we realign resources across the Group to workflow and review our operating structure, resulting in an annualised cost saving of c.£4m

Gradual remobilisation

Our number one priority continues to be the health and wellbeing of our customers and employees, as the country re-opens for business and Covid-19-related restrictions are eased. We are taking a gradual approach to remobilisation reflecting the nature of our customer base.

Services:

- Resumed a majority of services adapted to government guidelines in England, Scotland and Wales
- Strict hygiene measures and Covid-secure working practices therefore remain in place on all developments until further notice, with processes and incident teams in place to respond to local lockdowns and any Covid-19 cases as required
- Currently only one confirmed case of Covid-19 on our developments

Build:

- Measured remobilisation of build and sales activities commenced on 8 June
- Construction sites are operating with new Covid-secure working practices in place. 17 out of 44 sites are now active. 37 sites are scheduled to restart by year end
- Low Covid-19 impact on build rates and no materials or resources issues with the supply chain
- In H2, our build activities will focus on further controlled remobilisation, with an emphasis on smoothing workflow, building up to pre-Covid-19 volumes by FY22, while managing any Covid-19 related impact on costs and timing of delivery of sites

Sales and marketing:

- Gradual and systematic ramp up of sales and marketing activities, with processes adapted to reflect the current environment and vulnerability of customer base. Hub sales operating model adopted. Viewings are by appointment only with extensive front end customer prequalification on-line or over the phone
- Sales leads and gross reservation rates increasing in line with gradual ramp up plan
- We are currently focusing on maximising sales and rental completions of finished stock together with cash generation through sell down of our on-balance sheet part-exchange properties
- Marketing effort will be directed towards repositioning the business for a post Covid-19 world with a clear proposition highlighting the benefits of independent retirement living and the services provided in response to the pandemic

Land:

- Fully reinstated land buying teams and seeing significant new land opportunities as a result of structural changes in the UK town centres post Covid-19

Employee return:

- Furloughed employees are returning in phases in line with ramp up of sales and build activity

While we are passed the peak of the crisis, the financial impact will be weighed towards H2.

The Third Way

The Covid-19 backdrop has illustrated the unique benefits of independent retirement living as a safer and happier alternative to more traditional options (own home or a care home). Infection rates within our communities stood at 27% and 75% lower[8] compared to the UK population of over 65s and over 85s respectively. Our latest customer satisfaction survey conducted during the outbreak showed that 93% of our homeowners feel safe or extremely safe in their apartments and 88% are very happy with the support they have received during the pandemic.

Right strategy in place

The Covid-19 backdrop reaffirmed that we have the right long-term strategy in place and we will continue to focus on improving customer service and becoming a service-led organisation that offers a choice of tenure and a range of services to suit different needs. Looking forward, it is our priority to ensure that we can maintain the enhanced level of care and support for all our homeowners and employees that we provided during the peak of the pandemic.

Our short-term strategic priorities focused on margin improvement remain in place, building on the good progress already made in build cost reduction and sales and brand workstreams.

Opportunity beyond Covid-19

As we adjust to the new reality and working practices, we see exciting future opportunities due to our unique proposition and our strong brand, enhanced by recent policy announcements around stamp duty, planning and adult social care reform and the evolving land market. We are well placed to address the significant annual shortfall in suitable accommodation for older people against the backdrop of rapidly ageing population in the UK.

Summary and Outlook

We are emerging from an extraordinary period in which we successfully put the health and wellbeing of our customers and our employees above all else and worked hard to protect the financial health of our business.

As the Covid-19 lockdown eases and the country resumes its economic activities, we are mindful of the vulnerability of our customer base and have reflected this within our gradual and measured remobilisation plans.

Early activities demonstrate that sales leads and gross reservation rates are increasing in line with this gradual ramp up plan. While we are passed the peak of the crisis, the financial effect will be weighted towards H2. However, given the significant level of ongoing uncertainty, the Board currently have little visibility as to the expected FY20 outturn. Guidance therefore remains suspended until we have greater clarity of the Covid-19 impact on the business and wider UK economy.

Throughout the pandemic, the independent retirement living sector has proved to be a safe and happy place for older people, and it is clear that it has an important role to play in the post Covid-19 world. It provides an alternative 'Third Way' for those needing assistance and there is now a real opportunity to redefine how we support our ageing population in future. Our unique proposition, unrivalled capability, strong brand and new land opportunities, along with the heightened focus from policy makers, ensures that we are well-placed to capitalise on this exciting opportunity.

– Ends –

Webcast of half year results presentation for analysts and investors will be webcast and available via conference call at 9.30am on Wednesday 15 July followed by Q&As.

A live webcast of the presentation is available via the following link:
https://www.investis-live.com/mccarthy-and-stone-plc/5efdf56627577e100062ec7a/qlql

An on-demand version of the webcast will be made available later today on the Group's corporate website

Conference call details:
United Kingdom (Local): 020 3936 2999
All other locations: +44 20 3936 2999
Participant Access Code: 877275

Conference call replay facility (available until Tuesday 22 July 2020)
United Kingdom: 020 3936 3001
All other locations: + 44 20 3936 3001
Replay code: 711258

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This announcement contains certain forward-looking statements about the future outlook for the Group. 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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[1] The Group recognises a legal completion at the point of completion of a sale of an apartment to a purchaser or a tenancy commencement on a rental apartment, including a bulk sale of 135 units (2019: nil). The HY20 transaction comprises the sale of 41 show flats and sales offices with a subsequent 12-month leaseback, and the sale of 94 finished apartments and apartments under construction in Scotland.
[2] Average selling price is calculated as average list price less cash discounts and part-exchange top-ups and fair value adjustments.
[3] Underlying operating (loss)/profit (including underlying operating (loss)/profit margin and underlying basic earnings per share) and underlying (loss)/profit before tax are calculated by adding amortisation of brand of £1.0m (2019: £1.0m) and exceptional items of £63.4m (2019: £14.3m) to operating (loss)/profit and (loss)/profit before tax respectively. See note 3 of condensed consolidated financial statements for further information.
[4] Underlying basic earnings per share have been reconciled within note 3 of condensed consolidated financial statements.
[5] See note 6 of condensed consolidated financial statements for net debt reconciliation.
[6] Return on capital employed ('ROCE') is calculated by dividing underlying operating profit for the previous 12 months by the average tangible gross asset value of £766.7m (2019: £740.7m) at the beginning and end of the 12-month period. Tangible gross asset value is calculated as net assets excluding goodwill of £nil (2019: £41.7m) and intangible assets of £4.3m (2019: £25.2m), excluding net debt of £53.5m (2019: £57.2m).
[7] Gearing is calculated by dividing net debt of £53.5m (2019: £57.2m) by net assets of £695.1m (2019: £748.1m).
[8] Infection rate calculated per 1000 people

Interim Management Report

Chief Executive Officer's statement

Reflection on the new reality

Since the start of the outbreak of the Covid-19 pandemic, the independent retirement living sector has played a vital role in keeping people safe and secure. Infection rates have been very low among our c.20,000 homeowners who live in our 441 communities across the UK and stood at 27% and 75% lower per 1,000 people compared to the UK population of over 65s and over 85s respectively. This is broadly typical across our sector due to the unique benefits of independent living which enables older people to remain in a private apartment with their own front door supported by a range of on-site services. Our latest customer satisfaction survey conducted during the outbreak showed that 93% of our homeowners feel safe or extremely safe in their apartments and 88% are very happy with the support they have received during the pandemic. The Covid-19 backdrop has illustrated the unique benefits of independent retirement living as a safe, happy and effective 'Third Way' to the current options of remaining in a family home that has often become unsuitable or moving into residential care.

Covid-19 has also re-affirmed that we have the right long-term strategy in place, focused on improving our customer experience and becoming a service-led organisation built around our three key principles, Flexibility, Choice and Affordability:

a) **Flexibility** within our Services to respond to the evolving needs of our homeowners through the existing operating platform across all our developments proved invaluable during the pandemic. Since the launch of our strategy, we have expanded our range of services, opened up new developments for wider community use and are integrating technology enabled services in order to provide additional peace of mind to both our homeowners and their families. This increase in technology has proved highly effective during the lockdown period, ensuring that we continue to connect our homeowners with their loved ones. As we are building on lessons learnt during the pandemic, we are adapting our service offering around 'softer' services and working on a phased implementation of alternative charging models

b) **Choice of tenure.** Through the roll out of our multi-tenure options, we are broadening the appeal of our offering. We now have an even more attractive rental portfolio of a new and attractive retirement living property asset class valued at c.£53.2m with attractive yields underpinned by pension backed income and long-term assured tenancies with low levels of void and leakage. Looking to the future, there is sufficient demand for rental to become approximately a quarter to a third of our reservations. We are also looking at the opportunity for Build-to-Rent (BTR), shared ownership models and development partnerships

c) **Affordability of product.** This is a longer-term initiative. We are seeking to maximise the appeal of our product by increasing its affordability via lower ASPs. We will achieve this through reduced build costs, increasing efficiencies and introducing new contemporary and compact designs and Modern Methods of Construction ('MMC'). Our MMC strategy is still sound despite the delay in implementation caused by Covid-19

Our short term strategic priorities focused on margin improvement remain in place and we intend to build on the good progress we have made in build cost reduction and sales and marketing strands pre-Covid-19. However, the exact impact of Covid-19 on the quantum and timing of delivery of these initiatives is currently under review.

