

# Half Year Results Presentation

Six months ended 30 June 2013



# Executive Summary

- ▶ Underlying Group Operating profit of £11.5m (2012 LFL: £12.0m)
- ▶ Estate Agency delivered impressive profit growth of 28% to £8.4m (2012: £6.5m)
  - Excellent average fee, lettings and financial services growth
  - Strong performance from Marsh & Parsons
  - Total agency residential pipeline up 10% on June 2012
  - Further investment in lettings and market share in the period
- ▶ Surveying impacted by major contract insourcing and challenging first quarter
- ▶ Continued strong cash generation and balance sheet
  - Cash inflow from operations before exceptional and PI costs of £12.9m
  - Net debt down 14% to £31.7m (June 2012: £36.8m)
- ▶ Market conditions and Group performance improved significantly since Easter
- ▶ Dividend increased by 6% to 3.3p (2012: 3.1p)

# Highlights

Good progress towards leadership in all key markets



	Surveying	Agency – Branches	Agency – Asset Management	Agency – Financial Services
LSL position	Market leader	#2 in market	Market leader	#4 in market
2013 Market	2013 market flat	2013 residential market up 9% in volume	2013 market down 17%	2013 residential market up 9% in volume
LSL 2013	<ul style="list-style-type: none"> <li>➤ Revenue down 2% LFL</li> <li>➤ B2C Revenue £2.7m</li> <li>➤ Investment in capacity</li> </ul>	<ul style="list-style-type: none"> <li>➤ Total revenue up 6%</li> <li>➤ Fee growth 7%</li> <li>➤ Lettings up 9%</li> <li>➤ Financial services up 9%</li> <li>➤ Investment in lettings</li> <li>➤ Ongoing investment ahead of market recovery</li> </ul>	<ul style="list-style-type: none"> <li>➤ Revenue down 12%</li> <li>➤ Market leader with share increased to 34% (est)</li> <li>➤ New opportunities arising in winning property management contracts</li> </ul>	<ul style="list-style-type: none"> <li>➤ Revenue up 9%</li> <li>➤ Total LSL lending up 11% to £4.0bn</li> </ul>

# Financial Performance

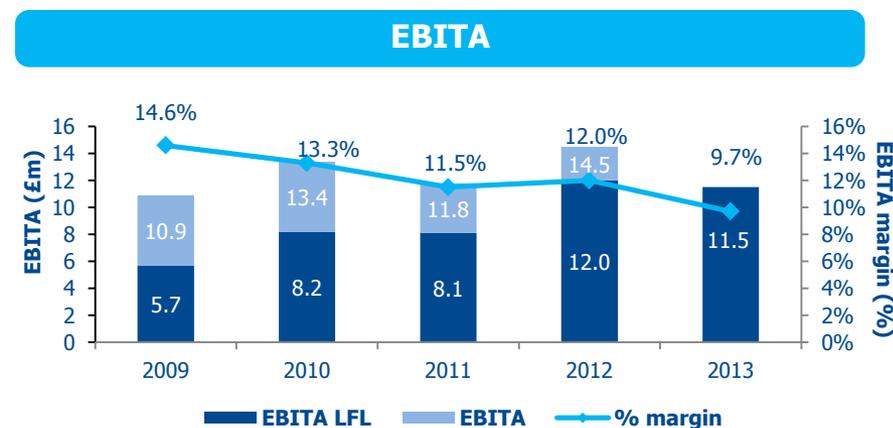
# Summary Group Financials

## Actual

£m	H1 2013	H1 2012	%
<b>Revenue</b>	<b>118.8</b>	<b>120.8</b>	<b>(2)</b>
<b>Underlying Operating Profit<sup>(1)</sup></b>	<b>11.5</b>	<b>14.5</b>	<b>(21)</b>
<b>Margin</b>	<b>9.7%</b>	<b>12.0%</b>	
Exceptionals	(1.2)	(17.2)	93
Net Finance Costs	(1.5)	(1.7)	7
<b>Profit / (Loss) before tax</b>	<b>8.4</b>	<b>(7.9)</b>	<b>206</b>
<b>Adjusted EPS</b>	<b>7.6</b>	<b>9.6</b>	<b>(21)</b>
<b>Dividend</b>	<b>3.3p</b>	<b>3.1p</b>	<b>6</b>
<b>Operating Cashflow<sup>(2)</sup></b>	<b>12.9</b>	<b>17.4</b>	<b>(26)</b>
<b>Net Bank Debt</b>	<b>31.7</b>	<b>36.8</b>	<b>14</b>

