



# Half Year Results Presentation



Six months ended 30 June 2012

## Executive Summary

- ▶ Underlying Group Operating profit up 23% to £14.5m
- ▶ Good profit growth underpinned by Marsh & Parsons as Surveying headwinds offset by strong progress in Agency
- ▶ Continued strong cash generation and balance sheet
  - Cash inflow from operations before exceptional costs up £6.1m to £13.4m
  - Net debt £36.8m compared to £36.5m in December 2011
- ▶ Dividend increased by 11% to 3.1p
  
- ▶ Estate Agency impressive profit growth from £0.6m to £6.5m
  - Excellent lettings and financial services growth
  - Marsh & Parsons delivered strong contribution
- ▶ Surveying impacted by major contract renewal and volume declines for certain key lenders
  - Good progress in growing Surveying services for private buyers
- ▶ Substantial increase to PI provisions
  - Relates to high risk period 2004 – 2008
  - One off in nature with cashflow impact spread over next 3 years and offset by proceeds of freehold disposals

# Progress Highlights

Good progress towards leadership in all key markets



	Surveying	Agency – Branches	Agency – Asset Management	Agency – Financial Services
<b>LSL position</b>	Market leader	#2 in market	Market leader	#4 in market
<b>2012 Market</b>	2012 market down 2%	2012 market up 7%	2012 market flat	2012 market up 7%
<b>LSL 2012</b>	<ul style="list-style-type: none"> <li>➤ Revenue down 10%</li> <li>➤ Strong lender 2011 comparatives</li> <li>➤ Year of major contract renewals</li> <li>➤ B2C Revenue £1.8m</li> </ul>	<ul style="list-style-type: none"> <li>➤ Revenue up 37% (13% LFL)</li> <li>➤ Excellent Growth in Lettings and Financial Services</li> <li>➤ Strong contribution from Marsh &amp; Parsons</li> <li>➤ Ongoing investment in market share and Lettings</li> </ul>	<ul style="list-style-type: none"> <li>➤ Revenue up 9%</li> <li>➤ Market leader with share increased to 36% (est)</li> <li>➤ Major new contract secured in area of new market opportunity</li> </ul>	<ul style="list-style-type: none"> <li>➤ Revenue up 22%</li> <li>➤ Substantial growth in profitability</li> <li>➤ Acquisitions fully integrated and performing well</li> <li>➤ Total LSL lending up from £3.2bn to £3.6bn</li> </ul>

# Financial Performance

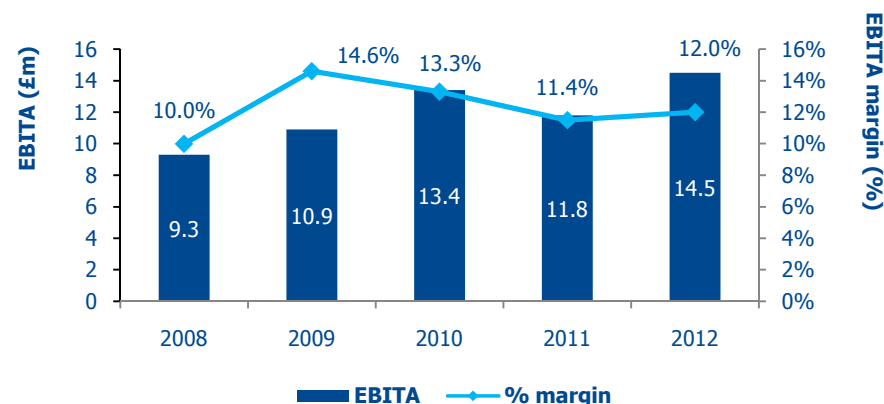
# Summary Group Financials

£m	Actual		
	H1 2012	H1 2011	
<b>P&amp;L</b>			
Revenue	120.8	103.4	17%
Underlying Group Operating Profit <sup>(1)</sup>	14.5	11.8	23%
Margin	12.0%	11.4%	
Exceptionals	(17.3)	(0.2)	
Net Finance Costs	(1.6)	(0.8)	
<b>Profit / (Loss) before tax</b>	<b>(7.9)</b>	<b>6.5</b>	
<b>PBT before amortisation and exceptionals<sup>(2)</sup></b>	<b>12.4</b>	<b>10.7</b>	<b>16%</b>
<b>Adjusted EPS</b>	<b>9.6p</b>	<b>7.7p</b>	<b>24%</b>
<b>Cashflow</b>			
Operating Cashflow <sup>(3)</sup>	10.9	5.6	
<b>Balance Sheet</b>			
Net Bank Debt	36.8	4.4	