This crisis has brought the challenges faced by older people to the fore and we have a real opportunity to address this. There remains a chronic undersupply of appropriate housing for older people with demand estimated to be c.30,000 units a year[1] against a current supply of c. 8,000 units a year[2]. As the UK's leading developer and manager of retirement communities, we have an unrivalled capability to help meet this demand.

We are also witnessing a changing landscape with an increased focus on addressing the challenges in adult social care in light of the pandemic. We continue to engage positively with policy makers and retirement living is firmly on their radar. This is further supported by Government's 'Build, build, build' approach and the significant proposed planning reforms.

However, reflecting on the Covid-19 experience, it is also clear that our proposition is not fully understood by the public. There is lack of familiarity with the unique benefits of retirement living and its often association with care homes exacerbated by the recent events. As a result, we are investing into renewing our brand purpose centred around a new way of life - a viable 'Third Way' built around independence with the right level of on-site assistance, so our customers can be happier, healthier and safer as they get older.

The re-invigorated brand purpose will embed our ESG thinking around customers, society, employees and the environment. As a Group, we are determined to listen to and give a voice to our customers, supporting the communities in which we operate and continuing to work with the voluntary sector, including building on our existing relationships with the charities Beanstalk and the Royal Voluntary Service, as well as other partners within the wider retirement living sector. We also plan to launch our own charity, the McCarthy & Stone Charitable Foundation, in FY21.

Furthermore, we will work with the Government to help drive the agenda for more and better housing for older people with a joined-up and long-term plan, starting with better housing that keeps older people away from social care and hospital, noting that independent retirement living saves the Government £3,500 per person per annum[3] in reduced costs.

As we adjust to the new working practices, we see an exciting future due to our unique proposition, our strong brand and the increased awareness from policy makers to address a significant annual shortfall in appropriate accommodation for older people.

Covid-19 response

At the onset of the pandemic, we took decisive actions to help protect our homeowners and to ensure the wellbeing and safety of our employees. Additionally, we had to act quickly in order to protect the health of the business. These measures were announced on 25th March.

Homeowner and employee support

Our dedicated Services teams have worked tirelessly to ensure the wellbeing of our homeowners. We provided clear and frequent guidance to our customers across all sites from the outset. We swiftly closed communal areas, restricted visits and implemented strict hygiene measures including frequent deep cleans. Furthermore, we provided our homeowners with additional tailored on-site assistance and support from our c.1,600 strong Services team, and a further c.500 volunteers joining our Buddy scheme to ensure that homeowners were never without medication or food supplies. This level of additional help, support and guidance would not have been available to them if they lived alone. Our Retirement Living PLUS

[1] Knight Frank, 2016
[2] EAC, 2019
[3] WPI, 2019

developments have teams on site 24 hours a day, 365 days a year, while our Retirement Living developments have on-site support during the week and a dedicated out-of-hours helpline.

To assist with our response to Covid-19, we also set up an operation to rapidly manage suspected cases to minimise the risk to homeowners and employees. We engaged with Government to ensure our front-line staff in retirement communities have access to sufficient personal protective equipment to enable them to carry out their important role in caring for older and vulnerable people.

Cash saving measures

As a Group, we entered the Covid-19 period with a strong balance sheet. Our Tangible Net Asset Value at 28 February 2020 was c.£687m, with gearing of 8% and, as of 18 March, a cash balance of c.£127m. At the end of February, its main liquid assets were c.£350m of finished stock, a total portfolio of >£50m of rental and shared ownership assets (at attractive yields) and >£50m of part exchange assets. Our intention was to utilise our strong asset base to generate further revenue or liquidity as necessary during the expected period of low sales activity and it successfully managed to increase its available cash balance via continued sell down of part-exchange during the Covid-19 lockdown period as a result.

To ensure the long-term health of the business, our financial priority was to preserve cash by undertaking a series of measures. We paused all build activity across our entire development programme with the exception of certain specific sites that were nearing completion. We also paused our land spend and contractually committed land spend has been reviewed and minimised where possible. All marketing activity was paused, and on-site sales offices were closed. Employees impacted by these actions were either redeployed to support our homeowners as the additional demand for our services significantly increased or placed on furlough as they qualified for support under the new Government Job retention scheme.

The key financial actions taken were:

- As previously announced, the Group took the decision to cancel its final dividend payment resulting in a cash saving of c.£19m
- All members of the Board and wider leadership team took a voluntary 20% reduction in basic salary from 1 April. The salary reduction for the Board remains in place until further notice
- Sale of 135 units with a balance sheet asset value of c.£32m for a total consideration of c.£35m to Waverstone LLP. This generated an immediate cash flow of c.£13m
- Strong performance in part-exchange property re-sales with 42 sold properties since mid-March. Only 34 of the 130 properties on the balance sheet at 30 April remain unsold
- Secured access to additional £300m liquidity through access to the HM Treasury and Bank of England Covid Corporate Financing Facility ('CCFF')
- Negotiated a waiver of the interest cover banking covenant until April 2021 and a relaxation in this covenant test for October 2021

The above actions contributed to a reduction in monthly cash burn rate from c.£10m per month to c.£7m and an increased cash balance of c.£146m as at 30 April 2020. The business is now therefore well positioned to navigate through the continued uncertainty, with strong cash controls remaining in place.

<u>Short term strategic initiatives</u>

While the quantum and timing of delivery of our short-term priorities focused on margin improvement are currently under review due to Covid-19, we made good progress, as planned, across these initiatives prior to Covid-19.

Sales and marketing

We maintained our focus on improving our off-plan sales and reducing incentives and discount costs by fully integrating our rental and multi-tenure offering into our sales practices and tightly controlled use of on balance sheet part exchange.

Build Cost Reduction (BCR)

Good progress was made with securing planning consents on schemes reviewed as part of our BCR work stream, resulting in a total of £30m now in construction budget or delivered. Before the lockdown only c.£18m (2019: £25m) remained as subject to planning.

Post lockdown, BCR practises are now embedded into the business, but timing and quantum will be impacted by Covid-19 and the business is carefully managing the impact of additional Covid-19 related compliance costs. The focus now is on continuing refinement of standardisation, tendering of subcontractors and supply chain and optimisation of used components.

Workflow re-alignment

We continued to focus on smoothing our workflow delivery. Prior to lockdown we delivered three first occupations (2019: 15) and 11 planning consents (2019: 21), 18 land exchanges (2019: 10) and 11 new build starts (2019: 14).

Ceasing of all build activities due to Covid-19 allowed the business to fully optimise the workflow and align with re-mobilisation plans, gradually increasing build volumes and scaling workflow back up to pre-Covid-19 levels by FY22 with focus on reducing finished stock, gradually releasing land from exchange to completion and into build stages, while proactively buying land to enhance the land bank.

Finished stock

We made good progress toward reducing our finished stock levels to the 1,100 units target achieving 1,373 units at the end of the period (FY19: 1,628). The value of finished stock on the balance sheet stood at £323m (H1 2019: £381m). Post Covid-19 sales activities firmly focused on reducing the levels of finished stock further, while build activities are gradually re-mobilised.

Land bank

During the period and pre-Covid-19 pause on land activities, we invested £48m (2019: £58m) in land and our landbank now stands at 7,959 units (2019: 8,372 units), which equates to over 4.2 years' supply (2019: 3.9 years' supply). 18 high-quality development sites (2019: 10 sites) have been added to the land bank. We also completed on the purchase of 21 sites (2019: 13 sites) and achieved 11 planning consents (2019: 21) during the period.

We have now fully reinstated our land buying teams and are seeing significant new land opportunities as a result of structural changes in the economy post Covid-19. We have not noted any significant post-Covid pricing impact for the type of land we target.

Health and Safety

We continued to make good progress with developing a culture of excellence in health and safety across the Group with accident incident rate reducing significantly to 100 from 532 (HY19) vs 268 industry benchmark.

Board changes

Chief Financial Officer (CFO) change

As announced on 12 May 2020, our current CFO, Rowan Baker, has informed the Board of her intention to step down as CFO and as a Director of the Company to become CFO of Laing O'Rourke.

Her replacement, Martin Abell joined the business as CFO Designate on 26 May 2020, and will become CFO on 1 August 2020, following Rowan's departure. Martin most recently held the position of CFO at Clinigen Group plc, the pharmaceutical and services company, and prior to that was the Finance Director (Europe and Rest of World division) for Hays plc, the FTSE 250 professional recruitment company.

Rowan will remain in the business to provide a smooth handover with Martin and the wider finance team. Her departure date will be 31 July 2020.

Chief Operational Office (COO)

Nigel Turner, COO – Build, is leave the Company with effect from 15 July 2020. The change follows an internal review as the business adjusts to the impact of Covid-19. The Company’s four Divisional Managing Directors, who are responsible for all build operations, will now report directly to John Tonkiss, Chief Executive Officer.

Charity partnership

To support and help deliver our purpose of creating communities that enrich the quality of life for our customers and families, we are preparing to launch the McCarthy & Stone Charitable Foundation in FY21 to bring together our charitable activities across the business. This has included our national partnerships with Beanstalk, the national children’s literacy charity, and the Royal Voluntary Service in recent years. The new foundation will help to further embed our organisational purpose and support both older people and the communities in which we operate.

