



# Preliminary Results

Year ended 31 December 2013

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## Agenda

# 1 Executive Summary

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## 2 Financial Performance

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## 4 Strategy and Outlook

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# Executive Summary

Strong second half Group performance in a recovering market.

Group Revenue

£258.6m

▲6%

Group Underlying  
Operating Profit

£37.1m

▲6%

Profit Before Tax

£17.1m

▲155%

Adjusted Earnings  
Per Share

25.3p

▲6%

Dividend per Share

10.5p

▲11%

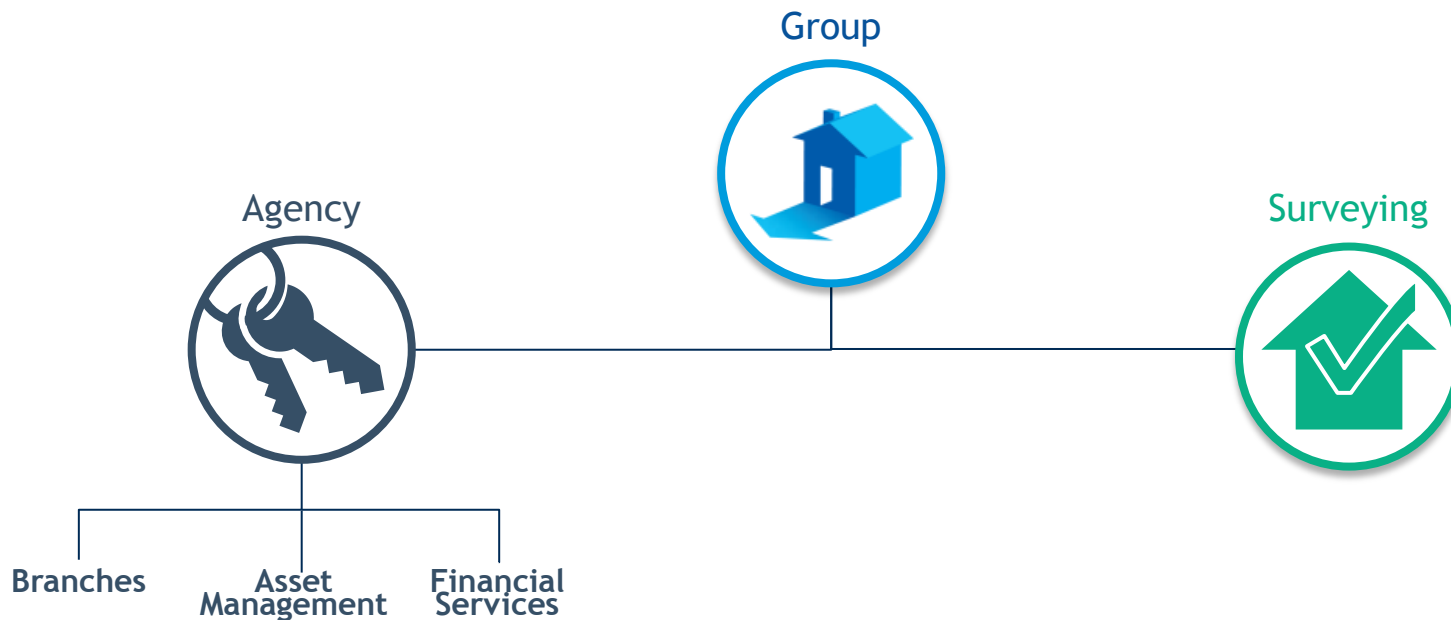
Net Bank Debt

£26.3m

▼1%

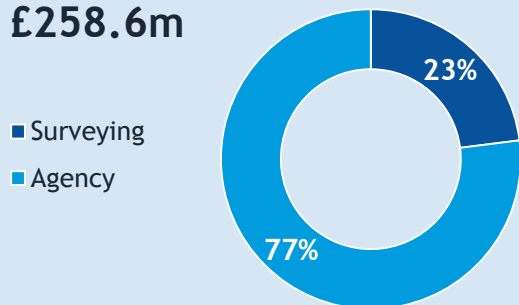
- Excellent progress in Estate Agency.
- Considerable improvement in Surveying during the second half of the year.
- Significant investment in capacity across both Estate Agency and Surveying to provide a platform for further growth in 2014.
- Strong operational cash flow, balance sheet and dividend growth.
- Confidence in delivering further growth and benefits from operational gearing in an improving market.