LFL – excl Marsh &amp; Parsons

	H1 2012	H1 2011	
Revenue	108.0	103.4	4%
Underlying Group Operating Profit	11.6	11.8	(2%)
Margin	10.7%	11.4%	

## EBITA



Note 1. Underlying Group Operating Profit is before exceptional costs, amortisation of intangible assets and share-based payments

Note 2. Adjusted PBT is PBT less amortisation and exceptional costs.

Note 3. Operating cash flow is cash generated from operations pre exceptional costs and after capital expenditure

# Financial Performance – Estate Agency

Market	H1 2012	H1 2011	Inc/ (dec)			
House Purchase Mortgage Approvals	304,000	284,000	7%			
<b>Actual – including M&amp;P</b>				<b>Like for Like – excluding M&amp;P</b>		
KPIs	H1 2012	H1 2011	Inc / (dec)	H1 2012	H1 2011	Inc / (dec)
Exchange Units*	13,712	12,484	10%	13,333	12,484	7%
Exchange Fees £m	34.0	25.1	35%	27.5	25.1	10%
FS Income £m (incl intermediary networks)	14.4	12.3	17%	14.4	12.3	17%
Lettings Income £m	22.6	13.6	66%	16.8	13.6	24%
Asset Management Income	8.1	7.4	10%	8.1	7.4	10%
<b>P&amp;L</b>						
Revenue £m	86.4	65.0	33%	73.6	65.0	14%
Expenditure £m	(79.9)	(64.4)	24%	(70.0)	(64.4)	9%
<b>Operating Profit</b>	<b>6.5</b>	<b>0.6</b>		<b>3.6</b>	<b>0.6</b>	

- ▶ Excellent growth across all key income streams
- ▶ Exchange fees impacted by tightening of mortgage lending criteria on pipeline conversion rates
- ▶ Strong contribution from Marsh & Parsons – Revenue up 3% and Operating Profit up
- ▶ Investment in lettings resource and ongoing investment in market share growth

# Marsh & Parsons

## Strong first six month contribution

	Actual – incl Earls Court			Like for Like – excl Earls Court		
	H1 12	H1 11	% inc	H1 12	H1 11	% inc
Revenue £m	12.7	12.3	3.1%	12.6	12.3	2.8%
Operating Profit £m	2.9	2.8	2.5%	3.0	2.8	8.4%
Margin	22.6%	22.8%		24.0%	22.8%	



- ▶ London market constrained by stock shortage
- ▶ Increased market share in both residential sales and lettings
- ▶ Successful new branch opening in Earls Court
- ▶ Operating profit up 2% in total, 8% excluding impact of Earls Court

# Financial Performance – Surveying

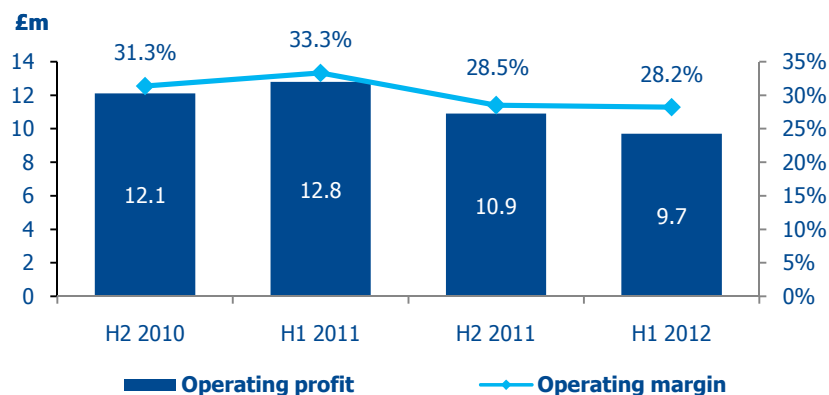
**mortgagestrategy AWARDS**  
- Winner Best Surveyor/Valuer

