

# LSL Property Services plc

## Interim Results

Six months ended 30 June 2020



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1.	Financial and Operational Highlights
2.	The Story of the Half Year
3.	Financial and Business Review
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# 1 Robust performance in context of Covid-19 market disruption

Group Revenue (LFL)	<b>£114.9m</b>	-24%
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Group Underlying Operating Profit	<b>£12.5m</b>	3%
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Net Bank Debt	<b>£12.7m</b>	2019: £52.0m
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Profit Before Tax	<b>£2.0m</b>	2019: (£4.6m)
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<b><u>Divisional Underlying Operating Profit</u></b>		
Financial Services	<b>£4.9m</b>	14%
Estate Agency	<b>£4.1m</b>	3%
Surveying	<b>£4.9m</b>	-23%

Gearing Ratio <sup>1</sup>	<b>0.25x</b>	2019: 1.11x
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Interim Dividend per Share	<b>Nil</b>	4.0p
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- Group performed well against headwinds of Covid-19 and Tenant Fee Ban
- Financial performance reflects underlying strength, agility and diversification
- Stand-out performance by the Financial Services Division
- Strong Balance Sheet
- Well positioned for the future

<sup>1</sup> Excluding impact of IFRS 16 (0.31x), 2019: (1.26x)

# 1 Quick and effective response to rapidly changing conditions

## Group

- Seamless transition to new leadership
- Quick response to Covid-19, with immediate planning to prepare for easing of restrictions
- Swift execution of reopening strategy, with overwhelming majority of staff now back at work
- Controlled investment to enhance market position

## Financial Services

- Proven to be highly resilient to changing market conditions
- Market share of Mortgage Completion lending up to 9.2%<sup>1</sup> from 8.5%
- Financial Advisors up 7%

## Estate Agency

- Branch network opened quickly and safely following lockdown
- Strong level of front end sales and increased pipeline
- London market recovered strongly

## Surveying

- Impacted by ban on physical valuations
- Remote valuations implemented swiftly to mitigate the impact
- Back office administration centre closed in Q1 to reduce costs

<sup>1</sup> Market share excludes Product Transfers and is as at May 2020

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## 2 Strong performance in Q1 in each of the principal operating divisions

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**Decisive General Election result gave stability with improved consumer sentiment and increased market activity**

Q1 Underlying Operating Profit up 62% YoY. Increasing in each Division

Mortgage completions up 8% YoY to £7.8bn representing 9% market share

Estate Agency sales pipeline of £17.3m, up 18% YoY

Surveying revenue up 7% YoY in the period to lockdown

**This performance was particularly strong given it includes the slowdown period up to and immediately following lockdown**



## 2 Resilient performance during lockdown

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**Rigorous control over cash and costs with strong profit contribution from Financial Services as the Group benefited from its diversification**

Voluntary reduction in salary and fees by Board and Executive Committee members

3.3k Group Employees placed on furlough (c. 73%)

Suspension of 2019 Final Dividend

Deferral of non critical Capex and pause on acquisition activity

Group Underlying Operating Profit delivered £1.6m in April 2020

Financial Services Underlying Operating Profit up 28% on prior year at £0.9m



## 2 Trading post lockdown has been strong and is improving

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Sentiment should be helped by changes to Stamp Duty announced in July

July Mortgage applications up 20%  
YoY

New financial advisor pipeline  
remains strong

Estate Agency sales activity  
materially ahead YoY with increased  
sales pipeline