## LFL – excl LBG contract

H1 2013	H1 2012	%	2013/12 % Growth	
			Jan- Apr	May- Jun
<b>118.8</b>	<b>115.3</b>	<b>3</b>	<b>(1)</b>	<b>10</b>
<b>11.5</b>	<b>12.0</b>	<b>(4)</b>		
<b>9.7%</b>	<b>10.4%</b>			



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

Note 2. Operating cash flow is cash generated from operations pre exceptional costs and PI

# Financial Performance – Post Easter trading improvement

- ▶ January - April 2012 market volumes were strong due to changes in stamp duty and interest only mortgage legislation
- ▶ Strong improvement in market volumes post Easter 2013 reflected in positive revenue growth across majority of the Group's revenue streams
- ▶ Optimistic outlook for 2014

## Surveying Segment

LFL 2012/13 growth	Jan-Apr %	May-Jun %
Mortgage approvals '000	(5)	12
Jobs '000	(3)	9
Turnover £m	(5)	5

## Agency Segment

LFL 2012/13 growth	Jan-Apr %	May-Jun %
Exchange Units*	(8)	3
Exchange Fees £m	(3)	12
FS Income £m (incl intermediary networks)	2	21
Lettings Income £m	10	8
Asset Management Income £m	(12)	(11)
<b>Total Revenue £m</b>	<b>1</b>	<b>11</b>

\* 2012 Comparative adjusted for branch closures and openings

# Financial Performance – Surveying

## Surveying Segment

	H1 2013	H1 2012	%
Mortgage approvals '000	592	589	0
Jobs '000	198	220	(10)
Turnover £m	28.5	34.4	(17)
Expenditure £m	(23.1)	(24.7)	7
Underlying Operating Profit £m	5.4	9.7	(44)
Margin	19.0%	28.2%	

## Professional Indemnity costs

- ▶ Professional Indemnity costs ran broadly in line with expectations during the period
- ▶ No increase in exceptional PI provision at 30 June 2013
- ▶ IBNR assumption is that claim numbers will reduce from 1 July 2013 due to April 2013 changes in rules regarding litigation and expiry of primary limitation for high risk periods.

## Like for Like (excl LBG contract)

	H1 2013	H1 2012	%
Mortgage approvals '000	592	589	0
Jobs '000	198	196	1
Turnover £m	28.5	29.0	(2)
Expenditure £m	(23.1)	(21.8)	(6)
Underlying Operating Profit £m	5.4	7.2	(25)
Margin	19.0%	24.8%	

- ▶ £2.5m impact of major contract insourcing
- ▶ Pricing pressures on margin in H1. Capacity constraints should cause this trend to reverse
- ▶ Successful investment in new mobile technology in Q1. As expected, short term loss in productivity but now rectified
- ▶ Decline in mortgage approvals January – April but improvements in revenue growth since May as market volumes improve

# Financial Performance – Estate Agency

<b>Market</b>	<b>H1 2013</b>	<b>H1 2012</b>	<b>%</b>
House Purchase Mortgage Approvals	332,000	304,000	9
<b>Actual</b>			
<b>KPIs</b>	<b>H1 2013</b>	<b>H1 2012</b>	<b>%</b>
Exchange Units*	12,251	12,761	(4)
Exchange Fees £m	34.9	34.1	2
FS Income £m (incl intermediary networks)	15.7	14.4	9
Lettings Income £m	24.7	22.6	9
Asset Management Income	7.1	8.1	(12)
<b>P&amp;L</b>			
Revenue £m	90.3	86.3	5
Expenditure £m	(81.9)	(79.8)	(3)
<b>Operating Profit</b>	<b>8.4</b>	<b>6.5</b>	<b>28</b>

- ▶ Excellent growth across all key income streams
- ▶ Residential sales income up 2% including average fee growth of 7% with improved mix on lower repossession volumes
- ▶ Pipeline at 30 June 7% higher year on year in volume and 10% higher in value year on year
- ▶ Investment in 200 new agency branch staff

\* 2012 Comparative adjusted for branch closures and openings

# Marsh and Parsons

	H1 13	H1 12	%
Revenue £m	13.5	12.8	5
Operating Profit £m	2.6	2.9	(10)
Margin	19.4%	22.9%	



- ▶ London market constrained by stock shortage
- ▶ Residential sales income up 12% and lettings up 3%
- ▶ Investment in
  - New branches
  - Additional headcount to drive market share
  - Infrastructure to support medium term growth
- ▶ New branch openings in South Kensington, Fulham and Marylebone

