Belvoir Group plc
Interim results for the six months ended 30 June 2019
Introduction

Highly motivated and experienced senior team

Dorian Gonsalves
Chief Executive Officer

Experience : 20 years in the property sector
Length of service : 14 years at Belvoir
Key skills : franchising / people management / business development
Share holding : 463,595 shares
Share options : 903,399 inc. 540,000 vesting in 2020 based on performance

Louise George FCA, ACIS
Chief Financial Officer

Experience : 15 years as board member on AIM-listed companies
Length of service : 5 years at Belvoir
Key skills : financial management / mergers and acquisitions
Share holding : 56,607 shares
Share options : 607,000 inc. 432,000 vesting in 2020 based on performance
Our business

UK’s largest property franchise group - 372 individual businesses across four brands

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

136 offices operating through 72 financial services businesses

Brook
Acquired 2017
1 office
40 advisers

MAB Glos
Acquired 2018
71 offices
96 advisers

Belvoir Group plc
Interim results for the six months ended 30 June 2019
2019 H1 overview

Key highlights

Financial highlights

- **48%**
  - Group revenue up to £9.0m
  - (H1 2018: £6.1m)

- **5%**
  - Management service fees (MSF) up to £4.2m
  - (H1 2018: £4.0m)

- **18%**
  - Gross profit up to £6.2m
  - (H1 2018: £5.2m)

- **21%**
  - Adjusted earnings per share up to 6.9p
  - (H1 2018: 5.7p)

Operational highlights

- **16**
  - Assisted acquisitions added £4.2m to franchisee revenue
  - (H1 2018: 20 acquisitions, added £5.1m)

- **64,650**
  - Properties under management up 6%
  - (H1 2018: 61,100)

- **300**
  - Franchise offices with 4 new and 4 merged
  - (H1 2018: 300)

- **136**
  - 13 net additional financial advisers YTD
  - (H1 2018: 36 advisers)
Financial review
## Group statement of comprehensive income

For the six months ended 30 June 2019

<table>
<thead>
<tr>
<th></th>
<th>Change</th>
<th>H1 2019 £’000</th>
<th>H1 2018 £’000</th>
<th>FY 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>48%</td>
<td>9,047</td>
<td>6,123</td>
<td>13,702</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td>(2,849)</td>
<td>(881)</td>
<td>(2,372)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>18%</td>
<td>6,198</td>
<td>5,242</td>
<td>11,330</td>
</tr>
<tr>
<td><strong>Administrative expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-exceptional</td>
<td>9%</td>
<td>(3,437)</td>
<td>(3,159)</td>
<td>(6,616)</td>
</tr>
<tr>
<td>Exceptional</td>
<td></td>
<td>-</td>
<td>-</td>
<td>(169)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>33%</td>
<td>2,761</td>
<td>2,083</td>
<td>4,545</td>
</tr>
<tr>
<td>Changes in fair value to contingent consideration</td>
<td>6%</td>
<td>2,695</td>
<td>2,869</td>
<td>5,480</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td>(179)</td>
<td>(103)</td>
<td>(226)</td>
</tr>
<tr>
<td>Finance income</td>
<td></td>
<td>113</td>
<td>144</td>
<td>265</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td>-</td>
<td>-</td>
<td>87</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>(6%)</td>
<td>2,695</td>
<td>2,869</td>
<td>5,480</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>(574)</td>
<td>(444)</td>
<td>(1,106)</td>
</tr>
<tr>
<td><strong>Profit for the financial period</strong></td>
<td>(13%)</td>
<td>2,121</td>
<td>2,425</td>
<td>4,374</td>
</tr>
<tr>
<td><strong>Adjustments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional items (net of tax)</td>
<td>-</td>
<td>(745)</td>
<td>(650)</td>
<td></td>
</tr>
<tr>
<td>Amortisation of acquired intangibles</td>
<td>211</td>
<td>211</td>
<td>422</td>
<td></td>
</tr>
<tr>
<td>Share-based payment charge</td>
<td></td>
<td>93</td>
<td>94</td>
<td>189</td>
</tr>
<tr>
<td><strong>Adjusted profit for the financial period</strong></td>
<td>22%</td>
<td>2,425</td>
<td>1,985</td>
<td>4,335</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>(12%)</td>
<td>6.1p</td>
<td>6.9p</td>
<td>12.5p</td>
</tr>
<tr>
<td>Adjusted basic earnings per share</td>
<td>23%</td>
<td>6.5p</td>
<td>5.3p</td>
<td>12.4p</td>
</tr>
</tbody>
</table>
Financial highlights