Strong Marsh & Parsons recovery

Physical valuation volumes in  
Surveying have recovered strongly

Strong Surveying profit in June  
materially ahead of prior year





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## 3 Summary

	H1 2020	H1 2019	Change
<b>P&amp;L (£m)</b>			
Revenue	<b>114.9</b>	154.1	-25%
Total Operating Expenses	<b>(102.4)</b>	(142.1)	-28%
Group Underlying Operating Profit	<b>12.5</b>	12.2	3%
<i>Group Underlying Operating Margin</i>	<b>11%</b>	8%	300bps
Profit / (Loss) Before Tax	<b>2.0</b>	(4.6)	nm
<b>Balance Sheet (£m)</b>			
Net Banking Debt (reported)	<b>12.7</b>	52.0	-76%
Gearing Ratio (reported)	<b>0.25</b>	1.1	-77%
Net Banking Debt (underlying)	<b>45.6</b>	52.0	-12%
Gearing Ratio (underlying)	<b>0.91</b>	1.1	-18%
Net Assets	<b>141.9</b>	129.9	9%
<b>Group Underlying Operating Profit</b>			
Financial Services	<b>4.9</b>	4.3	14%
Estate Agency	<b>4.1</b>	4.0	3%
Surveying	<b>4.9</b>	6.3	-23%
Unallocated Central Costs	<b>(1.4)</b>	(2.5)	-45%

- Profit underpinned by agile operational execution and resilient business model
- Careful fiscal management during the period
- Strong control environment maintained

## Financial Services Operating Profit grew fourfold 2015 to 2019 and underpinned Group performance during the Covid-19 market disruption

	H1 2020	H1 2019	Change
<b>P&amp;L (£m)</b>			
<b>Total Revenue</b>	<b>28.1</b>	34.3	-18%
Expenditure	<b>(23.2)</b>	(30.0)	-23%
<b>Underlying Operating Profit</b>	<b>4.9</b>	4.3	14%
<i>Underlying Operating Margin</i>	<b>18%</b>	13%	500bps
<b>KPIs</b>			
LSL Mortgage Completion Lending (£bn)	<b>14.6</b>	14.7	-0.4%
LSL Market Share	<b>9.2%</b>	8.5%	70bps
Total advisers at 30 June	<b>2,431</b>	2,277	7%
Number of AR firms at 30 June	<b>896</b>	860	4%
FCA capital requirement	<b>5.2</b>	4.7	12%
Excess capital	<b>10.6</b>	10.8	-2%
Lapse Provision	<b>4.8</b>	5.7	-16%

- Profit up YoY in both Q1 and Q2
- Margin enhancement
- Strong pipeline of advisors
- Prudent approach to balance sheet management with excess capital of £10.6m
- Financial Services revenue is generated in both the FS and EA divisions. In EA it is the commercially agreed internal commission for introduction of business:

Total FS Revenue (£m)	H1 2020	H1 2019
FS Division	<b>28.1</b>	34.3
EA Division	<b>4.5</b>	6.8
<b>LSL FS Total</b>	<b>32.6</b>	<b>41.1</b>

Note -Revenue is presented net of amounts paid over to intermediaries

## Estate Agency financial performance has been positive, despite the impact of Covid-19 and the Tenant Fee ban

	H1 2020	H1 2019	Change
<b>P&amp;L (£m)</b>			
Residential Sales Exchange Income	<b>18.6</b>	27.6	-33%
Lettings Income	<b>27.4</b>	33.8	-19%
Financial Services Income	<b>4.5</b>	6.8	-33%
Conveyancing, Franchise & Other	<b>3.2</b>	6.5	-51%
Asset Management	<b>2.0</b>	2.5	-20%
<b>Total Revenue</b>	<b>55.7</b>	77.1	-28%
Expenditure	<b>(51.6)</b>	(73.1)	-29%
<b>Underlying Operating Profit</b>	<b>4.1</b>	4.0	3%
<i>Underlying Operating Margin</i>	<b>7%</b>	5%	200bps
<b>KPIs</b>			
Branch Numbers (owned & franchise)	<b>356</b>	368	-2%
Exchange Units (000's)	<b>4,985</b>	8,495	-41%
Managed Properties (000's)	<b>24,815</b>	25,060	-1%
Average Residential Sales Exchange Fee per unit (£)	<b>3,730</b>	3,246	15%
Profit Per Branch (core)	<b>47.3</b>	49.6	-5%

