BELVOIR!

Property is personal

Belvoir Lettings plc
Preliminary results for the year ending 31 December 2018
Introduction
Highly experienced senior team delivering growth in a challenging year

Dorian Gonsalves
Chief Executive Officer

Louise George
Chief Financial Officer
Our networks

UK’s largest property franchise group

Network of 300 lettings and estate agency franchisees

**Belvoir**
Established in 1995
174 offices

**Newton Fallowell**
Acquired 2015
36 offices

**Northwood**
Acquired 2016
90 offices

Network of 65 financial services offices

**Brook**
Acquired 2017
1 office
36 advisers

**MAB Glos**
Acquired 2018
64 offices
87 advisers

Brook and MAB Glos will leverage their expertise to introduce new mortgage products and financial services across all Group networks, alongside other independent agencies

65 offices
123 advisers
2018 overview

Key highlights - record results

Financial highlights

- **£13.7m**
  - group revenue up 21%
  - (2017: £11.3m)

- **£8.5m**
  - management service fees (MSF) up 7%
  - (2017: £7.9m)

- **12.4p**
  - adjusted earnings per share up 10%
  - (2017: 11.3p)

- **3.8p**
  - final dividend up 9%, total dividend for the year of 7.2p
  - (2017: final 3.5p, total 6.9p)

Operational highlights

- **MAB Glos**
  - successful acquisition

- **26**
  - assisted acquisitions added £6.9m to network revenue
  - (2017: 23 acquisitions, added £3.3m)

- **62,780**
  - properties under management up 8%
  - (2017: 58,020)

- **£28,333**
  - average MSF per franchise office up 8%
  - (2017: £26,333)
### Group statement of comprehensive income

For the financial year ended 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>2018 £'000</th>
<th>2017 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>21%</td>
<td>13,702</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(2,372)</td>
<td>(510)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>5%</td>
<td>11,330</td>
</tr>
<tr>
<td><strong>Administrative expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-exceptional</td>
<td>1%</td>
<td>(6,616)</td>
</tr>
<tr>
<td>Exceptional</td>
<td>(169)</td>
<td>(326)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>16%</td>
<td>4,545</td>
</tr>
<tr>
<td>Changes in fair value to contingent consideration</td>
<td>809</td>
<td>(134)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(226)</td>
<td>(192)</td>
</tr>
<tr>
<td>Finance income</td>
<td>265</td>
<td>313</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>87</td>
<td>–</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>40%</td>
<td>5,480</td>
</tr>
<tr>
<td>Taxation</td>
<td>(1,106)</td>
<td>(948)</td>
</tr>
<tr>
<td><strong>Profit for the financial year</strong></td>
<td>48%</td>
<td>4,374</td>
</tr>
<tr>
<td>Adjusted profit for the financial year</td>
<td>11%</td>
<td>4,335</td>
</tr>
<tr>
<td><strong>Basic earnings per share</strong></td>
<td>45%</td>
<td>12.5p</td>
</tr>
<tr>
<td>Adjusted basic earnings per share</td>
<td>10%</td>
<td>12.4p</td>
</tr>
</tbody>
</table>

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Belvoir Lettings plc Preliminary results for the year ending 31 December 2018
Financial highlights
Outperforming the markets in which we operate

Revenue (£m)
£13.7m
+21%

MSF (£m)
£8.5m
+8%

Profit before tax (and adjusted) (£m)
£5.5m
+40%

Basic EPS (and adjusted) (p)
12.5p
+45%

Revenue up by £2.4m to £13.7m
- Full year of Brook added £1.8m
- MAB Clos added £0.5m in financial services since 26 November 2018
- MSF increased by £0.6m
- Corporate office income down by £0.4m having franchised three offices as planned between November 2017 and March 2018

Profit before tax up by £0.6m to £5.5m
- Incremental £0.4m contribution from operating Brook for a full year and MAB Clos for five weeks
- Cost savings of £0.2m from post earn-out restructuring of Northwood
- Reduction of £0.1m on planned franchising out three corporate offices

Belvoir Lettings plc Preliminary results for the year ending 31 December 2018
Management service fees (MSF)

Recurring and growing revenue stream

£0.6m
MSF growth

7.3%
MSF growth

7.6%
Average MSF growth per office

8.4%
Sales MSF growth

7.1%
Lettings MSF growth
(2017: 1.6%)

2.6%
Like-for-like lettings growth
(2017: 2.7%)

4.5%
MSF growth from franchisee assisted acquisitions
(2017: 1.6%)

80:20
Lettings to sales ratio
(2017: 80:20)
Exceptional items

Northwood – an exceptional acquisition

Northwood consideration

• Acquired for 8x EBITDA with a two-year earn out ending May 2018
• Initial consideration of £8m based on EBITDA of £1.07m
• Estimated total consideration at outset of £13.8m
• Final agreed consideration of £13.0m against 51% growth in EBITDA to £1.62m