# Business Overview



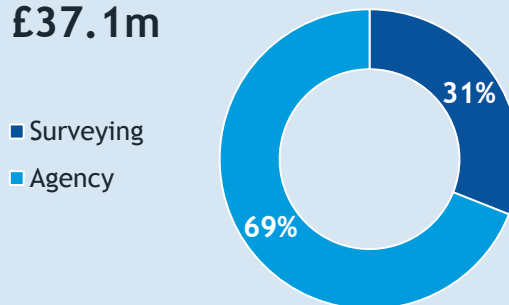
## FY13 Revenue

£258.6m



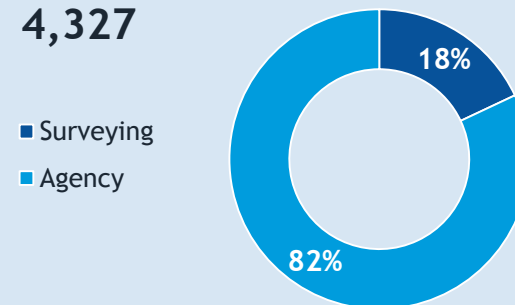
## FY13 Operating Profit

£37.1m



## FY13 Average FTE

4,327



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# Summary Group Financials



Dividend increase ahead of EPS growth, reflecting confidence in the future.

£m	Actual			Like-for-Like <sup>(3)</sup>		
	2013	2012		2013	2012	
<b>P&amp;L</b>						
Revenue	258.6	243.8	6%	258.6	238.3	9%
Underlying Group Operating Profit <sup>(1)</sup>	37.1	35.1	6%	37.1	32.6	14%
<i>Margin</i>	<i>14.3%</i>	<i>14.4%</i>		<i>14.3%</i>	<i>13.7%</i>	
Exceptionals	(15.8)	(22.1)				
Profit before tax	17.1	6.7				
Underlying Profit before tax <sup>(2)</sup>	33.9	32.5	4%			
Adjusted EPS	25.3p	23.8p	6%			
Dividend Per Share	10.5p	9.5p	11%			
<b>Cashflow</b>						
Cash from Operations before exceptional costs	42.4	41.4	2%			
<b>Balance Sheet</b>						
Net Bank Debt	26.3	26.6	(1%)			

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

2) Underlying PBT is PBT less amortisation and exceptional costs.

3) Like-for-like excludes the impact of the insourcing of a contract by a major Surveying client in June 2012 as announced in the Interim Results in July 2012.

# Summary Group Financials



## Group Operating Profit



- Group Operating Profit at similar level to 2007, when house purchase transactions<sup>(1)</sup> were 70% higher.
- Strong record of organic growth, selective acquisitions and cash generation.
- Invested £62m in acquisitions less reverse premium surplus of £10m on the Halifax Estate Agency Limited acquisition. Total 2013 operating profit on these acquisitions of c.£13m.
- Diversification has resulted in a more balanced business through growth of Lettings and Asset Management.
- Net Bank Debt
  - Dec 2008 - £47.2m.
  - Dec 2013 - £26.3m.

1) Bank of England (2007 House Purchase approvals – 1,259k, 2013 – 735k)

# Financial Performance - Estate Agency



	2013	2012	Inc/ (Dec)
<b>P&amp;L (£m)</b>			
Exchange Income	80.0	72.0	11%
FS Income (incl intermediary networks)	35.8	31.8	13%
Lettings Income	52.2	48.1	8%
Asset Management Income	14.3	15.6	(9%)
Other Income	15.9	14.1	13%
Total Revenue	198.2	181.6	9%
Expenditure	(169.1)	(157.2)	8%
<b>Operating Profit</b>	<b>29.1</b>	<b>24.4</b>	<b>19%</b>
Operating Margin	14.7%	13.5%	

## Operational Highlights

- Good growth across all key income streams.
- Investment in 487 additional Estate Agency staff increased headcount by 13%.
- Marsh & Parsons made good progress with its expansion plan in a challenging central London market where stock levels remained flat all year.



