BELVOIR!

Moving forward

Belvoir Lettings plc
Preliminary results
for the year ending 31 December 2017
Introduction

Dorian Gonsalves
Chief Executive Officer

Louise George
Chief Financial Officer
Our businesses

**Belvoir**

Historically a lettings franchise. Belvoir now offers both sales and lettings services nationwide.

**Established in 1995**

**Offices 171**


**Newton Fallowell**

With seven Goodchilds offices now rebranded, Newton Fallowell has a strong presence across both the East and West Midlands.

**Established in 1999**

**Offices 39**


**Northwood**

Northwood also started as a lettings franchise but now has national coverage offering both sales and lettings.

**Established in 1995**

**Offices 90**


**Brook Financial Services**

Brook operates as an appointed representative of the Mortgage Advice Bureau (MAB), one of the UK’s leading networks for mortgage intermediaries.

**Established in 2010**

**Advisers 29**
2017 overview

21 years of continued profit growth

- Group revenue up 14% to £11.3m
- Successful acquisition of Brook, a specialist mortgage broker
- Significant growth in management service fees (MSF), up 23%
- 23 (2016: 9) assisted acquisitions adding £3.3m (2016: £1.5m) to network revenue
- Properties under management up to 58,020 (2016: 55,756)
- Retains strong lettings bias with the lettings to sales ratio at 80:20 (2016: 76:24)
- Adjusted earnings per share up 28% to 11.3p (2016: 8.8p)
- Increase in final dividend to 3.5p (2016: 3.4p) giving total dividend for the year of 6.9p (2016: 6.8p)
## Group statement of comprehensive income

For the financial year ended 31 December 2017

<table>
<thead>
<tr>
<th></th>
<th>Variance</th>
<th>2017 £'000</th>
<th>2016 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>14%</td>
<td>11,299</td>
<td>9,940</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td>(510)</td>
<td>–</td>
</tr>
<tr>
<td>Gross profit</td>
<td>9%</td>
<td>10,789</td>
<td>9,940</td>
</tr>
<tr>
<td><strong>Administrative expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-exceptional</td>
<td>(6%)</td>
<td>(6,540)</td>
<td>(6,948)</td>
</tr>
<tr>
<td>Exceptional</td>
<td></td>
<td>(332)</td>
<td>(482)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>(6,872)</td>
<td>(7,430)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>56%</td>
<td>3,917</td>
<td>2,510</td>
</tr>
<tr>
<td>Profit/(loss) on disposal of corporate offices</td>
<td></td>
<td>6</td>
<td>(160)</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td>(192)</td>
<td>(139)</td>
</tr>
<tr>
<td>Finance income</td>
<td></td>
<td>313</td>
<td>291</td>
</tr>
<tr>
<td>Exceptional deemed interest on contingent consideration</td>
<td></td>
<td>(134)</td>
<td>(93)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>62%</td>
<td>3,910</td>
<td>2,409</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>(948)</td>
<td>(576)</td>
</tr>
<tr>
<td>Profit for the financial year</td>
<td>62%</td>
<td>2,962</td>
<td>1,833</td>
</tr>
<tr>
<td>Adjusted profit for the financial year</td>
<td>38%</td>
<td>3,906</td>
<td>2,837</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>51%</td>
<td>8.6p</td>
<td>5.7p</td>
</tr>
<tr>
<td>Adjusted basic earnings per share</td>
<td>28%</td>
<td>11.3p</td>
<td>8.8p</td>
</tr>
</tbody>
</table>

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**Belvoir Lettings plc** Preliminary results for the year ending 31 December 2017
Financial highlights

- **REVENUE £m**
  - £11.3m +14%

- **MSF £m**
  - £7.9m +23%

- **ADJUSTED PROFIT BEFORE TAX £m**
  - £4.9m +39%

- **ADJUSTED BASIC EPS p**
  - 11.3p +28%

Revenue up by £1.4m to £11.3m

- Full year of Northwood added £1.2m
- Brook added £0.9m in financial services since Jul17
- Corporate office income down by £0.9m having franchised six offices between Aug16 and Mar17

Ongoing admin expenses down £0.4m to £6.5m

- Full year cost impact of Northwood mitigated by restructuring in Q1 and tighter control to add net £0.2m
- Acquisition of Brook added £0.7m of overheads
- Operating costs of corporate offices reduced by £1.2m
**Management service fees (MSF)**

**GROUP MSF**

- **MSF growth of 22.5% to £7.9m (2016: £6.4m)**
- **Comparable growth in both lettings and sales, up 22.7% and 21.2% respectively**
- **Full year of Northwood accounted for 16.6%**
- **Growth from like-for-like lettings of 2.7% (2016: 3.2%)**
- **Assisted acquisitions by franchisees added 1.6% (2016: 1.3%)**
- **Sales growth accounted for 1.6% (2016: 2.5%)**
## Segmental information

