BELVOIR!

Moving forward

Belvoir Lettings plc
Interim results
for the six months ended 30 June 2018
Introduction

Dorian Gonsalves
Chief Executive Officer

Louise George
Chief Financial Officer

H1 Board changes

• Michael Stoop appointed as NED 26 March 2018. Michael has over 40 years experience of the property sector and franchising

• Paul George appointed as NED 25 June 2018. Paul brings a deep understanding of corporate governance and financial reporting

Belvoir Lettings plc Interim results for the six months ended 30 June 2018
Our businesses

**Belvoir**

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

**Established in 1995**

**Offices 174**

**Newton Fallowell**

Historically an estate agency, Newton Fallowell, now covers both sales and lettings with a strong Midlands presence.

**Established in 1999**

**Offices 36**

**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 36**

*Belvoir Lettings plc* Interim results for the six months ended 30 June 2018
H1 2018 overview

Strong start to 2018

• 19% increase in Group revenue to £6.1m (H1 2017: £5.2m)

• 6% increase in Management Service Fees (MSF) to £4.0m (H1 2017: £3.8m)

• 66% increase in profit before tax to £2.9m (H1 2017: 1.7m) with adjusted profit before tax up 19% to £2.4m (H1 2017: £2.0m)

• Adjusted diluted earnings per share up 10% to 5.3p (H1 2017: 4.8p)

• Interim dividend is maintained at 3.4p with adjusted cover now at 1.6 (H1 2017: 1.4)

• 20 Assisted Acquisitions adding £5.1m (H1 2017: £1.7m) of historic turnover

• Lettings to sales ratio unchanged at 81:19

• Number of managed properties at 61,100 (H1 2017: 57,637); 6% increase
## Group statement of comprehensive income

For the six months ended 30 June 2018

<table>
<thead>
<tr>
<th></th>
<th>H1 2018</th>
<th>H1 2017</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>6,123</td>
<td>5,155</td>
<td>11,299</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(881)</td>
<td>(234)</td>
<td>(510)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>7%</td>
<td>5,242</td>
<td>4,921</td>
</tr>
<tr>
<td><strong>Administrative expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-exceptional</td>
<td>0%</td>
<td>(3,159)</td>
<td>(3,154)</td>
</tr>
<tr>
<td>Exceptional</td>
<td>-</td>
<td>(22)</td>
<td>(332)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>19%</td>
<td>2,083</td>
<td>1,745</td>
</tr>
<tr>
<td>Reduction in contingent consideraton</td>
<td>800</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit/(loss) on disposal of corporate offices</td>
<td>-</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(103)</td>
<td>(104)</td>
<td>(192)</td>
</tr>
<tr>
<td>Finance income</td>
<td>144</td>
<td>158</td>
<td>313</td>
</tr>
<tr>
<td>Exceptional deemed interest on contingent consideration</td>
<td>(55)</td>
<td>(68)</td>
<td>(134)</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>66%</td>
<td>2,869</td>
<td>1,731</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>(444)</td>
<td>(332)</td>
<td>(948)</td>
</tr>
<tr>
<td><strong>Profit for the financial year</strong></td>
<td>73%</td>
<td>2,425</td>
<td>1,399</td>
</tr>
<tr>
<td>Deduct/add: net effect of exceptional items, share-based payments and amortisation of acquired intangibles</td>
<td>(440)</td>
<td>312</td>
<td>944</td>
</tr>
<tr>
<td><strong>Adjusted profit for the financial year</strong></td>
<td>16%</td>
<td>1,985</td>
<td>1,711</td>
</tr>
<tr>
<td><strong>Weighted average number of shares (diluted)</strong></td>
<td>2%</td>
<td>37,255</td>
<td>35,351</td>
</tr>
<tr>
<td><strong>Adjusted diluted earnings per share</strong></td>
<td>10%</td>
<td>5.3p</td>
<td>4.8p</td>
</tr>
</tbody>
</table>

**Belvoir Lettings plc** Interim results for the six months ended 30 June 2018
Financial highlights

**Revenue**

- **£6.1m**
  - +19%

**MSF**

- **£4.0m**
  - +6%

**Adjusted Profit Before Tax**

- **£2.4m**
  - +19%

**Adjusted Diluted EPS**

- **5.3p**
  - +10%

Revenue up by £1.0m to £6.1m

- Brook added £1.05m to financial services
- Corporate office income down by £0.15m having franchised two further offices since Dec17

Ongoing admin expenses unchanged at £3.2m

- Acquisition of Brook added £0.22m of overheads and £0.2m EBITDA
- Operating costs of corporate offices reduced by £0.15m
Management service fees (MSF)

TOTAL GROUP MSF

- MSF growth of 6% to £4.0m (2017: £3.8m) with growth in both sales (8%) and lettings (5%)
- Assisted acquisitions by franchisees added 3% (2017: 1%)
- Organic lettings growth of 2% (2017: 4%) outperforming sector rental index of 1% (2017: 3%)
- Sales growth accounted for 1% (2017: 2%) in challenging market conditions

