Foxtons Group plc

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2019

26 JULY 2019

Foxtons Group plc, London's leading estate agent, today announces its financial results for the half year ended 30 June 2019.

Financial summary

Half year ended 30 June	**2019**	2018
Group revenue	**£51.1m**	£53.0m
Group Adjusted EBITDA[1]	**£5.4m**	£0.1m
Group Adjusted EBITDA (pre-IFRS 16)[2]	**£0.1m**	£0.1m
Statutory loss before tax[3]	**(£3.2m)**	(£2.5m)
Net free cash (outflow)[4]	**(£3.5m)**	(£6.0m)
Basic loss per share	**(1.1p)**	(1.1p)
Interim dividend per share - ordinary	**Nil**	Nil

Financial highlights:

- Group revenue declined by 3.5% to £51.1m (2018: £53.0m) as a consistent lettings performance was offset by lower revenue in the sales business reflecting the ongoing weakness of the London market.
- Adjusted EBITDA of £5.4m reflects transition to IFRS 16. Adjusted EBITDA (pre-IFRS 16) of £0.1m was flat versus last year as cost actions implemented in 2018 helped protect profitability. The statutory loss before tax was £3.2m[3] (2018: £2.5m).
- Continued resilience in the lettings business with revenue of £31.7m (2018: £31.7m). The period included one month without tenant fees following the tenant fee ban.
- Sales revenue was down 10% to £15.4m (2018: £17.2m). Flat volumes were offset by lower average revenue per unit which was impacted by the mix of properties sold and a reduction in the average property selling price.
- Alexander Hall mortgage revenue of £4.0m, down 3% on the prior year reflecting a decline in new mortgages, partially offset by growth in re-mortgages.
- Strong balance sheet maintained with no external borrowings and cash balance of £14.5m at 30 June 2019 (31 December 2018: £17.9m, 30 June 2018: £11.8m).
- There will be no interim dividend in this financial period in line with our policy.

Operational highlights:

- Differentiated proposition and exceptional service continue to drive listings during challenging conditions, with Foxtons maintaining No 1 property listings position in London.
- Cost actions in prior years have protected profitability.
- Maintained strong sales and lettings infrastructure to capitalise on future growth opportunities.
- Decision taken not to increase lettings fees following the tenant fee ban.
- Build to Rent and Institutional PRS pipeline continues to strengthen.

Commenting on the results, Nic Budden, CEO, said:

"The prolonged downturn in the London sales market and continued political uncertainty continues to impact our results.

The lettings business remains our priority and continues to deliver stable results underpinned by strong structural drivers of demand. We believe our excellent service offering and compliance culture, combined with our decision not to increase fees for landlords following the implementation of the tenant fee ban, will continue to differentiate us from the competition.

Low consumer confidence combined with challenging market conditions means selling or finding a property is more challenging than ever before, and we believe this creates even more relevance for our high service sales model. In lettings, our professional approach mitigates legal risk for landlords and provides them with reliable tenants who trust us to provide the biggest range of high-quality rental accommodation.

Looking ahead, we expect conditions to remain challenging and have effectively positioned the business to reflect this. In lettings, we expect our ongoing commitment to landlords in light of the tenant fee ban to improve further our proposition and we are confident this will continue to drive market share.

In the longer term, our strong balance sheet and leading market position in London will allow us to capitalise on any recovery, in what remains one of the world's most desirable cities and dynamic property markets."

For further information, please contact:

Foxtons Group plc	
Richard Harris, Chief Financial Officer Muhammad Patel, Investor Relations Manager	+44 20 7893 6484
Teneo	
Robert Morgan / Anthony Di Natale	+44 20 7367 6045

The Company will host a conference call today at 9:30am for analysts and investors - dial in details: UK: +44 (0) 330 336 9125, US: +1 323-794-2093, Confirmation code: 6599559. There will also be a replay of the call: UK: +44 (0) 207 660 0134. US: +1 719-457-0820.

The presentation will be webcast live. To access you will be required to pre-register using the following link: https://globalmeet.webcasts.com/starthere.jsp?ei=1253957&tp_key=8d380f53cd

[1] Adjusted EBITDA is defined by the Group as profit before tax, finance costs, finance income, other gains/losses, depreciation, amortisation, profit on disposal of fixed assets, share-based payments and Adjusted items. The Group transitioned to IFRS 16 'Leases' on 1 January 2019 using the modified retrospective approach with no restatement of prior year comparatives. Refer to Note 13 for details of the impact of IFRS 16 on the Group's 30 June 2019 financial position and performance. The Group has defined and outlined the purpose of its Alternative Performance Measures within Note 14 of the financial statements.

[2] Adjusted EBITDA (pre-IFRS 16) is defined by the Group as profit, determined using pre-IFRS 16 lease accounting principles, before tax, finance costs, finance income, other gains/losses, depreciation, amortisation, profit on disposal of fixed assets, share-based payments and Adjusted items. Refer to Note 13 of the financial statements for further details of the impact of IFRS 16.

[3] The application of IFRS 16 has increased the Group's 2019 statutory loss before tax by £0.6m, with no restatement of the prior year comparative. Refer to Note 13 of the financial statements for further details of the impact of IFRS 16.

[4] Net free cash outflow is defined as Adjusted net cash from operating activities, less cash used in investing activities. Adjusted net cash from operating activities is defined as net cash from operating activities, less the repayment of IFRS 16 lease liabilities. Refer to Note 14 of the financial statements for a reconciliation of the measure.

