



# Interim Results

Half year ended 30 June 2015

# Agenda

**1. Executive Summary**

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2. Financial Performance

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3. Strategy

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4. Market and Outlook

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5. Q&A

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# Resilient performance in an evolving market

## Market

- Improving UK residential housing market expected in the second half of 2015 following slow start to the year
- Challenging YOY comparatives now easing
- House price inflation across the UK of 4.1%<sup>1</sup>
- Market adversely impacted by stamp duty changes and electoral uncertainty in Prime Central London
- No post election ‘bounce’ but activity levels now increasing

## Estate agency

- Double digit organic growth in lettings & financial services
- Selective investment in headcount and branch infrastructure to capitalise on expected market opportunity in the second half
- Ramp up of investment in lettings book acquisitions in line with Group Strategy

## Surveying

- Benefits of contract wins and renewals coming through in improved revenue per job
- Improved surveyor utilisation delivering improved return on sales
- Operating profit up 34%
- PI provisions unwinding as expected.

## Joint Ventures and Investments

- Retain 2.6% holding in Zoopla
- Participated in the anniversary offer at 20% discount to IPO price

## Balance Sheet

- Strong balance sheet – net bank debt of £53.0m (2014: £36.5m on a like-for-like basis) translates to leverage of 1.25x 2015 EBITDA (December 2014: 0.7x EBITDA)
- Banking facilities of £100m

## Dividends

- Interim dividend maintained at 4.0p reflecting the Board’s confidence in the outlook for the second half

<sup>1</sup> Source LSL Property Services / Acadata House Price Index June 2015

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# Group Financials

Interim Dividend maintained at 4.0 pence per share reflecting the Board's confidence in the outlook for the second half of the year

£m	Actual		
	2015	2014	% growth
<b>P&amp;L</b>			
<b>Revenue</b>	<b>140.2</b>	<b>139.8</b>	<b>0%</b>
Group Operating Profit <sup>1</sup>	10.3	15.1	(32)%
<i>Margin</i>	7.4%	10.8%	
Exceptionals	(0.1)	18.7	
Profit before tax <sup>2</sup>	6.2	31.4	
Adjusted EPS	7.2p	10.6p	(32)%
Ordinary Dividend Per Share	4.0p	4.0p	0%
Special Dividend Per Share	-	16.5p	
<b>Cashflow</b>			
Cash from Operations	(0.3)	4.2	
<b>Balance Sheet</b>			
Net Bank Debt <sup>4</sup>	£53.0m	£36.5m	

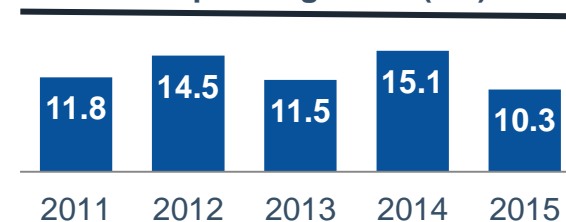
<sup>1</sup> Group Operating Profit is before exceptional gains and costs, contingent consideration, amortisation of intangible assets and share-based payments

<sup>2</sup> Profit Before Tax includes £18.0m exceptional gain arising on the Zoopla Share Sale in 2014

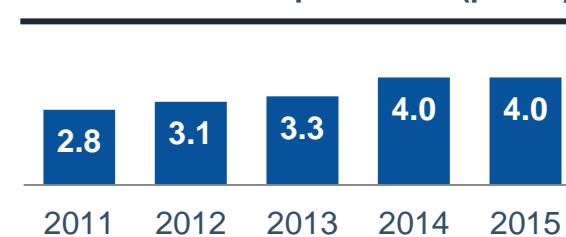
<sup>3</sup> Excludes special dividend of 16.5p in 2014

<sup>4</sup> On a like-for-like basis, excluding the proceeds from the Zoopla share sale in 2014

First Half Operating Profit (£m)



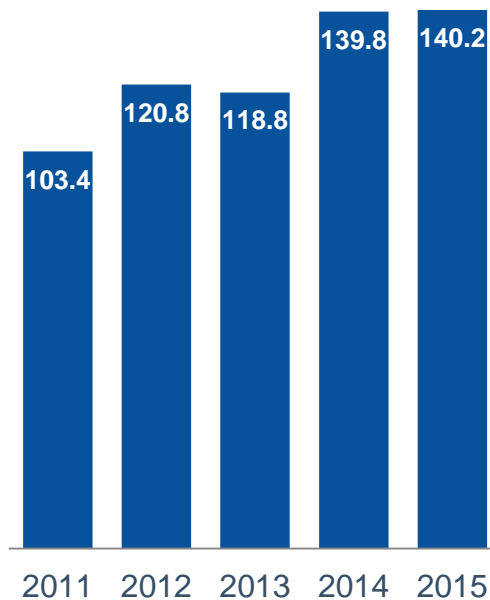
Interim dividends per share<sup>3</sup> (pence)