- Transaction bounce in the South East following decisive General Election
- Covid-19 and Tenant Fee Ban headwinds limited by the rightsizing of branch networks and decisive operational response
- Lettings income (LFL: -18%) more resilient compared to Residential sales income (LFL -25%)
- Average exchange fee per unit benefiting from higher quality keystone branches
- House prices not materially changed due to Covid-19

## Strong Q1 revenue performance by Marsh & Parsons and significant recovery post lockdown

	H1 2020	H1 2019	Change
<b>P&amp;L (£m)</b>			
<b>Total Revenue</b>	<b>12.1</b>	15.0	-20%
<i>Residential Sales Exchange Income</i>	<b>4.4</b>	4.9	-11%
<i>Lettings Income</i>	<b>7.7</b>	9.7	-21%
<i>Other Income</i>	<b>0.0</b>	0.4	-93%
Expenditure	<b>(11.0)</b>	(14.6)	-25%
<b>Underlying Operating Profit</b>	<b>1.0</b>	0.4	161%
<i>Underlying Operating Margin</i>	<b>8.6%</b>	2.7%	590bps
<b>Adjusted EBITDA</b>	<b>2.6</b>	2.3	13%

- M&P delivered a strong underlying operating profit with 161% of growth over prior year
- Adjusting for Covid-19 and furlough benefit, M&P still delivered a positive Adjusted EBITDA in the period
- Strong residential sales in Q1
- Lettings income 64% of Total Revenue (2019: 65%)
- Strong lettings renewals
- Launch of dedicated in-branch Financial Services, providing opportunity for improved returns in future periods
- Recommencement of office opening programme expected in 2021

### 3 Surveying saw strong demand following lifting of restrictions

	H1 2020	H1 2019	Change
<b>P&amp;L (£m)</b>			
<b>Total Revenue</b>	<b>31.1</b>	42.7	-27%
Expenditure	<b>(26.2)</b>	(36.4)	-28%
<b>Underlying Operating Profit</b>	<b>4.9</b>	6.3	-23%
<i>Underlying Operating Margin</i>	<b>16%</b>	15%	100bps
<b>KPIs</b>			
Jobs performed (000's)	<b>197</b>	250	-22%
Income per job (£)	<b>158</b>	170	-7%
Operational surveyors employed (FTE)	<b>507</b>	486	4%
<b>Balance Sheet (£m)</b>			
PI Costs Provision at 30 June	<b>7.6</b>	10.9	-30%

- Quick ramp-up of remote valuations using previous technology investments, as an alternative to physical valuations
- Physical / remote valuations mix trending back to normalised levels
- Focus on margin, with cost efficiency programme underway with Admin centre restructure in Q1

### 3 Exceptional Items and other Balance Sheet items

	H1 2020	H1 2019
<b>Exceptional Items (£m)</b>		
<b>Exceptional gains:</b>		
Historical PI Costs provision release	-	(0.6)
<b>Exceptional costs:</b>		
Branch closure and restructuring costs including redundancy costs	1.7	13.1
Transition costs relating to surveying contracts	-	0.3
Aborted merger deal costs	2.4	-
Other	0.3	-
<b>Total Exceptional Costs</b>	<b>4.4</b>	13.4
<b>Net Exceptional Cost</b>	<b>4.4</b>	12.8

- Exceptional Costs mainly relating to:
  - Planned Surveying transformation
  - Estate Agency branch/centre closures and restructuring costs
  - Merger deal costs

	H1 2020	H1 2019
<b>Balance Sheet items</b>		
Financial Assets	9.3	9.6
Contingent and Deferred Consideration Provision	(5.5)	(14.7)

- No impairment of financial assets
- Reducing future liabilities for acquisitions

