

# LSL Property Services plc

## Interim Results

Half year ended 30<sup>th</sup> June 2017



# Agenda

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1.	<b>Group Highlights</b>
2.	Financial Performance
3.	Market Overview, Strategy and Outlook
4.	Q&A
5.	Appendices

# Group Highlights - H1 2017

## Strong operating performance

- Group revenue flat
- Group Underlying Operating Profit up 37%
- Group profit before tax up 57%
- **Estate Agency**
  - Total revenue flat
  - 13% revenue decline in exchange income
  - 4% revenue growth in Lettings
  - 16% revenue growth in Financial Services
  - Operating profit up 37%
- **Surveying**
  - 2% revenue growth
  - Operating profit up 16%

## Strong Balance Sheet

- Gearing ratio remains low at 0.71x 2017 EBITDA (2016: 1.26x)
- £1.1m exceptional PI Costs provision release
- Balance sheet further strengthened after the period end by the sale of our investment in the Guild of Professional Estate Agents (GPEA) for cash (£3m) and shares in eProp Services plc

## Delivering on our existing strategy and planning for the future

- **Estate Agency**
  - Increased recurring revenue
  - Strong Financial Services income growth
- **Surveying**
  - Further phases of new market leading IT system advanced
- **Planning for the future in Estate Agency**
  - Evaluation of strategic options in progress
  - In Q2 completed the research and planning phase for a new ways of working programme across our Estate Agency business to respond to the changing landscape and customer demands

# Group Operating Performance

## Strong operating performance

Group Revenue	<b>£151.5m</b> Flat	Adjusted Earnings per Share	<b>11.5p</b> ▲ 34%
Group Underlying Operating Profit <sup>1</sup>	<b>£15.5m</b> ▲ 37%	Interim dividend per Share	<b>4.0p</b> Unchanged
Profit Before Tax	<b>£13.2m</b> ▲ 57%	Net Banking Debt	<b>£31.7m</b> ▼ 49%
Exceptional gain	<b>£1.1m</b> —	Gearing Ratio <sup>2</sup>	<b>0.71x</b> ▼ 44%

<sup>1</sup> Group Underlying Group Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in note 5 in the Interim Statements)

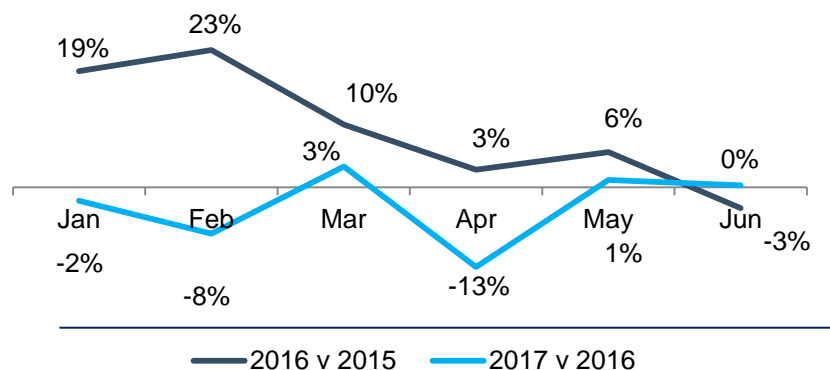
<sup>2</sup> Calculated by closing 30 June net banking debt / 12 month rolling adjusted EBITDA

# 2017 Market Dynamics

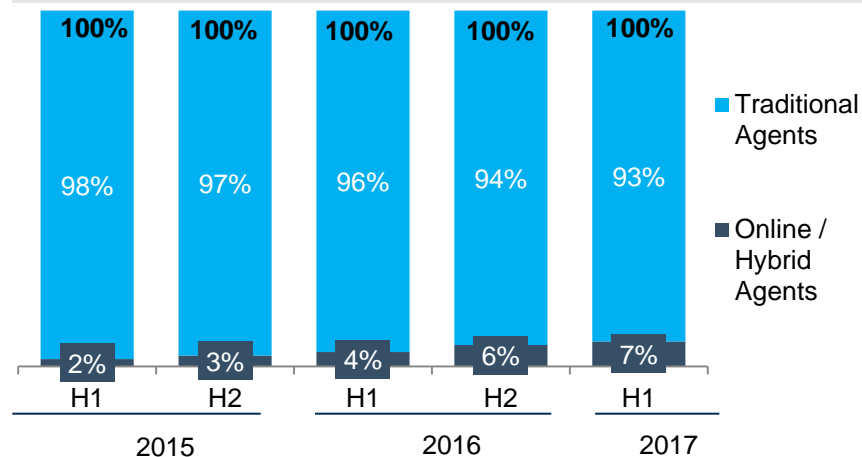
## Market impacted in 2017 by uncertain conditions and strong Q1 2016 comparatives

### Approvals for house purchases<sup>1</sup>

(% YoY Growth)



### Share of new sales instructions<sup>2</sup>



- Q1 approvals subdued in comparison to 2016 where approvals were exceptionally high in advance of changes in stamp duty legislation

- Channel dynamics continue to evolve in 2017 with online/hybrid agents share growing, now representing c.7% of new instructions in H1 2017
- Traditional estate agents currently represent the vast majority of the residential sales market. LSL expects this to continue and anticipates that traditional estate agents will continue to represent the substantial majority of the sales market through 2025
- We believe that there remains an important role for the “traditional” branch led model in the future, which will evolve considerably over time not least in terms of the deployment of technology

<sup>1</sup> Source: Bank of England for House Purchase Approval data (June 2017)

<sup>2</sup> Source: LSL sourced data analysis

# LSL Strategy

LSL continues to implement its stated strategy and is pursuing initiatives to best position the Group for the future