# Financial Performance - Surveying



Surveying Segment	Actual			Like-for-like <sup>(1)</sup>		
	2013	2012		2013	2012	
£m						
Turnover	60.4	62.2	(3%)	60.4	56.7	7%
Expenditure	(47.3)	(48.3)	(2%)	(47.3)	(45.3)	4%
Underlying Operating Profit	13.1	13.9	(6%)	13.1	11.4	15%
Margin	21.7%	22.4%		21.7%	20.0%	

## Operational Highlights

- £2.5m profit impact of major contract insourcing.
- Strong H2 performance with capacity constraints leading to some short term pricing improvements.
- Investment in new graduate recruitment and training programme - over 70 graduates hired to date.
- Ongoing investment in service and value add services for lender clients.
- B2C income £4.9m (2012: £4.0m) - capacity diverted to lender valuations where possible.

1) Like-for-like excludes the impact of the insourcing of a contract by a major Surveying client in June 2012 as announced in the Interim Results in July 2012

# Professional Indemnity costs



- PI costs are a market issue - claims relate to the 2004 - 2008 high risk lending period.
- Additional £12.0m PI provision, as announced in November 2013.
- Claims rate is a function of the behaviour of individual lenders or owners of mortgage books.
- Since November 2013, the rate of new claims and cost per claim has been consistent with the assumptions behind the new provision. Total provision of £25.9m at 31<sup>st</sup> December 2013 which is LSL's best estimate of likely claims costs.

# Financials - Cash flow and Debt



## Continued Strong Operational Cash generation

£m	2013	2012
<b>Operating Cashflows</b>		
Operating Profit	37.1	35.1
Depreciation	3.9	3.5
JV	(1.7)	(1.3)
Working Capital	3.1	4.1
	<u>5.3</u>	<u>6.3</u>
<b>Cash from Operations (pre PI)</b>	<b>42.4</b>	<b>41.4</b>
PI Payments	(14.4)	(7.7)
Exceptional costs paid	(1.1)	(1.1)
	<u>(15.5)</u>	<u>(8.8)</u>
<b>Cash from Operations</b>	<b>26.9</b>	<b>32.6</b>
Interest paid	(2.7)	(2.1)
Tax paid	(2.5)	(7.3)
Acquisitions	(5.4)	(4.6)
Capex	(7.8)	(5.7)
Disposal proceeds	1.5	6.3
Dividend income	1.9	0.7
Dividends paid	(10.0)	(9.3)
Other	(1.6)	(1.5)
<b>Net Cashflow</b>	<b>0.3</b>	<b>9.1</b>
<b>Closing Net Bank Debt</b>	<b>(26.3)</b>	<b>(26.6)</b>

- Operating cash flows
  - Higher PI cash settlements.
  - Interest - £1.1m for new banking facility.
  - Tax - prior year refunds and PI.
- Investments
  - Acquisitions - Lawlors, five lettings books and a surveying business.
  - Capex - new M&P branches and new IT systems.
- New £100m Bank facility agreed in June 2013 which expires in August 2017.
- Confident in significant future earnings growth and operational cashflow.

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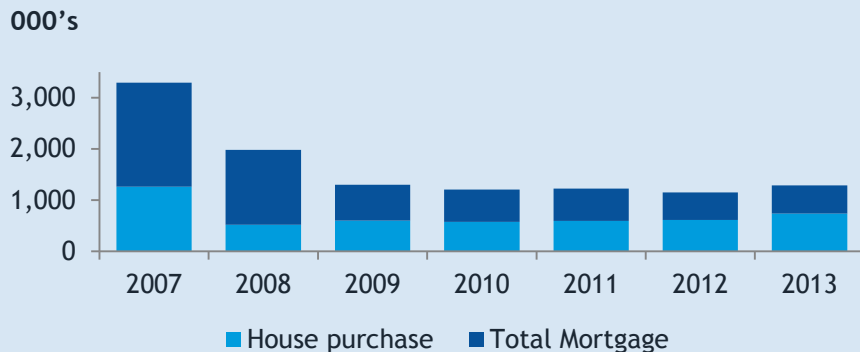
5 Q&A