# Financials – Cashflow and Debt

## Strong Cash Generation

£m	H1 2013	H1 2012
<b>Operating Cashflows</b>		
Operating Profit	11.5	14.5
Depreciation/ JV Income/ Working capital	1.4	3.6
Operating cash flow pre PI + exceptional	12.9	17.4
PI Payments	(8.5)	(4.0)
Exceptional costs paid	(0.5)	(0.2)
	<u>(9.0)</u>	<u>(4.2)</u>
<b>Cash from Operations</b>	3.9	13.2
Acquisitions/capex	(4.4)	(4.9)
Freehold property disposals	1.0	2.8
Tax paid	1.4	(4.3)
Interest paid	(2.0)	(1.2)
Dividends paid	(6.6)	(6.1)
Other	1.6	(0.6)
<b>Net Cashflow</b>	<u><b>(5.1)</b></u>	<u><b>(1.1)</b></u>
<b>Closing Net Debt</b>	<b>(31.7)</b>	<b>(36.8)</b>

- ▶ As expected, higher rate of PI cash settlements
- ▶ Significant capex investment in new M&P branches and new integrated front and back office system for FS
- ▶ Further proceeds from freehold property disposal programme
- ▶ Tax receipts in current year due to prior year refunds and low tax charge due to PI
- ▶ Interest paid includes £1.1m costs associated with the new banking facility
- ▶ H2 cashflows stronger due to agency seasonality and dividend payment cycle

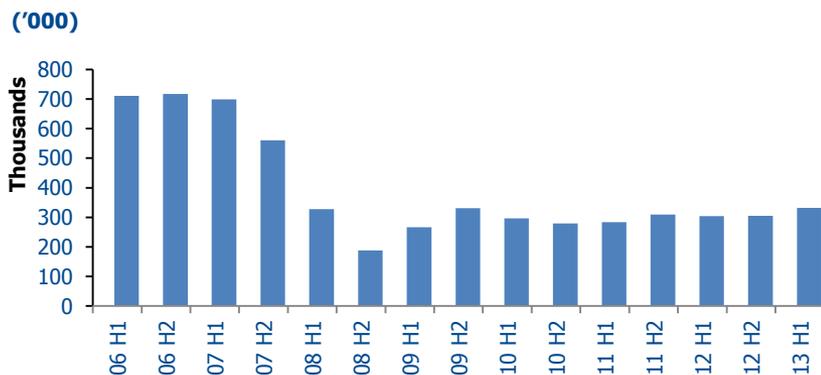
## Dividend

- ▶ Interim dividend 3.3 pence per share, up 6%
- ▶ Dividend Policy : 30-40% of Underlying Profit after tax
- ▶ Confident in underlying earnings growth, cashflow and prospects

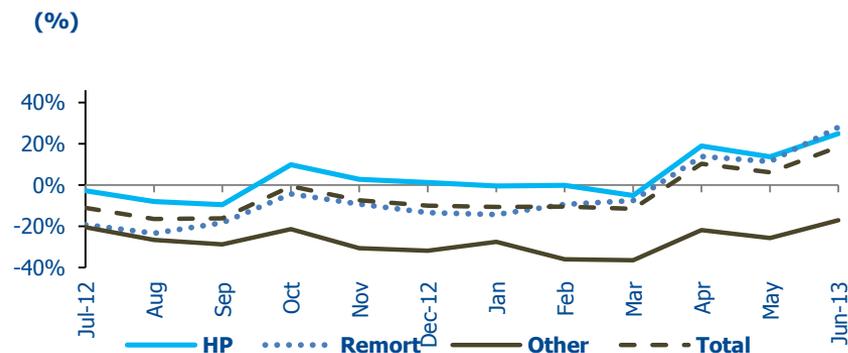
# Market and Strategy

# Mortgage Market Overview

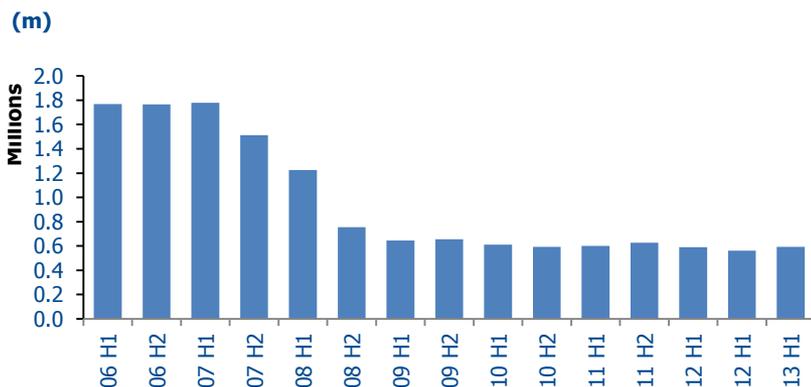
## House Purchase Approvals



## Annual Growth in Mortgage Approvals



## Total Mortgage Approvals



### House Purchase Approvals

- ▶ 332,000 H1 2013 up 9% on H1 2012
- ▶ Jan-Apr 3% up on prior year
- ▶ May-Jun 19% up on prior year