<table>
<thead>
<tr>
<th></th>
<th>Lettings</th>
<th></th>
<th></th>
<th>Property sales</th>
<th></th>
<th></th>
<th>Total revenue</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td>Var %</td>
<td>2017</td>
<td>2016</td>
<td>Var %</td>
<td>2017</td>
<td>2016</td>
<td>Var %</td>
</tr>
<tr>
<td>Management service fees</td>
<td>6,634</td>
<td>5,405</td>
<td>23%</td>
<td>1,244</td>
<td>1,026</td>
<td>21%</td>
<td>7,878</td>
<td>6,431</td>
<td>23%</td>
</tr>
<tr>
<td>Corporate-owned offices</td>
<td>756</td>
<td>1,205</td>
<td>(37%)</td>
<td>646</td>
<td>1,110</td>
<td>(42%)</td>
<td>1,402</td>
<td>2,315</td>
<td>(39%)</td>
</tr>
<tr>
<td></td>
<td>7,390</td>
<td>6,610</td>
<td>12%</td>
<td>1,890</td>
<td>2,136</td>
<td>(12%)</td>
<td>9,280</td>
<td>8,746</td>
<td></td>
</tr>
<tr>
<td>Franchise fees</td>
<td></td>
<td></td>
<td></td>
<td>310</td>
<td></td>
<td></td>
<td>(16%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td></td>
<td></td>
<td></td>
<td>1,195</td>
<td></td>
<td></td>
<td>247%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
<td></td>
<td>514</td>
<td></td>
<td></td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>11,299</td>
<td>9,940</td>
<td>14%</td>
<td>11,299</td>
<td>9,940</td>
<td>14%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Corporate-owned offices

- Profitability from corporate offices increased by £0.3m in 2017
- Of which £0.2m reflected improved performance of Newton Fallowell Grantham
- Belvoir Cumbria and Spalding franchised out in Q1 2018. Remaining two corporate offices, Belvoir and Newton Fallowell Grantham to be retained

### Franchise sales/recruitment

- One “hotstart” incorporating a portfolio acquisition
- Five resales of existing territories
- Nine franchisees opening in a second territory

### Financial services

- Brook added £0.9m revenue and £0.2m in EBITDA in FY17
## Group statement of financial position

As at 31 December 2017

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>26,487</td>
<td>24,772</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>635</td>
<td>657</td>
</tr>
<tr>
<td>Franchisee loans</td>
<td>4,763</td>
<td>4,921</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1,667</td>
<td>1,843</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,350</td>
<td>1,591</td>
</tr>
<tr>
<td>Total assets</td>
<td>34,902</td>
<td>33,784</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1,561</td>
<td>1,239</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>4,901</td>
<td>5,349</td>
</tr>
<tr>
<td>Bank loan</td>
<td>6,444</td>
<td>6,962</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>1,989</td>
<td>2,054</td>
</tr>
<tr>
<td>Tax payable</td>
<td>566</td>
<td>849</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>15,461</td>
<td>16,453</td>
</tr>
<tr>
<td>Total net assets</td>
<td>19,441</td>
<td>17,331</td>
</tr>
<tr>
<td>Share capital</td>
<td>349</td>
<td>336</td>
</tr>
<tr>
<td>Reserves</td>
<td>19,092</td>
<td>16,995</td>
</tr>
<tr>
<td>Total equity</td>
<td>19,441</td>
<td>17,331</td>
</tr>
</tbody>
</table>

### Commentary

#### Intangible assets
- Acquisition of Brook for £2.2m, £1.7m in cash and £0.5m in shares
- Disposal of Belvoir Burton and Devizes corporate offices for £0.4m

#### Contingent consideration
- £0.9m settled in shares to Northwood vendors
- £0.4m returned from Northwood escrow account to settle expected tax liability

#### Share capital
- 803,284 shares issued to Northwood vendors at 117p to settle contingent consideration
- 475,162 shares issued to Michelle Brook at 105p in July 2017
**Group statement of cash flow**

For the year ended 31 December 2017

<table>
<thead>
<tr>
<th></th>
<th>2017 £’000</th>
<th>2016 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>4,614</td>
<td>3,277</td>
</tr>
<tr>
<td>Movement in working capital</td>
<td>(2)</td>
<td>(331)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(912)</td>
<td>(597)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>3,700</td>
<td>2,349</td>
</tr>
<tr>
<td><strong>Acquisitions</strong></td>
<td>(1,391)</td>
<td>(7,762)</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>(76)</td>
<td>(2,202)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(114)</td>
<td>(80)</td>
</tr>
<tr>
<td>Disposal of corporate offices / assets</td>
<td>324</td>
<td>797</td>
</tr>
<tr>
<td>Franchise loans – net movement</td>
<td>80</td>
<td>(414)</td>
</tr>
<tr>
<td>Finance income</td>
<td>313</td>
<td>291</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>(864)</td>
<td>(9,370)</td>
</tr>
<tr>
<td>Bank loans – net movement</td>
<td>(525)</td>
<td>6,000</td>
</tr>
<tr>
<td>Net proceeds on issue of shares</td>
<td>–</td>
<td>2,301</td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td>(2,360)</td>
<td>(2,183)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(192)</td>
<td>(185)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>(3,077)</td>
<td>5,933</td>
</tr>
<tr>
<td><strong>Net cash movement</strong></td>
<td>(241)</td>
<td>(1,088)</td>
</tr>
</tbody>
</table>