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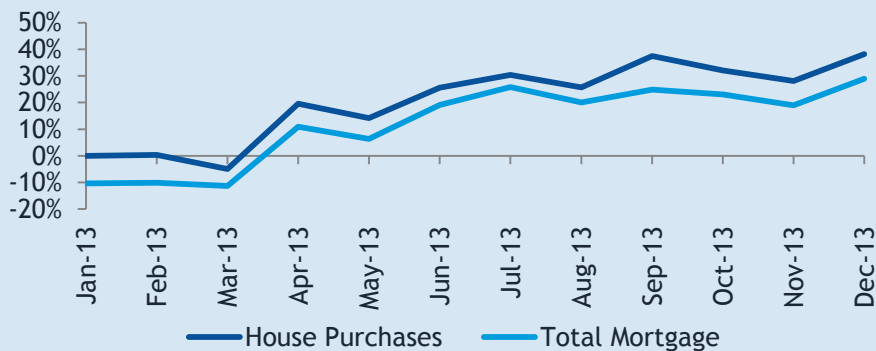
# Market overview - mortgage volumes



## Mortgage and House Purchase Approvals<sup>(1)</sup>



## Annual FY13 volume growth<sup>(1)</sup>



1) Bank of England

## House Purchase Approvals

- 736,000<sup>(1)</sup> 2013 up 21% on 2012.
  - Q1 down 2% on prior year.
  - Q2 - Q4 up 27% on prior year.
- Based on 3 month lag, house purchases in 2013 up 14% to 687,000<sup>(1)</sup>.

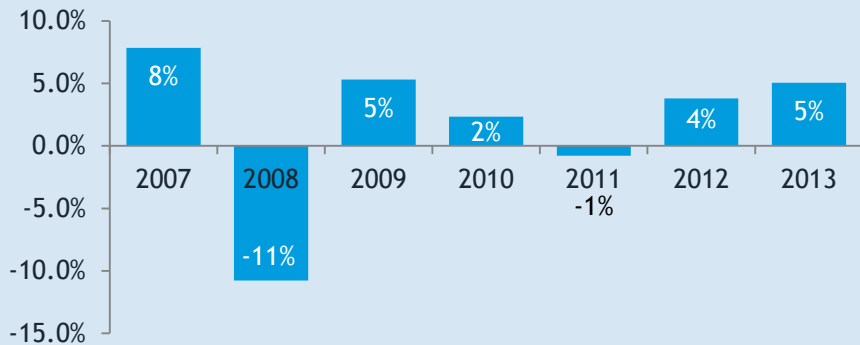
## Total Mortgage Approvals

- 1,286,000<sup>(1)</sup> 2013, up 12% on 2012.
  - Q1 down 11% (tough comparative - stamp duty change).
  - Q2 - Q4 up 19% - FY13 Budget initiatives, Lenders begin to grow their balance sheets and market recovery.

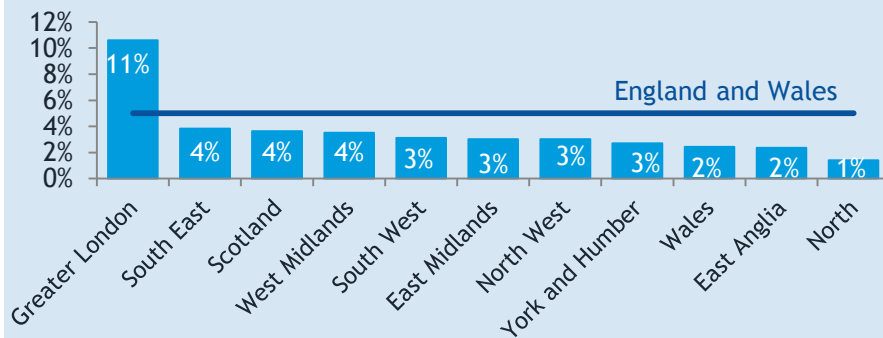
# Market overview - house price trends



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



## FY13 House price movements by region<sup>(1)</sup>



1) LSL Property Services/Acadata House Price Index

- In 2013 average house prices in England and Wales increased by 5.0% to £240k.
- Average house prices now 3.4% above the February 2008 peak.
- Significant regional variations:
  - London house prices grew by 10.6% in FY13.
  - London house prices are 27% above February 2008 peak.
  - England and Wales excluding London grew by 3.2% in FY13
  - A number of regions outside of London are at least 5% below February 2008 peak.