2017		
<b>Estate Agency</b>	<b>Drive operating profit per branch to £80k-£100k</b>	Ongoing focus: medium term ambition
	<b>M&amp;P branch rollout</b>	Brixton opened Q1 2017. M&P is planning to open a new branch in Islington in September 2017. Additional opportunities under evaluation
	<b>Increase recurring income</b>	Focus on organic Lettings revenue growth
	<b>Selective acquisitions</b>	Assess selective acquisitions
<b>Surveying</b>	<b>Optimise contract performance</b>	Continued focus and performance on contracts
	<b>Improve efficiency and capacity utilisation</b>	Mix of volume and income per job optimised
	<b>Enhance proposition with technology</b>	Implementing further phases of LSL's IT system
	<b>Continue graduate programme</b>	Continue investment in graduate programme
<b>Planning for the future in Estate Agency</b>	<b>Option evaluation</b>	Evaluation of options in progress
	<b>Option selection</b>	Selection of options in progress
	<b>Performance programme</b>	New ways of working programme across our Estate Agency business

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# Group Financials: Summary

## Strong first half performance

	2017	2016	Change
<b>P&amp;L (£m)</b>			
Revenue	151.5	151.4	-
Group Underlying Operating Profit <sup>1</sup>	15.5	11.3	37%
<i>Margin</i>	10.2%	7.5%	
Exceptional gain	1.1	-	
<b>Profit before Tax</b>	13.2	8.4	57%
<b>Dividends</b>			
Adjusted Earnings Per Share	11.5	8.6	34%
Dividend Per Share	4.0	4.0	-

## Financial Summary

- Total revenues flat with resilient performance in Estate Agency and growth in Surveying
- Revenue broadly flat due to mix of revenue streams
- Group Underlying Operating Profit up 37% with increases in both Divisions
- Exceptional gain: PI Costs provision release
- Interim dividend maintained at same level (4.0p) in line with last 3 years

<sup>1</sup> Underlying Group Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in note 5 in the Interim Statement)

<sup>2</sup> Adjusted EBITDA: 2017 £44.3m; 2016 £49.1m: used for calculation of the gearing ratio



# Estate Agency Revenues

Successfully diversifying revenue streams over the last 5 years<sup>1</sup>

## H1 Exchange Income

(£m) **CAGR 1%**

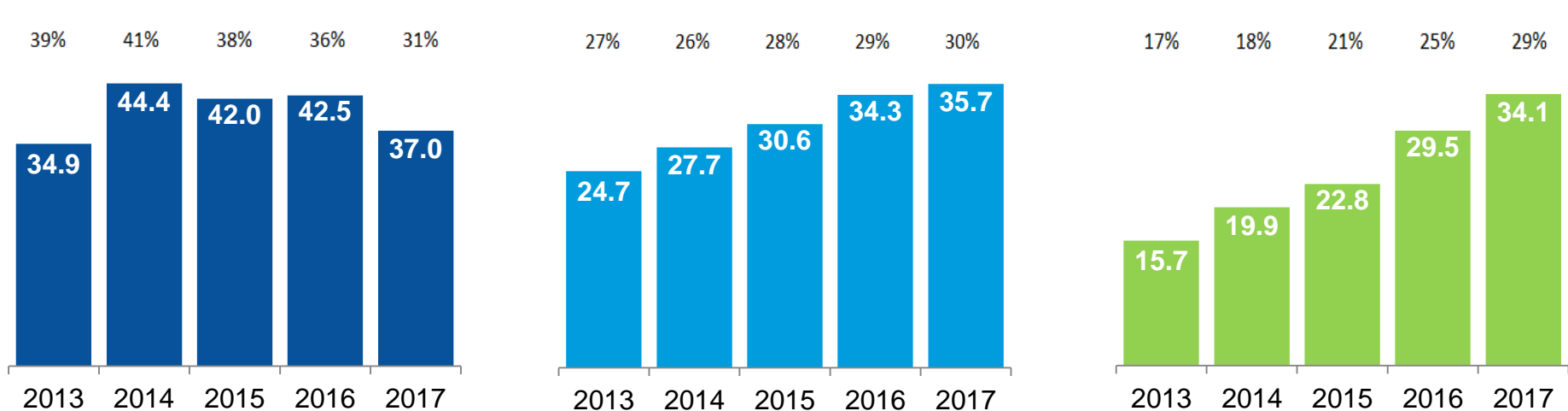
## H1 Lettings Income

(£m) **CAGR 10%**

## H1 Financial Services Income

(£m) **CAGR 21%**

% of EA Revenue



<sup>1</sup> All CAGR's measured over period 2013-2017

# Financial Performance: Estate Agency

## Continued revenue growth in Lettings and FS

	2017	2016	Change
<b>P&amp;L (£m)</b>			
Residential Sales exchange Income	<b>37.0</b>	42.5	-13%
Lettings Income <sup>3</sup>	<b>35.7</b>	34.3	4%
Financial Services Income	<b>34.1</b>	29.5	16%
Asset Management Income	<b>3.3</b>	3.5	-6%
Other Income	<b>8.4</b>	9.1	-8%
<b>Total Revenue</b>	<b>118.4</b>	118.9	-
Expenditure	<b>(109.0)</b>	(112.0)	3%
<b>Underlying Operating Profit</b>	<b>9.4</b>	6.9	37%
<i>Operating Margin</i>	<b>8.0%</b>	5.8%	
<b>KPIs</b>			
Exchange units (000's)	<b>12,129</b>	13,452	-10%
Fees per unit (£)	<b>3,048</b>	3,161	-4%
<b>Market data</b>			
House purchase approvals <sup>1</sup> (000's)	<b>402</b>	414	-3%
Repossessions <sup>2</sup> (000's)	<b>1,900</b>	2,100	-10%