### Total Mortgage Approvals

- ▶ 592,000 H1 2013, flat on prior year
- ▶ Jan-Apr 5% down due to stamp duty changes in prior year
- ▶ May-Jun 12% up on prior year
- ▶ FY13 Budget initiatives (Shared Equity from 1 April 2013 and Mortgage Guarantee from 1 Jan 2014) are expected to help drive improvements in total mortgage approvals over the short to medium term

# Surveying: Operations and Development

## Market Share

### Surveying Market Share

'000	H1 2010	H1 2011	H1 2012	H1 2013
Jobs Performed (Total)	272	248	220	198
Jobs Performed (LFL)	234	213	196	198
Mortgage Approvals	610	598	589	592

- ▶ Continued market leadership

## Private Survey Income

### B2C Income

£m	H1 2011	H1 2012	H1 2013
Total income	1.3	1.8	2.7
Annual run rate in final quarter	2.8	4.1	6.1

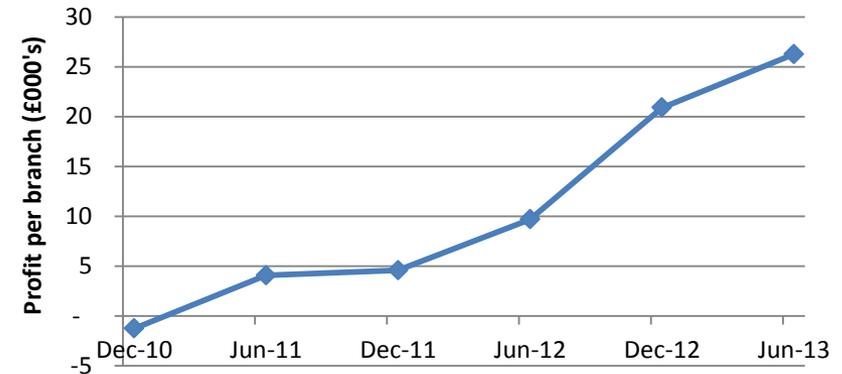
- ▶ Delivery of high service levels and regular positive feedback from all key clients
- ▶ Major contract insourced in June 2012
- ▶ Ongoing investment in service and technology during H1
- ▶ Ongoing investment in new surveyors as market recovers
- ▶ Expect profitable growth and margin improvement as transaction volumes improve
- ▶ Total income H1 2013 £2.7m
- ▶ Annual run rate Q2 2013 £6.1m
- ▶ Prioritisation of valuation for lender clients in improving market

# Estate Agency

## Profitability and Market Share

- ▶ Target benchmark profit per branch £30k - £50k
- ▶ H1 2013 rolling 12 month Profit per branch increased by £21k to £26k (excluding Marsh & Parsons)
- ▶ 7% growth in average fee
- ▶ 10% growth in residential pipeline