## 3 Cash-flow

	H1 2020	H1 2019
<b>Operating Cash-flows (£m)</b>		
<b>Group Underlying Operating profit</b>	<b>12.5</b>	<b>12.2</b>
Depreciation (PPE only), working capital etc.	26.6	(6.2)
<b>Cash-flow from operations (pre PI and exceptionals)</b>	<b>39.1</b>	<b>6.0</b>
PI Costs Payments	(1.1)	(1.5)
Exceptional and Covid-19 costs	(4.5)	(6.7)
<b>Cash-flow from operations (post PI and exceptionals)</b>	<b>33.5</b>	<b>(2.2)</b>
Acquisitions	(0.2)	(1.3)
Investment: investments & revaluations in JVs / financial assets/ contingent & deferred consideration / loan notes	(0.1)	(2.1)
Loan Note Issuance	-	(1.8)
Sale of financial asset	-	1.0
Capital expenditure	(1.5)	(2.2)
Dividends paid	-	(7.1)
Interest, tax and other	(2.5)	(4.3)
<b>Net Cash-flow</b>	<b>29.2</b>	<b>(19.9)</b>
<b>Opening Net Bank Debt at 1 January</b>	<b>(41.9)</b>	<b>(32.1)</b>
<b>Closing Net Bank Debt at 30 June</b>	<b>(12.7)</b>	<b>(52.0)</b>

- Strong cash control with net debt at £12.7m at 0.31x gearing against 3.25 covenant
- Working capital movement includes VAT and PAYE deferrals of c£28m
- Underlying net debt as adjusted for deferrals was £45.6m and below H1 2019 (£52.0m)
- Focus on the balance sheet continues



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## *Ongoing development of strategic goals during 2020 with the focus on:*

### **Grow Financial Services**

Enhance leading position in mortgage network market, whilst considering further expansion of product range

### **Grow Estate Agency Market Share**

Increased focus on market share, but not at the expense of profitability, as we seek to grow Operating Profit per branch and number of ancillary products available to customers

### **Remain UK's Number 1 Surveyor**

To be supported with evaluation of operating model which is underway, and focus on improved products and services

### **Increase Product Set**

To provide more solutions across the whole of a product lifecycle, maximising the value of each customer journey, and to extend to related areas of expertise

### **Accelerate Digital Capability**

Positioning the Group to compete effectively in the digital age in each of its principal areas of activity by leveraging existing and new technologies

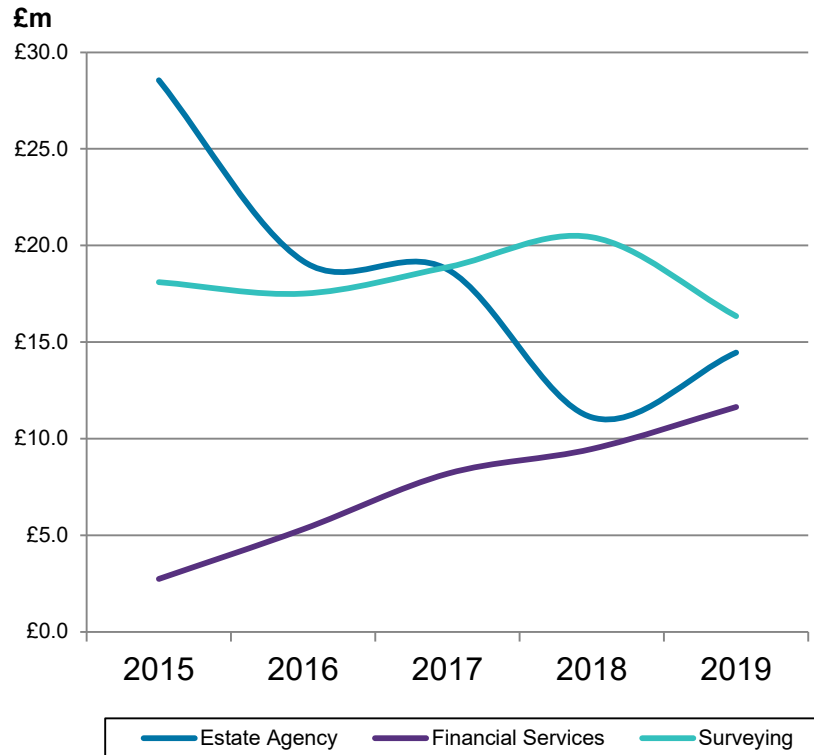
### **Selective Inorganic Growth**

Evaluating selective inorganic growth opportunities and pursue as appropriate



## The Group has developed broader and less volatile revenue streams marked by the rapid growth of Financial Services









### 5 Year Divisional Operating Profit History (year ended 31 December)



- LSL now a leading provider of mortgage advice
- Estate Agency profitability improving following branch reshaping
- Steps underway to continue to increase Surveying margins