Summary and Outlook

We are emerging from an extraordinary period in which we successfully put the health and wellbeing of our customers and our employees above all else and worked hard to protect the financial health of our business.

As the Covid-19 lockdown eases and the country resumes its economic activities, we are mindful of the vulnerability of our customer base and have reflected this within our gradual and measured remobilisation plans.

Early activities demonstrate that sales leads and gross reservation rates are increasing in line with this gradual ramp up plan. While we are passed the peak of the crisis, the financial effect will be weighted towards H2. However, given the significant level of ongoing uncertainty, the Board currently have little visibility as to the expected FY20 outturn. Guidance therefore remains suspended until we have greater clarity of the Covid-19 impact on the business and wider UK economy.

Throughout the pandemic, the independent retirement living sector has proved to be a safe and happy place for older people, and it is clear that it has an important role to play in the post Covid-19 world. It provides an alternative 'Third Way' for those needing assistance and there is now a real opportunity to redefine how we support our ageing population in future. Our unique proposition, unrivalled capability, strong brand and new land opportunities, along with the heightened focus from policy makers, ensures that we are well-placed to capitalise on this exciting opportunity.

Financial Review

Revenue

The Group experienced challenging trading conditions during the first six months of FY20, first impacted by the December 2019 General Election and then by the Covid-19 pandemic. The pandemic has adversely affected our sales and caused disruption to our build activities. Closure of sales offices and sites under construction from mid-March, typically one of our busiest sales and construction seasons, resulted in a significant decrease in our sales volumes. Only three first occupations (2019: 15) were brought to market in the period due to the pause in construction activity.

This resulted in a 64% reduction in revenue to £101.1m (2019: £280.5m) during the first six months of FY20, reflecting a 44% decrease in sales volumes to 391 legal completions (2019: 845) plus 80 rentals (2019: nil), recognised within other income, together with a 7% reduction in the average selling price to £297k (2019: £319k). Our revenue for the period included Freehold Reversionary Interest (FRI) revenue of £3.9m (2019: £11.2m).

The Group's completions during the period included the sale of 135 units to Waverstone LLP, where McCarthy & Stone is a non-controlling member. This comprises the sale of 41 show flats and sales offices with a subsequent 12-month leaseback, and the sale of 94 finished apartments and apartments under construction in Scotland. The number of completions of 471 (2019: 845) is inclusive of the delivery of 80 rental transactions (2019: nil) and 22 part buy part rent transactions (2019: 12). We also delivered a further 25 'rent to buy' transactions (2019: nil).

Profit

Gross (loss)/profit was impacted by fixed costs within the divisions and sales and marketing costs alongside increased empty property costs. The site profit margin of c.25-26%, excluding the bulk sale and rental income, is largely consistent with the prior period.

In light of the challenging trading conditions the underlying operating loss for the period was £24.8m (2019: £21.3m underlying operating profit), whilst our underlying operating loss margin decreased to 24.5% (2019: 7.6% underlying operating profit margin).

Total administrative expenses for the period amounted to £20.2m (2019: £19.5m), excluding exceptional items and amortisation of brand, however they increased as a proportion of revenue to 20% (2019: 7%).

Statutory operating loss for the period decreased to £89.2m (2019: £6.0m operating profit) impacted by £63.4m (2019: £14.3m) of exceptional costs - £60m one-off non-cash impairment of goodwill and brand, plus £3m of Covid-19 and restructuring costs. This in turn impacted our statutory operating loss margin which decreased to 88.2% (2019: 2.1% operating profit margin).

Similarly, underlying profit before tax for the period decreased to a loss of £26.9m (2019: £18.9m underlying profit before tax) whilst the statutory loss before tax of £91.3m (2019: £3.6m profit before tax) has also been impacted by £63.4m (2019: £14.3m) of exceptional costs.

Impairment of goodwill and brand

Considering the impact of Covid-19 on business performance and market capitalisation being below the carrying value of net assets, management have concluded that a full impairment review of goodwill and other intangibles should be undertaken at the half year reporting date. Following this impairment test, the carrying value of goodwill of £41.7m and the carrying value of brand of £18.7m were written off in full. This gave rise to a charge of £60.4m for the six months period ended 30 April 2020. The charge was presented as an exceptional item.

Financing and net debt

The Group's rapid response to preserve liquidity position at the start of Covid-19 pandemic and continuing focus on cash management resulted in an available cash balance as at 30 April 2020 of £146.5m (2019: £31.8m) and a net debt of £53.5m (2019: £57.2m), notwithstanding a seed portfolio of 181 rentals on the balance sheet. This resulted in a gearing of 8% (2019: 8%) at the end of the period.

The Group holds a £200m Revolving Credit Facility ('RCF') provided by Barclays, HSBC and RBS, which expires in March 2023. This facility includes financial covenants which test the Group's interest cover, gearing, tangible net asset value and restrictions on the value of rental, shared ownership and part-exchange properties held on the balance sheet. On 7 July the Group secured a waiver of the interest cover banking covenant until April 2021 and a relaxation in this covenant test for October 2021.

On 2 June 2020, the Group secured access to the HM Treasury and Bank of England Covid Corporate Financing Facility ('CCFF') and has put in place a £300m commercial paper programme under this scheme. The facility will be used to provide additional liquidity should it be required, however it remains undrawn.

Exceptional costs

Exceptional costs of £63.4m (2019: £14.3m) were incurred during the period. They represented the cost of £60.4m goodwill and brand impairment charge, £2.7m of costs incurred in relation to the strategic restructuring and £0.3m of costs associated with Covid-19.

Taxation

The effective tax rate was close to the statutory rate during the period. The total tax credit for the period was £16.8m (2019: £0.8m charge) reflective of the loss for the period. As at 30 April 2020, the Group recognised a deferred tax asset of £13.6m (2019: £2.3m liability) representing the future utilisation of current year trade losses at 19%.

Earnings per share and dividend

Underlying basic earnings per share decreased by 6.8p to a 4.1p loss per share (2019: 2.9p profit per share) reflecting a decrease in underlying loss before tax to £26.9m from a profit of £18.9m in 2019. Basic earnings per share resulted in a 13.9p loss per share (2019: 0.5p profit per share).

As announced on the 18 March, given the uncertainties surrounding the remainder of the financial year and the need for prudent cash management, the Board suspended the payment of the final dividend of 3.5p per ordinary share (2019: 1.9p per share).

Related party transaction

During the year, the Group completed the sale of a portfolio of 135 units to Waverstone LLP. This comprises the sale of 41 show flats and sales offices with a subsequent 12-month leaseback, and the sale of 94 finished apartments and apartments under construction in Scotland.

Waverstone LLP is an entity between Waverley Investments Limited and McCarthy & Stone Extra Care Limited, where McCarthy & Stone Extra Care Living Limited holds a non-controlling 49% equity interest and therefore has been treated as an associate in the Group financial statements. Waverstone LLP was created to facilitate the purchase, management and disposal of various assets built by the Group. Waverstone LLP has appointed McCarthy & Stone Management Services Limited a property manager and a sales agent.

The transaction resulted in additional cash flow for the Group of £13.0m with the remaining balance of £22.0m expected to be paid over 3 years. The half year underlying operating loss for the Group includes £1.7m loss from the transaction, after taking account of unrealised profit and fair value adjustments in relation to the outstanding receivable balance.

RISK MANAGEMENT

Risk Overview
Effective risk management is fundamental to the successful delivery of the Group's strategic objectives. The Group identifies and manages risk in line with its Risk Management Framework. The approach to risk is set by the Board, which maintains a close involvement in identifying and mitigating risk and monitors certain key risk indicators at Board meetings on a regular basis.

Covid-19
The Covid-19 pandemic has had, and continues to impact on our people, business model, business performance and the economic environment in which we operate and has led the Group to invoke a number of business continuity procedures to manage the immediate impact of the pandemic.

Actions taken to manage the risk posed by Covid-19 include:

- ✓ Weekly operational and Executive committees set up and focused on
    - understanding and managing the implication of the pandemic on our business model
    - understanding emerging exposures to the developing and evolving situation
    - defining and agreeing actions to mitigate as far as possible any adverse impacts to our business and customers
    - ensuring timely and effective communication to our customers, staff and other stakeholders
- ✓ Buddy scheme with c.500 volunteers, looking after the wellbeing of our c.20,000 customers created and operationalised
- ✓ Introduction of various measures to protect the health and safety of our staff, ensuring continuity of critical services for our customers; measures are continually evaluated and adjusted to reflect Public Health England and UK Government guidelines
- ✓ Response planning to manage any unavailability of key resources on our developments, ensuring our customers are cared for
- ✓ Close dialogue with our critical suppliers, with sufficient PPE inventories held to deal with all anticipated scenarios
- ✓ Implementing a comprehensive business remobilisation plan
- ✓ Preparation and implementation of a detailed set of working practices and protocols for when we started to return to sites from 8 June 2020
- ✓ Maximising liquidity through:
    - Reduced operating expenditure across the business and head office functions
    - Executive Board members and senior leadership team taking voluntary 20% reduction in salary
    - c.640 staff on furlough between 1 April and 30 June 2020, with appropriate claim made against the Government job retention scheme
    - Final dividend payment for 2019 of 3.5p suspended
    - Secured additional £300m liquidity through access to the HM Treasury and Bank of England Covid Corporate Financing Facility ('CCFF')
    - Full drawdown of £200m revolving credit facility
    - Secured relaxation of the interest cover banking covenant to October 2021.