PERFORMANCE AT A GLANCE

Six months ended 30 June	2019	2018	% change
Income statement			
Revenue	**£51.1m**	£53.0m	(3.5%)
Adjusted EBITDA[1]	**£5.4m**	£0.1m	
Adjusted EBITDA margin[1]	**10.7%**	0.1%	
Adjusted EBITDA (pre-IFRS 16)[1]	**£0.1m**	£0.1m	-
Adjusted EBITDA margin (pre-IFRS 16)[1]	**0.2%**	0.1%	100%
Statutory loss before tax	**(£3.2m)**	(£2.5m)	(29%)
Loss per share			
Basic and fully diluted loss per share	**(1.1p)**	(1.1p)	-
Dividends			
Interim proposed	**-**	-	-
Cash flow			
Net free cash (outflow)[2]	**(£3.5m)**	(£6.0m)	42%
Period end cash balance	**£14.5m**	£11.8m	
KPIs[3]			
Sales revenue	**£15.4m**	£17.2m	(10%)
Sales units	**1,194**	1,188	1%
Revenue per sales unit	**£12,934**	£14,450	(10%)
Lettings revenue	**£31.7m**	£31.7m	-
Lettings units	**9,265**	9,430	(2%)
Average revenue per lettings unit	**£3,423**	£3,365	2%
Mortgage broking revenue	**£4.0m**	£4.1m	(3%)
Units	**2,099**	2,120	(1%)
Average revenue per broking unit	**£1,889**	£1,929	(2%)

[1]These measures are the Alternative Performance Measures used by the Group. Refer to Note 14 of the financial statements for definitions, purpose and reconciliations to IFRS measures.

[2] Net free cash outflow is defined as Adjusted net cash from operating activities, less cash used in investing activities. Adjusted net cash from operating activities is defined as net cash from operating activities, less the repayment of IFRS 16 lease liabilities. Refer to Note 14 for a reconciliation of the measure. As explained in Note 14, the Group's Operating cash conversion measure is not considered to be relevant for H1 2019 due to an Adjusted operating cash outflow in the current and prior period.

[3]Average revenue per branch and Average revenue per employee were presented as KPIs in the Group's 2018 Annual Report and Accounts. These metrics are not considered to be relevant at the half-year reporting date and therefore have not been presented.

CHIEF EXECUTIVE'S REVIEW

Summary

The Group's results in the first half of 2019 continued to be impacted by the prolonged downturn in the London sales market, with volumes remaining at very low levels. First half Group revenue was £51.1m (2018: £53.0m) of which revenue from sales was £15.4m (2018: £17.2m), revenue from lettings was £31.7m (2018: £31.7m) and revenue from mortgage broking was £4.0m (2018: £4.1m).

Whilst the Group's sales volumes remained stable, lower house prices and the sale of a higher proportion of lower-value properties compared to the same period last year led to a decrease in average revenue per unit to £12,934 (2018: £14,450). Overall revenue from the sales business fell by 10%, and on a quarterly basis sales revenue fell by 13% in Q1 versus prior year, and by 7% in Q2 versus prior year.

The lettings business remains our priority, representing 62% of the Group's revenues, and it continues to deliver stable results in what is an attractive and competitive marketplace. Lettings revenue was flat in the first half of the year, with Q1 revenue 2% higher and Q2 revenue 2% lower compared to prior year. Revenues included one month without tenant fees, following the implementation of the ban from 1 June 2019. The impact of the ban on Group revenue is expected to be £3m on 2019, and £4.5m on a full year basis. As a sign of our commitment to current and prospective landlords we have left our landlord fees unchanged.

Revenues at Alexander Hall, our mortgage broker, were down 3%, reflecting a decline in new mortgages, partially offset by growth in re-mortgages. In total, mortgage volumes were relatively flat, but the lower average fee attached to re-mortgages resulted in the overall revenue decline.

Group Adjusted EBITDA was £5.4m. Excluding the impact of IFRS 16, Group Adjusted EBITDA was flat at £0.1m (2018: £0.1m) as the lower revenue was offset by the cost actions we took last year which have helped protect profitability. Statutory loss before tax was £3.2m (2018: £2.5m loss before tax).

The Group maintains a strong balance sheet, with no external borrowings, and a cash balance of £14.5m at the period end (31 December 2018: £17.9m, 30 June 2018: £11.8m).

Property sales market

We are currently operating in a sustained downturn, with political uncertainty exacerbating a London sales market characterised by very low transaction levels. Selling or finding a house in this market can be challenging, making us the ideal partner for buyers and sellers. Our high service model is based on knowledgeable and committed professionals who benefit from our London-wide footprint and are committed to delivering the best results. Our consistent listings share and number one position demonstrate the continuing trust homeowners have in Foxtons to sell their home.

Whilst there has been some softening of prices we do not see any change to overall market conditions in the short term. In the longer term, we maintain confidence that transaction levels will improve based on the inherent desirability of owning property in London and we will continue to position the business such that we are ready to benefit from any change in market conditions.

Lettings market

Lettings in London is a dynamic and attractive market with strong, structural drivers of demand and increasing levels of regulatory complexity. This is partially offset by heightened levels of competition as agents prioritise lettings in the weak sales market. The trend to rent in London continues to grow, with approximately 30% of households (one million) now in private rented accommodation. The growing numbers of renters and desire to increase standards of accommodation has increased regulatory scrutiny on landlords. Foxtons is well placed to benefit from this dynamic with a strong compliance culture and London-wide footprint enabling us to both help landlords navigate the risks and find the right tenants whilst offering tenants the biggest choice of high quality rental property in the capital.

The tenant fee ban has only recently come into place and it is too early to assess its impact on the marketplace. The scale and the efficiency initiatives we have undertaken in recent years have enabled us to invest in our lettings offer and maintain landlord fees at current levels. We are committed to providing an outstanding proposition to our landlords and this decision builds on our already excellent offer.

During the period the portfolio remained broadly flat and the proportion of actively managed properties in the portfolio remained stable at 34% (2018: 34%).

Outlook

Looking ahead we see market conditions unchanged in the short term. The sales market remains very challenging with political uncertainty further impacting a weak market. In lettings our decision not to increase fees has improved our already strong proposition and we are confident this will drive market share over the medium term.