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# Strategy - Estate Agency - Executive Summary



## Drive organic growth and selective acquisitions

### Agency Profit Transformation 2007 - 2013



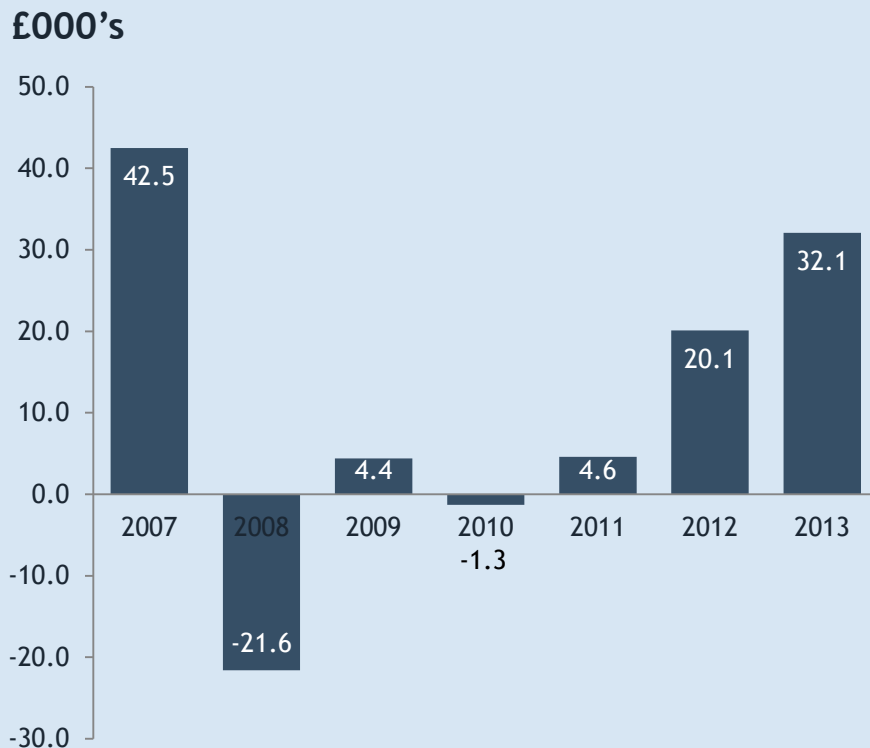
- Organic growth:
  - Positive revenue growth across all income streams.
  - Development of resilient countercyclical income streams.
- Selective acquisitions:
  - Transformational:
    - Halifax Estate Agencies Ltd.
    - Marsh & Parsons.
  - Other acquisitions 2007-2012:
    - LSLi - six brands.
    - Lettings businesses.
    - Financial Services - Pink and Home of Choice (First Complete).
    - Templeton LPA.
  - 2013 acquisitions
    - Lawlors - three branch Essex estate agency.
    - Five lettings books.



# Strategy - Estate Agency - Branches



## Profit per branch<sup>(1)</sup> 2007 - 2013



1) Excludes Marsh & Parsons

## Your Move, Reeds Rains and LSLi

- Profit per branch excluding Marsh & Parsons £32k in 2013. In 2011, the Board set a medium term target to grow profit per branch to £30-£50k when it was only £5k.

## Marsh & Parsons

- One new Marsh & Parsons branch in 2012.
- Three new Marsh & Parsons branches in 2013.
- Plans for three to four new branches per annum with ambition to double the size of the estate by 2019.
- Continued investment in Marsh & Parsons brand.

# Strategy - Estate Agency - Countercyclical income



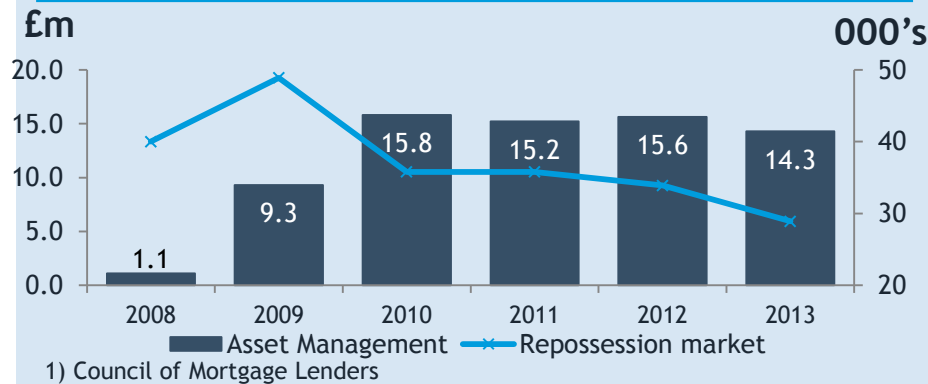
## Lettings Revenue



## Lettings

- 2013: Lettings income of £52.2m, 8% growth.
- Ongoing investment in new staff and lettings businesses.
- Implementation of new lettings software in core brands.
- Confident of delivering growth even in a recovering housing market.