Beyond the immediate impact of Covid-19, a forecasted recession in the UK and global economies is likely to have an impact on the business over the next few years. The Group will continue to monitor the impact of the pandemic and the business plan is being continually assessed through comprehensive scenario planning to manage risks as they arise.

UK withdrawal from the EU

With discussions continuing between the UK and the EU to agree suitable trading arrangements following the transitional period which the UK Government has said ceases at the end of 2020, and the associated risk of no agreement being reached, there may be a period of uncertainty and a reduced level of consumer confidence, which may also impact other Principal Risks. Scenario planning has incorporated various outcomes in order for the Board to assess the potential situations and make informed decisions.

Principal risks and uncertainties

As part of the Group's Risk Management Framework, Principal Risks and uncertainties have been identified that could prevent the Group from achieving its strategic objectives and how these risks could be effectively mitigated to an acceptable level, its risk appetite. These risks are reviewed, updated and approved on a regular basis by the Group's Executive and Risk & Audit Committees.

Detail on the Group's Principal Risks, and how they are managed is available in the McCarthy & Stone plc Annual Report 2019 or online at www.mccarthyandstonegroup.co.uk, with the exception the new Pandemic principal risk, which is detailed below.

All the Group's principal risks and uncertainties have been reviewed in light of the impact of Covid-19, while the pandemic has potential to impact them all, the most material impacts on the Group's Principal Risks are detailed in the table below:

Principal Risk	**Key Mitigating Actions**
Pandemic's (new) An epidemic or pandemic of an infectious disease (either a second wave of Covid-19 or the emergence of a new disease) may lead to the imposition of Government controls, including social distancing, on the movement of people with the associated cessation of large parts of the economy for a significant period of time. The cessation of business will lead to reduced business activity and revenues until normal sales and construction activity can be safely recommenced.	Business continuity plans have been strengthened following learnings from the current situation. Maintenance of a strong balance sheet able to withstand a sustained period of complete or partial cessation of business activity.
Economic House building is cyclical and reliant on the state of the economy. A recession could have a significant impact on ability to deliver against the Group's strategic objectives. Current indications are that as a direct result of the Covid-19 pandemic, there is an increased risk of a global recession, which could impact the Group adversely.	A review is underway across all aspects of the Group's business model to provide greater resilience against any potential recession and minimise the impact on its financial position and performance. Investment in land, levels of committed expenditure and production programmes are all carefully targeted, monitored and continually assessed against market conditions. The business is equipped and has demonstrated in light of the current pandemic that it maintains flexibility to react swiftly, when necessary to changes in market conditions.
Liquidity & Funding The inability to sell apartments during the lockdown and the extended duration of shielding and protective measures our customers may take, due to them being at increased risk, may have an increased risk on the Group's liquidity and funding position in the future.	Capital, funding and liquidity are all subject to extensive stress testing with the results informing the levels of capital and liquidity that are required to be held in the event of adverse conditions.

	Sales and marketing initiatives have been developed and will be rolled out across all sales sites, which will improve the proposition to customers and facilitate improved sales rates in the future.
Health & Safety The safety of our customers, employees and contractors has always been and will continue to be the Group's priority. There is an impact on staff health from risk of illness and in addition to longer term well-being risks, such as mental health impacts, which may arise from societal factors. These factors could also increase pressure and reduce skills availability in key areas. Our customers are at an increased risk of Covid-19 due their age profile, which could also add additional pressures to the business model.	The Group is following all Government advice with most employees working from home where possible, and social distancing and additional cleaning measures are in place to support key workers based in our developments and offices. The Group is ensuring that individuals are protected through adhering to the Government's physical and health measures, while recognising there is uncertainty surrounding timing of their removal or relaxation. Significant and decisive actions have been taken to mitigate the risk to our customers, introducing an early lockdown, clear and frequent homeowner guidance, strict hygiene measures and restrictions to movements on and around our developments which we manage and engaging c.500 volunteers as part of our buddy scheme to ensure they have the support needed. Significant investment in Personal Protective Equipment has also reduced the contagion of Covid-19 amongst our customers, contractors and employees.
Operational & Technology Increased remote working, the implementation of new processes and the pressure on customer care and support all have the potential to increase the Group's operational risk levels, which in turn could lead to subsequent loss. Enabling working from home could increase risk of internal fraud, which may arise as a result of unauthorised access to critical systems and data. There is an increased risk of cyber-attacks, due to phishing emails which use a Covid-19 theme, and breaches could have legal and privacy implications. There is an increased risk of fraud, as fraudsters take advantage of the vulnerabilities created by the current situation.	There is additional focus on business continuity and potential fraud monitoring within our technology function. A significant amount of work has been undertaken to enable and improve home working conditions and network capacity. Incident and issue management and escalation governance structures and processes are in place with oversight from the Executive and Risk & Audit Committees. Potential customers are now able to visit our developments on a pre-booked and pre-qualified basis - with strict guidelines in place to maximise safety, customers are also now able to purchase apartments over the telephone with the use of virtual tools and detailed plans.
Build programmes and cost All build programmes were halted during March 2020 as a direct result of the Covid-19 pandemic. This will have an impact on workflow and sales releases to market in the future, both having a potential adverse impact on profitability and liquidity.	While continuing to respect additional Government guidelines in light of the pandemic, remobilisation plans have been drawn up for all sites in the workflow pipeline and build has commenced on a number of sites across the country.

Emerging risks

The Groups Risk Management Framework provides for an ongoing identification and assessment of potential emerging risks.

Emerging Risk	Key Mitigating Actions
Sustainability and Climate Change The effects of climate change and associated future legislative requirements may potentially have an impact on our business model and the way we work in the future. The pandemic has enhanced the public's focus on building more sustainable businesses in the future, which may require greater investment in our economic, social and sustainability agenda.	The Group has appointed a Group Non-Executive Director as Chair of the Corporate, Social Responsibility (CSR) Committee and restructured the agenda and members to ensure appropriate focus and attention is given to ESG strategy and initiatives across the Group. Revised ESG objectives and targets are being developed in line with the United Nations Sustainability goals and these will be set over the short, medium and long term. The Group CSR team identifies strategic climate change risks and opportunities facing the business through regular review of issues and trends, working in active collaboration with external experts. We welcome the recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and are taking action to implement these over time through the evolvement of our processes and reporting.

McCarthy & Stone plc

Condensed Consolidated Statement of Comprehensive Income
For the half year ended 30 April 2020 (unaudited)

	Notes	**Half year ended 30 April 2020 (unaudited) £m**	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
Revenue	2	**101.1**	280.5	725.0
Cost of sales		**(109.0)**	(241.5)	(620.1)
Gross (loss)/profit		**(7.9)**	39.0	104.9
Other operating income		**106.8**	64.5	238.1
Administrative expenses		**(84.6)**	(34.8)	(64.1)
Other operating expenses		**(103.5)**	(62.7)	(230.5)
Operating (loss)/profit		**(89.2)**	6.0	48.4
Amortisation of brand		**(1.0)**	(1.0)	(2.4)
Exceptional items		**(63.4)**	(14.3)	(17.3)
Underlying operating (loss)/profit	3	**(24.8)**	21.3	68.1
Finance income		**0.5**	0.3	1.0
Finance expense		**(2.6)**	(2.7)	(6.0)
(Loss)/profit before tax		**(91.3)**	3.6	43.4
Income tax credit/(expense)	4	**16.8**	(0.8)	(8.5)
(Loss)/profit for the period from continuing operations and total comprehensive income	3	**(74.5)**	2.8	34.9
(Loss)/profit attributable to				
Owners of the Company		**(74.5)**	2.7	35.1
Non-controlling interests		**-**	0.1	(0.2)
		(74.5)	2.8	34.9
Earnings per share				
Basic (p per share)	11	**(13.9)**	0.5	6.5
Diluted (p per share)	11	**(13.9)**	0.5	6.5

Notes 1 to 16 form part of the Condensed Consolidated Financial Statements shown above. All trading derives from continuing operations.