- Residential Sales exchange income impacted by uncertain market conditions, strong comparative period in Q1 2016 and selective branch closures in H2 2016 (4% of estate)
- Lettings income: Growth of 4%. Organic growth of 3%. Represents 30% of Estate Agency income <sup>3</sup>
- Financial Services: Strong organic revenue growth of 12% with growth across all brands and the intermediary network. Additional growth from acquisition of Group First in Q1 2016
- Asset Management revenue performance ahead of the 10% market decline in repossessions. Counter-cyclical business
- Year on year profit comparatives benefited from Your Move media campaign in H1 2016 not repeated in H1 2017 and gain on sale of leasehold premises

<sup>1</sup> Source: Bank of England for House Purchase Approvals June 2017

<sup>2</sup> Source: Council of Mortgage Lenders arrears and repossessions data Q1 2017

<sup>3</sup> After adjusting for re-classification between income categories from H2 2017 to bring into line with the rest of the Group

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

## Resilient performance despite a challenging London market

	2017	2016	Change
<b>P&amp;L (£m)</b>			
<b>Total Revenue</b>	<b>16.4</b>	17.1	-4%
<i>Residential Sales exchange Income</i>	<b>6.5</b>	7.7	-16%
<i>Lettings Income<sup>2</sup></i>	<b>9.7</b>	9.0	8%
<i>Other Income</i>	<b>0.2</b>	0.4	-50%
Gain on sale of property	<b>0.7</b>	-	
Expenditure	<b>(15.4)</b>	(14.9)	-3%
<b>Underlying Operating Profit</b>	<b>1.7</b>	2.2	-23%
<i>Operating Margin</i>	<b>10.4%</b>	12.9%	

- Residential Sales exchange income down by 16% held up well given the challenging London market.
- LSL estimates that residential sales volumes in the London market fell in the first half of 2017 by over 20%
- Positive Lettings performance with income growth of 8%<sup>2</sup> (adjusting for branch openings growth is 7%). Lettings revenue now represents more than half of total revenues
- Expenditure has increased by 3% with the opening of the Tufnell Park branch in June 2016 and the Brixton branch in January 2017
- The gain on sale relates to the sale of a leasehold premises in Kensington

<sup>1</sup> Included in Estate Agency financial performance on slide 9

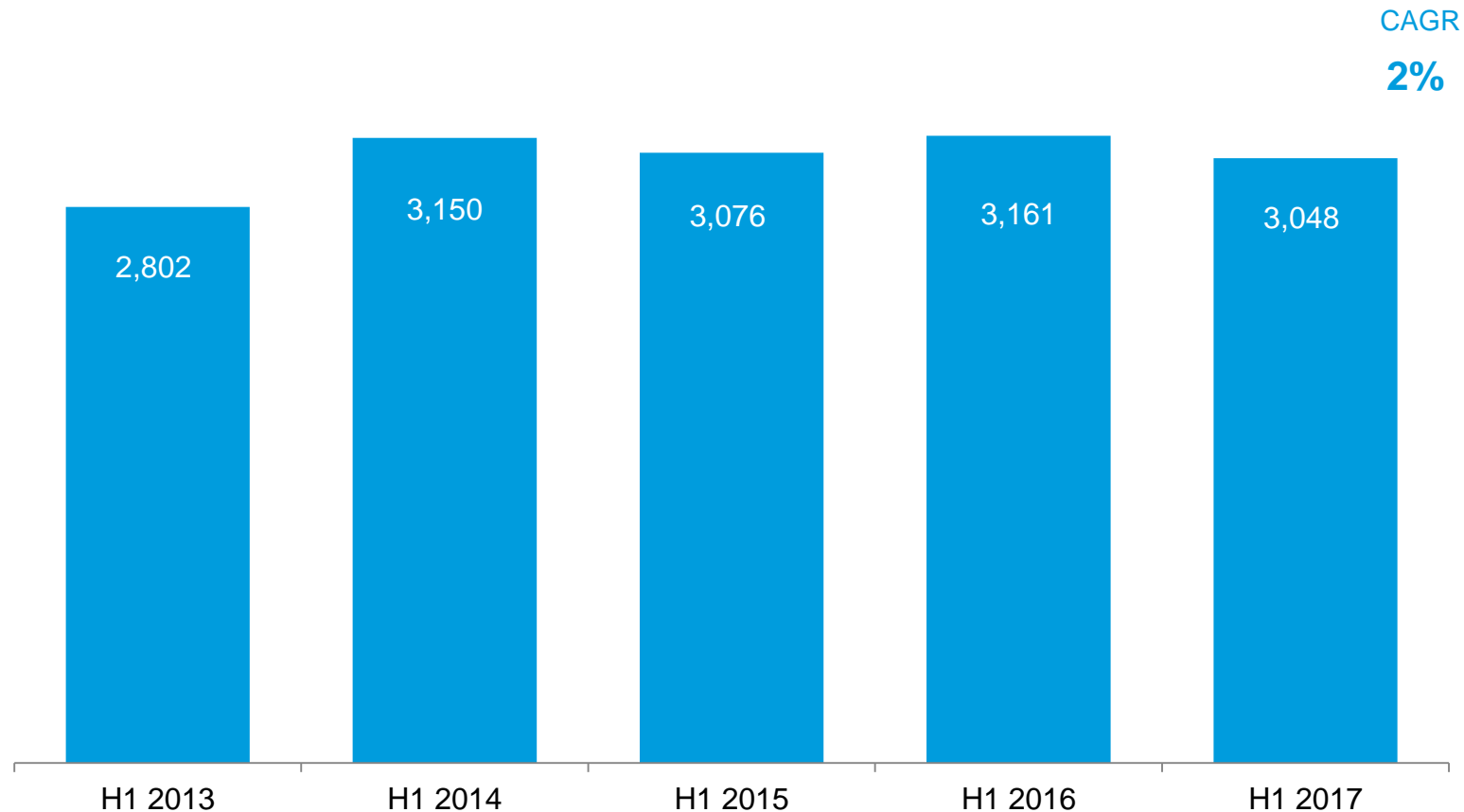
<sup>2</sup> After adjusting for re-classification between income categories from H2 2017 to bring into line with the rest of the Group .