## Surveying Segment

	H1 2012	H1 2011	
Mortgage approvals '000	589	598	(2%)
Jobs '000	220	248	(11%)
Turnover £m	34.4	38.3	(10%)
Expenditure £m	(24.7)	(25.5)	3%
Underlying Operating Profit £m	9.7	12.8	(24%)
Margin	28.2%	33.3%	

- ▶ Strong 2011 key lender comparatives
- ▶ Year of contract renewals
- ▶ Good B2C progress contributing £1.8m revenue

## Operating Profit and Margin



- ▶ Market over 60% lower than 2007
- ▶ Profits at consistently high levels through the cycle
- ▶ Ongoing investment in service, technology and value add services



# Surveying: PI

## Additional Provision

- ▶ Relates to high risk period 2004 - 2008
  - Higher house prices, high LTVs
  - Sub prime and considerable BTL lending
- ▶ Aggressive pursuit of claims mostly by lenders no longer active in the market
- ▶ Use of 'no win-no fee' solicitors ahead of April 2013
- ▶ New specific provision to cover
  - Existing claims being aggressively pursued
  - Notifications and claims previously considered dormant
- ▶ New IBNR provision to cover
  - For future claims relating to 2004 - 2008
  - Highly subjective, based on historic run rate of new claims
- ▶ Total after tax charge £13.1m. Cashflow impact over the next 3 years

## Mitigation of cashflow impact

- ▶ LSL business model is leasehold
- ▶ Programme to dispose of freeholds currently held in the balance sheet
- ▶ Ex HEAL properties
- ▶ Expected to raise £9m, after tax over 2 years, with £2.5m received as at June 2012

# Financials – Cashflow and Debt

## Continued Strong Cash Generation

£m	H1 2012	H1 2011	
<b>Operating Cashflows</b>			
Operating Profit	14.5	11.8	
Depreciation	1.7	1.1	
PI Payments	(3.2)	(1.2)	▶ Improvement in working capital following 2011 investment in new income streams
Working Capital	1.9	(4.5)	▶ Higher rate of PI cash settlements
	0.4	(4.6)	▶ Expect lower tax payments going forward following new PI provision charges
	14.9	7.2	▶ H2 cashflows stronger due to agency seasonality and dividend payment cycle
Exceptional costs paid	(0.2)	(0.2)	
Acquisitions	(2.7)	(0.1)	
Capex	(2.4)	(1.6)	
Tax paid	(4.3)	(0.1)	
Interest paid	(1.2)	(0.8)	
Dividends paid	(6.1)	(6.1)	
Other	1.9	1.6	
<b>Net Cashflow</b>	<b>(0.1)</b>	<b>(0.1)</b>	
<b>Closing Net Debt</b>	<b>(36.8)</b>	<b>(4.4)</b>	

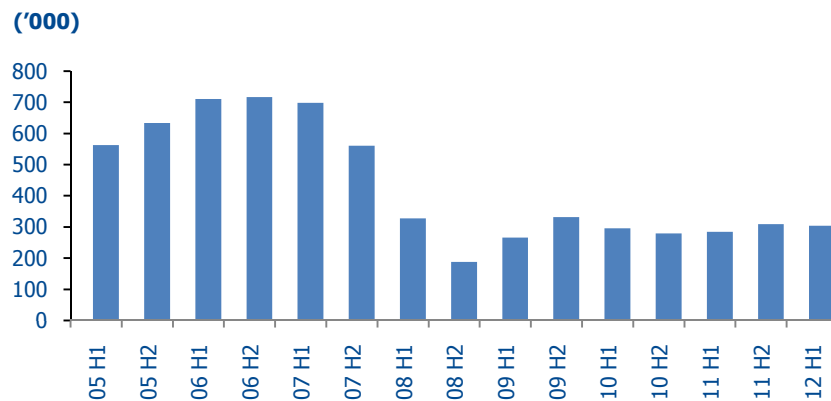
## Dividend

- ▶ Total 3.1 pence per share, up 11%
- ▶ Dividend Policy : 30-40% of Underlying Profit after tax
- ▶ Confident in underlying earnings growth, cashflow and prospects