In the longer term we remain well placed to benefit from increases in activity levels with a leading market position in London, one of the world's most desirable cities and dynamic property markets, and a strong balance sheet.

Nic Budden
Chief Executive Officer

FINANCIAL REVIEW

Overview

Group revenue fell by 3.5% to £51.1m (2018: £53.0m), with revenue from sales down 10%, revenue from lettings flat year-on-year and revenue from mortgage broking down 3%.

Group Adjusted EBITDA was £5.4m. Excluding the impact of IFRS 16, Group Adjusted EBITDA was flat at £0.1m (2018: £0.1m). The cost saving initiatives undertaken in the second half of 2018 have delivered savings of £1.7m during the period, in line with our expectations.

The Group's statutory loss before tax was £3.2m (2018: £2.5m loss before tax), with £0.6m of the year-on-year decrease due to the implementation of IFRS 16 from 1 January 2019.

The Group has no external borrowings with £14.5m of cash as at 30 June 2019 (31 December 2018: £17.9m, 30 June 2018: £11.8m). The Group has a £5m revolving credit facility which expires in July 2022 and remains undrawn.

Summary income statement and cash flow

Half year ended 30 June	**2019**	2018	% change
Group revenue	**£51.1m**	£53.0m	(3.5%)
Group Adjusted EBITDA	**£5.4m**	£0.1m	
Group Adjusted EBITDA (pre-IFRS 16)	**£0.1m**	£0.1m	-
Statutory loss before tax	**(£3.2m)**	(£2.5m)	(29%)
Net free cash (outflow)	**(£3.5m)**	(£6.0m)	42%
Basic and fully diluted loss per share	**(1.1p)**	(1.1p)	-
Interim dividend per share	**Nil**	Nil	-

Revenue

The Group comprises three reporting segments: Sales, Lettings and Mortgage Broking. The majority of operations are in the London area with two branches in the adjacent area of Surrey.

£m	**H1 2019**	H1 2018	% variance
Sales	**15.4**	17.2	(10%)
Lettings	**31.7**	31.7	-
Mortgage Broking	**4.0**	4.1	(3%)
Total revenue	**51.1**	53.0	(3.5%)

Sales

There continues to be very low levels of activity in the London property sales market. Revenues fell by 10% versus the prior year, with volumes flat year-on-year and the average revenue per transaction decreasing to £12.9k (2018: £14.5k). The reduction in average revenue per transaction was due to a change in the mix of properties sold. The average price of properties sold was lower than last year at £544k (2018: £582k).

Lettings

Lettings continues to provide a consistent recurring revenue stream which comprises 62% of the Group's revenues. Lettings revenue was in line with prior year, despite the tenant fee ban impacting revenues by £0.5m in June 2019. The lettings business is seasonal and the Group has a number of initiatives in place to capitalise on the peak period which occurs in the third quarter of the year.

Mortgage Broking

Revenue at our mortgage business, Alexander Hall, fell by 3%. This reflected a decline in new mortgages, partially offset by growth in re-mortgages. Volumes were relatively flat but the lower average fee attached to re-mortgages resulted in the overall revenue decline.

Balanced business

A key strategic priority for the Group is to maintain a balanced business since this enables the Group to withstand fluctuations in the property market and provides protection from the potentially volatile sales market. The Group has maintained a consistent balance in its business year-on-year.

% of total revenue	H1 2019	H1 2018
Sales	**30%**	32%
Lettings	**62%**	60%
Mortgage Broking	**8%**	8%
Total revenue	**100%**	100%

Contribution and Adjusted EBITDA

A key metric for management is the contribution generated by the three reporting segments. Contribution is defined as revenue less direct salary costs of front office staff and costs of bad debt. The Group's contribution margin was marginally higher than prior year at 63.6% (2018: 63.3%) as lettings become a greater proportion of total revenue. Refer to Note 14 of the financial statements for a reconciliation of contribution from revenue.

Contribution	2019		2018	
	£m	Margin	£m	Margin
Sales	**7.9**	**51.0%**	8.8	51.2%
Lettings	**22.8**	**71.9%**	22.9	72.0%
Mortgage Broking	**1.9**	**46.9%**	1.9	47.1%
Group contribution	**32.5**	**63.6%**	33.6	63.3%

Following the application of IFRS 16 from 1 January 2019 the Group's reported Adjusted EBITDA is £5.3m higher than if previous lease accounting principles had been applied. Under previous accounting principles, a lease rental expense of £5.5m and other income of £0.2m would have been recognised within Adjusted EBITDA. Under IFRS 16, these elements have been replaced by right-of-use asset depreciation of £4.7m and net finance costs of £1.2m which are excluded from Adjusted EBITDA.

The table below presents the Group's 2019 Adjusted EBITDA measures on an "as reported" and "pre-IFRS 16" basis, with no restatement of the 2018 measures. Refer to Note 3 of the financial statements for a definition of Adjusted EBITDA and reconciliation to loss before tax. Following the application of IFRS 16, and as market practice evolves, the Group's Alternative Performance Measures will be reviewed for continuing relevance.

Adjusted EBITDA	2019 (as reported)		2019 (pre-IFRS 16)		2018	
	£m	Margin	£m	Margin	£m	Margin
Sales	**(0.8)**	**(5.3%)**	**(2.8)**	**(18.0%)**	(3.6)	(21.0%)
Lettings	**5.6**	**17.7%**	**2.3**	**7.3%**	3.0	9.5%
Mortgage Broking	**0.6**	**16.4%**	**0.6**	**14.1%**	0.7	16.4%
Group Adjusted EBITDA	**5.4**	**10.7%**	**0.1**	**0.2%**	0.1	0.1%

The integrated nature of the business model means that a relatively large proportion of the cost base is shared between the Sales and Lettings segments. Adjusted EBITDA (pre-IFRS 16) and margin for the sales business improved, whilst Adjusted EBITDA (pre-IFRS 16) and margin for the lettings business declined. For the purposes of segmental reporting shared costs are allocated between the sales business and the lettings business according to headcount. 2019 headcount was higher in the lettings business than in the sales business, and therefore a higher proportion of shared cost has been allocated to lettings in the current year.