Northwood operations

• On acquisition Northwood operated from their Fareham office with 25 staff
• Some headcount reduction took place early 2017
• Post the end of the earn out further functions were migrated to the Belvoir Central Office leaving 3 staff in Fareham and 3 franchise support field roles
• The current office lease expires in July 2019
• Northwood franchisees have embraced being part of Belvoir with 28 having completed on an assisted acquisition out of a 90 office network

Accounting treatment

• The shortfall on the estimated consideration has given rise to an exceptional credit to profit and loss of £0.8m entitled ‘changes in fair value to contingent consideration’
• Additional restructuring costs of £65,000 have been treated as exceptional
• No impairment against Northwood goodwill is deemed necessary
## Group statement of financial position

**As at 31 December 2018**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>29,156</td>
<td>26,162</td>
</tr>
<tr>
<td>Financial assets</td>
<td>159</td>
<td>-</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>646</td>
<td>635</td>
</tr>
<tr>
<td>Franchisee loans</td>
<td>3,437</td>
<td>4,763</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>3,060</td>
<td>1,667</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,798</td>
<td>1,350</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>38,256</td>
<td>34,577</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,256</td>
<td>1,236</td>
</tr>
<tr>
<td>Deferred and contingent consideration</td>
<td>243</td>
<td>4,901</td>
</tr>
<tr>
<td>Bank loan</td>
<td>11,377</td>
<td>6,444</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>2,018</td>
<td>1,989</td>
</tr>
<tr>
<td>Tax payable</td>
<td>769</td>
<td>566</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>16,663</td>
<td>15,136</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>21,593</td>
<td>19,441</td>
</tr>
<tr>
<td>Share capital</td>
<td>349</td>
<td>349</td>
</tr>
<tr>
<td>Reserves</td>
<td>21,244</td>
<td>19,092</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>21,593</td>
<td>19,441</td>
</tr>
</tbody>
</table>

### Acquisitions and consideration
- Acquisition of MAB Glos
  - included £3.3m of goodwill
  - total consideration of £4.2m of which £0.2m deferred
  - certain vendor-related balances settled on completion leaving acquired cash balance of £0.7m
- Northwood earn out
  - settled £4.2m in cash

### Assets
- Financial assets represent MAB share options vesting May 2020
- Reduced franchisee loan book includes early repayment of £0.7m by Belvoir Basingstoke
- Other debtors includes £1.1m withheld unearned indemnity commission (UIC)

### Liabilities
- Other payables include £0.6m UIC liability
# Group statement of cash flow

**For the year ended 31 December 2018**

<table>
<thead>
<tr>
<th></th>
<th>2018 £000</th>
<th>2017 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>5,742</td>
<td>4,614</td>
</tr>
<tr>
<td>Movement in working capital</td>
<td>(130)</td>
<td>(2)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(1,018)</td>
<td>(912)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>4,594</td>
<td>3,700</td>
</tr>
<tr>
<td><strong>Acquisitions</strong></td>
<td>(3,595)</td>
<td>(1,825)</td>
</tr>
<tr>
<td>Deferred and contingent consideration</td>
<td>(4,236)</td>
<td>(76)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(140)</td>
<td>(114)</td>
</tr>
<tr>
<td>Disposal of corporate offices/assets</td>
<td>45</td>
<td>324</td>
</tr>
<tr>
<td>Franchise loans – net movement</td>
<td>1,077</td>
<td>80</td>
</tr>
<tr>
<td>Finance income</td>
<td>265</td>
<td>313</td>
</tr>
<tr>
<td>Return of funds from escrow</td>
<td>145</td>
<td>434</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>(6,439)</td>
<td>(864)</td>
</tr>
<tr>
<td>Bank loans – net movement</td>
<td>5,000</td>
<td>(525)</td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td>(2,411)</td>
<td>(2,360)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(296)</td>
<td>(192)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>2,293</td>
<td>(3,077)</td>
</tr>
<tr>
<td><strong>Net cash movement</strong></td>
<td>448</td>
<td>(241)</td>
</tr>
</tbody>
</table>

## Bank debt

- HSBC £12m revolving credit facility to:
  - settle previous NatWest loan of £6.5m
  - part-fund £4.2m Northwood earn out in cash
  - fund £3.3m MAB Glos net cash consideration

  **Terms:**
  - half-yearly repayments of £445,000
  - final repayment of £7.9m in March 2023
  - interest rate between 1.95% and 2.2% over LIBOR variable depending on net leverage

  - Net debt of £9.6m (£5.1m)