## Asset Management Revenue and Repossessions



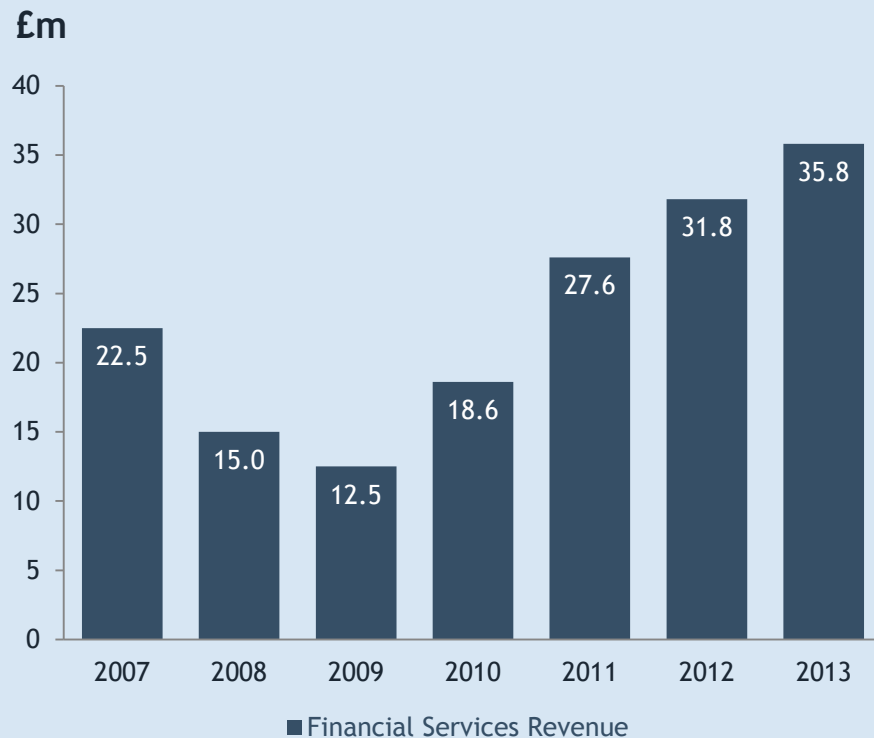
## Asset Management

- Asset management income £14.3m from a standing start in 2008.
- Further market contraction forecast and one material contract up for renewal in 2014.

# Strategy - Estate Agency - Financial Services



## Financial Services Revenue



- 2013 Financial Services revenue £35.8m, up 13%.
- 2013 LSL lending arranged £10.9bn, up 54%.
- Investment in new front and back office IT systems to improve the customer experience, enhance productivity and support the continued delivery of appropriate financial outcomes to consumers.



- November 2013: LSL invests £0.8m in Zoopla, increasing its shareholding to 4.91%.
- December 2013: Shareholding revalued to £35.1m in accounts.
- February 2014: DMGT, the largest shareholder in Zoopla, announced that the Board of Zoopla is exploring various strategic options for the business.

# Strategy - Surveying



## Further investment to increase capacity

### Surveying profit 2007 - 2013



- Strong profit performance in 2007-2010 during a period where the market declined by 64%.
- 2011-2012 pricing pressure on contract renewals and insourcing of C&G contract.
- 2013 market recovery but capacity constraints:
  - Strong second half performance driven by short term pricing opportunities.
  - Investment in 43 new graduates.
  - 21.7% margin after investment in new capacity.
- 2014:
  - Several major contracts up for renewal.
  - Further investment in new graduates.

# Capitalising on significant market growth in 2014



## Estate Agency

- Deliver strong organic growth and the benefit of operational gearing.
- Ambition to double size of Marsh & Parsons estate by 2019.
- Selective Estate Agency acquisitions - bolt on businesses and lettings books.

## Surveying

- Continue to invest to deliver increased capacity to lenders.
- Well placed for 2014 contract negotiations due to capacity constraints in a growing market.

## Group

- Utilise the strong balance sheet for selective acquisitions.
- Well placed to deliver shareholder value growth in 2014 and beyond.

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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.

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