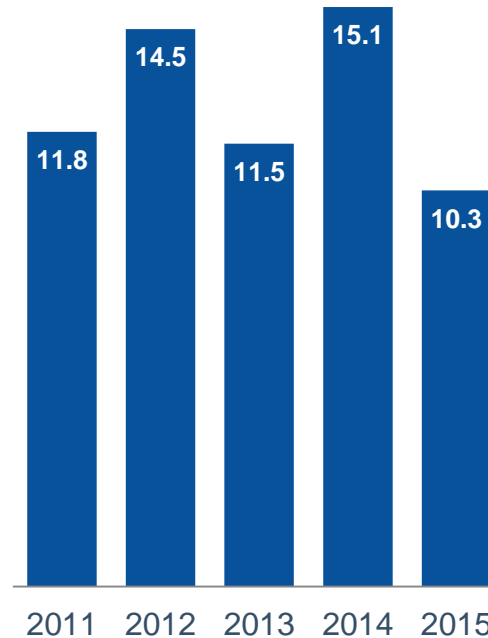
# Group Financials

6 months to 30 June

## Group revenue (£m)



## Group Operating Profit (£m)



- Cost base held in Estate Agency in the expectations of a stronger second half
- Selective investments in financial services and lettings
- Continued investment in branch openings in Marsh and Parsons and selective branch refurbishments (Your Move and Reeds Rains)
- Surveying operating profit increased by 34%

# Financials – Cash flow and Debt

## Increased investment in acquisitions and lettings books in line with Group Strategy

	H1 2015	H1 2014
<b>Operating Cashflows</b>		
Operating Profit	10.3	15.1
Depreciation, working capital and JVs	(2.9)	(4.2)
PI Payments	(7.6)	(6.5)
Exceptional costs paid	(0.1)	(0.2)
<b>Cash (used by) from Operations</b>	<b>(0.3)</b>	<b>4.2</b>
Interest paid	(0.9)	(0.8)
Tax paid	(0.2)	(1.0)
Acquisitions	(7.5)	(6.0)
Capex	(3.1)	(4.6)
Zoopla proceeds net of costs	-	18.9
Dividend income	0.3	2.5
Dividends paid	(8.5)	(7.4)
Other	1.9	1.8
<b>Net Cashflow</b>	<b>(18.3)</b>	<b>7.6</b>
<b>Closing Net Bank Debt<sup>(1)</sup></b>	<b>(53.0)</b>	<b>(36.5)</b>

- Cash from operations:
  - PI payments in line with expectations
- Investments:
  - Acquisitions – Thomas Morris and lettings books.
  - Capex – two new M&P branches, new IT systems and branch refurbishment.
- £100m banking facility

<sup>1</sup>Net Debt at 30 June 2014 on a like for like basis

# Financial Performance – by Quarter

## Improving market in Q2. YOY comparatives easing

% Growth 2015 vs 2014	Q1	Q2	H1
<b>Agency</b>			
House Purchase approvals <sup>(1)</sup>	(12)%	4%	(3)%
Residential Sales exchange Income	(13)%	(1)%	(5)%
<b>Surveying</b>			
Total Mortgage approvals <sup>(1)</sup>	(11)%	9%	(1)%
Total Surveying Income	(6)%	4%	0%

– The Group strategy is to maintain fees (% and £) rather than chase volume.

<sup>1</sup>Source: Bank of England for “House Purchase Approvals” and “Total mortgage Approvals”



# Financial Performance – Estate Agency

	H1 2015	H1 2014	Inc/ (Dec)
<b>Exchange volume (units)</b>	<b>13,441</b>	<b>14,297</b>	<b>(6)%</b>
<b>P&amp;L (£m)</b>			
Exchange Income	42.0	44.4	(5)%
FS Income (incl intermediary networks)	22.8	19.9	14%
Lettings Income	30.6	27.7	11%
Asset Management Income	4.3	6.4	(33)%
Other Income	9.4	10.2	(7)%
<b>Total Revenue</b>	<b>109.1</b>	<b>108.6</b>	<b>1%</b>
Expenditure	(102.8)	(96.4)	(7)%
<b>Operating Profit</b>	<b>6.3</b>	<b>12.2</b>	<b>(46)%</b>
Operating Margin	5.8%	11.3%	

- Continued strong lettings & FS (financial services) performance
- Agency £ fees holding up in competitive market for instructions
- Asset management performance in line with a challenging repossession market estimated to have declined by 30%.
- Selective investment in lettings and financial services headcount
- Pipelines robust entering the second half