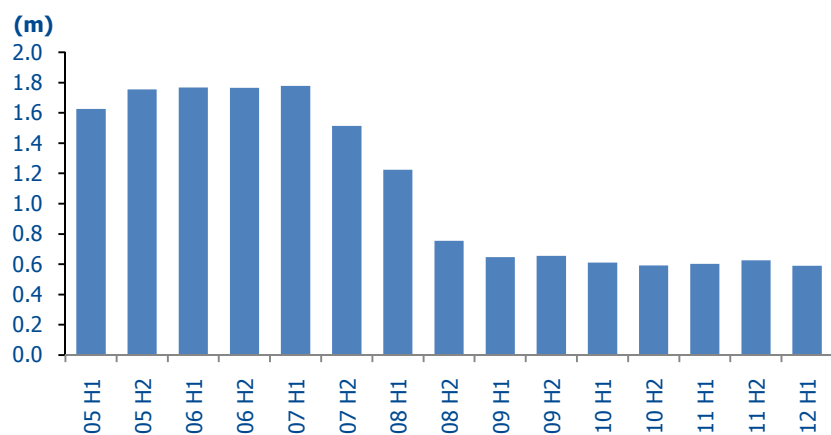
# Market and Strategy

# Mortgage Market Overview

## House Purchase Approvals

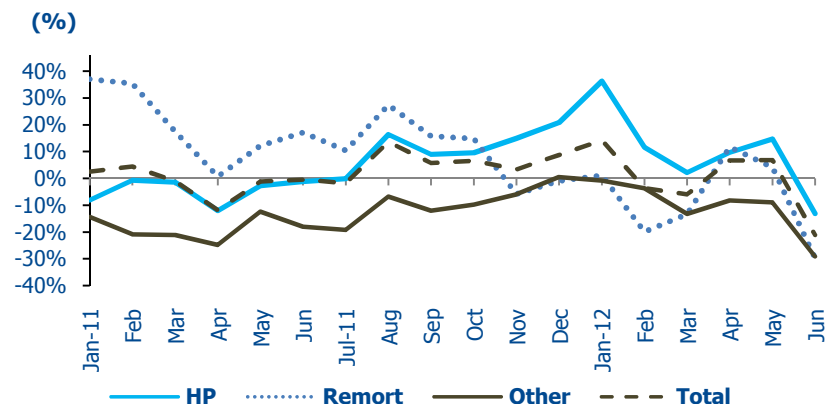


## Total Mortgage Approvals



Source : Bank of England

## Annual Growth in Mortgage Approvals



### House Purchase Approvals

- ▶ 304,000 H1 2012 up 7% on H1 2011
- ▶ Declining growth rate during H1 and June 13% lower than 2011

### Total Mortgage Approvals

- ▶ 589,000 H1 2012, down 2%
- ▶ Remortgages poor against strong comparative
- ▶ Continued lender focus on repayment of c£300bn by 2014 under the Special Liquidity Scheme and the Credit Guarantee Scheme
- ▶ Eurozone uncertainty
- ▶ Impact of increased regulation
- ▶ Tightening of mortgage lending criteria
- ▶ No significant short term improvement expected

# Surveying: Operations and Development

## Market Share

### Surveying Market Share

'000	2008	2009	H1 2010	H1 2011	H1 2012
Jobs Performed	461	439	272	248	220
Mortgage Approvals	1,980	1,301	610	598	589

- ▶ Continued market leadership

## Private Survey Income

### B2C Income

£m	H1 2011	H2 2011	H1 2012
Total income	1.3	1.5	1.8
Annual run rate in final quarter	2.8	3.1	4.1

## Operational Update

- ▶ Delivery of high service levels and regular positive feedback from all key clients
- ▶ Contract wins and retentions
- ▶ Ongoing investment in service and technology during H1
- ▶ Strong lender comparatives H1 2011
- ▶ Total income H1 2012 £1.8m
- ▶ Annual run rate Q2 2012 £4.1m
- ▶ Growth impacted by volatility in lender market shares
- ▶ Exceptional customer satisfaction delivered
- ▶ New channels coming on stream
- ▶ Supporting overall market share and margin
- ▶ Established growth platform

# Estate Agency

## Profitability and Market Share

- ▶ Target benchmark profit per branch £30k - £50k
- ▶ H1 2012 rolling 12 month Profit per branch increased by £6k to £10k (excluding Marsh & Parsons)
- ▶ HEAL profitability improved by £900k from H1 2011 to H1 2012
- ▶ Market share maintained in H1 2012
- ▶ Branch focus on lettings growth with considerable success

## Marsh & Parsons

- ▶ Key platform for growth through both new openings and bolt on acquisitions
- ▶ Another branch opening on track for Autumn 2012