Statutory loss before tax

The statutory loss before tax in the period was £3.2m (2018: £2.5m loss before tax) and was after charging:

- Direct salary costs of front office staff of £18.4m (2018: £19.1m)
- Shared costs of £27.1m (2018: £33.5m), which under IFRS 16 no-longer includes operating lease expenses of £5.5m
- Depreciation (excluding IFRS 16 depreciation charges of £4.7m) and amortisation £2.0m (2018: £2.2m)
- Share-based payment charge of £0.4m (2018: £0.7m)
- Other losses £0.1m (2018: Other gains of £0.3m)
- Net finance costs (excluding IFRS 16 finance costs of £1.3m) of nil (2018: nil)
- IFRS 16 charges of £6.0m (2018: nil) relating to right-of-use depreciation of £4.7m (2018: nil) and lease liability finance costs of £1.3m (2018: nil)
- Adjusted items charges £0.4m (2018: nil); refer to the section below for additional details

Adjusted items

The Group incurred a £0.4m charge (H1 2018: nil, FY 2018: £15.7m charge) in respect of Adjusted items, all of which is non-cash. The charge is driven by the impairment of the fixed assets of a relatively new branch which has not matured at the rate originally anticipated.

IFRS 16 'Leases'

The implementation of IFRS 16 does not impact how we run the business, nor does it impact the cash position or cash flows of the Group. However, there is a material impact on the presentation of the financial statements. On transition to IFRS 16 on 1 January 2019, the Group recognised additional right-of-use assets and additional lease liabilities with respect to its offices and motor vehicles. The financial reporting impact is summarised as:

- Recognition of right-of-use assets of £61.0m presented within property, plant and equipment
- Recognition of lease liabilities of £62.4m presented separately within current and non-current liabilities
- Net £0.6m increase in the Group's loss before tax compared to if pre-IFRS 16 accounting principles had been applied. This is due to a reduction in revenue of £0.2m, and a rental expense of £5.5m being replaced by right-of-use asset depreciation of £4.7m and lease liability finance costs of £1.3m.

Taxation

The Group has a low risk approach to its tax affairs. All business activities of Foxtons operate within the UK and are UK tax registered and fully compliant. The Group does not have any complex tax structures in place and does not engage in any aggressive tax planning or tax avoidance schemes. The Group always sets out to be transparent, open and honest in its dealings with tax authorities. The Group received a tax refund of £0.1m in the period (2018: £1.4m tax paid).

Loss per share (EPS)

Basic and fully diluted loss per share is 1.1p (2018: 1.1p) driven by reduced profitability. Adjusted loss per share is 1.0p (2018: 1.1p).

Cash flow

Net free cash outflow for the period is £3.5m (2018: £6.0m outflow) which includes:

- Working capital outflow of £2.0m (2018: £2.5m)
- £0.7m (2018: £0.7m) payments in respect of prior year Adjusted items
- £0.2m (2018: £0.5m) of net capital expenditure, which has been tightly controlled
- Nil (2018: £1.0m) purchase of investments
- £0.1m tax refund (2018: £1.4m tax paid)

The Group held net cash of £14.5m as at the period end (31 December 2018: £17.9m, 30 June 2018: £11.8m).

Dividends
The Board's priorities for free cash flow are to fund investment in the future development of the business, maintain a strong balance sheet and to return excess cash to shareholders. We have a policy of returning 35% to 40% of profit after tax as an ordinary dividend. As the Group did not make a profit in the period, the Board has taken the decision not to pay an interim dividend.

Post balance sheet events
There are no post balance sheet events to report.

Treasury policies and objectives
The Group's treasury policy is designed to reduce financial risk.

Financial risk for the Group is low as:

- the Group has no external borrowings;
- the Group is entirely UK-based with no foreign currency risks; and
- surplus cash balances are held with major UK based banks.

As a consequence of the above, the Group has not had to enter into any financial instruments to protect against risk.

Pensions
The Group does not have any defined benefit schemes in place but is subject to the provisions of auto-enrolment which require the Group to make certain defined contribution payments for our employees.

Richard Harris
Chief Financial Officer

PRINCIPAL RISKS

Risk management

The Board is responsible for establishing and maintaining the Group's system of risk management and internal control, with the aim of protecting its employees and customers and safeguarding the interests of the Company and its Shareholders in the constantly changing environment in which it operates. The Board regularly reviews the principal risks facing the Company together with the relevant mitigating controls and undertakes a robust assessment. In reviewing the principal risks the Board considers emerging risks and significant changes to existing risk ratings. In addition the Board has set guidelines for risk appetite as part of the risk management process against which risks are monitored.

The identification of risk in the Group is undertaken by specific executive risk committees which analyse overall corporate risk, information technology risk and mortgage broking risk. Other committees exist below this level to focus on specific areas such as anti-money laundering. A common risk register is used across the Group to monitor gross and residual risk with the results being assessed by the Board. The compliance department constantly reviews operations to ensure that any non-standard transactions have been properly authorised and that procedures are being properly adhered to across the branch network. The Audit Committee monitors the effectiveness of the risk management system through regular updates originating from the various executive risk committees.

The principal risks table below sets out the risks facing the business at the date of this report analysed between external and internal factors. These risks do not comprise all of the risks that the Group may face and are not listed in any order of priority. Additional risks and uncertainties not presently known to management or deemed to be less material at the date of this report may also have an adverse effect on the Group.

The Group's principal risks are considered to be consistent with those set out on pages 26 to 28 of the 2018 Annual Report and Accounts. A summary of the principal risks is provided below.