# Financial Performance – Marsh & Parsons<sup>1</sup>

	H1 2015	H1 2014	Inc/ (Dec)
<b>P&amp;L (£m)</b>			
<b>Total Revenue</b>	<b>15.4</b>	<b>16.1</b>	<b>(5)%</b>
Expenditure	(13.9)	(12.9)	7%
<b>Operating Profit</b>	<b>1.5</b>	<b>3.2</b>	<b>(54)%</b>
Operating Margin	9.4%	19.6%	

	31 December 2014	30 June 2015
<b>Number of offices</b>		
<b>Prime Central London</b>	<b>5</b>	<b>8</b>
<b>Outer Prime</b>	<b>9</b>	<b>16</b>
<b>Total</b>	<b>14</b>	<b>24</b>

- Stamp duty increase and election uncertainty adversely impacting Prime Central London market in H1
- Residential sales income down 13% year on year.
- Lettings income up 6% year on year
- On going investment in new branch opening programme with two openings in Shoreditch and Queens Park
- Stock levels ahead of June 2014 and pipeline robust
- Prime Central London performance disappointing; a full range of initiatives is being evaluated to improve performance
- Focus is on expansion outside of Prime Central London

<sup>1</sup>Included in EA Financial Performance on Slide 10.

# Financial Performance – Surveying

	H1 2015	H1 2014	Inc/ (Dec)
<b>Number of jobs (000's)</b>	<b>165</b>	<b>196</b>	<b>(19%)</b>
<b>P&amp;L (£m)</b>			
<b>Total Revenue</b>	<b>31.1</b>	<b>31.3</b>	<b>0%</b>
Expenditure	(23.6)	(25.6)	(8)%
<b>Operating Profit</b>	<b>7.6</b>	<b>5.7</b>	<b>34%</b>
Margin	24.4%	18.2%	
Revenue per job	£188	£159	16%
Cash flow on PI	(£7.6m)	(£6.5m)	
Surveyor Headcount (excluding graduates)	367	371	

- Benefits from contract renewals and wins delivering improved profitability
- Payback from 2014 restructuring in line with expectations reducing costs
- Operational efficiency improving
- PI provisions being utilised as expected

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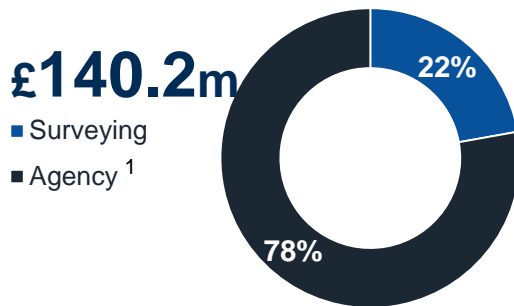
# Diversified exposure to the UK residential property market

Business	Channel	Geography	Consumer brands
Estate Agency	B2C	UK	12
Surveying	B2B	UK	N/A

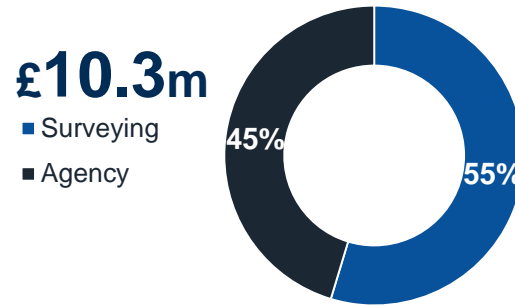
## Agency Revenue Split

Marsh & Parsons	16%	Central London
LSLi	18%	London / SE
Your Move	44%	National coverage
Reeds Rains	22%	Predominantly North

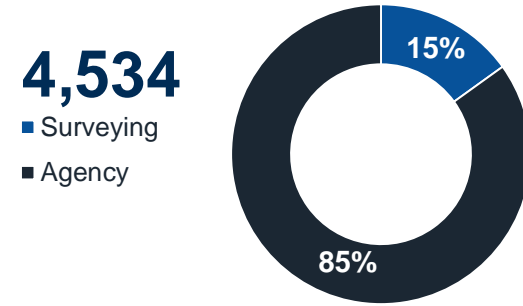
## H1 15 Revenue



## H1 15 Operating Profit



## H1 15 Average FTE



<sup>1</sup> Includes estate agency branches, financial services and asset management

<sup>2</sup> FTE - full time employees

# Group Strategy

## LSL Strategy

- Focus on optimising profitable organic growth through strategies that are not wholly linked to market volumes
- Utilise strong operational cash flow and balance sheet for selective acquisitions
- Explore new revenue streams

## Agency Strategy

- Drive operating profit per branch
- Expand number of Marsh & Parsons branches, particularly outside of Prime Central London
- Grow recurring and counter-cyclical income streams
- Selective acquisitions – lettings books and LSLi