## Key initiatives

- ▶ 'The Bridge' call centre
- ▶ Ongoing investment in people
- ▶ New investment in lettings resource
- ▶ Land and new homes
- ▶ Benefits from continuing maturity of HEAL
- ▶ Earnings enhancing acquisitions across all key business areas

## LSLi Acquisitions

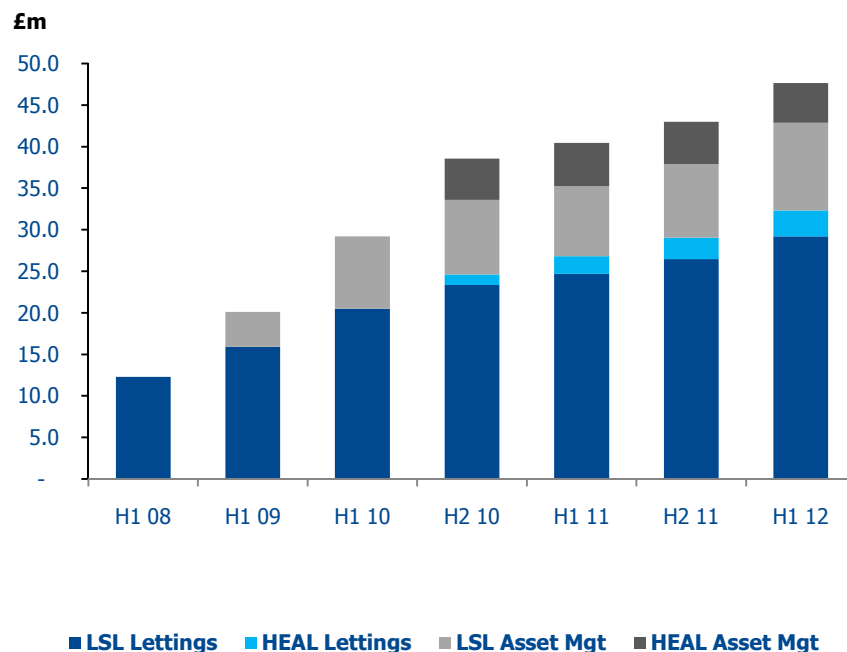
- ▶ Davis Tate – January 2012
  - ▶ 14 branch chain in Thames Valley
  - ▶ Majority interest acquired for £1.6m
- ▶ Lauristons – July 2012
  - ▶ 6 branch chain in South West London
  - ▶ Majority interest acquired for £1.8m

# Estate Agency – Counter Cyclical Income

Total H1 Lettings and Asset Management income up 19% to £24.9m



## Balanced Growth: Asset Management and Lettings



Rolling 12 month revenue

## Lettings

- ▶ Lettings income (excluding Marsh & Parsons) up 24%
- ▶ Now represents 61% of Residential sales income
- ▶ Investing in resource to capitalise on structural changes resulting in growth in lettings market
- ▶ Target is to grow lettings to the same level as residential sales income

## Asset Management

- ▶ Asset Management income up 9%
- ▶ Repossessions market flat at 18,900 repossessions (est)
- ▶ LSL market leader with c 36% market share (est)
- ▶ Major new contract win in area of new market opportunity

# Estate Agency – other businesses



## Financial Services

- ▶ Total LSL lending up from £3.2bn to £3.6bn across Pink, First Complete and Linear
- ▶ Revenue up 21% and H1 profit contribution of £0.4m
- ▶ Implementation of new common platform to improve customer service and increase operational efficiency

## Joint Ventures

- ▶ TM Group (a property search company) and LMS (a conveyancing panel manager) both performing well
- ▶ Contributed £0.4m to group profit H1 2012

## Zoopla

- ▶ Merger with Digital Property Group completed in April 2012 establishing strong number 2 market position
- ▶ Initial integration substantially completed ahead of plan
- ▶ Very strong performance since the transaction and well placed for future growth
- ▶ Valuable strategic investment for LSL - 4.8% of the new group