External risk factors

Risk	Impact on Group
Market risk	As set out in the Chief Executive's review on pages 4 and 5, the Group continues to be impacted by the prolonged downturn in the London sales market, with transactions continuing to be at very low levels during 2019. There is a risk that the Group will be further impacted by factors such as: • affordability, which in turn may reduce transaction levels in the market; • a reduction in London's standing as a major financial city caused by the macro-economic and political environment, including the UK's decision to leave the EU; • the market being reliant on the availability of mortgage finance, a deterioration in which may adversely affect the Group; and • the market being impacted by any changes in government policy such as increases in stamp duty taxes or increased regulation in the lettings market.
Competitor challenge	Foxtons operates in a highly competitive marketplace. New or existing competitors could develop new services or methods of working including online and hybrid agents which could give them a competitive advantage over Foxtons.
Compliance with the legal and regulatory environment	Breaches of laws or regulations could lead to financial penalties and reputational damage. The Mortgage broking division is authorised and regulated by the FCA and could be subject to sanction for non-compliance.

Internal risk factors

Risk	Impact on Group
IT systems and cyber risk	Foxtons business operations are dependent on sophisticated IT systems which could fail or be deliberately targeted by cyber-attacks leading to interruption of service or corruption of data, or the loss or theft of customer data.
People	There is a risk that Foxtons may not be able to recruit and retain sufficient people to satisfy its organic expansion plans. In addition, senior staff may be recruited by competitors.

FORWARD LOOKING STATEMENTS

This interim results announcement contains certain forward-looking statements with respect to the financial condition and results of operations of Foxtons Group plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements are based on the directors' current views and information known to them at 25 July 2019. The directors do not make any undertakings to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this statement should be construed as a profit forecast.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

(a) The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
(b) The interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
(c) The interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Chief Executive Officer	Chief Financial Officer
Nic Budden	Richard Harris
25 July 2019	25 July 2019

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2019

Continuing operations	Notes	Six months to 30 June 2019 (Unaudited) £'000	Six months to 30 June 2018[1] (Unaudited) £'000
Revenue	3	**51,125**	52,993
Administrative expenses		**(53,073)**	(55,769)
Operating loss		**(1,948)**	(2,776)
Other (losses)/gains		**(55)**	257
Finance income		**67**	31
Finance costs		**(1,300)**	(29)
Loss before tax		**(3,236)**	(2,517)
Tax credit/(charge)	4	**250**	(430)
Loss and total comprehensive loss for the year		**(2,986)**	(2,947)
Loss per share			
Basic and diluted (pence per share)	6	**(1.1)**	(1.1)
Adjusted (pence per share)[2]	6	**(1.0)**	(1.1)

[1] The Group has applied IFRS 16 using the modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Therefore comparative information has not been restated. Refer to Note 13 for details of the impact of IFRS 16.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	**30 June 2019 (unaudited) £'000**	30 June 2018[1] (unaudited) £'000	31 December 2018[1] (audited) £'000
Non-current assets				
Goodwill	9	**9,349**	19,168	9,349
Other intangible assets	9	**101,248**	101,250	101,455
Property, plant and equipment	10	**72,936**	22,131	17,171
Interest in associate		**1,265**	1,039	1,289
Deferred tax assets		**1,407**	763	1,158
		186,205	144,351	130,422
Current assets				
Trade and other receivables		**10,950**	12,040	7,532
Current tax assets		**82**	61	212
Prepayments		**5,070**	5,865	6,195
Cash and cash equivalents	8	**14,516**	11,818	17,927
		30,618	29,784	31,866
Total assets		**216,823**	174,135	162,288
Current liabilities				
Trade and other payables		**(13,042)**	(13,419)	(13,747)
Lease liabilities	13	**(11,788)**	-	-
Provisions		**(1,419)**	(1,109)	(2,532)
Deferred revenue and lettings refund liability		**(5,397)**	(4,937)	(4,988)
		(31,646)	(19,465)	(21,267)
Net current (liabilities)/assets		**(1,028)**	10,319	10,599
Non-current liabilities				
Lease liabilities	13	**(47,235)**	-	-
Deferred tax liabilities		**(16,830)**	(16,830)	(16,830)
		(64,065)	(16,830)	(16,830)
Total liabilities		**(95,711)**	(36,295)	(38,097)
Net assets		**121,112**	137,840	124,191
Equity				
Share capital		**2,751**	2,751	2,751
Own shares held		**(774)**	(720)	(720)
Other capital reserve		**2,582**	2,582	2,582
Capital redemption reserve		**71**	71	71
Retained earnings		**116,482**	133,156	119,507
Total equity		**121,112**	137,840	124,191

[1] The Group has applied IFRS 16 using the modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Therefore comparative information has not been restated. Refer to Note 13 for details of the impact of IFRS 16.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2019

	Notes	**Share capital £'000**	**Own shares held £'000**	**Other capital reserve £'000**	**Capital redemption reserve £'000**	**Retained earnings £'000**	**Total equity £'000**
Balance at 31 December 2018		**2,751**	**(720)**	**2,582**	**71**	**119,507**	**124,191**
IFRS 16 adjustment (net of tax)[1]	13	**-**	**-**	**-**	**-**	**28**	**28**
Balance at 1 January 2019		**2,751**	**(720)**	**2,582**	**71**	**119,535**	**124,219**
Loss and total comprehensive loss for the period		**-**	**-**	**-**	**-**	**(2,986)**	**(2,986)**
Dividends	5	**-**	**-**	**-**	**-**	**-**	**-**
Own shares acquired in the period		**-**	**(54)**	**-**	**-**	**-**	**(54)**
Credit to equity for share-based payments		**-**	**-**	**-**	**-**	**381**	**381**
Cash settlement of share incentive plan		**-**	**-**	**-**	**-**	**(448)**	**(448)**
Balance at 30 June 2019 (unaudited)		**2,751**	**(774)**	**2,582**	**71**	**116,482**	**121,112**