## Surveying Strategy

- Optimise contract performance and revenue generation from B2B customers and achieve further improvement in efficiency / capacity utilisation to maintain the profitability of the business
- Explore use of technology to secure revenue generation and further productivity gains

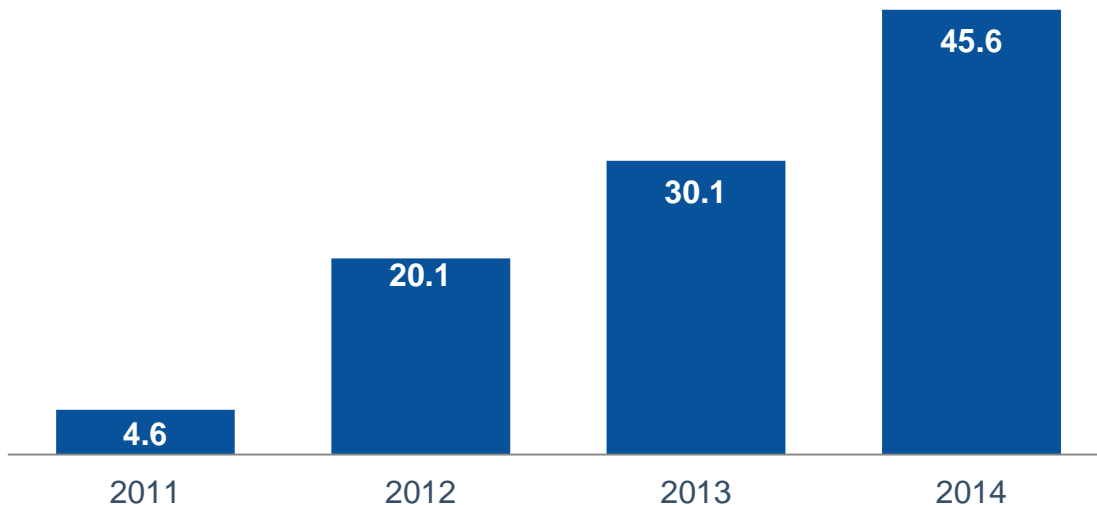
<sup>1</sup> LSL Acadata England & Wales House Price index

# Estate Agency Strategy – Your Move, Reeds Rains, LSLi

Strategy is to drive operating profit per branch in the medium term

**Operating profit per branch (£k) – (Full Year)**

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**Initiatives to drive branch profitability include:**

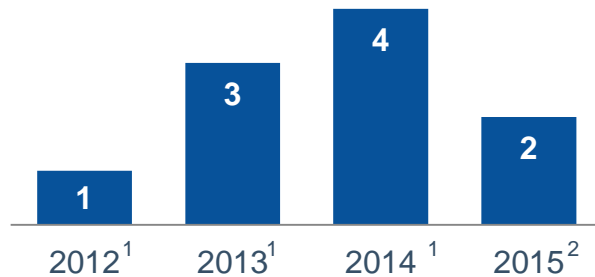
- Focus on exchange volumes and exchange fee growth
- Further investment in land and new homes team
- Selective investment in lettings staff
- Selective investment in Financial Services staff
- Selective branch refurbishment

**The ambition going forwards is to achieve £80k to £100k profit per branch in the medium term**

# Estate Agency Strategy – Marsh & Parsons

## Marsh & Parsons new branch openings

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- Marsh & Parsons branch profitability is strong
- Ambition is to expand market of branches to 36 by 2019, COO appointed to support rollout. Good footprint in Prime Central London, Outer Prime provides considerable opportunities
- Strong progress continued in 2015 with 2 branches opened
- New branches are trading in line with management's expectations

## Awards

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### **Estate Agency of the Year Awards 2014, sponsored by the Sunday Times**

- Best London Estate Agency (Medium) – Gold

### **UK Property Awards 2014, sponsored by Rolls Royce Motor Cars**

- Best Lettings Agency in London
- Best Real Estate Agency in London
- Best UK Real Estate Agent