Belvoir Lettings plc Interim results for the six months ended 30 June 2018
## Segmental information

<table>
<thead>
<tr>
<th>Lettings</th>
<th>Property sales</th>
<th>Total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unaudited H1</td>
<td>Audited FY</td>
</tr>
<tr>
<td></td>
<td>Unaudited H1</td>
<td>Audited FY</td>
</tr>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Management service fees</td>
<td>3,411</td>
<td>3,238</td>
</tr>
<tr>
<td>Corporate-owned offices</td>
<td>228</td>
<td>400</td>
</tr>
<tr>
<td>3,639</td>
<td>3,638</td>
<td>7,390</td>
</tr>
<tr>
<td>Franchise fees</td>
<td>102</td>
<td>115</td>
</tr>
<tr>
<td>Financial services</td>
<td>1,311</td>
<td>302</td>
</tr>
<tr>
<td>Other income</td>
<td>220</td>
<td>255</td>
</tr>
<tr>
<td>Total revenue</td>
<td>6,123</td>
<td>5,155</td>
</tr>
</tbody>
</table>

### Corporate-owned offices

- Belvoir Cumbria and Spalding franchised out in Q1 2018
- Remaining two profitable corporate offices, Belvoir and Newton Fallowell Grantham to be retained for future development purposes
- No further corporate office changes anticipated except as necessary to support an exiting franchisee

### Franchise sales/recruitment

- 7 new franchise owners joined the Group in H1 plus 2 so far in H2
- Offices opened in 5 new locations, including 2 enhanced starts and 1 independent conversion
- 3 Newton Fallowell separate sales and lettings offices in process of merging
- 9 offices resold, 3 as a second territory

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**Belvoir Lettings plc** Interim results for the six months ended 30 June 2018
## Group statement of financial position

**As at 30 June 2018**

<table>
<thead>
<tr>
<th></th>
<th>H1 2018 £’000</th>
<th>H1 2017 £’000</th>
<th>FY 2017 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26,204</td>
<td>24,523</td>
<td>26,487</td>
</tr>
<tr>
<td><strong>Tangible assets</strong></td>
<td>630</td>
<td>641</td>
<td>635</td>
</tr>
<tr>
<td><strong>Franchisee loans</strong></td>
<td>4,028</td>
<td>4,800</td>
<td>4,763</td>
</tr>
<tr>
<td><strong>Trade and other receivables</strong></td>
<td>1,819</td>
<td>1,704</td>
<td>1,667</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>2,392</td>
<td>2,128</td>
<td>1,350</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>35,073</td>
<td>33,796</td>
<td>34,902</td>
</tr>
<tr>
<td><strong>Trade and other payables</strong></td>
<td>1,527</td>
<td>1,713</td>
<td>1,561</td>
</tr>
<tr>
<td><strong>Contingent consideration</strong></td>
<td>4,155</td>
<td>4,281</td>
<td>4,901</td>
</tr>
<tr>
<td><strong>Bank loan</strong></td>
<td>6,199</td>
<td>6,797</td>
<td>6,444</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td>1,992</td>
<td>2,024</td>
<td>1,989</td>
</tr>
<tr>
<td><strong>Tax payable</strong></td>
<td>463</td>
<td>473</td>
<td>566</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>14,336</td>
<td>15,288</td>
<td>15,461</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>20,737</td>
<td>18,508</td>
<td>19,441</td>
</tr>
<tr>
<td><strong>Share capital</strong></td>
<td>349</td>
<td>344</td>
<td>349</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td>20,388</td>
<td>18,164</td>
<td>19,092</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>20,737</td>
<td>18,508</td>
<td>19,441</td>
</tr>
</tbody>
</table>

### Commentary

#### Intangible assets

- Disposal of Belvoir Cumbria and Spalding

#### Franchisee loans

- Net reduction of £0.8m due to early settlement of £0.7m loan by one of our Belvoir franchisees

#### Contingent consideration

- Northwood earn out period ended 31 May 2018
- Estimated final settlement of £4.2m
- Board to determine settlement split in cash and/or shares at next Board meeting

#### Bank loan

- Revolving £12m credit facility provided by HSBC in March of which an initial £6.5m has been drawn
- Replaced previous NatWest loan
- Comfortably inside all banking covenants
## Group statement of cash flow
For the six months ended 30 June 2018