## 4 Financial Services is delivered through a variety of channels

Brands	 	  	  
Customer Channel	Intermediary	Direct to Consumer	New Build Home
Metrics	<p>PRIMIS: 1997 independent advisers in 890 firms<sup>1</sup></p> <p>TMA: 580 regular members <sup>1</sup></p>	<p>326 directly employed advisers and 25 self-employed advisor in both LSL and independent branches<sup>1</sup></p>	<p>83 directly employed advisers (RSC, Mortgages First, Insurance First)<sup>1</sup></p>
About companies	<p><b>PRIMIS</b> – A leading UK Network with broad UK coverage. Directly authorised by FCA</p> <p><b>TMA</b> – Mortgage Club, distributing mortgages and financial services products to directly authorised mortgage intermediaries</p>	<p><b>Embrace Financial Services</b> - Employed advisers providing mortgage &amp; protection business, through branches &amp; telephony</p> <p><b>First2Protect</b> – Insurance products for property owners, landlords and tenants</p> <p><b>Linear</b> – Provides products via a network of financial consultants based remotely and in the branches of independent estate agents</p>	<p>Appointed Representative firms of PRIMIS, specialising in providing mortgages and financial services products to customers financing the purchase of new-build property</p> <p>Key relationships with house builders</p> <p>Complementary geographies: MF: SE, RSC: NW. LSL is majority shareholder</p>

<sup>1</sup> Correct to 30 June 2020

## 4 LSL is a leading provider of mortgages and non-investment insurance products

### LSL Financial Services Revenue Split for 2019

#### Mortgage Advice

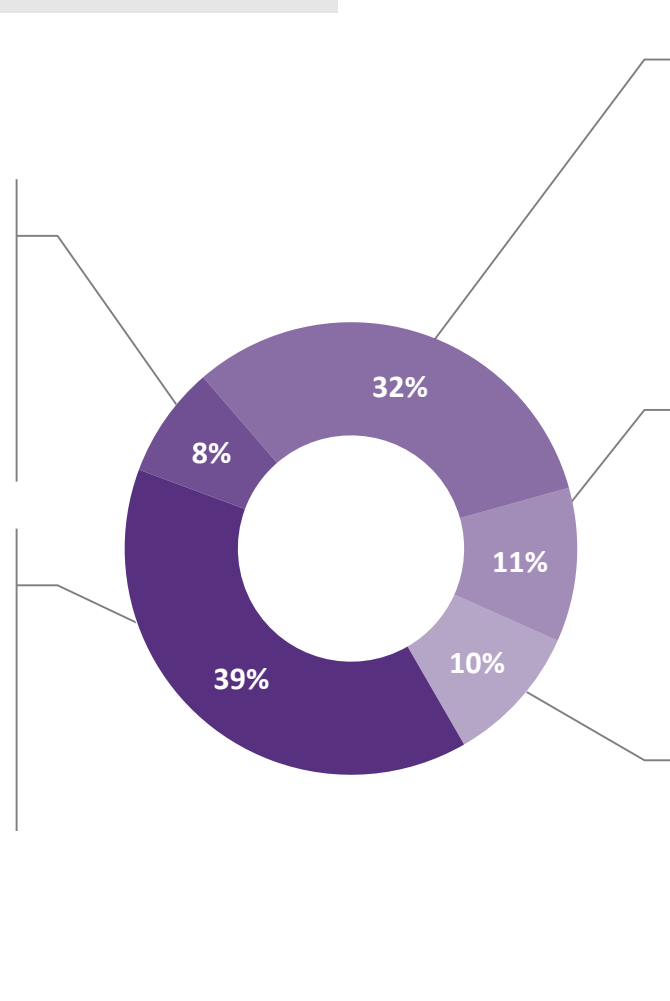
Advice provided by intermediaries (mortgage advisors) to clients