# Financial Performance:

## Average LSL Residential Sales H1 exchange fee<sup>1</sup> (£)

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Some fee pressure but LSL has been highly disciplined in its Residential Sales exchange fee strategy



<sup>1</sup> CAGR<sup>1</sup> measured over period 2013-2017

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# Financial Performance: Surveying

## Strong margin performance

	2017	2016	Change
<b>P&amp;L (£m)</b>			
<b>Total Revenue</b>	<b>33.1</b>	32.5	2%
Expenditure	(23.7)	(24.4)	3%
<b>Underlying Operating Profit</b>	<b>9.4</b>	8.1	16%
Operating Margin	<b>28.4%</b>	24.9%	
<b>KPIs</b>			
Jobs performed (000's)	<b>160</b>	160	-
Revenue from private surveys (£m)	<b>1.2</b>	1.3	-5%
Income per job (£)	<b>207</b>	203	2%
Number of qualified surveyors at 30 <sup>th</sup> June <sup>1</sup>	<b>320</b>	335	-5%
<b>Balance Sheet (£m)</b>			
PI Costs Provision at 31 <sup>st</sup> December	<b>(17.9)</b>	(26.2)	32%

- Favourable mix across lenders and types of jobs performed maximised results
- Optimising the productivity of surveyors and a continued focus on costs led to an improvement in profit margin
- LSL's graduate programme is ongoing and the business continues to optimise the geographic mix of surveyors

<sup>1</sup> FTE (Full Time Equivalent)

# Financial Performance: Joint Ventures and Other Investments

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## TM Group, LMS, GPEA

- 33.33% interest in TM Group, a joint venture whose principal activity is to provide property searches
- 50.00% interest in LMS, a joint venture whose principal activity is to provide conveyancing panel management services
- 18.1% of GPEA, a membership organisation with a national network of independently owned estate agents. Disposed of post period end for cash (£3m) and shares in eProp Services plc

# Financial Performance: Exceptional items and PI Costs provision

	2017	2016
<b>PI provision (£m)</b>		
<b>Exceptional gain:</b>		
PI Costs provision release	1.1	-
PI Costs provision	(17.9)	(23.6)
PI Costs payments	(2.0)	(3.8)

- Exceptional release of £1.1m on the PI Costs provision held following continued positive progress in settling historical claims
- Valuation controls continue to be enhanced to manage future PI risk

# Group Financials: Cashflow

## Business is extremely cash generative at the operational level

	2017	2016
<b>Operating Cashflows (£m)</b>		
<b>Operating profit</b>	<b>15.5</b>	<b>11.3</b>
Working capital, depreciation, etc.	(3.0)	(0.3)
<b>Cashflow from operations (pre PI &amp; exceptionals)</b>	<b>12.5</b>	<b>11.0</b>
PI Costs Payments	(2.0)	(3.8)
<b>Cashflow from operations (post PI &amp; exceptionals)</b>	<b>10.5</b>	<b>7.2</b>
Acquisitions	-	(7.0)
Investments in JVs / financial assets and contingent / deferred consideration	(6.9)	-
Payment of loan notes (deferred consideration)	-	(4.3)
Proceeds from sale of property	1.5	-
Capital expenditure	(1.8)	(3.5)
Dividends paid	(6.5)	(8.8)
Interest and tax	(8.4)	(4.4)
Other	(0.2)	(1.0)
<b>Net Cashflow</b>	<b>(11.4)</b>	<b>(21.8)</b>
<b>Closing Net Bank Debt 31<sup>st</sup> December</b>	<b>(31.7)</b>	<b>(61.7)</b>

- Strong operational cash generation converting 68% of operating profit to cashflow from operations (2016: 64%)
- Cautious deployment of capital. No Lettings book acquisitions during the period
- Modest gearing. H1 2017 Net Banking Debt of £31.7m at 0.71x EBITDA (2016: 1.26x)
- Increased corporation tax paid in the period on the gain on the Zoopla share sale during 2016



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# Market Overview, Strategy and Outlook