<table>
<thead>
<tr>
<th></th>
<th>H1 2018 £000</th>
<th>H1 2017 £000</th>
<th>FY 2017 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash generated from operating activities</td>
<td>2,318</td>
<td>1,908</td>
<td>4,612</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(540)</td>
<td>(250)</td>
<td>(912)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>1,778</td>
<td>1,658</td>
<td>3,700</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-</td>
<td>-</td>
<td>(1,391)</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>-</td>
<td>(988)</td>
<td>(76)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(56)</td>
<td>(30)</td>
<td>(114)</td>
</tr>
<tr>
<td>Disposal of corporate offices / assets</td>
<td>51</td>
<td>71</td>
<td>324</td>
</tr>
<tr>
<td>Franchise loans – net movement</td>
<td>733</td>
<td>268</td>
<td>80</td>
</tr>
<tr>
<td>Finance income</td>
<td>144</td>
<td>153</td>
<td>313</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>872</td>
<td>(526)</td>
<td>(864)</td>
</tr>
<tr>
<td>Bank loans – net movement</td>
<td>(175)</td>
<td>(175)</td>
<td>(525)</td>
</tr>
<tr>
<td>Net proceeds on issue of shares</td>
<td>-</td>
<td>936</td>
<td>-</td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td>(1,223)</td>
<td>(1,171)</td>
<td>(2,360)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(210)</td>
<td>(185)</td>
<td>(192)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>(1,608)</td>
<td>(595)</td>
<td>(3,077)</td>
</tr>
<tr>
<td>Net cash movement</td>
<td>1,042</td>
<td>537</td>
<td>(241)</td>
</tr>
</tbody>
</table>

### Commentary

#### Disposal of corporate offices
- Franchising out of Belvoir Spalding and Cumbria

#### Franchisee loans
- £0.4m franchisee loans granted in the period to support franchisee acquisitions
- £1.2m repaid by franchisees, including £0.7m early settlement by Belvoir franchisee

#### Bank loans
- One quarterly repayment made of £0.175m
- Bank arrangement fee paid of £0.1m

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**Belvoir Lettings plc** Interim results for the six months ended 30 June 2018
**£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 EBITDA
- Debt service cover minimum 120%
- Dividend - 12 month look forward only
Operational highlights

**OFFICES No.**
- 300
- 0%

**MANAGED PROPERTIES No.**
- 61,100
- +6%

**FRANCHISEE ACQUISITIONS**
- Historic acq’d revenue £m
  - £5.1m
  - +195%

**MSF FROM PROPERTY SALES £’000**
- £605,000
- +8%

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**Network growth**

- Growth from assisted acquisitions and diversification into property sales
- Two ‘hot starts’ with incoming franchisee acquiring an existing lettings agency to rebrand to Belvoir

**Assisted acquisitions**

- 20 (2017: 12) franchisee led portfolio acquisitions
- Adding £5.1m (2017: £1.7m) of historic revenue
- Board confident in exceeding the FY18 target of £6.6m acquired historic revenue from Assisted Acquisitions

Belvoir Lettings plc Interim results for the six months ended 30 June 2018
Brook and financial services

2017 acquisition

• Operates as an appointed representative of the Mortgage Advice Bureau
• Provides mortgage and related financial services
• No. of advisers up to 36 (July 17: 29)

Roll out to group networks

• Around 25% of the offices are referring mortgage leads to Brook
• Currently investing in an outbound call centre client service team
• Aim to work with Group offices to:
  • Increase conversion of mortgage opportunities
  • Achieve greater penetration of life product sales
  • Uplift average case value
Market update - lettings

Private rental sector (PRS)

• Belvoir Q2 Rental Index shows that within the Belvoir network, rents have risen by 0.75% consistent with the ONS 12 months rental index of 1%

• However, a reduction in supply of rented houses, through both landlord behaviour and a general shortage of physical housing stock, is likely to result in rents increasing

• Increased regulation around property lettings and licensing expected to see landlords shift from a DIY model to appointing a fully trained professional lettings agent

• Tenant fee ban expected in 2019 and increased regulation likely to lead to a reduction of 20% in lettings agents over next 3 years. Such sector consolidation will present further opportunities for acquisition.

• Currently the Group has 6 assisted acquisition deals with lawyers, 15 opportunities under review and 65 franchisees actively seeking an acquisition

• Growth workshops held to focus franchisees on maximising revenue from all income streams and to help them to revise their business plans to mitigate the impact of the tenancy fee ban

RICS forecast that rents will increase by 15% over the next five years.
Market update - sales

Residential property market

- Volume of UK property transactions in H1 fell by 3.8% to 551,000 (H1 2017: 573,000)\(^1\)

- 3% June yr-on-yr increase in house prices - lowest annual rate since August 2013

- Largely driven by a slow down in London, the South and East of England\(^2\)

- Against this flat backdrop, sales MSF increased by 8%. Newton Fallowell reported a 7% increase in sales MSF despite already being a dominant player in the East Midlands estate agency market

\(^1\)HMRC UK seasonally adjusted figures
\(^2\)ONS UK House Price Index

The Belvoir Group still saw a continued upward trend in property sales, contrary to the performance of many of the established nationwide agencies and against a backdrop of a flat housing market.

Belvoir Lettings plc Interim results for the six months ended 30 June 2018
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

Further online development

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

Resilience through franchising

• Equipping franchisees to maximise revenue from all potential income streams to offset any shortfall arising from the anticipated ban on tenant fees in 2019

• Driving growth from market consolidation through our Assisted Acquisition strategy

• Diversifying into financial services

• The resilience of our highly motivated franchisees will enable our agents to continue outperforming the sales and lettings markets

• The Government commitment to professionalising the property sector will generate demand for skilled, well-trained agents

Franchising is at the heart of our growth strategy
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