Adjusted measures				
Underlying operating (loss)/profit	3	**(24.8)**	21.3	68.1
Underlying (loss)/profit before tax	3	**(26.9)**	18.9	63.1

McCarthy & Stone plc

Condensed Consolidated Statement of Financial Position
As at 30 April 2020 (unaudited)

	Notes	**Half year ended 30 April 2020 (unaudited) £m**	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
Assets				
Non-current assets				
Goodwill	5	**-**	41.7	41.7
Intangible assets	5	**4.3**	25.2	24.2
Property, plant and equipment		**1.1**	1.9	1.3
Right of use assets		**7.5**	-	-
Investments in joint ventures		**0.4**	0.4	0.4
Investment properties		**51.2**	0.2	28.5
Deferred tax asset		**13.6**	-	-
Other receivables		**58.9**	25.3	43.0
Total non-current assets		**137.0**	94.7	139.1
Current assets				
Inventories	6	**709.0**	826.6	724.9
Trade and other receivables		**13.5**	10.2	12.9
UK corporation tax		**0.6**	-	-
Cash and cash equivalents		**146.5**	31.8	36.7
Total current assets		**869.6**	868.6	774.5
Total assets		**1,006.6**	963.3	913.6
Equity and liabilities				
Capital and reserves				
Share capital		**43.0**	43.0	43.0
Share premium		**101.6**	101.6	101.6
Retained earnings		**550.5**	602.1	624.4
Equity attributable to owners of the Company		**695.1**	746.7	769.0
Non-controlling interest		**-**	1.4	-
Total equity		**695.1**	748.1	769.0
Current liabilities				
Trade and other payables		**77.4**	94.1	94.6
UK corporation tax		**-**	0.9	3.7
Land payables		**28.5**	30.1	34.1
Lease liabilities		**1.6**	-	-
Short-term borrowings	7	**-**	10.0	-
Total current liabilities		**107.5**	135.1	132.4
Non-current liabilities				
Long-term borrowings	7	**198.1**	77.8	9.6
Lease liabilities		**5.9**	-	-
Deferred tax liability		**-**	2.3	2.6
Total liabilities		**311.5**	215.2	144.6
Total equity and liabilities		**1,006.6**	963.3	913.6

Notes 1 to 16 form part of the Condensed Consolidated Financial Statements shown above.

McCarthy & Stone plc

Condensed Consolidated Statement of Changes in Equity
For the half year ended 30 April 2020 (unaudited)

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
Balance at 31 August 2018 (audited)		**43.0**	**101.6**	**617.5**	**762.1**	**1.3**	**763.4**
Profit for the period		-	-	2.7	2.7	0.1	2.8
Total comprehensive income for the period		**-**	**-**	**2.7**	**2.7**	**0.1**	**2.8**
Transactions with owners of the Company:							
Share-based payments		-	-	0.7	0.7	-	0.7
Dividends	12	-	-	(18.8)	(18.8)	-	(18.8)
Balance at 28 February 2019 (unaudited)		**43.0**	**101.6**	**602.1**	**746.7**	**1.4**	**748.1**
Profit for the period		-	-	32.4	32.4	(0.3)	32.1
Total comprehensive income for the period		**-**	**-**	**32.4**	**32.4**	**(0.3)**	**32.1**
Transactions with owners of the Company:							
Share-based payments		-	-	0.7	0.7	-	0.7
Dividends	12	-	-	(10.5)	(10.5)	-	(10.5)
Acquisition of NCI without a change in control		-	-	(0.3)	(0.3)	(1.1)	(1.4)
Balance at 31 October 2019 (audited)		**43.0**	**101.6**	**624.4**	**769.0**	**-**	**769.0**
Loss for the period		-	-	(74.5)	(74.5)	-	(74.5)
Total comprehensive loss for the period		**-**	**-**	**(74.5)**	**(74.5)**	**-**	**(74.5)**
Transactions with owners of the Company:							
Share-based payments		-	-	0.6	0.6	-	0.6
Dividends	12	-	-	-	-	-	-
Balance at 30 April 2020 (unaudited)		**43.0**	**101.6**	**550.5**	**695.1**	**-**	**695.1**

Notes 1 to 16 form part of the Condensed Consolidated Financial Statements shown above.

McCarthy & Stone plc

Condensed Consolidated Cash Flow Statement

For the half year ended 30 April 2020 (unaudited)

	Notes	**Half year ended 30 April 2020 (unaudited) £m**	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
Net cash (outflow)/inflow from operating activities	8	**(55.1)**	(41.7)	81.4
Investing activities				
Purchases of property, plant and equipment		**(0.2)**	(0.3)	(0.4)
Purchases of intangible assets		**(0.2)**	(0.4)	(1.4)
Proceeds from sale of property, plant and equipment		**-**	-	0.1
Outflows in relation to investment properties		**(22.7)**	-	(28.3)
Net cash used in investing activities		**(23.1)**	(0.7)	(30.0)
Financing activities				
Issue of long-term borrowings		**195.0**	90.0	214.0
Repayment of long-term borrowings		**(7.0)**	(54.0)	(255.0)
Dividends paid		**-**	(18.8)	(29.3)
Acquisition of non-controlling interests		**-**	-	(1.4)
Net cash from/(used in) financing activities		**188.0**	17.2	(71.7)
Net increase/(decrease) in cash and cash equivalents		**109.8**	(25.2)	(20.3)
Cash and cash equivalents at beginning of the period		**36.7**	57.0	57.0
Cash and cash equivalents at end of the period		**146.5**	31.8	36.7

Notes 1 to 16 form part of the Condensed Consolidated Financial Statements shown above.

1. Accounting policies

Basis of preparation
McCarthy & Stone plc is a public Company limited by shares incorporated in England and Wales under the Companies Act 2006.

These Condensed Consolidated Half Yearly Financial Statements are unaudited and were authorised for issue by the Board on 14 July 2020.

These Condensed Consolidated Half Yearly Financial Statements have been prepared in accordance with IAS 34 *'Interim Financial Reporting'* as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The information for the 14 month period ended 31 October 2019 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Half Yearly Financial Statements should be read in conjunction with the Annual Report and Accounts, for the 14 month period ended 31 October 2019, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('EU IFRS') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Annual Report and Financial Statements for the 14 month period ended 31 October 2019 were approved by the Board of Directors on 27 January 2020 and delivered to the Registrar of Companies. The auditor's report on those Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

Going concern
As a result of future economic uncertainty created by Covid-19, the Group has carefully considered its liquidity position. To preserve the liquidity of the business and maintain a strong cash position, several cash optimisation measures have been put in place.

On 18 March 2020, the Board announced the withdrawal of the final dividend payment of 3.5p per ordinary share, resulting in a cash saving of c.£19m. In addition, the Group has taken action to fully draw down its £200m Revolving Credit Facility (RCF).

As announced on 25 March 2020, from mid-March the Group paused all build activity across its entire development programme. We also paused our land spend and contractually committed land spend has been reviewed and minimised where possible. All marketing activity was paused and on-site sales offices were closed.

Employees impacted by these actions were either redeployed to support our homeowners as the additional demand for our services significantly increased or placed on furlough as they qualified for support under the Government's Coronavirus Job Retention Scheme. c.640 staff across sales, construction and head office functions were furloughed since April 2020 (a proportion of which have now returned), while all members of the Board and wider leadership team have taken a voluntary 20% salary reduction.

Taking into account the reduced cash burn rate from the above cash saving measures and RCF availability, the Group announced that the business would be able to operate with no sales revenue for a period of c.2.5 years.

On 30 April 2020, the Group completed a portfolio sale of 135 apartments to Waverstone LLP, generating c.£13m cash.

On 2 June 2020, the Group secured access to the HM Treasury and Bank of England Covid Corporate Financing Facility ('CCFF') and has put in place a £300m commercial paper programme under this scheme. This facility, which is a 12 month instrument from the point of draw down, can be drawn at any time until 23 March 2021.

1. Accounting policies (continued)

Going concern (continued)

The Group holds a £200m Revolving Credit Facility provided by Barclays, HSBC and RBS, which expires in March 2023. This facility includes financial covenants which test the Group's interest cover, gearing, tangible net asset value and restrictions on the value of rental, shared ownership and part-exchange properties held on the balance sheet.

On 7 July 2020, the Group secured a waiver of the interest cover banking covenant until April 2021 and a relaxation in this covenant test for October 2021.

On 2 June 2020, we announced a phased return to construction and sales activity from 8 June 2020. As part of this remobilisation planning, management have undertaken a detailed review of the previous business plan to allow for a gradual re-opening of sales offices and construction sites together with a phased reintroduction of marketing activity and land purchasing ensuring that the Group is able to maintain sufficient cash headroom in order to navigate through a prolonged impact from a possible second wave of Covid-19.

In stress testing the cash flows of the business, management has modelled a single combined downside scenario demonstrating a prolonged impact of Covid-19 with a further 16% volume reduction together with a further 7% house price deflation and normal sales conditions not returning until June 2021. As part of the systematic remobilisation of the Group's sales, we are seeing this activity gradually increasing in line with a phased ramp up plan reflecting vulnerability of our customer base.

The single combined downside scenario also reflects the impact of an increased build cost inflation and its continuation into FY22. In addition, management have modelled a delay of the sale of the first rental tranche to June 2021 and lower FRI multiples. Principal mitigation actions have been modelled such as curtailing land purchasing, delaying build starts and a reduction in bonuses, marketing costs and staff levels. As already demonstrated in March 2020 such mitigating actions are within management's control and the business closely monitors appropriate lead indicators to implement these actions in sufficient time to achieve the required cash preservation impact.

Despite the combined impact of the above downside assumptions, the stress testing model demonstrates that the business is able to maintain a positive cash headroom and that the Group does not envisage taking advantage of the CCFF facility throughout the going concern assessment period. The facility could be used to provide standby liquidity should it be required, however to date it remains undrawn and management do not currently envisage the need to drawdown.

The remobilisation plan and the stress testing models also support sufficient headroom for compliance with the RCF covenants throughout the going concern assessment period, except for the interest cover covenant. To ensure no breach of the interest cover covenant the Group has secured an interest cover waiver until April 2021 and a relaxation of the interest cover covenant as at October 2021.

The Directors consider that the Group has adequate resources in place for at least 12 months from the date of these results and have therefore adopted the going concern basis of accounting in preparing the interim financial statements.