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1

**Market overview- volume & house price trends; market dynamics**

2

**Delivering on LSL's existing strategy**

3

**Planning for the future**

4

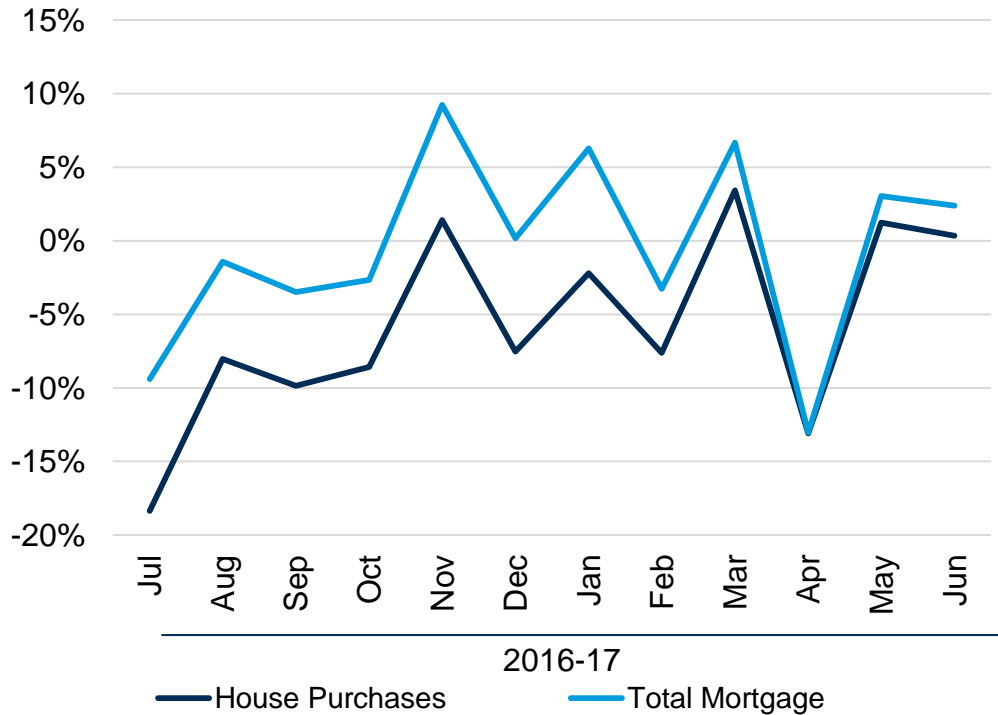
**Outlook**

# 1 Market Overview: Volume Trends

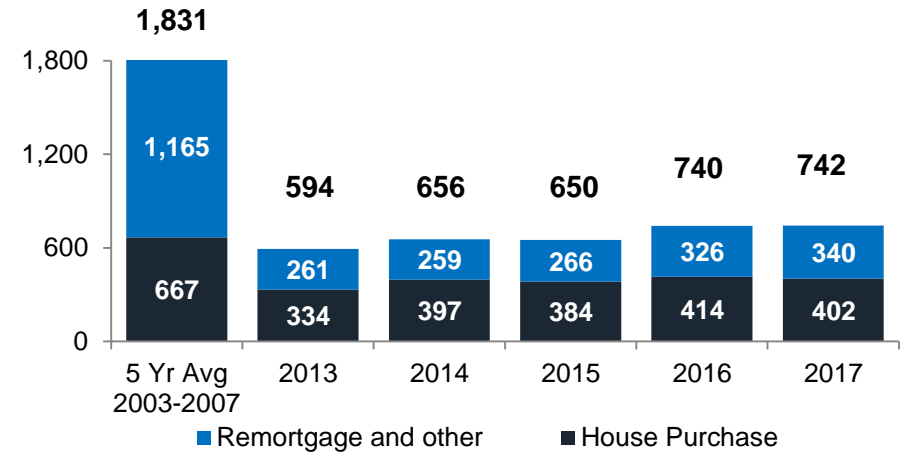
## A challenging market in 2017

**BoE: YoY House Purchase and Total Approvals <sup>1</sup>**

(% YoY)



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



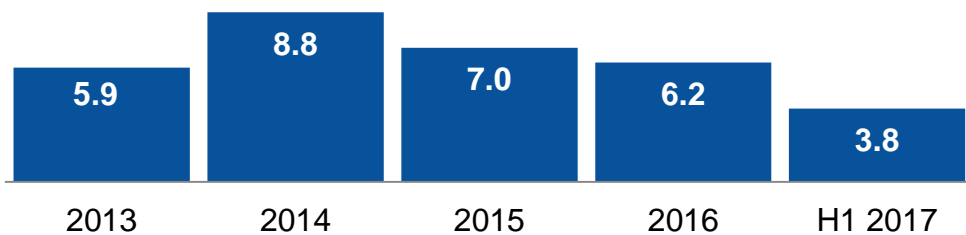
<sup>1</sup> Source: Bank of England for House Purchase Approvals, Remortgage and Other Approvals and Total Approvals.

# 1 Market Overview: House Price Trends

## UK regions (excluding prime Central London) saw modest house price growth in 2017

### England and Wales – House Price Changes <sup>1</sup>

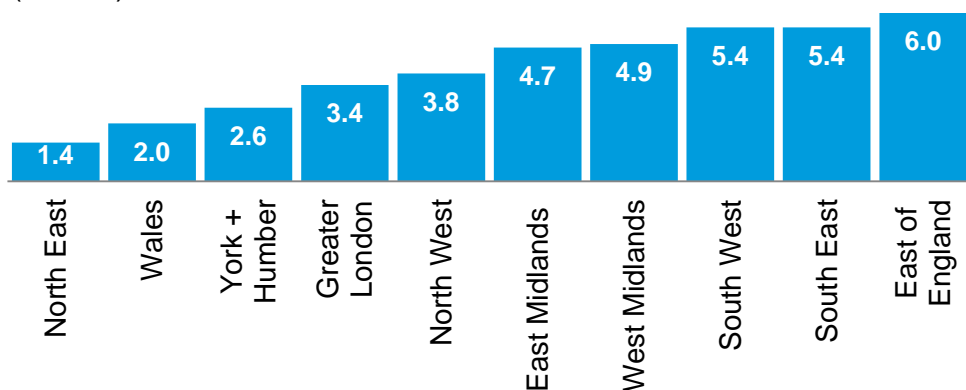
(% YoY)



- In the 12 months ended 30<sup>th</sup> June 2017, average house prices in England and Wales increased by 3.8% to £301k
- Significant regional variations:
  - Greater London house prices were up 3.4%, reflecting a mixed performance by postcode

### House Price Movements by Region during H1 2017 <sup>1</sup>

(% YoY)