## Profit per branch



Rolling 12 month revenue excluding Marsh & Parsons

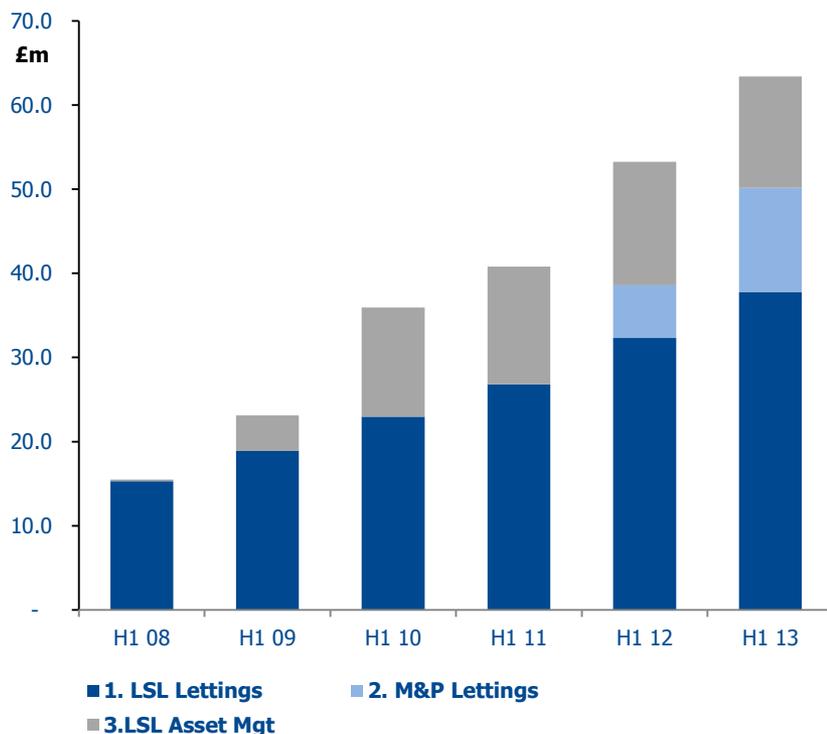
## Key initiatives

- ▶ 'The Bridge' call centre
- ▶ 200 new branch staff added since Dec 2012 – run rate investment over £3.0m
- ▶ New investment in branch resources to drive residential and lettings fees
- ▶ Conveyancing up 19%
- ▶ Land and new homes
- ▶ Selective earnings enhancing acquisitions
- ▶ 3 new Marsh & Parsons branches opened in 2013
- ▶ 3-4 new Marsh & Parsons branches are expected to be opened each year going forward

# Estate Agency – Counter Cyclical Income

Total H1 Lettings and Asset Management income up 3% to £31.1m

## Balanced Growth: Asset Management and Lettings



Rolling 12 month revenue

## Lettings

- ▶ Lettings income up 9%
- ▶ Now 67% the size of Residential sales income (61% in prior year)
- ▶ Investing in resource to capitalise on structural changes driving growth in lettings market

## Asset Management

- ▶ Asset Management income down 12%
- ▶ Repossessions market down 17% to 15,000 repossessions (est)
- ▶ LSL market leader with c 34% market share (est)
- ▶ New opportunities arising in winning property management contracts

# Estate Agency – other businesses

## Financial Services

- ▶ Total LSL lending up 11% to £4.0bn across Pink, First Complete and Linear
- ▶ Revenue up 16% to £5.5m and H1 profit contribution up 34% to £0.6m
- ▶ Implementation of new common platform to improve customer service and increase operational efficiency

## Joint Ventures

- ▶ TM Group (property search company) and LMS (conveyancing panel manager) both performing well
- ▶ Contributed £0.7m to Group profit H1 2013

## Zoopla

- ▶ Merger with Digital Property Group completed in 2012 establishing strong number 2 market position
- ▶ Valuable strategic investment for LSL - 4.8% of the new Group – fair value £11.8m at 30 June 2013
- ▶ Very strong performance since the transaction and well placed for future growth
- ▶ £0.5m dividend received in H1 2013

# Summary

## Capitalising on improving market conditions

- ▶ Ongoing investment in organic growth initiatives plus investment in capacity ahead of market recovery
- ▶ Surveying - service delivery excellence to lender clients in B2B and contract retention
- ▶ Estate Agency
  - Further growth in market share, average fee, lettings, financial services and conveyancing
  - Growing Marsh & Parsons branch footprint in the London market
  - Pipeline 10% higher at 30 June 2013
- ▶ Strong cash generation and balance sheet
- ▶ Extremely well positioned to deliver increased shareholder value through organic growth initiatives, selective acquisitions and market recovery
- ▶ Optimistic outlook for 2014 market

# Appendices

# LSL's Genesis

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

### Key Events

#### July 2001

New management team put in place to begin turnaround on behalf of Aviva (formerly Norwich Union)

#### 2004

MBO of your-move and e.surv acquisition of Reeds Rains

#### 2005

Acquisition of Linear Mortgage Network



#### 2008

First Complete Asset Management & Corporate Lettings launched

Barclays panel management contract win



#### 2011

Q4 Renewal of Barclays surveying contract

Completion of acquisition of Marsh & Parsons



#### 2012

Acquisition of Davis Tate and Lauristons



'86-2001

#### 1986-2000

Under insurance ownership; incurred losses of £200m

2004 - 2007

#### 2006

Acquisition of Chancellors Associates and Linear Financial Services.  
IPO on main market, valuing the business at £208m

#### 2007

Acquisition of InterCounty, Frost, JNP



2008

2009

#### 2009

Santander contract expansion



2010

2011

#### 2010

Completion on Halifax Estate Agency, 206 quality High Street locations  
Acquisition of Templeton LPA receiver, Home of Choice, Goodfellows, Pink Home Loans



2012

# Who are We Now?

## LSL Property Services plc