# Summary

## Key areas of focus and growth opportunities

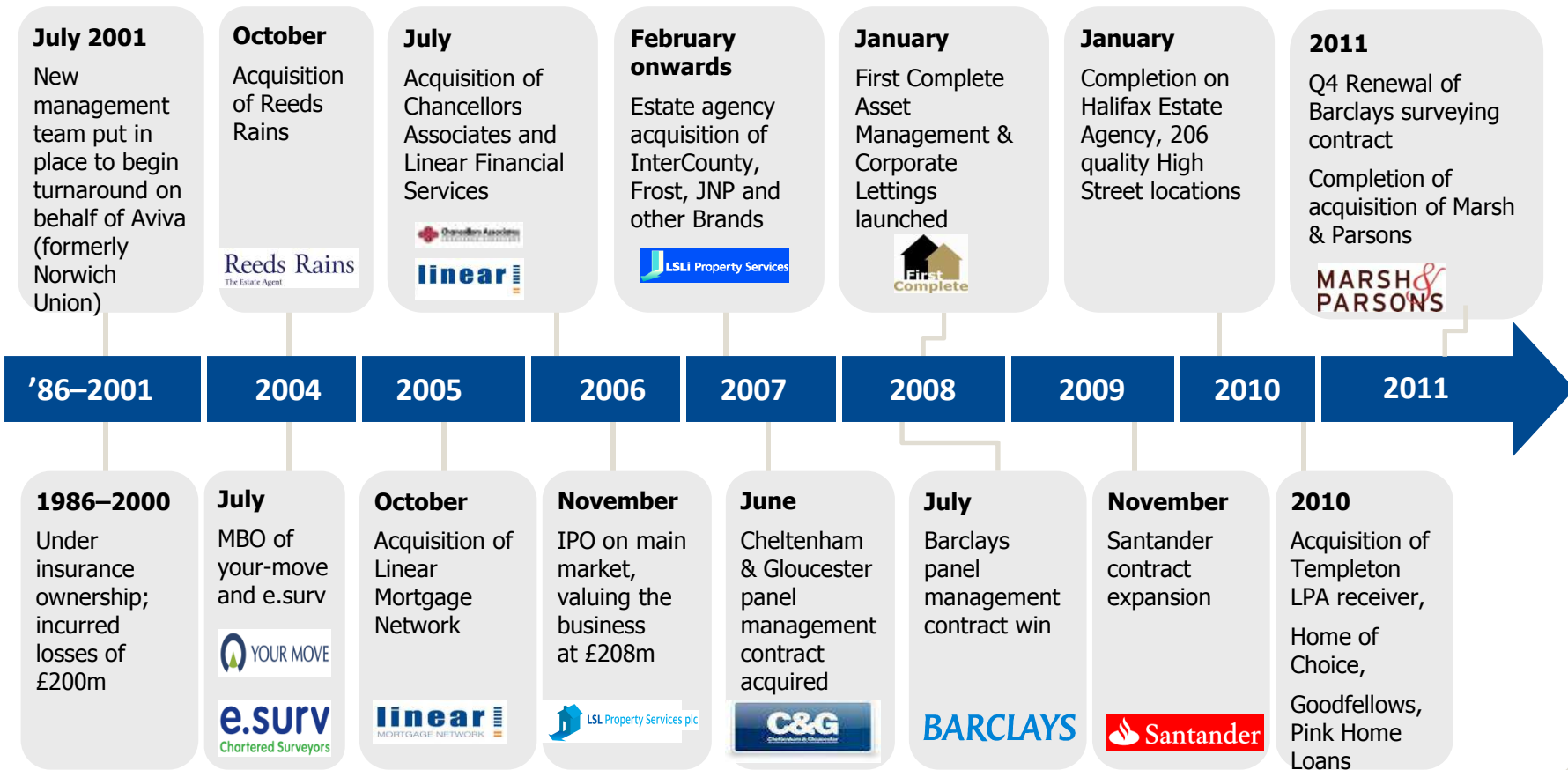
- ▶ Surveying
  - Service delivery excellence to lender clients in B2B
  - Expansion of private survey services
  
- ▶ Estate Agency
  - Continuing to increase branch profitability through growth of market share, average fee, lettings and financial services
  - Growing Marsh & Parsons in the London market – new branches and acquisitions
  - Develop further new business opportunities in asset management
  
- ▶ Utilising the strong cash generation and balance sheet for selective acquisitions
  
- ▶ Confident of delivering growth in shareholder value in the current market

# Appendices

# LSL's Genesis

## LSL's business transformation from a loss making insurance distribution arm

### Key Events



# Who are We Now?

## LSL Property Services plc