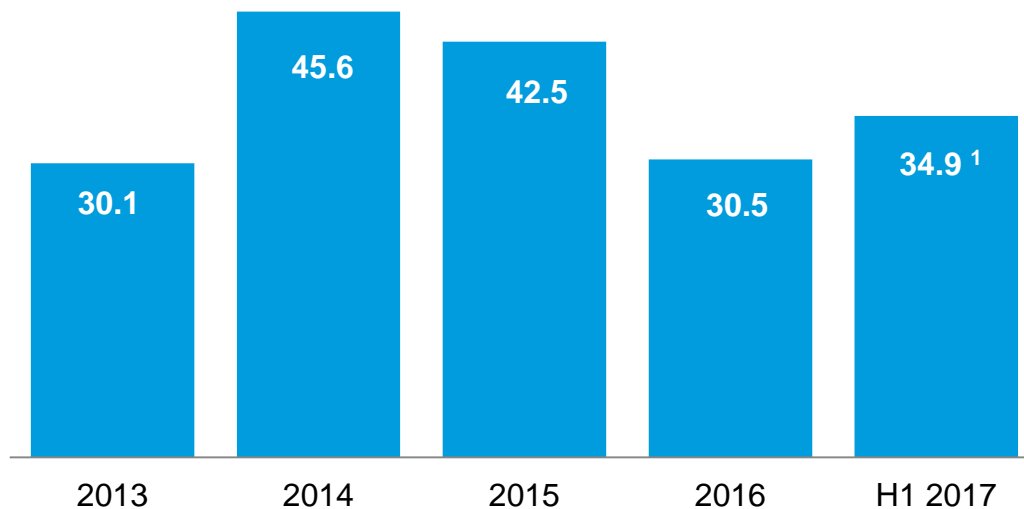
<sup>1</sup> Source: June 2017 LSL Property Services / ACADATA HPI – June 2017

## 2 Estate Agency Strategy: Drive Operating Profit per Branch

The ambition going forwards is to achieve £80k to £100k profit per branch in the medium term for Reeds Rains, Your Move and LSLi branches

### Estate Agency Operating Profit per Branch

(£k)



<sup>1</sup> Rolling 12 months

**LSL's branch profitability has increased since 2013 and is showing recovery in H1 2017:**

- Reduction in Residential Sales exchange Income/margin caused by exchange unit volume reduction
- Offset by growth in Lettings and Financial Services Income/margin and other trading upsides

**LSL plans to drive future branch profitability through:**

- Lettings Income growth
- Financial Services Income growth
- Land and New Homes Income growth
- Cost focus

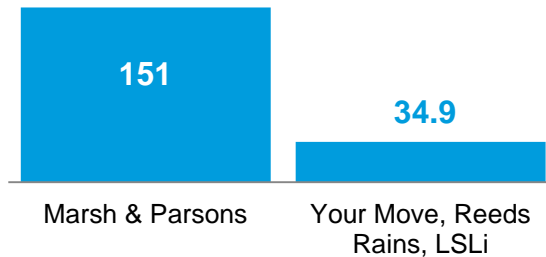
## 2 Estate Agency Strategy: Marsh & Parsons Branch Rollout

**Marsh & Parsons is an award winning estate agency focused on the London market**



### H1 2017 Branch Profitability

(£k)



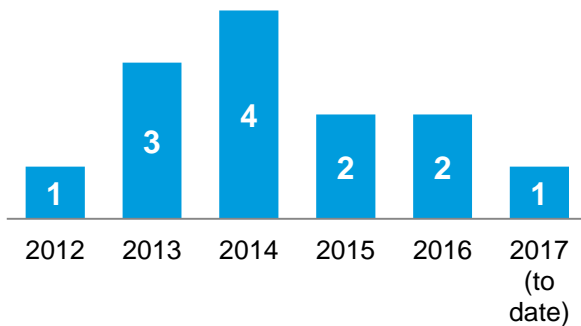
**Marsh & Parsons delivers strong branch profitability**

- Lettings business now accounting for more than half total revenues
- Ambition is to expand the number of branches to 36 by 2019
- Good footprint in prime Central London, outer prime provides good opportunities

**26<sup>th</sup> office opened in Jan '17, Brixton**



### Marsh & Parsons New Branch Openings



- Good results from offices opened in 2015
- Tooting and Tufnell Park opened in 2016: trading is positive
- Brixton opened in January 2017 and is performing in line with expectations
- M&P is planning to open a new branch in Islington in September 2017
- Further new offices are under evaluation

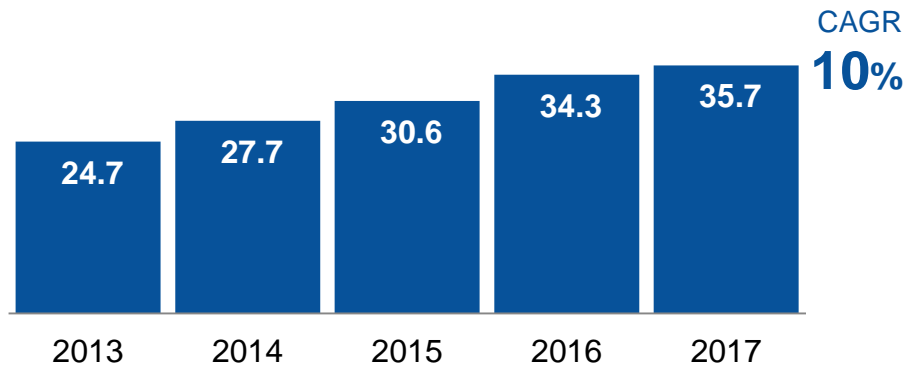


## 2 Estate Agency Strategy: Recurring Income Streams

One of our key objectives is to grow recurring and where market conditions permit, counter-cyclical revenue streams