Growth from underlying business and 2018 acquisition

Revenue (£m)

£9.0m
+48%

Revenue up by £2.9m to £9.0m
- MAB Glos, Nov 18 acquisition, added £2.3m in revenue
- Underlying business added £0.6m in revenue, representing 10% growth
  - MSF increased by £0.2m, up 5%
  - Corporate office income added £0.1m, up 26%
  - Brook Financial Services added £0.3m, up 21%

MSF (£m)

£4.2m
+5%

Operating profit (£m)

£2.8m
+33%

Operating profit up £0.7m to £2.8m
- MAB Glos increased overheads by £0.2m
- Minimal increase in overheads of underlying business of less than £0.1m
- MAB Glos added £0.3m to operating profit
- Underlying business added £0.4m

Adjusted EPS (p)

6.9p
+21%
Management service fees (MSF)
Core recurring revenue stream

- MSF up £0.2m to £4.2m (H1 2018: £4.0m)
- MSF as a %age of gross profit (H1 2018: 77%)
- Avg MSF per office up 5% (H1 2018: £13,382)
- Sales MSF growth (H1 2018: 8%)
- Lettings MSF growth (H1 2018: 5%)
- Like-for-like lettings growth (H1 2018: 2.0%)
- MSF growth from franchisee assisted acquisitions (H1 2018: 3%)
- Lettings to sales ratio (H1 2018: 81:19)
Gross profit split
Growing contribution from financial services

Gross profit split FY18

Lettings: 67%
Sales: 17%
Franchise sales and other: 10%
Financial services: 6%

Gross profit split H1 19

Lettings: 63%
Sales: 18%
Franchise sales and other: 15%
Financial services: 6%
### Group statement of financial position

**As at 30 June 2019**

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 £’000</th>
<th>H1 2018 £’000</th>
<th>FY 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible assets</strong></td>
<td>29,217</td>
<td>26,204</td>
<td>29,156</td>
</tr>
<tr>
<td><strong>Financial assets</strong></td>
<td>159</td>
<td>-</td>
<td>159</td>
</tr>
<tr>
<td><strong>Tangible assets</strong></td>
<td>650</td>
<td>630</td>
<td>646</td>
</tr>
<tr>
<td><strong>Right-of-use assets</strong></td>
<td>705</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Franchisee loans</strong></td>
<td>3,925</td>
<td>4,028</td>
<td>3,437</td>
</tr>
<tr>
<td><strong>Trade and other receivables</strong></td>
<td>2,937</td>
<td>1,819</td>
<td>3,060</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>1,419</td>
<td>2,392</td>
<td>1,798</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>39,012</td>
<td>35,073</td>
<td>38,256</td>
</tr>
<tr>
<td><strong>Trade and other payables</strong></td>
<td>2,014</td>
<td>1,527</td>
<td>2,256</td>
</tr>
<tr>
<td><strong>Lease liabilities</strong></td>
<td>705</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Deferred and contingent consideration</strong></td>
<td>86</td>
<td>4,155</td>
<td>243</td>
</tr>
<tr>
<td><strong>Bank loan</strong></td>
<td>10,915</td>
<td>6,199</td>
<td>11,377</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td>2,049</td>
<td>1,992</td>
<td>2,018</td>
</tr>
<tr>
<td><strong>Tax payable</strong></td>
<td>764</td>
<td>463</td>
<td>769</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>16,533</td>
<td>14,336</td>
<td>16,663</td>
</tr>
<tr>
<td><strong>Total net liabilities</strong></td>
<td>22,479</td>
<td>20,737</td>
<td>21,593</td>
</tr>
<tr>
<td><strong>Share capital</strong></td>
<td>349</td>
<td>349</td>
<td>349</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td>22,130</td>
<td>20,388</td>
<td>21,244</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>22,479</td>
<td>20,737</td>
<td>21,593</td>
</tr>
</tbody>
</table>