	Notes	Share capital £'000	Own shares held £'000	Other capital reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018		**2,751**	**(720)**	**2,582**	**71**	**136,238**	**140,922**
Loss and total comprehensive loss for the period		-	-	-	-	(2,947)	(2,947)
Dividends	5	-	-	-	-	(742)	(742)
Credit to equity for share-based payments		-	-	-	-	607	607
Balance at 30 June 2018 (unaudited)		**2,751**	**(720)**	**2,582**	**71**	**133,156**	**137,840**

	Notes	Share capital £'000	Own shares held £'000	Other capital reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018		**2,751**	**(720)**	**2,582**	**71**	**136,238**	**140,922**
Loss and total comprehensive loss for the period		-	-	-		(17,190)	(17,190)
Dividends	5	-	-	-	-	(742)	(742)
Credit to equity for share based-payments		-	-	-	-	1,201	1,201
Balance at 31 December 2018		**2,751**	**(720)**	**2,582**	**71**	**119,507**	**124,191**

[1] The Group has applied IFRS 16 using the modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Therefore comparative information has not been restated. Refer to Note 13 for details of the impact of IFRS 16.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2019

	Notes	**Six months to 30 June 2019 (unaudited) £'000**	Six months to 30 June 2018[1] (unaudited) £'000
Operating activities			
Operating loss		**(1,948)**	(2,776)
Adjustments for:			
Depreciation of property, plant and equipment		**6,383**	2,172
Adjusted items charge		**385**	-
Other (losses)/gains		**(55)**	257
(Profit) on disposal of property, plant and equipment		**(42)**	(125)
Amortisation of intangible assets		**278**	75
(Decrease) in provisions		**(130)**	(198)
Share-based payment charges		**392**	715
Cash settlement of share incentive plan		**(448)**	-
Operating cash flows before movements in working capital		**4,815**	120
(Increase) in receivables		**(4,958)**	(4,482)
Increase in payables		**2,664**	1,229
Cash generated by operations		**2,521**	(3,133)
Income taxes received/(paid)		**130**	(1,380)
Net cash from/(absorbed by) operating activities		**2,651**	(4,513)
Investing activities			
Interest received		**33**	31
Proceeds on disposal of property, plant and equipment		**63**	314
Purchases of property, plant and equipment		**(153)**	(484)
Purchases of intangibles		**(116)**	(350)
Purchases of investments		**(31)**	(1,039)
Net cash used in investing activities		**(204)**	(1,528)
Financing activities			
Dividends paid	5	**-**	(742)
Interest paid		**(30)**	(29)
Repayment of lease liabilities		**(5,934)**	-
Finance sub-lease income received		**160**	-
Purchase of own shares		**(54)**	-
Net cash used in financing activities		**(5,858)**	(771)
Net (decrease)/increase in cash and cash equivalents		**(3,411)**	(6,812)
Cash and cash equivalents at beginning of period		**17,927**	18,630
Cash and cash equivalents at end of period		**14,516**	11,818

[1]The Group has applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to Note 13.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

1. GENERAL INFORMATION

Foxtons Group plc ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the Company's registered office is Building One, Chiswick Park, 566 Chiswick High Road, London W4 5BE. The principal activity of the Company and its subsidiaries (collectively, "the Group") is the provision of services to the residential property market in the UK.

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting', as adopted by the European Union. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those described in the Group's Annual Report and Accounts 2018.

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 do not constitute statutory accounts as defined in sections 435 (1) and (2) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 have been reported upon by the Group's auditor and have been delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Financial Review. The Financial Review also includes a summary of the Group's financial position and its cash flows.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, having considered the Group forecasts and projections, taking account of reasonably possible changes in trading performance, the current economic uncertainty and the uncertainty relating to Brexit. Accordingly, they have adopted the going concern basis in preparing the financial statements.

New standards, interpretations and amendments adopted by the Group

Except as described below, the accounting policies applied in these interim statements are the same as those applied in the Group's 2018 Annual Report and Accounts. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

IFRS 16 'Leases' has been applied from 1 January 2019. IFRS 16 has had a material impact on the Group's financial reporting, increasing both the assets and liabilities of the Group and the timing of recognition of operating costs, including Adjusted EBITDA. IFRS 16 has not had a material impact for leases where the Group is the intermediate sub-lessor.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information has not been restated.

Further details on the Group's IFRS 16 accounting policy and the transitional impact are provided in Note 13.

Critical accounting judgements and key sources of estimation uncertainty

The Group's critical accounting judgements and key sources of estimation uncertainty are consistent with those described in the Group's 2018 Annual Report and Accounts. No critical accounting judgements or key sources of estimation uncertainty have been identified in relation to the Group's application of IFRS 16.

Alternative Performance Measures

In reporting financial information the Group presents Alternative Performance Measures (APMs) which are not defined or specified under the requirements of IFRS. The Group believes that the presentation of APMs provides stakeholders with additional helpful information on the performance of the business, but does not consider them to be a substitute for or superior to IFRS measures. APMs have been defined, explained and reconciled to the nearest IFRS measure within Note 14.

To assist with the comparison of the Group's 2019 APMs with the 2018 APMs, certain 2019 APMs are presented on both a pre-IFRS 16 basis and on an IFRS 16 basis since the 2018 comparatives have not been restated under the modified retrospective transition option.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Products and services from which reportable segments derive their revenues

Management has determined the operating segments based on the monthly management pack reviewed by the directors, which is used to assess both the performance of the business and to allocate resources within the entity. Management has identified that the directors are the chief operating decision-makers in accordance with the requirements of IFRS 8 'Operating segments'.

The operating and reportable segments of the Group are (i) Sales, (ii) Lettings and (iii) Mortgage Broking.

The Sales segment generates commission on sales of residential property. The Lettings segment earns fees from the letting and management of residential properties and income from interest earned on tenants' deposits. As these two segments operate out of the same premises and share support services, a significant proportion of costs have to be apportioned between the segments. The basis of apportionment used is headcount in each segment.