<sup>1</sup>Full year

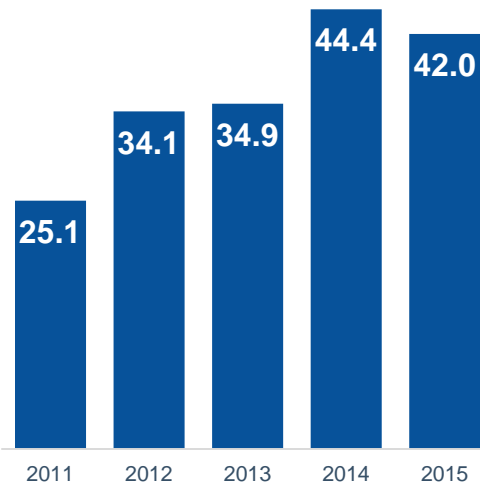
<sup>2</sup>Year to date



# Estate Agency Strategy

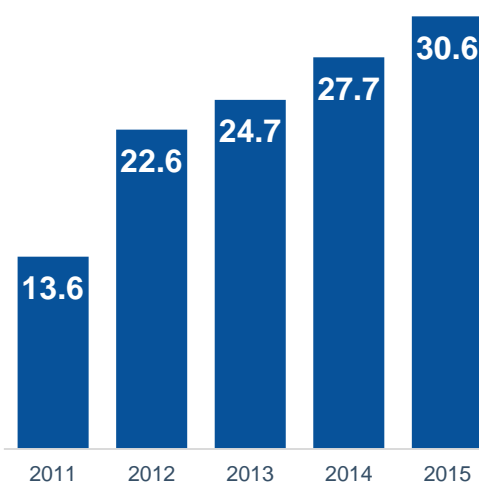
Strategy is to drive incremental revenue and gross margin across all business streams

Exchange fees (£m)



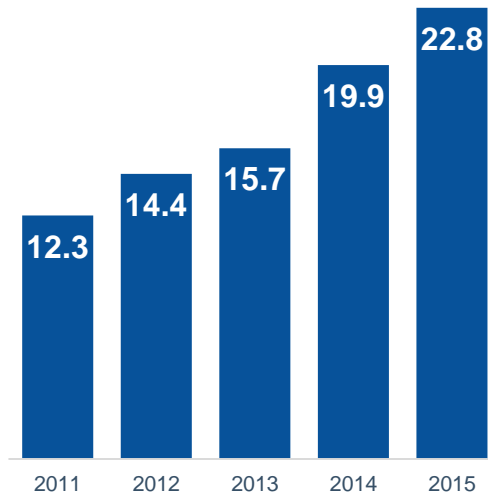
**CAGR 14%**

Lettings fees (£m)



**CAGR 23%**

Financial Services Income (£m)



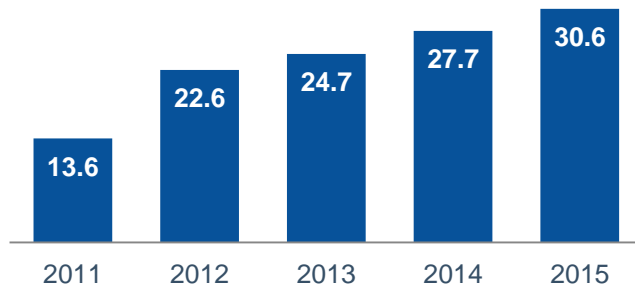
**CAGR 17%**

Note: period covered is H1

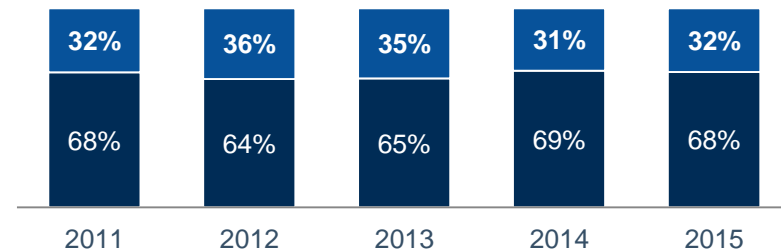
# Estate Agency Strategy

Strategy is to grow recurring and, where market conditions permit, the counter-cyclical revenue streams

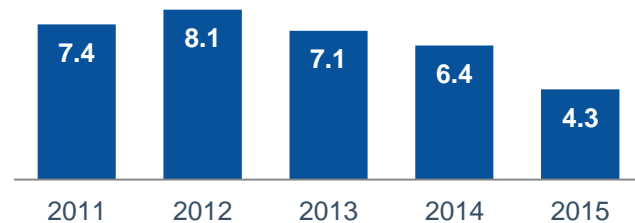
Recurring revenue (lettings) £m



Total Agency Revenue



Counter cyclical revenue (asset management) £m



Repossessions market growth (0%) (5%) (15%) (27%) (30%)

- Recurring and countercyclical Income
- Exchange fees, financial services income, other income

- The business continues to grow lettings through organic and acquisitive growth
- Asset management revenue has outperformed market conditions