*Fees paid by consumers to advisors*

#### Mortgage Procurement

Applications to enter into home finance transactions, e.g. mortgages, re-mortgages, product transfers, buy-to-let

*Fees paid by mortgage lender for procuring mortgage to advisors*



#### Protection Insurance

Insurance products cover: life, income protection, critical illness, amongst others

*Commission paid by insurance companies to intermediaries*

#### Household Insurance

Home insurance products (e.g. building and contents insurance)

*Commission paid by insurance companies to intermediaries*

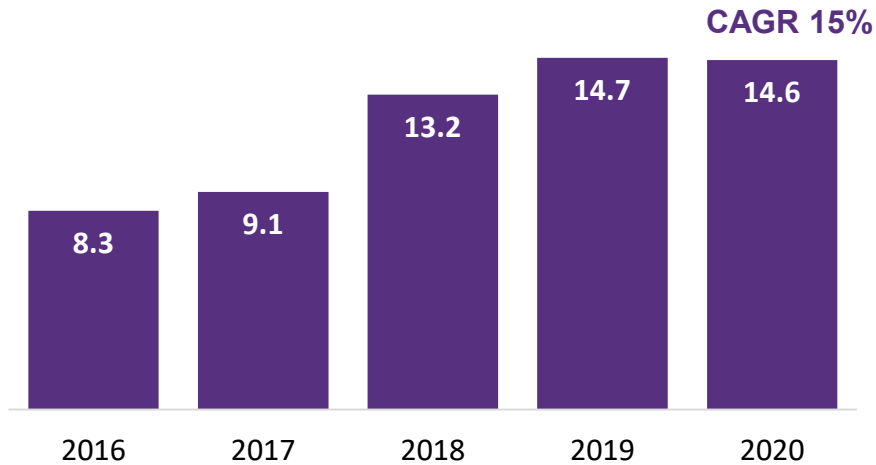
#### All Other Income

B2B business activity for mortgages and insurance

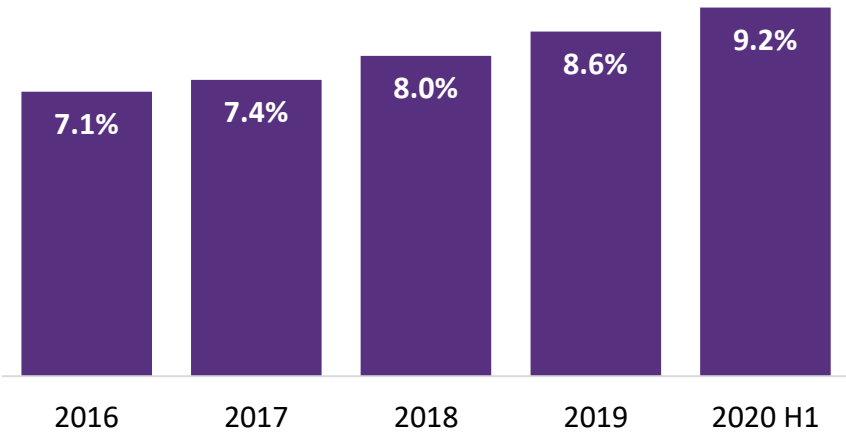
*Fees typically paid by broker to cover regulatory, PI and ancillary support services provided by LSL*

## Built a market leading position in Financial Services with opportunities for further growth

H1 LSL Financial Services mortgage completions (£bn)