The Mortgage Broking segment receives commission from the arrangement of mortgages and related products under contracts with financial service providers and receives administration fees from clients.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2.

All revenue for the Group is generated from within the UK and there is no intra-group revenue.

Adjusted EBITDA

Adjusted EBITDA represents the profit before tax for the period earned by each segment before allocation of finance costs, finance income, other gains/losses, depreciation, amortisation, profit on disposal of fixed assets, share-based payments and Adjusted items. This is the measure reported to the directors for the purpose of resource allocation and assessment of segment performance. Refer to Note 14 for additional details.

Adjusted items include costs or revenues which due to their size, incidence and departure from the Group's strategy require disclosure in the financial statements to provide alternative information to the user, representing underlying performance of the Group and allow comparability of performance from one period to another.

As set out in Note 13, IFRS 16 has been applied using the modified retrospective approach on 1 January 2019 and therefore the 2018 comparators do not require to be restated. To assist with the comparison of the Group's 2019 Adjusted EBITDA with 2018 Adjusted EBITDA , the Group's 2019 Adjusted EBITDA is presented on both a pre-IFRS 16 basis and on an IFRS 16 basis.

Segment assets and liabilities, including depreciation, amortisation and additions to non-current assets, are not reported to the directors on a segmental basis and are therefore not disclosed.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment for the half year ended 30 June 2019:

	Notes	Sales £'000	Lettings £'000	Mortgage Broking £'000	Consolidated £'000
Revenue		**15,443**	**31,717**	**3,965**	**51,125**
Contribution	14	**7,868**	**22,813**	**1,859**	**32,540**
Contribution margin	14	**51.0%**	**71.9%**	**46.9%**	**63.6%**
Adjusted EBITDA		**(815)**	**5,614**	**650**	**5,449**
Adjusted EBITDA margin		**(5.3%)**	**17.7%**	**16.4%**	**10.7%**
Depreciation (excl. IFRS 16 right-of-use depreciation)					**(1,702)**
Amortisation					**(278)**
Profit on disposal of property, plant and equipment					**42**
Other losses					**(55)**
Adjusted items[1]					**(385)**
Finance income					**67**
Finance cost (excl. IFRS 16 finance cost)					**(30)**
Share-based payment charge					**(392)**
IFRS 16 right-of-use depreciation	13				**(4,682)**
IFRS 16 lease liability finance cost	13				**(1,270)**
Loss before tax					**(3,236)**

[1] The Group incurred a £0.4m charge (H1 2018: nil, FY 2018: £15.7m charge) in respect of Adjusted items, all of which is non-cash. The charge is driven by the impairment of the fixed assets of a relatively new branch which has not matured at the rate originally anticipated.

Under IFRS 16, the Group's Adjusted H1 2019 EBITDA is £5.3m higher than if previous lease accounting principles had been applied. Under previous lease accounting principles, a lease rental expense of £5.5m and other income of £0.2m would have been recognised within Adjusted EBITDA. Under IFRS 16, these elements have been replaced by right-of-use asset depreciation of £4.7m and net finance costs of £1.2m which are excluded from Adjusted EBITDA. On a pre-IFRS 16 basis, the Group's H1 2019 Adjusted EBITDA would have been £0.1m.

The table below summarises the Group's 2019 Adjusted EBITDA and 2019 Adjusted EBITDA margin on a pre-IFRS 16 basis to enable comparability to 2018's results.

	Sales £'000	Lettings £'000	Mortgage Broking £'000	Consolidated £'000
Adjusted EBITDA (pre-IFRS 16)	**(2,789)**	**2,334**	**560**	**105**
Adjusted EBITDA margin (pre-IFRS 16)	**(18.0%)**	**7.3%**	**14.1%**	**0.2%**

The following is an analysis of the Group's revenue and results by reportable segment for the half year ended 30 June 2018:

	Notes	Sales £'000	Lettings £'000	Mortgage Broking £'000	Consolidated £'000
Revenue		17,167	31,736	4,090	52,993
Contribution	14	8,787	22,853	1,927	33,567
Contribution margin	14	51.2%	72.0%	47.1%	63.3%
Adjusted EBITDA		(3,612)	3,002	671	61
Adjusted EBITDA margin		(21.0%)	9.5%	16.4%	0.1%
Depreciation					(2,172)
Amortisation					(75)
Profit on disposal of property, plant and equipment					125
Other gains					257
Finance income					31
Finance cost					(29)
Share-based payment charge					(715)
Loss before tax					(2,517)

4. TAX

	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018 (unaudited) £'000
Current tax		
Current tax charge	**-**	316
Deferred tax (credit)/charge	**(250)**	114
Tax (credit)/charge on profit on ordinary activities	**(250)**	430

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2019 (February 2019). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

5. DIVIDENDS

	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018 (unaudited) £'000
Amounts recognised as distributions to equity holders in the period:		
Final and special dividends year ended 31 Dec 2017: 0.27p per ordinary share	**-**	742
	-	742

As the Group did not make a profit after tax, in line with the policy, the Board has taken the decision to not pay an interim dividend.

6. LOSS PER SHARE

	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018 (unaudited) £'000
Loss for the purposes of basic and diluted earnings per share being loss for the period	**(2,986)**	(2,947)
Adjust for:		
Adjusted items	385	-
Taxation on Adjusted items	(95)	-
Adjusted loss	**(2,696)**	(2,947)
Adjust for the impact of IFRS 16:		
Deduct: IAS 17 lease rental expense for H1 2019	**(5,344)**	-
Add back: IFRS 16 right-of-use depreciation for H1 2019	**4,682**	-
Add back: IFRS 16 lease liability finance cost for H1 2019:	**1,270**	-
Adjusted loss (pre-IFRS 16)	**(2,088)**	(2,947)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**274,859,980**	274,870,477
Effect of dilutive potential ordinary shares	**-**	899,373
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**274,859,980**	275,769,850
Basic and diluted loss per share (in pence per share)	**(1.1)**	(1.1)
Adjusted loss per share (in pence per share)	**(1.0)**	(1.1)
Adjusted loss per share pre-IFRS 16 (in pence per share)	**(0.8)**	(1.1)

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents excludes client monies (refer to Note 12).