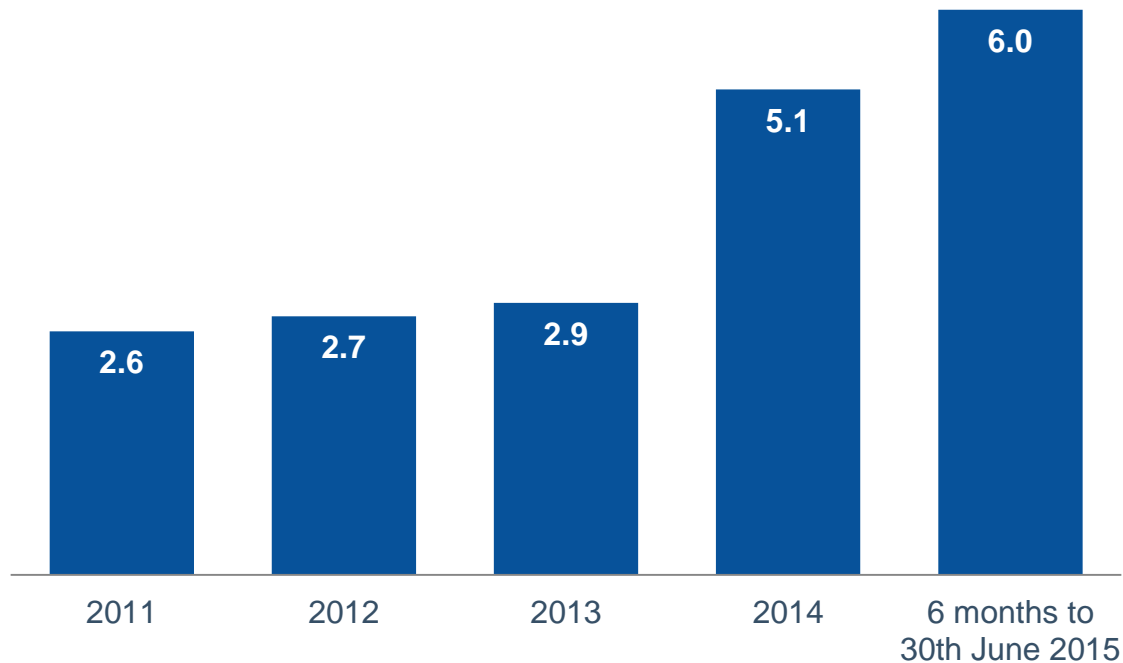
Note: period covered is H1

<sup>1</sup> Estimates

# Estate Agency Strategy – Financial Services

## Value of LSL Financial Services mortgage completions

(£bn)



## Strategy

- Consistent delivery of appropriate outcomes for consumers
- Capitalise on mortgage market shift towards intermediary distribution
- Investment in additional mortgage advisors in estate agency
- Growth in intermediary networks and expansion of mortgage club
- Enhancement of technology solutions to improve the customer experience, raise productivity and deliver process efficiencies
- Maintain focus on 'best practice' standards of regulatory compliance

# Estate Agency Strategy – Acquisitions – Lettings Books

The economics of lettings books acquisitions are very accretive. The ambition in 2015 is to grow the rate of lettings book acquisitions (number and investment) versus 2014

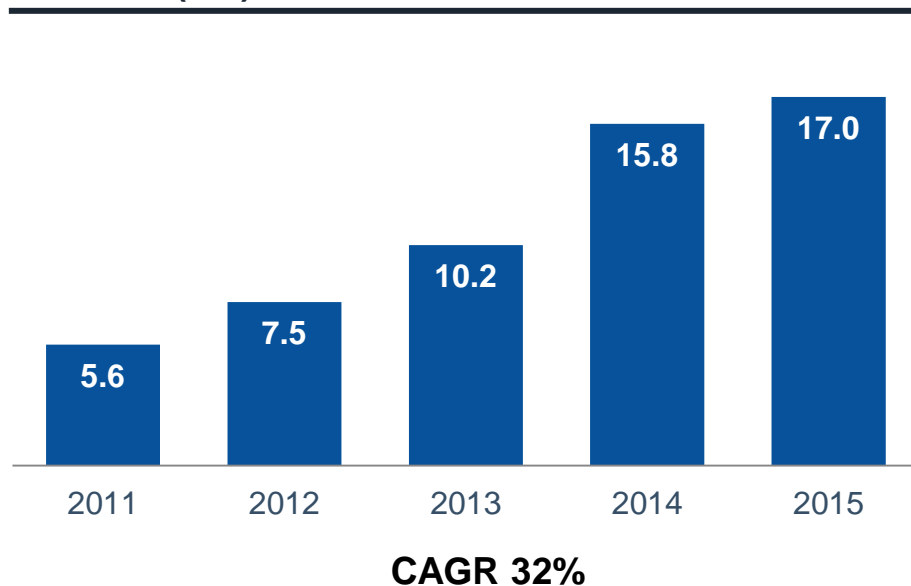
Number of lettings book acquisitions	2013	2014	2015
H1	2	3	13
H2	3	7	N/A
<b>Full Year</b>	<b>5</b>	<b>10</b>	<b>N/A</b>