**Commentary**

**Acquisitions**
- £1.7m Brook cash consideration
- £0.4m returned from escrow re Northwood tax liability
- £0.1m on acquisition of Yardley franchise office

**Disposal of corporate offices**
- £0.3m on franchising out of Yardley, Burton and Devizes

**Bank loans**
- Three quarterly repayments totalling £0.5m
- One quarter capital repayment holiday allowed to facilitate acquisition of Brook
£12m revolving credit facility

• Draw-down of £6.5m to replace existing NatWest facility with annual step-down of £0.7m

• Remaining facility of £5.5m available to fund further acquisitions or Northwood earn-out

• Interest margin of between 1.95% and 2.45% over LIBOR depending on net leverage between 1.5x and 2.5x – compares favourably with prior margin of 2.5% over LIBOR

• Non-utilisation fee of 40% of applicable margin

• 5 year term

• Covenants:
  • Interest cover minimum 4x
  • Net debt maximum 2.5x
  • Debt service cover minimum 120%
  • Dividend - 12 month look forward only

£5m accordion facility

• Agreement in principle to support future acquisitions
Operational highlights

**Network growth**

- Growth from diversification into property sales and assisted acquisitions
- New recruitment strategy launched Q4 2017 for satellite franchise offices

**Assisted acquisitions**

- 23 (2016: 9) assisted acquisitions completed
- Adding £3.3m (2016:£1.5m) to network revenue and £351,000 (2016: £243,000) p.a. in MSF
- 2018 target of £6.6m additional network revenue from assisted acquisitions
Brook Financial Services

July 2017 acquisition

• Operates as an appointed representative of the Mortgage Advice Bureau
• Based in Barnsley and employs 29 advisors
• Provides mortgage and related financial services

Roll out to group networks

• Brook has absorbed the existing Newton Fallowell financial services business and advisors, has extended coverage to all Newton Fallowell offices and is achieving:
  • higher conversion of mortgage leads
  • greater penetration of life product sales
  • uplift in average case value
• Roll out to the other group networks started in Q1 2018.
• Now working with 25 Belvoir and 6 Northwood offices
Market update - lettings

Private rental sector (PRS)

- The PRS continues to grow and now represents 4.7 million or 20% of total households in the UK
- Decline in home ownership amongst the 25-34 and 35-44 age groups is a growing factor
- 75% of the 25-34 age group privately renting in 2016/17 up from 38% in 2006/07
- PRS is becoming increasingly important for families
- The average rent for the Belvoir network is £798, 2% up on 2016
- Average length of tenure for private renters is 3.9 years showing that people rely on the PRS for a long term and stable home

Trends in tenure (proportions), 1980 to 2016–2017

Belvoir Lettings plc Preliminary results for the year ending 31 December 2017 16
Market update - lettings

**Government led initiatives and their potential effect**

- A marked increase in rules and regulations leading to more landlords realising the added value of using a reputable agent.

- The upcoming ban on tenant fees is likely to be the biggest change for our industry. Franchisees are currently rethinking their business plans and finding new opportunities to negate this loss of income ahead of the 2019 deadline.

- Less agile competitors will struggle with the changes resulting in acquisition opportunities for our franchisees and helping to support further growth.

> Increased regulation for landlords can only help to make the PRS a more reliable sector for tenants. A safer, fairer, more transparent PRS can only be a good thing for the perception of our industry as a whole.
Market update - sales

Residential property market

- 2017 property transactions were fairly stable
- Year on year increase in house prices of 5.2%
- Supply and demand impacted by net migration in 2017 of 244,000 compared with 154,220 new builds completed to September 2017
- Network revenue from sales increased by 20% despite a challenging sales market
- Acquisition of Brook represents opportunity for increased revenue from estate agency through the sale of mortgages and other property-related financial services

With Northwood and Belvoir relative newcomers to estate agency, sales provide a means of diversification for our franchisees.
Website and online development

**New Belvoir website**

- New Belvoir website launch 16 Jan 2018
- Common provider, Homeflow, which specialises in websites for estate agents, for all three networks
- Incorporating livechat 24/7
- Offers instant valuation tool
- Driving a higher number of leads to our franchisees with almost 9,000 received in the 11 weeks since its launch

**Further online development**

- Looking at how to improve the customer journey through greater technology
- Assessing development of a more efficient, integrated platform which will help to streamline our franchise operations
Outlook

Good start to 2018

- Eight assisted acquisitions completed by franchisees in Q1 added network revenue of £2.8m p.a. and MSF of £0.2m in 2018
- Main estate agency network, Newton Fallowell, reporting sales subject to contract and pipeline ahead of 2017
- Net banking by Brook Financial Services up 30% on 2017

Board changes

- Michael Stoop, previously Group MD of TPFG, Xperience and Winkworth, joined the Board as a non-exec on 26 March 2018
- Nick Leeming has stepped down as of today

“...

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

Belvoir Lettings plc Preliminary results for the year ending 31 December 2017
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