1. Accounting policies (continued)

Accounting policies
The unaudited Condensed Consolidated Half Yearly Financial Statements have been prepared using accounting policies consistent with those applied in the preparation of the Group's Annual Report and Accounts for the 14 month period ended 31 October 2019, with the exception of the adoption of new accounting standards as disclosed below. The Group for the first time has accounted for government grants for which the accounting policy has been disclosed:

Government grants
Grants have been received for furlough payments under the Government's Coronavirus Job Retention Scheme. Commencing in April 2020, the Group have claimed under this scheme and recognise the income received as a deduction to the related expense in the period incurred. Where grant income is outstanding at the period end date, subsequent to a claim being made, the balance is shown on the Consolidated Statement of Financial Position within 'trade and other receivables'. The total grant income in the period amount to £1.1m (2019: £nil).

New standards, amendments and interpretations that have been published and are therefore mandatory for the Group's accounting periods beginning on or after 1 November 2018 and later periods are disclosed on page 132 of the Annual Report for the 14 month period ended 31 October 2019. During the period the Group has adopted the following new and revised standards and interpretations:

IFRS 16 *'Leases'*
IFRS 16 replaces IAS 17 '*Leases*', IFRIC 4 '*Determining whether an Arrangement contains a Lease*', SIC-15 '*Operating Leases-Incentives*' and SIC-27 '*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*' and was effective for the Group from 1 November 2019. This standard brings significant changes to the accounting of leases by lessees. IFRS 16 requires the recognition of a 'right-of-use' asset and a corresponding lease liability on the Statement of Financial Position of the lessee. In the Statement of Comprehensive Income, the previous operating lease charges (the majority of which were previously recognised within operating profit) have been replaced by a depreciation charge against the 'right-of-use' asset. Additionally, interest costs in relation to the lease liabilities have been recognised within finance expenses. The impact on the Consolidated Statement of Comprehensive Income is not a material change.

IFRS 16 has been applied using the modified retrospective transition approach, whereby the Group has measured right-of-use assets at an amount equal to the lease liabilities on the date of transition.

	£m
Assets	
Right of use assets	**7.6**
Liabilities	
Lease liabilities	**7.6**
Net impact on equity	**-**

The Group continues to take advantage of several practical expedients available to lessees. These exemptions are:

- Exclusion of all leases with term dates that end within 12 months of the date of application
- Exclusion of low value leases (e.g. printers and laptops)
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics

There were no other key estimates or judgements made in assessing the impact of IFRS 16 on the Group.

1. Accounting policies (continued)

Other standards and interpretations

Annual Improvements to IFRS Standards 2015-2017 Cycle and Amendment to IAS 28 *'Investments in Associates and Joint Ventures'* have also been adopted but have not had a material impact on the Group.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described within the Annual Report and Accounts for the 14 month period ended 31 October 2019, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The critical judgements identified at the period end, as included in the Annual Report and Accounts for the 14 month period ended 31 October 2019, remain the same. The Annual Report 2019 can be obtained from the Group's registered office or www.mccarthyandstonegroup.co.uk.

2. Revenue

	30 April 2020 (unaudited) £m	28 February 2019 (unaudited) £m	31 October 2019 (audited) £m
Unit sales – external customers	**79.8**	269.3	677.6
Unit sales – revenue from an associate	**15.4**	-	16.7
FRI revenue	**3.9**	11.2	30.3
Rental revenue	**2.0**	-	0.4
	101.1	280.5	725.0

3. (Loss)/profit for the year

Reconciliation to underlying operating (loss)/profit and (loss)/profit before tax
The following tables present a reconciliation between the statutory profit measures disclosed on the Condensed Consolidated Statement of Comprehensive Income and the underlying measures used by the Board to appraise performance.

Exceptional items are unusual to the normal activity of the Group, are of significant cost and non-recurring and therefore have been separately classified by the Directors in order to draw them to the attention of the reader.

Adjusted cost items are items which are quantitively or qualitatively material and are presented separately within the Consolidated Statement of Comprehensive Income. The Directors are of the opinion that the separate presentation of these items provides helpful information about the Group's underlying business performance. Amortisation of brand has been adjusted in order to reconcile to underlying operating profit and underlying profit before tax given the Directors do not believe this cost reflects the underlying trading of the business.

Half year ended 30 April 2020 (unaudited)

	Notes	**Statutory £m**	Exceptional items £m	Amortisation of brand £m	**Underlying £m**
Operating (loss)/profit		**(89.2)**	**63.4**	**1.0**	**(24.8)**
Finance income		0.5	-	-	0.5
Finance expense		(2.6)	-	-	(2.6)
(Loss)/profit before tax		**(91.3)**	**63.4**	**1.0**	**(26.9)**
Income tax credit/(expense)		16.8	(12.0)	(0.2)	4.7
(Loss)/profit for the year		**(74.5)**	**51.4**	**0.8**	**(22.3)**
Attributable to non-controlling interests		**-**	**-**	**-**	**-**
Attributable to owners of the Company		**(74.5)**	**51.4**	**0.8**	**(22.3)**
Earnings per share					
Basic (p per share)	11	**(13.9)**	9.6	0.2	**(4.1)**
Diluted (p per share)	11	**(13.9)**	9.6	0.2	**(4.1)**

The exceptional costs in H1 2020 represent the cost of land which will no longer be developed net of any residual land value to be recovered of £0.4m (H1 2019: £6.3m; FY19: £7.2m), redundancy costs of £2.1m (H1 2019: £3.5m; FY19: £3.8m), consultants' fees in relation to the strategic review of £0.2m (H1 2019: £4.5m; FY19: £6.3m) and COVID-19 related costs of £60.7m (H1 2019: £nil; FY19: £nil), which incorporates goodwill impairment of £41.7m and brand impairment of £18.7m.

Covid-19 related costs are deemed to be those which are directly attributable to the coronavirus outbreak and are both: a) incremental to costs incurred prior to the outbreak and not expected to recur once the crisis has subsided and operations return to normal; and b) clearly separable from normal operations.

3. (Loss)/profit for the year (continued)

Half year ended 28 February 2019 (unaudited)

	Notes	**Statutory £m**	Exceptional items £m	Amortisation of brand £m	**Underlying £m**
Operating profit		**6.0**	**14.3**	**1.0**	**21.3**
Finance income		0.3	-	-	0.3
Finance expense		(2.7)	-	-	(2.7)
Profit before tax		**3.6**	**14.3**	**1.0**	**18.9**
Income tax expense		(0.8)	(2.7)	(0.2)	(3.7)
Profit for the year		**2.8**	**11.6**	**0.8**	**15.2**
Attributable to non-controlling interests		**0.1**	**-**	**-**	**0.1**
Attributable to owners of the Company		**2.7**	**11.6**	**0.8**	**15.1**
Earnings per share					
Basic (p per share)	11	**0.5**	2.2	0.2	**2.9**
Diluted (p per share)	11	**0.5**	2.2	0.2	**2.9**

14 months to 31 October 2019 (audited)

	Notes	**Statutory £m**	Exceptional items £m	Amortisation of brand £m	**Underlying £m**
Operating profit		**48.4**	**17.3**	**2.4**	**68.1**
Finance income		1.0	-	-	1.0
Finance expense		(6.0)	-	-	(6.0)
Profit before tax		**43.4**	**17.3**	**2.4**	**63.1**
Income tax expense		(8.5)	(3.3)	(0.5)	(12.3)
Profit for the year		**34.9**	**14.0**	**1.9**	**50.8**
Attributable to non-controlling interests		**(0.2)**	**-**	**-**	**(0.2)**
Attributable to owners of the Company		**35.1**	**14.0**	**1.9**	**51.0**
Earnings per share					
Basic (p per share)	11	**6.5**	2.6	0.4	**9.5**
Diluted (p per share)	11	**6.5**	2.6	0.4	**9.5**

4. Income tax credit/(expense)

	Half year ended 30 April 2020 (unaudited) £m	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
Corporation tax charges:			
Current year	**-**	0.6	7.9
Adjustments in respect of prior periods	**(0.6)**	-	0.1
Deferred tax charges:			
Current year	**(15.8)**	0.1	0.6
Adjustments in respect of prior periods	**(0.4)**	0.1	(0.1)
Tax (credit)/charge for the period	**(16.8)**	0.8	8.5

The tax charge for each period can be reconciled to the profit per the Condensed Consolidated Statement of Comprehensive Income as follows:

	Half year ended 30 April 2020 (unaudited) £m	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
(Loss)/profit before tax	**(91.3)**	3.6	43.4
Tax (credit)/charge at the UK corporation tax rate of 19% (2019: 19%)	**(17.3)**	0.7	8.2
Tax effect of:			
Expenses that are not deductible in determining taxable profit	**0.1**	-	0.2
Share options timing difference	**0.1**	-	0.1
Adjustments in respect of prior periods	**0.3**	0.1	-
Tax (credit)/charge for the period	**(16.8)**	0.8	8.5

The main rate of corporation tax is 19% (2019: 19%). The UK deferred tax liabilities at 30 April 2020 have been calculated based on the appropriate rate at which the asset/liability will unwind.

The movement in deferred tax represents the future utilisation of current year trade losses at 19%.