### Recurring H1 Revenue (Lettings)

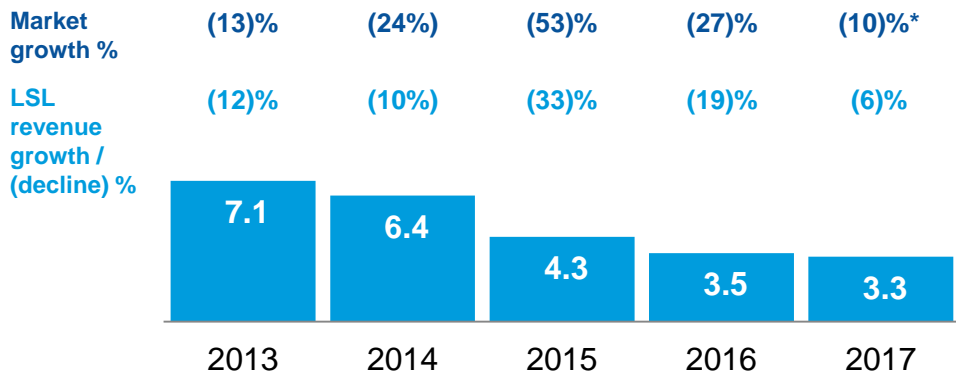
(£m)



- The business continues to grow Lettings through organic growth in the highly fragmented market
- LSL approach: Lettings specialists, dedicated management and consistent execution

### Counter-cyclical H1 Revenue (Asset Management)

(£m)



- Asset Management revenue has outperformed market conditions

## 2 Estate Agency Strategy: Acquisitions

LSL Group has been acquisitive and we continue to selectively evaluate new opportunities to continue our strategy of selective acquisitions

Historically one acquisition made per year

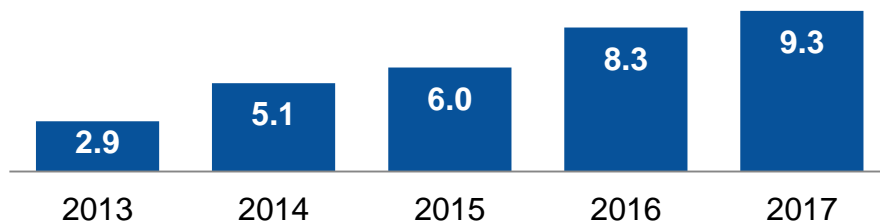


<sup>1</sup> 50% paid in 2016, 50% deferred consideration paid in 2017

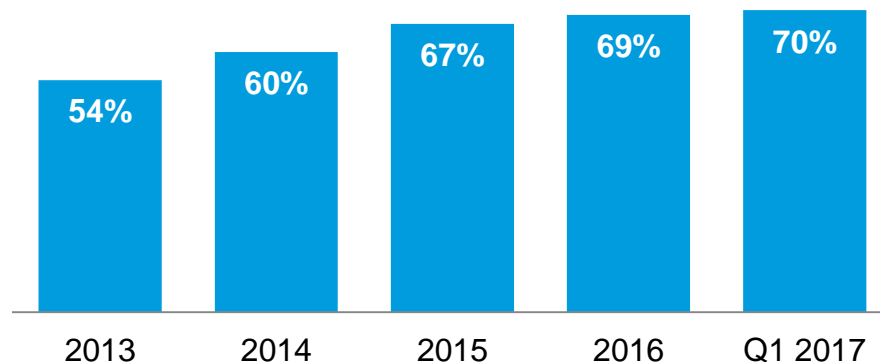


## 2 Estate Agency Strategy: Financial Services

### Value of H1 LSL Financial Services mortgage completions (£bn)



### Market overview: percentage of intermediary market share for residential property excluding BTL<sup>2</sup>



### Growth in value of mortgage completions<sup>1</sup>

- Strong growth in the value of mortgage completions representing an increase in LSL market share to 7.8% in 2017 (2016: 7.1%) with the second largest network (measured by combined numbers of advisors across both networks)

### Strategy

- Enhance position as a leading mortgage introducer
- Consistent delivery of appropriate outcomes for consumers with focus on 'best practice' standards of regulatory compliance
- Capitalise on mortgage market shift towards intermediary distribution
- Investment in additional mortgage advisors with growth in intermediary networks and expansion of our mortgage club
- Enhancement of technology solutions to improve the customer experience, raise productivity and deliver process efficiencies



<sup>1</sup> Source: CML "Gross mortgage lending estimate June 2017"

<sup>2</sup> Source: CML, new mortgages sold via intermediaries July 2017. Graph excludes BTL lending which is predominantly distributed via intermediaries

## 2 Surveying Strategy

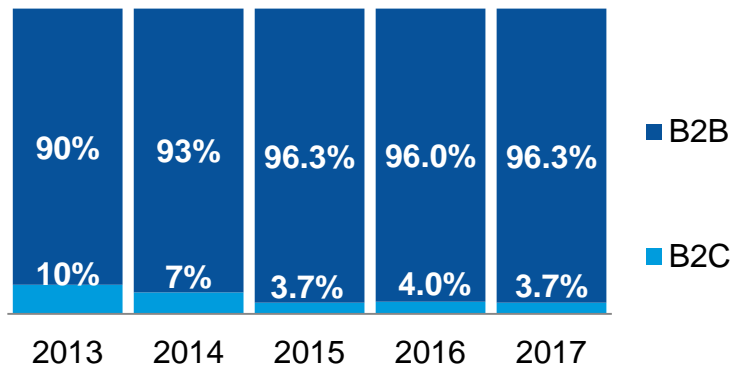
### Strategy

- The strategy is to focus on the B2B market where the economics are most favourable
- Optimise contract performance and revenue generation from B2B customers
- Roll-out of market leading IT system to provide a scalable and secure technology
- Focus on improving our efficiency through optimising capacity management supported by the continued roll-out of IT technology
- Graduate programme

### New technology

- In 2016 the Surveying Division moved its technology base away from traditional industry systems and set the foundations for new functionality and developments
- 2016 implementation of iPad based mobile applications for surveyors integrated with a new back office system that joins up end-to-end processes
- The new system improves quality, service performance and risk management for clients
- The technology roll-out continues during 2017 with further functionality releases and enhancements e.g. governance and controls.