Mortgage completions market share



### Strategic opportunities:

- To grow the Group's financial services activities, including considering entry into complementary markets in which the Group has competitive advantage either from its existing activities or its expertise
- To consolidate LSL's leading position as a distributor of mortgages, and non-investment insurance products
- To develop further its distribution capability, identifying new channels for client acquisition
- Leverage technology, including Toolbox

### Underpinned by:

- A compliant and customer focused culture, in line with regulatory expectations and the Board's values, with conservative accounting and risk management policies



## 4 High quality EA network of 226 owned and 130 franchise branches



Brand Details

LSL Brand	Branch numbers			Geography	Average House Price	% of total Estate Agency revenue
	Owned	Franchised	Total			
Your Move	89	79	168	National	£190k	36%
Reeds Rains	55	49	104	Mainly North	£172k	19%
LSLi	52	2	54	London/SE	£450k	23%
Marsh & Parsons	30	-	30	Prime & Outer Prime London	£803k	22%

Channel

Residential exchange income

Lettings income

Financial Services income

Other fees

About Channel

Commission received from consumers for the sale of mainly second hand properties

Commission received from landlords for the management of properties

Commercially agreed introducer commission received from FS Division

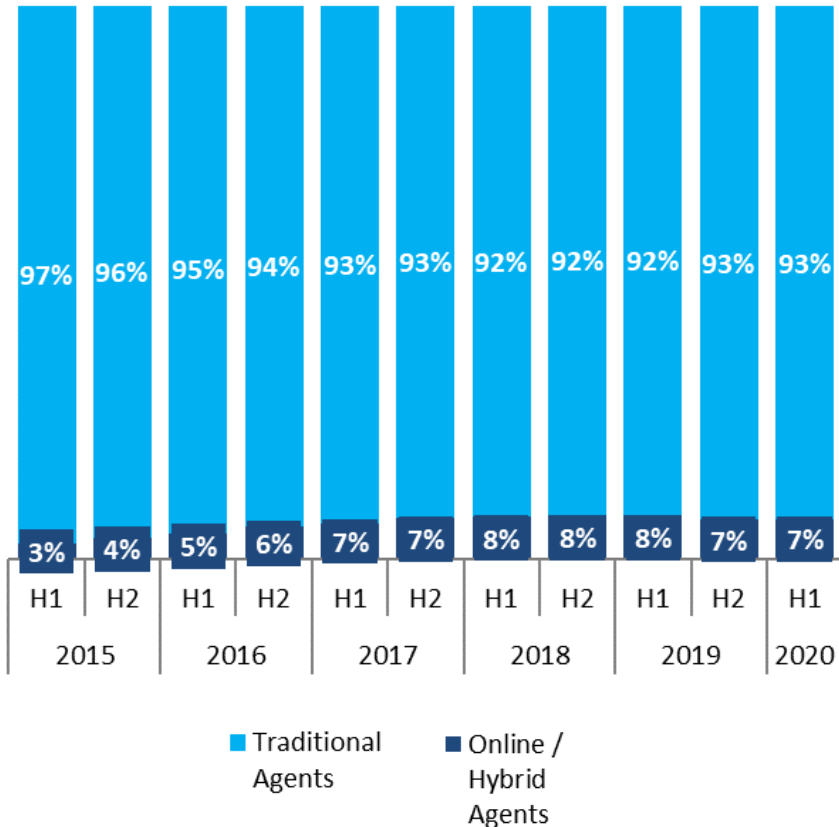
Asset management, conveyancing commission, franchise fees, Land & New Homes and other income

High margin property related fees



## 4 Traditional agents dominate a highly fragmented market

Share of housing stock available for sale by volume



### Market Context

- There are over 16,000 estate agent branches in the UK with the 4 largest estate agencies responsible for c.15% of the market
- Growth of online and hybrid agent has stagnated

### Strategic opportunities:

- Provision of products and services throughout the house buying and letting chains
- To become a leading (“Top 3”) estate agency in each of the locations in which it has a physical presence, and grow operating profit per branch
- Further enhance the position of Marsh & Parsons as a leading London agency
- Grow provision of lettings services