Investment	2013	2014	2015
H1	£0.5m	£0.6m	£3.9m
H2	£1.1m	£1.2m	N/A
<b>Full Year</b>	<b>£1.6m</b>	<b>£1.8m</b>	<b>N/A</b>

# Estate Agency Strategy – Acquisitions – LSLi

LSLi has been a significant growth vehicle and we continue to consider new acquisition opportunities

Revenue (£m)



Business	Year acquired
 Intercounty	2007
 Frost's	2007
 The JNP Partnership	2007
 gooddata	2010
 davis tate	2012
 Lauristons	2012
 LAWLORs	2013
 Hawes & Co	2014
 THOMAS MORRIS SALES & LETTINGS	2015
<b>9 completed</b>	

Note: period covered is H1

# Estate Agency Strategy – joint ventures, other investments and portals

## Joint Ventures and other investments

### Current investments

### Status

Zoopla

Opportunity to participate in the Zoopla Anniversary offer. Additional shares purchased at £1.76 per share

TM, LMS

Performing in-line with expectations

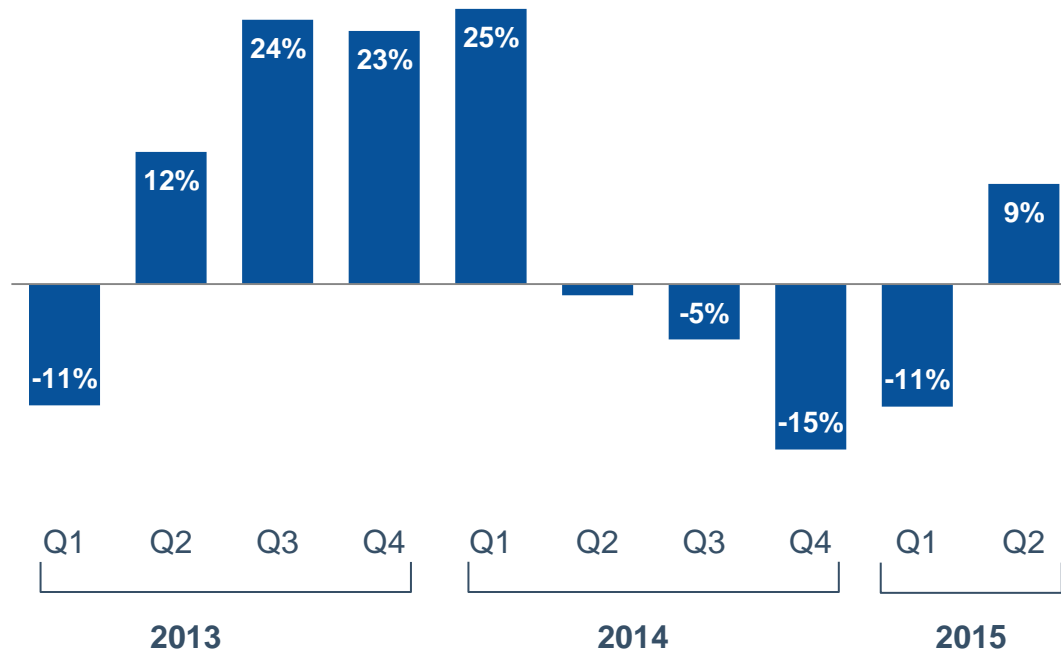
### Portals

- LSL's estate agency businesses use Rightmove and Zoopla. LSL does not currently use Agents Mutual

Notes: TM provides property searches LMS provides conveyancing services

# Surveying Strategy – Capacity management

## Total Approvals<sup>1</sup> - % growth



- Total approval volumes increased significantly in Q2 2013 to Q1 2014 and again in Q2 2015
- To meet customer demand and expand capacity, a graduate recruitment programme was implemented to expand capacity. 43 graduates were hired in 2013 and 60 graduates in 2014
- To respond to changing market conditions in H2 2014 a project was implemented to optimise operational performance and productivity. This included the consolidation of administrative functions in Kettering support services location, one off costs incurred in 2014 of £0.7m – payback achieved within H1 2015
- As a result, operating costs reduced by 8% in H1 2015 vs H1 2014

<sup>1</sup>Bank of England

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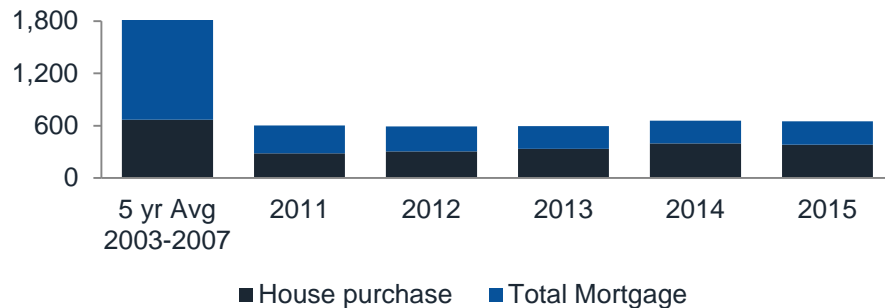
5. Q&A

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# Market overview – trends

## H1 Mortgage and House Purchase Approvals<sup>1</sup>



## House Purchase Approvals

- 384,000<sup>(1)</sup> H1 2015 down 3% on H1 2014.
- Q1 2015 down 12% on prior year.
- Q2 2015 up 4% on prior year.