5. Goodwill and intangible assets

	Goodwill £m	Brand £m	Software £m	Total £m
Cost				
At 1 November 2019	41.7	41.4	7.0	48.4
Additions	-	-	0.2	0.2
At 30 April 2020	41.7	41.4	7.2	48.6
Amortisation				
At 1 November 2019	-	(21.7)	(2.5)	(24.2)
Charge for the period	-	(1.0)	(0.4)	(1.4)
Impairment	(41.7)	(18.7)	-	(18.7)
At 30 April 2020	(41.7)	(41.4)	(2.9)	(44.3)
Carrying amount				
At 30 October 2019	41.7	19.7	4.5	24.2
At 30 April 2020	**-**	**-**	**4.3**	**4.3**

Goodwill arose as a result of an acquisition in 2009 of the assets and liabilities of Monarch Realisations 1 plc. The Group tests goodwill and intangible assets for impairment annually or where there is an indication that goodwill might be impaired. For the purpose of impairment testing, goodwill is allocated to McCarthy & Stone (Developments) Limited.

Brand assets represent the McCarthy & Stone brand name purchased as part of the business combination in 2009.

In light of the recent global impact of Covid-19 and its impact on McCarthy & Stone's operations, management have undertaken full impairment review of goodwill and other intangible assets at the half year reporting date.

The recoverable amount of the Group's net assets of £695m was determined by an impairment test of the fair value less the cost of disposal of the CGU, being higher than the CGU's value in use. The fair value measurement was based on the Group's share price adjusted for management's view of the achievable control premium.

Following this impairment test, the carrying value of goodwill of £41.7m and the carrying value of brand of £18.7m were written off in full. This gave rise to a charge of £60.4m for the six months period ended 30 April 2020. The charge was presented in operating loss as an exceptional item in relation to Covid-19.

6. Inventories

	30 April 2020 (unaudited) £m	28 February 2019 (unaudited) £m	31 October 2019 (audited) £m
Land held for development	**89.3**	90.2	57.6
Sites in the course of construction	**252.2**	299.2	179.6
Finished stock	**323.4**	381.4	393.9
Part-exchange properties	**44.1**	55.8	93.8
	709.0	826.6	724.9

7. Borrowings

Short-term borrowings

	30 April 2020 (unaudited) £m	28 February 2019 (unaudited) £m	31 October 2019 (audited) £m
Promissory notes	-	10.0	-
	-	10.0	-

Promissory notes are related to land purchases and are classified as borrowings due to the substance of their contractual arrangements.

Long-term borrowings

	30 April 2020 (unaudited) £m	28 February 2019 (unaudited) £m	31 October 2019 (audited) £m
Loans	**200.0**	79.0	12.0
Unamortised issue costs	**(1.9)**	(1.2)	(2.4)
	198.1	77.8	9.6

	Maturity	**Outstanding at 30 April 2020 (unaudited) £m**	Outstanding at 28 February 2019 (unaudited) £m	Outstanding at 31 October 2019 (audited) £m
Revolving Credit Facility	March 2023	**200.0**	79.0	12.0

The RCF is secured by a floating charge over the assets of McCarthy & Stone plc, McCarthy & Stone Retirement Lifestyles Limited, McCarthy & Stone (Developments) Limited, McCarthy & Stone Extra Care Living Limited, McCarthy & Stone Total Care Management Limited, McCarthy & Stone Rental Properties Limited and McCarthy & Stone Rental Properties No.2 Limited.

7. Borrowings (continued)

Net debt/(cash)

	30 April 2020 (unaudited) £m	28 February 2019 (unaudited) £m	31 October 2019 (audited) £m
Loans and borrowings	**198.1**	87.8	9.6
Add back unamortised debt issue costs	**1.9**	1.2	2.4
Cash and cash equivalents	**(146.5)**	(31.8)	(36.7)
Net debt/(cash)	**53.5**	57.2	(24.7)

8. Notes to the Condensed Consolidated Cash Flow Statement

	Half year ended 30 April 2020 (unaudited) £m	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
(Loss)/profit for the financial period	**(74.5)**	2.8	34.9
Adjustments for:			
Income tax (credit)/expense	**(16.8)**	0.8	8.5
Amortisation of intangible assets	**1.4**	1.3	3.2
Impairment of goodwill	**41.7**	-	-
Impairment of brand	**18.7**	-	-
Share-based payment charge	**0.6**	0.7	1.4
Depreciation of property, plant and equipment	**1.3**	0.5	1.1
Finance expense	**2.6**	2.7	6.0
Finance income	**(0.5)**	(0.3)	(1.0)
Revaluation of inventories to investment properties	**(4.1)**	-	(6.6)
Loss/(profit) from a transaction with related party	**1.7**	-	(2.7)
Operating cash flows before movements in working capital	**(27.9)**	8.5	44.8
(Increase)/decrease in trade and other receivables	**(18.7)**	14.7	(5.8)
Decrease/(increase) in inventories	**11.8**	(9.1)	99.2
(Decrease) in trade and other payables	**(15.2)**	(47.4)	(42.4)
Cash (used in)/generated by operations	**(49.9)**	(33.3)	95.8
Interest received	**-**	0.1	0.1
Interest paid	**(1.5)**	(2.3)	(3.7)
Income taxes paid	**(3.7)**	(6.2)	(10.8)
Net cash (outflow)/inflow from operating activities	**(55.1)**	(41.7)	81.4

	Half year ended 30 April 2020 (unaudited) £m	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
Cash and cash equivalents	**146.5**	31.8	36.7

9. Segmental analysis

The Board regularly reviews the Group's performance and balance sheet position for its entire operations, which are based in its country of domicile, the UK, and receives financial information for the UK as a whole. As a consequence, the Group has one reportable segment which is UK housebuilding. As there continues to be only one reportable segment whose revenue, profits, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the Group financial statements, no additional detailed segment information has been presented.

10. Seasonality

In common with the rest of the UK housebuilding industry, activity occurs throughout the year, but is subject to the main house selling seasons of Spring and Summer. As the majority of these seasons fall in the second half of the Group's financial year, the Group's results are typically weighted to the second half of the financial year. As a result of the impact of Covid-19, this seasonality may not be reflective of the trading pattern in the current financial year and while we are past the peak of the crisis, the financial impact will be weighted towards H2.

The current period financial statements report the six months ended 30 April 2020, in comparison with the deemed equivalent six month period ended 28 February 2019, being the first six months of the accounting year. These are therefore are not entirely comparable.

11. Earnings per share

Basic earnings per share are calculated as the profit for the financial period attributable to shareholders of the Group divided by the weighted average number of shares in issue during the period.

	30 April 2020 (unaudited)	28 February 2019 (unaudited)	31 October 2019 (audited)
(Loss)/profit attributable to owners of the Company (£m)	**(74.5)**	2.7	35.1
Weighted average no. of shares (m)	**537.4**	537.3	537.3
Basic earnings per share (p)	**(13.9)**	0.5	6.5

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume the conversion of all potentially dilutive ordinary shares, however only where their conversion would decrease earnings per share or increase loss per share, hence there is no difference for the current period. At 30 April 2020, the Company had two categories of potentially dilutive ordinary shares: 9.8m £nil cost share options under the LTIP schemes and 2.1m share options under the SAYE.

A calculation is performed to determine the number of shares that could have been acquired at fair value based on the aggregate of the exercise price of each share option and the fair value of future services to be supplied to the Group, which is the unamortised share based payments charge. The difference between the number of shares that could have been acquired at fair value and the total number of options is used in the diluted earnings per share calculation.

	30 April 2020 (unaudited)	28 February 2019 (unaudited)	31 October 2019 (audited)
(Loss)/profit used to determine diluted EPS (£m)	**(74.5)**	2.7	35.1
Weighted average no. of shares (m)	**537.4**	537.3	537.3
Adjustments for:			
Share options – LTIP (m)	-	1.4	4.4
Share options – SAYE (m)	-	-	2.2
Shares used to determine diluted EPS (m)	**537.4**	538.7	543.9
Diluted earnings per share (p)	**(13.9)**	0.5	6.5

12. Dividends on equity shares

	Half year ended 30 April 2020 (unaudited) £m	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
Amounts recognised as distributions to equity holders in the period			
Interim dividend for the previous year	**-**	-	10.5
Final dividend for the year	**-**	18.8	18.8
Total distributions to equity holders in the period	**-**	18.8	29.3
Interim dividend for the year ended 31 October 2020 (p)	**0.0p**		

No interim dividend will be paid in respect of half year ended 30 April 2020.

13. Financial instruments' fair value disclosure

The Group's financial instruments comprise cash, bank loans and overdrafts, trade receivables, other financial assets and trade and other payables.

Categories of financial instruments

	Half year ended 30 April 2020 (unaudited) £m	Half year ended 28 February 2019 (unaudited) £m	14 month period ended 31 October 2019 (audited) £m
Financial assets			
Financial assets at fair value through profit or loss:			
Shared equity receivables	**20.6**	23.1	22.1
Shared ownership receivables	**4.6**	-	3.6
Loans and receivables:			
Cash and cash equivalents	**146.5**	31.8	36.7
Trade receivables due from an associate	**31.3**	-	14.8
Trade and other receivables	**2.8**	2.7	1.1
Secured mortgages	**2.4**	2.2	2.5
	208.2	59.8	80.8
Financial liabilities			
Trade and other payables	**59.5**	74.0	55.5
Land payables	**28.5**	30.1	34.1
Loans	**198.1**	77.8	9.6
Land-related promissory notes	**-**	10.0	-
	286.1	191.9	99.2

13. Financial instruments' fair value disclosure (continued)

All financial instruments are grouped into Levels 1 to 3 based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The financial instruments held by the Group that are measured at fair value are the shared equity receivables and shared ownership receivables which are both measured at fair value through profit or loss using methods associated with Level 3. At 30 April 2020, the shared equity receivables were valued at £20.6m (H1 2019: £23.1m; FY19: £22.1m) and the shared ownership receivables were valued at £4.6m (H1 2019: £nil; FY19: £3.6m).