### B2B and B2C H1 revenue



### 3 Strategy & Planning for the Future

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- LSL is committed to delivering on its previously stated strategy
- Financial Services remains a clear focus for the Group as we see further growth opportunities in this space to enhance our position as a leading mortgage broker
- Completed the research and planning for a new ways of working programme during Q2 2017 across our Estate Agency business to respond to the changing landscape and customer demands
  - Initiatives include piloting new technology to improve customer experience, streamlining processes e.g. customer management and delivering cost efficiencies
- Traditional estate agents represent the vast majority of the market. We expect this to continue and we anticipate that traditional estate agents will continue to represent the substantial majority of the sales market through 2025
- Important role for the “traditional” branch led model in the future, but it will evolve over time including the deployment of technology
  - No rationalisation of the current number of our Estate Agency brands (12) nor any material change to the size of our branch estate expected in the foreseeable future
- Digital opportunities under evaluation. Positive progress in H1 2017 and a further update will be provided later in 2017

## 4 Outlook

- 2017 is expected to see a reduced volume of house purchase transactions compared to the prior year, with modest house price inflation outside prime Central London. However, mortgage costs and availability remain positive and the medium to longer term fundamentals of the UK housing market remain robust
- Trading in the Estate Agency and Surveying Divisions continues to perform well. To date LSL has not seen any material change in market conditions following the triggering of Article 50 on 29<sup>th</sup> March 2017 and the outcome of UK General Election on 8<sup>th</sup> June 2017. LSL will continue to monitor market conditions carefully throughout the year and adapt the businesses to any material market changes
- The Board are positive regarding the outlook for the business, committed to driving profitable organic growth, continuing to evaluate selective acquisitions and progress LSL's digital plans. As reported in the pre-interim results trading update issued on 17<sup>th</sup> July 2017, the Board expects a more equal weighting between the first and second half financial results compared to prior years
- The Group has a balanced business portfolio including Asset Management, and the Letting and Financial Services businesses are both proving more resilient to residential housing market fluctuations. LSL will continue to benefit from the increasing proportion of the business represented by these revenue streams
- In Surveying, LSL will continue to use technology to drive further customer enhancements, quality improvements and improvement in efficiency and capacity utilisation. LSL will also continue to optimise contract performance and revenue generation from B2B customers
- The Group has strong fundamentals, with a robust balance sheet. The business is well positioned to adapt to the evolving market as it has in the past. The Board remains confident LSL will continue to deliver long-term value to shareholders

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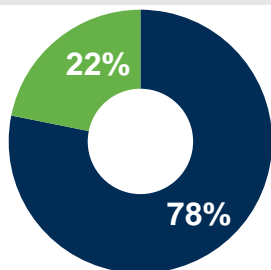
# Appendices

# LSL Property Services plc – Business Overview

## H1 2017 Revenue

£151.5m

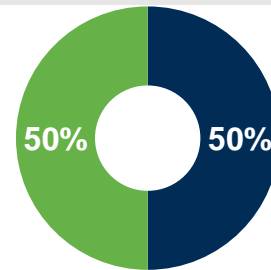
- Agency<sup>1</sup>
- Surveying



## H1 2017 Operating Profit

£15.5m

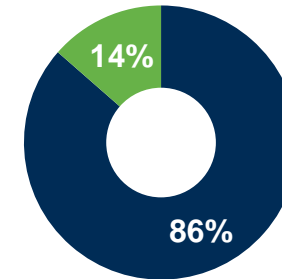
- Agency<sup>1</sup>
- Surveying



## H1 2017 Average FTE<sup>2</sup>

4,499

- Agency<sup>1</sup>
- Surveying



<sup>1</sup> Includes Estate Agency branches, Financial Services, Asset Management

<sup>2</sup> FTE (Full Time Equivalent)

## Segments

x

Business	Primary Channel	Geography	Consumer brands
Estate Agency	B2C	UK	12
Surveying	B2B	UK	-

## Branch numbers (at 30<sup>th</sup> June 2017)

Business	Owned	Franchise	Total
Your Move	202	65	267
Reeds Rains	117	40	157
LSLi	63	2	65
<b>Agency Branches</b>	<b>382</b>	<b>107</b>	<b>489</b>
Marsh & Parsons	26	-	26
<b>Total</b>	<b>408</b>	<b>107</b>	<b>515</b>

## Estate Agency Revenue Split

Marsh & Parsons	16%	Central London
LSLi	19%	London / SE
Reeds Rains	22%	Predominantly North
Your Move	43%	National coverage

# 2 Estate Agency Strategy: Marsh & Parsons Branch Rollout

## Branch Openings since 2013



**South Kensington**  
January 2013



**Bishop's Park**  
June 2013



**Marylebone**  
June 2013



**Shepherd's Bush**  
March 2014



**East Sheen**  
September 2014



**Richmond**  
September 2014



**Camden**  
October 2014



**Shoreditch**  
February 2015



**Queen's Park**  
April 2015



**Tooting**  
January 2016



**Tufnell Park**  
May 2016



**Brixton**  
January 2017





# Disclaimer

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