## Total Mortgage Approvals

- 650,000<sup>(1)</sup> H1 2015, down 1% on H1 2014.
- Q1 down 11% on prior year.
- Q2 up 9% on prior year

## Monthly volume growth<sup>1</sup>



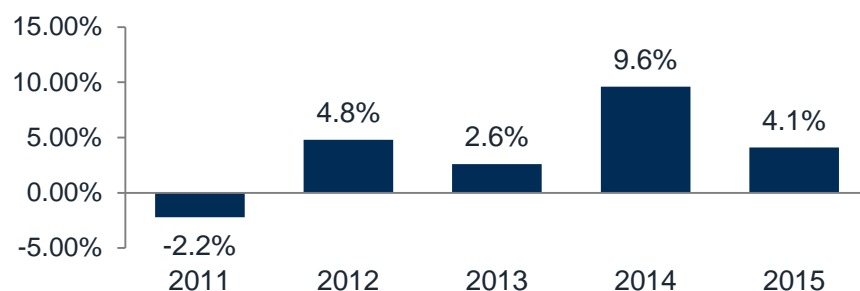
## Outlook

- Key economic growth indicators and consumer confidence remain positive
- Outlook from lenders remains positive
- Potential for interest rate increase in the medium term

<sup>1</sup>Bank of England

# Market overview – house price trends

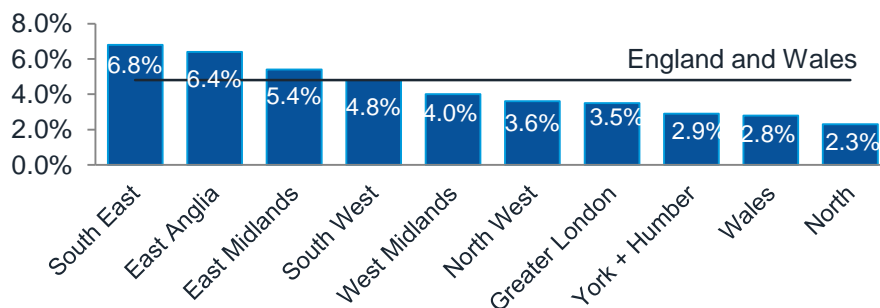
## England and Wales annual house changes<sup>1</sup>



- In year ended June 2015 average house prices in England and Wales increased by 4.1% to £279k.
- Significant regional variations
- Positive economic outlook

<sup>1</sup>LSL Property Services / Acadata House Price Index – June to June growth

## House price movements by region<sup>2</sup>



<sup>2</sup>LSL Property Services/Acadata House Price Index – May 2014 to May 2015 growth

# Outlook

## Current trading and outlook

Key economic growth indicators and consumer confidence remain positive and the outcome from the General Election has removed political uncertainty from the market. The recent announcements by the Governor of the Bank of England regarding longer term trends for interest rates could impact mortgage rates and consequently sentiment in the housing market. However, the outlook from lenders remains positive and as a result we expect the market to show year on year growth in the second half of the year. Given the robust sales pipelines and the current higher levels of activity across both the Estate Agency and Surveying income streams, the Board remains confident of delivering year on year growth in the second half of 2015 and full year result in line with expectations.

LSL's strategy is to continue to deliver organic growth and evaluate selective acquisitions. Both the Estate Agency Division and the Surveying Division will continue to selectively invest in order to drive future returns.

The business remains cash generative at the operational level over the year and has a strong balance sheet. By focusing the strategy on driving benefit from operational gearing in the improved market the Group is extremely well positioned to deliver increased shareholder value.

<sup>1</sup> LSL Acadata England & Wales House Price index

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**5. Q&A**

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# Disclaimer

This Presentation and the Reports referred to therein, may contain forward-looking statements with respect to certain plans and current goals and expectations relating to the future financial condition, business performance and results of LSL. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of LSL including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the UK. As a result LSL's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

Nothing in this Presentation or any Reports referred to therein should be construed as a profit forecast.

Information about the management of the Principal Risks and Uncertainties facing LSL is set out within the Strategic Report section of the LSL's Annual Report & Accounts which can be found at [www.lslps.co.uk](http://www.lslps.co.uk).