Financial assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

During the period, the Group's valuation technique over the significantly largest shared equity scheme was amended to account for its expected credit loss, driven by the historic profits and losses on redemptions of these scheme assets over the past two years, as shown within the table below.

The fair value of future anticipated cash receipts takes into account the Directors' views of an appropriate discount rate, a new build premium, future house price movements, historic gains and losses on redemptions and the expected timing of receipts. These assumptions cover a variety of different schemes and the range of assumptions used are stated below. The assumptions are reviewed at each period end.

Shared equity receivables

Assumptions	**Half year ended 30 April 2020 (unaudited)**	Half year ended 28 February 2019 (unaudited)	14 month period ended 31 October 2019 (audited)
Discount rate	3.2 to 5.0%	3.8 to 4.4%	3.8 to 4.3%
New build premium	0 to 5%	0 to 5%	0 to 5%
House price inflation	n/a	0 to 6%	0 to 6%
Timing of receipt	5 to 10 years	5 to 10 years	5 to 10 years
Expected credit loss	17.4%	n/a	14.7%

Sensitivity-effect on value of other financial assets (less)/more	**Half year ended 30 April 2020 Increase in assumptions by 1%/1 year (unaudited) £m**	**Half year ended 30 April 2020 Decrease in assumptions by 1%/1 year (unaudited) £m**
Discount rate	(0.3)	0.3
Timing of receipt	(0.2)	0.2
Expected credit loss	(0.2)	0.2

13. Financial instruments' fair value disclosure (continued)

The fair value of the shared equity receivables are based on the external available data. The sensitivity effect of a 1%/1year change is representative of management's best estimate of a reasonably possible change based on management's expectations of changes in economic conditions.
The Directors review the anticipated future cash receipts from the assets at each reporting date and the difference between the anticipated future receipt and the subsequent fair value is credited to finance income/expense.

The following tables present the changes in Level 3 instruments for the half years ended 30 April 2020 and 28 February 2019 and the 14 month period ended 31 October 2019:

	Half year ended 30 April 2020 Shared equity receivables £m
Opening balance	22.1
Disposals	(1.1)
Revaluation (losses) recognised in profit or loss	(0.4)
Closing balance	20.6

	Half year ended 28 February 2019 Shared equity receivables £m
Opening balance	25.0
Disposals	(1.6)
Revaluation (losses) recognised in profit or loss	(0.3)
Closing balance	23.1

	14 month period ended 31 October 2019 Shared equity receivables £m
Opening balance	25.0
Disposals	(2.6)
Revaluation (losses) recognised in profit or loss	(0.3)
Closing balance	22.1

13. Financial instruments' fair value disclosure (continued)

Shared ownership receivables

Assumptions	**Half year ended 30 April 2020 (unaudited)**	Half year ended 28 February 2019 (unaudited)	14 month period ended 31 October 2019 (audited)
Discount rate	4.3%	n/a	4.3%
New build premium	5%	n/a	5%
Timing of receipt	10 years	n/a	10 years

The following tables present the changes in Level 3 instruments for the half years ended 30 April 2020 and 28 February 2019 and the 14 month period ended 31 October 2019:

	Half year ended 30 April 2020
	Shared ownership receivables
	£m
Opening balance	3.6
Additions	2.1
Disposals	(1.1)
Closing balance	4.6

	Half year ended 28 February 2019
	Shared ownership receivables
	£m
Opening balance	-
Additions	-
Closing balance	-

	14 month period ended 31 October 2019
	Shared ownership receivables
	£m
Opening balance	-
Additions	3.6
Closing balance	3.6

14. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below. Transactions between the Group and associates of the Group are eliminated proportionally based upon the percentage of shares owned.

During the six months ended 30 April 2020, the Group completed the sale of a portfolio of 135 units to Waverstone LLP. This comprises the sale of 41 show flats and sales offices with a subsequent 12-month leaseback, and the sale of 94 finished apartments and apartments under construction in Scotland. Waverstone LLP is an entity between Waverley Investments Limited and McCarthy & Stone Extra Care Limited, where McCarthy & Stone Extra Care Living Limited holds a non-controlling 49% equity interest and therefore has been treated as an associate in the Group financial statements. Waverstone LLP was created to facilitate the purchase, management and disposal of various assets built by the Group. Waverstone LLP has appointed McCarthy & Stone Management Services Limited a property manager and a sales agent.

The transaction resulted in an additional cash flow for the Group of c.£13m with the remaining balance of c.£22m expected to be paid over 3 years. The half year underlying operating loss for the Group includes c.£1.7m loss from the transaction, after taking account of unrealised profit and fair value adjustments in relation to the outstanding receivable balance.

Transactions involving Directors and key management personnel
No advances, credits or guarantees have been entered into with any of the Directors of the Company during the current or preceding period.

15. Events after the balance sheet date

On 2 June 2020, the Group secured access to the HM Treasury and Bank of England Covid Corporate Financing Facility (‘CCFF’) and has put in place a £300m commercial paper programme under this scheme. The facility will be used to provide additional liquidity should it be required, however it remains currently undrawn.

On 7 July the Group secured a waiver of the interest cover banking covenant until April 2021 and a relaxation in this covenant test for October 2021.

16. Half year announcement

The Condensed Consolidated Half Yearly Financial Statements were approved by the Board on 14 July 2020. Copies of this announcement, along with further information on McCarthy & Stone plc and the analyst presentation document which will be presented at the Group’s results meeting on 15 July 2020, are available on our website at www.mccarthyandstonegroup.co.uk.

Statement of Directors' responsibility in respect of the Half Year Results Announcement

For the half year ended 30 April 2020

The Directors confirm that to the best of their knowledge these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 and applicable accounting standards as required by DTR 4.2.4R. They also confirm that to the best of their knowledge the half year results announcement includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining eight months of the 14 month period) and DTR 4.2.8R (disclosure of related party transactions and changes thereto).

The Directors of McCarthy & Stone plc during the half year were:
Paul Lester, CBE (Independent Non-Executive Chairman)
John Tonkiss (Chief Executive Officer)
Rowan Baker (Chief Financial Officer), due to leave on 31 July 2020
Martin Abell (Chief Financial Officer Designate), appointed 26 May 2020, becoming Chief Financial Officer on 1 August 2020
Nigel Turner (Chief Operating Officer - Build)
Mike Lloyd (Chief Operating Officer - Services and Customers)
Frank Nelson (Senior Independent Director)
Geeta Nanda, OBE (Independent Non-Executive Director)
John Carter (Independent Non-Executive Director)
Arun Nagwaney (Non-Independent Non-Executive Director)
Gill Barr (Independent Non-Executive Director)

The Half Yearly Financial Report was approved by the Board on 14 July 2020, and signed on its behalf by:

J Tonkiss
Chief Executive Officer

R Baker
Chief Financial Officer

INDEPENDENT REVIEW REPORT TO McCARTHY & STONE PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2020 which comprises the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Cash Flow Statement and the related notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

14th July 2020

Notes to Editors

McCarthy & Stone is the UK's leading developer and manager of retirement communities, with a significant market share. The Group buys land and then builds, sells and manages high-quality retirement developments. It has built and sold more than 58,000 properties across more than 1,300 retirement developments since 1977 and is renowned for its focus on the needs of those in later life.

There is growing demand for retirement communities. There are currently 12.2 million people aged 65 or over, rising to 17.4m by 2043, representing a 43% increase[1]. For those aged 85 or over, the increase will be larger, from 1.6m to 3.0m, representing an 87% increase. Research shows that 33% of those aged 65 or over are interested in moving, equating to c.4 million people[2].

McCarthy & Stone has two main product ranges – Retirement Living and Retirement Living PLUS – which provide mainly one and two-bedroom apartments across the country with varying levels of support and care for older people. Retirement Living developments provide independence in private apartments designed specifically for the over-60s, as well as facilities such as communal lounges and guest suites that support companionship. Retirement Living PLUS developments, which are designed specifically for the over-70s, offer all of this plus more on-site facilities such as restaurants, well-being suites and function rooms. Importantly, they also provide on-site flexible care and support packages to assist those needing additional help.

All developments built since 2010 are managed by the company's in-house management services team, providing peace of mind that it will look after customers and their properties over the long term. This is a key part of how McCarthy & Stone seeks to enrich its customers' lives. This commitment to quality and customer service continues to be recognised by residents. In March 2020, the Group received the full five star rating for customer satisfaction from the Home Builders Federation for the fifteenth consecutive year – making it the only UK developer, of any size or type, to achieve this accolade.

For further information, please visit www.mccarthyandstone.co.uk

[1] ONS population projections (2018)
[2] YouGov research for McCarthy & Stone (2019)