## Ratios

- Leverage of 1.8 (2017: 1.0)
- Dividend cover at 1.8 (2017: 1.6)
Operational review
Operational highlights
Targeted growth of existing network

Number of franchise offices
(#+
365
0%

Assisted acquisitions
(£)
643,000
+83%

Number of managed properties
(#+
62,780
+8%

Average MSF per office
(£)
28,333
+8%

Stable property franchise network
• 10 resales of existing offices to new or adjacent franchise owner
• 9 new offices including 2 hot starts
• 9 offices merged into adjacent territories

Plus new financial services network
• 65 financial services offices

Office growth
• 26 (2017: 23) assisted acquisitions completed, adding:
  • £6.9m (2017: £3.3m) to network revenue
  • £643,000 (2017: £351,000) p.a. in MSF
• managed properties up 4,760; more than doubled in 4 years
• £28,333 average MSF per office; up 43% in 4 years

Belvoir Lettings plc Preliminary results for the year ending 31 December 2018
Financial Services strategy

Diversification into property-related complementary services

**July 2017 acquired Brook Financial Services**

- An appointed representative of the Mortgage Advice Bureau
- Based in Barnsley with 36 advisers and a dedicated call centre

**November 2018 acquired MAB Glos**

- Also operates under Mortgage Advice Bureau
- Network of 87 independent financial advisers operating from 64 offices
- Based in the Midlands, South West and Wales
- Similar model to our property franchise network

**Strategy**

- Extend the MAB Glos network across the UK
- Link Belvoir’s property franchisees with our financial advisers to provide our customers with face-to-face mortgage advice
- Target gross profit ratio for 2019: property franchise 81%: financial services 19%

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**Gross profit ratio**

- [Diagram showing gross profit ratio]
  - Property franchise division
  - Financial services division

Belvoir Lettings plc  Preliminary results for the year ending 31 December 2018
Lettings

Changes in regulation and legislation bringing opportunities

Private rental sector (PRS)

- The PRS represents 4.5 million or 19% of total households in England
- Rental index of 1% at lowest level in since 2012, compares with our like-for-like lettings MSF growth of 2.6%
- Compulsory client money protection introduced 1 April
- Proposal to introduce redress scheme for tenants of private landlords
- Tenant fee ban comes into effect on 1 June
- Pressure on small independent lettings agents see in increasing numbers leaving the sector
- Our franchisees are well positioned to benefit from above changes
- Initial impact of 6% on group’s gross profit expected to be mitigated to no more than 3% within 9 months

Tenant fee ban in numbers

1 June

- tenant fee ban comes into force

6% /3%

- initial impact of 6% of gross profit, mitigated to 3% within 9 months

20%

- percentage of letting agents Belvoir predict will close

£7m

- 2019 target for acquired turnover under our assisted acquisitions programme


Belvoir Lettings plc Preliminary results for the year ending 31 December 2018
Property sales
Sales continues to offer growth opportunities for our networks

Residential property market
- Flat year for the residential property market
- House price inflation of 2.5%
- Number of property transactions down 2%
- Supply and demand impacted by net migration of 273,000 compared with 160,000 new builds completed year to June 2018

Belvoir performance
- Belvoir benefited from regional variations with 35% of our property network being based in the Midlands where growth was strong compared to 7% presence in London where house prices fell
- MSF growth from sales of 8.4%
- Our main estate agency network, Newton Fallowell, delivered a 5% increase in sales completions
- Our lettings-biased networks, Belvoir and Northwood, achieved a 9% increase with more offices starting to offer sales along side lettings
Marketing and IT development
Investing in technology to enhance our services

Integration of marketing and IT team
• Appointed head of digital, a new role as of 1 April 2019
• Restructured marketing and IT teams to deliver more integrated service

Common software platform across all networks
• Five months through a two-year roll out of new software system for all our franchisees
• Bringing all offices onto a common platform for the first time
• Cloud-based system giving management up to date MI
• Technology aimed at improving the customer journey

CRM system
• H1 roll out of a CRM system which will help to streamline our franchise operations
Outlook

Uniquely positioned within the property sector

Resilience of Belvoir’s business model

• Lean structure and low overheads makes us more agile in reacting to changes in the market than the larger corporate networks
• Our franchisees and advisers benefit from a central support structure
• The Group benefits from harnessing the entrepreneurial mindset of our franchisees and advisers

Diversification

• Our focus is on introducing new revenue streams to our franchisees
• Sales continue to offer growth potential for our lettings-biased franchisees within Belvoir and Northwood
• Financial services provide a strategic growth opportunity for our franchisees, our financial advisers and the Group as a whole

Good start to 2019

• Encouraging start to 2019
• Good cash position and uniquely diversified service offering

We remain confident that Belvoir will benefit from further consolidation within the sector.
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