**Assets**

- Financial assets of £159,000 are MAB share options vesting May 2020
- Franchisee loans are financial assistance against assisted acquisitions
- Other receivables includes £1,144,000 unearned indemnity commission (UIC) withheld by Mortgage Advice Bureau (MAB)

**IFRS 16 Leases**

- New right-of-use assets and lease liabilities lines, both of £705,000, reflect implementation of IFRS 16 accounting treatment of assets under operating leases

**Liabilities**

- Other payables include £614,000 UIC liability
- Deferred consideration comprises £49,000 on MAB Glos and £37,000 on EBG

**Bank debt**

- HSBC £12m revolving credit facility
- Outstanding balance of £10.9m
- Terms:
  - half-yearly repayments of £445,000
  - final repayment of £7.9m in March 2023
  - interest rate at 1.95% over LIBOR
- Net debt of £9.5m
### Group statement of cash flow

For the six months ended 30 June 2019

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 £'000</th>
<th>H1 2018 £'000</th>
<th>FY 2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>3,291</td>
<td>2,504</td>
<td>5,742</td>
</tr>
<tr>
<td>Movement in working capital</td>
<td>(352)</td>
<td>(186)</td>
<td>(130)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(573)</td>
<td>(540)</td>
<td>(1,018)</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>2,366</td>
<td>1,778</td>
<td>4,594</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>(206)</td>
<td>-</td>
<td>(3,595)</td>
</tr>
<tr>
<td>Deferred and contingent consideration</td>
<td>(243)</td>
<td>(100)</td>
<td>(4,236)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(74)</td>
<td>(56)</td>
<td>(140)</td>
</tr>
<tr>
<td>Disposal of corporate offices/assets</td>
<td>-</td>
<td>51</td>
<td>45</td>
</tr>
<tr>
<td>Franchise loans – net movement</td>
<td>(225)</td>
<td>733</td>
<td>1,077</td>
</tr>
<tr>
<td>Finance income</td>
<td>113</td>
<td>144</td>
<td>265</td>
</tr>
<tr>
<td>Return of funds from escrow</td>
<td>-</td>
<td>100</td>
<td>145</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(635)</td>
<td>872</td>
<td>(6,439)</td>
</tr>
<tr>
<td>Bank loans – net movement</td>
<td>(493)</td>
<td>(175)</td>
<td>5,000</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(183)</td>
<td>(210)</td>
<td>(296)</td>
</tr>
<tr>
<td>Lease repayments</td>
<td>(106)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td>(1,328)</td>
<td>(1,223)</td>
<td>(2,411)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(2,110)</td>
<td>(1,608)</td>
<td>2,293</td>
</tr>
<tr>
<td>Net cash movement</td>
<td>(379)</td>
<td>1,042</td>
<td>448</td>
</tr>
</tbody>
</table>

**Highly cash generative**
- Cash conversion (op cash / adj op profit) 96%

**Acquisitions and deferred consideration**
- £206,000 payment for small lettings book acquired for the Newton Fallowell Grantham corporate office
- Settled deferred consideration of £223,000 on MAB Glos and £20,000 on Uplong

**Repayments**
- Bank loan repayment of £493,000 in H1
- Payments of £106,000 in relation to operating leases

**Ratios**
- Net debt / EBITDA leverage of 1.46
- Interim dividend cover at 2.0
Operational review
Operational highlights

Network growth

Stable property franchise network of 300 offices
- 4 new offices opened as hot starts
- 4 offices merged into adjacent offices
- 6 resales of existing offices to new or adjacent franchise owner

Growing financial services network up to 72 locations
- 11% net increase in no. of advisers to 36 (FY2018: 123) operating from 72 (FY2018: 65) locations

Assisted acquisitions
- 16 (H1 2018: 20) assisted acquisitions completed, adding:
  - £4.2m (H1 2018: £5.1m) to network revenue
  - £325,000 (H1 2018: £400,000) p.a. in MSF
  - 2,432 managed properties (H1 2018: 3,301)
  - managed properties up by 3,550 to 64,650 (H1 2018: 61,100)
Financial Services strategy