### Underpinned by:

- Delivering first class service to vendors, landlords and other customers
- Higher exchange fees per property
- Keystone branch network providing an improved foundation of profitability





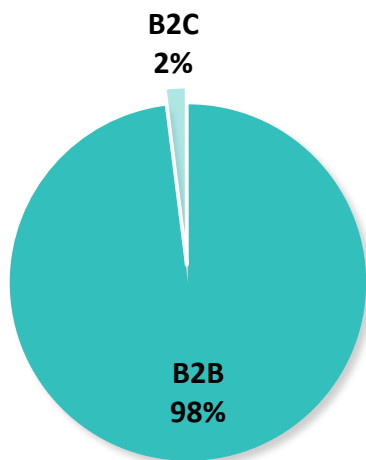
# LSL's is the UK's largest provider of residential valuation services

## Brands

**e.surv**  
Chartered Surveyors  
**Walker Fraser Steele**  
Chartered Surveyors

## Metrics

### Surveying Revenue Distribution



### Top 3 B2B Products

1. Physical Mortgage Valuations
2. Remote Mortgage Valuations
3. Other Property Pre-acquisition and Home Purchase Report

### Top 3 B2C Products

1. RICS Home Buyer Report
2. Home Reports Scotland
3. RICS Home Condition Reports and Building Survey reports

### Other Metrics

- 590k+ number of jobs completed in 2019
- 500+ operational surveyors (FTE)
- 40 Graduate and SAVA trainee surveyors

### Strategic opportunities:

- To be the acknowledged expert in its core markets
- To remain the pre-eminent provider of surveying and valuation services to UK lenders
- To develop market leading propositions that reflect changing consumer and lender needs, include the use of technology to reduce costs for the benefit of all market participants
- To improve operational efficiency, using its capacity effectively and minimising “surveyor downtime”
- Investing in training and qualification of graduates to ensure future availability of professional surveyors

### Underpinned by:

- Conservative approach to risk and governance



# Current focus is to progress strategy and position the Group to optimise performance in 2021

## Optimising for 2021

- Selective investment in targeted marketing spend and other operational initiatives
- Selective reinvestment in Capex and business development resource
- Assessment of market for lettings book and other acquisitions

## Remaining alert to the potential for worsening trading conditions

- Close monitoring of market trends
- Contingency planning in case of further lockdown
- Decisive action if required

### Financial Services

- Consolidate LSL's leading position
- Key focus on growth
- Identify new channels for client acquisition

### Estate Agency

- Position LSL as provider of choice for house buying and lettings
- Grow market share, operating profit per branch and securing top market positioning
- Consideration of selective lettings book acquisitions

### Surveying

- Maintain number 1 position
- Develop a market leading proposition to reflect customer needs
- Improve operational efficiency through capacity maximisation and the use of technology

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## 5 Outlook

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- Positive performance in H1 despite headwinds.
- Delivered £2.0m PBT and Underlying Net Debt lower than last year.
- Following relaxation of lockdown focus has been on driving market share performance.
- Careful investment in business development resource, marketing and capital expenditure.
- July trading was extremely encouraging:
  - Financial Services: Mortgage and Protection applications more than 20% ahead of prior year, the highest month in 2020 and 16% ahead of June 2020.
  - Estate Agency: Instructions c.20% ahead of July 2019 with sales exchange pipeline at 31 July up 12% on prior year. Net Sales and Instructions in July were the highest in 2020.
  - Surveying: valuation instruction volumes broadly in line with July 2019.
- Stamp Duty Holiday expected to provide further support to many of the markets in which the Group operates.
- The future course of the Covid-19 virus highly uncertain.
- Formal guidance will be resumed as soon as the position becomes clearer.
- Strong Balance Sheet, product mix and capability leaves us well positioned for future market conditions.

# Disclaimer

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This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, LSL undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. LSL and its Directors accept no liability to third parties in respect of this document save as would arise under English law. This presentation contains brands that are trademarks and are registered and/or otherwise protected in accordance with applicable law.

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