Diversification into property-related complementary services

Financial Services business units

- Brook Financial Services, based in Yorkshire, with 40 advisers and dedicated call centre
- MAB Glos, network of 96 advisers operating in the Midlands, South West and Wales
- Both operate under the Mortgage Advice Bureau umbrella

H1 2019 growth

- 11% net increase in no. of advisers YTD
- H1 net banked commission of £4.0m
  - Brook £1.6m (H1 2018: £1.3m) - up 21%; this being a like-for-like comparison
  - MAB Glos added further £2.3m

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
- H1 19 gross profit ratio: property franchise 82%: financial services 18%

Gross profit ratio

- Property franchise division
- Financial services division

2016
2017
2018
H1 2019
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; approximately 13m people in the UK

• Rental index of 0.9%\(^1\) to June 2019 – historically low

• Signs that the rental index will rise more aggressively, possibly between 3% and 5%:
  • tenant fee ban effective from 1 June has seen landlords increasing rents including mid tenancies
  • close correlation of rental index and average weekly earnings
  • average earnings increased from 3.5% in Oct 18 to 3.9% by Jun 19

Further regulation

• Recommendations for government on the regulation of property agents (ROPA) aimed at driving change in the sector
  • new system of regulation of property agents
  • new licensing regime for agents
  • new code of practice
  • mandatory qualifications
  • transparency of leasehold and freehold charges
  • new regulator
  • enforcement

• Belvoir has provided its franchisees with in-depth training and has self-regulated for many years

• Changes expected to benefit our business model

\(^1\)https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/july2019

Average weekly earnings and index of private housing rental prices indices, January 2011 to October 2018

Belvoir has delivered 2,399 training hours in H1
Property sales

Brexit uncertainty slowing housing market

Residential property market

- House price inflation of 0.9%\(^2\) in June 2019 at lowest level in last 4 years
- Gradual slow down in house price inflation since 2016 referendum
- UK property transactions fell by 1.2%\(^3\) in 2017 and 2.3%\(^3\) in 2018
- Trend continues – down 2.2%\(^3\) in H1 19 compared to H1 18
- BUT - June and July were 12%\(^3\) down on 2018 as the prospect of a no-deal became more likely
- In July the Office for Budgetary Responsibility predicted that a no-deal Brexit would lead to house prices falling by almost 10% by mid-2021
- The uncertainty around a no-deal Brexit is putting a brake on the housing market as buyers and sellers await the outcome
- We predict an upturn in sales transactions once Brexit is resolved

Belvoir performance

- Belvoir continues to benefit from regional variations with 35% of our property network being based in the Midlands where growth was 2.9% compared to 7% presence in London where house prices fell by 2.7%
- With MSF growth from sales at 7% in H1, Belvoir is clearly outperforming the sales market
- Our lettings-biased networks, Belvoir and Northwood, achieved a 17% increase in sales revenue with franchisees building their estate agency business alongside lettings

\(^2\)http://landregistry.data.gov.uk/app/ukhpi#targetText=Current%20index,compared%20to%20the%20previous%20year.

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**
- Ten 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**
- New CRM system rolled out in H1 which has streamlined our franchise operations
Outlook

Uniquely positioned within the property sector

Resilience of Belvoir’s business model

- Maximises entrepreneurial potential of franchisees
- Flexible compared with larger corporate networks
- Network of highly skilled individuals in line with Government aims at professionalising the sector
- Financial services offers the opportunity to leverage Belvoir’s client base

Strong H1 performance

- Impressive H1 growth from underlying business and 2018 acquisition
- Adjusted EPS up 23% to 6.5p (H1 2018: 5.3p)
- The Group’s operational leverage and diversified business model has helped to consistently deliver increased value to shareholders
- Interim dividend of 3.4p (H1 2018: 3.4p) with 2019 growth being built into final dividend

Outlook

- Management’s assessment of the impact of the tenant fee ban borne out by trading since 1 June
- The Board remains confident that Belvoir will meet full year management expectations

The Group’s capital allocation policy provides a reliable dividend with attractive yield for investors, whilst retaining funding for the Group’s growth strategy
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