8. FINANCIAL INSTRUMENTS

The Group does not hold any financial instruments categorised as level 1, 2 or 3 as detailed by IFRS 13. Management considers that the book value of financial assets and liabilities recorded at amortised cost and their fair value are approximately equal.

The book value and fair value of the Group's financial assets and liabilities are as follows:

	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Cash and cash equivalents	**14,516**	11,818	17,927
Trade and other receivables	**10,950**	12,040	7,532
Trade and other payables	**(13,042)**	(13,419)	(13,747)

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. Cash and cash equivalents exclude client monies (refer to Note 12).

9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets of £110.6m (31 December 2018: £110.8m, 30 June 2018: £120.4m) comprise:

- £9.3m of goodwill (31 December 2018: £9.3m, 30 June 2018: £19.2m);
- £99m brand asset relating to the Sales and Lettings businesses (31 December 2018: £99m, 30 June 2018: £99m);
- £2.2m of software (31 December 2018: £2.3m, 30 June 2018: £2.0m); and
- £0.1m of purchased contracts (31 December 2018: £0.2m, 30 June 2018: £0.2m).

The goodwill of £9.3m as at 30 June 2019 is allocated to the Lettings segment (31 December 2018: £9.3m Lettings); 30 June 2018: £9.8m Sales and £9.3m Lettings).

Review for indicators of significant impairment at 30 June 2019

At 30 June 2019, the Group has assessed for indicators of significant impairment of the Group's goodwill and brand asset. Following consideration of both internal and external impairment indicators, including 2019 year-to date trading performance, no indicators of significant impairment have been identified.

Impairment sensitivity

As described in the Group's 2018 Annual Report and Accounts:

- the brand asset is sensitive to changes in growth assumptions;
- the goodwill showed significant headroom against all scenarios in the 2018 sensitivity analysis;
- due to the prolonged nature of the current downturn in the sales market the headroom, the brand asset is more sensitive to the lettings growth plan and therefore the key judgement in the impairment assessment is the expected growth of the lettings business; and
- the carrying value of the brand asset is not highly sensitive to changes in the discount rate or long-term growth rate.

The impairment review completed for the year ended 31 December 2018 showed headroom on the brand asset of £55m. The plan underpinning the impairment review assumed that lettings revenue growth throughout the plan period will be driven by a number of significant investments in the Group's service offering made over 2017 and 2018.

Within the 2018 Annual Report and Accounts, it was noted that if there was no change in other elements of the plan, the headroom would reduce to zero if the CAGR for lettings over the five year plan period was 1%. If there was no growth in lettings revenue over the five year plan period, this would impair the brand asset by £24m. Both these downside scenarios to the plan include controllable cost mitigation in negotiator headcount and reduction in back office costs. Further mitigating actions would be available should these two scenarios arise.

As set out in the Financial Review, in the six months to 30 June 2019, lettings revenue is flat compared to the prior year despite the tenant fee ban impacting revenue by £0.5m. It continues to be management's view that lettings continues to deliver a consistent and stable revenue stream for the Group with good long-term fundamentals.

The Group will complete an annual impairment review for the goodwill and the brand asset in the second half of the year.

10. PROPERTY, PLANT & EQUIPMENT

Right-of-use assets of £61.0m were recognised upon the initial application of IFRS 16 on 1 January 2019 and are presented within property, plant and equipment. Refer to Note 13 for further information regarding the initial application of IFRS 16.

11. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, no group companies entered into transactions with related parties who are not members of the Group.

12. CLIENT MONIES

At 30 June 2019, client monies (all held by Foxtons Limited) in approved bank and building society accounts amounted to £91.0m (31 December 2018: £90.2m, 30 June 2018: £92.5m). Neither this amount nor the matching liabilities to the clients concerned are included in the consolidated balance sheet. Foxtons Limited's terms and conditions provide that interest income on these deposits accrues to the Company.

Client funds are protected by the Financial Services Compensation Scheme (FSCS) under which the government guarantees amounts up to £85,000 each. This guarantee applies to each individual client's deposit monies, not the sum total on deposit.

13. IFRS 16 'LEASES' ACCOUNTING POLICY, INITIAL APPLICATION AND 2019 IMPACT

This note sets out the Group's IFRS 16 accounting policy, IFRS 16 transitional disclosures and the impact of IFRS 16 'Leases' on the Group's 30 June 2019 financial position and financial performance.

IFRS 16 ACCOUNTING POLICY

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

- **Lease liability*:*** The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses an incremental borrowing rate which is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

  Lease payments included in the measurement of the lease liability primarily comprise of fixed lease payments, less any lease incentives and variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

  The lease liability is presented across separate lines (current and non-current) in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

  The carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying assets. No re-measurements have been made in the period.

- **Right-of-use assets:** The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset and are now presented within property, plant and equipment.

  The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss in line with the Group's existing impairment accounting policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in administrative expenses in the statement of comprehensive income.

Under IFRS 16, the straight-line operating lease expense, previously charged under IAS 17 has been replaced with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

The Group as lessor

The Group acts as an intermediate sub-lessor for certain properties. The Group accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, the Group has reclassified certain of its sublease arrangements as finance leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

IFRS 16 INITIAL APPLICATION

Lease identification

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease by assessing whether the fulfilment of the arrangement was dependent on the use of a specific asset or assets; and the arrangement had conveyed a right to use the asset. The key points of consideration were:

- the Group's ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the Group's ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- whether it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Practical expedients applied

At transition, the Group has applied the following practical expedients:

- using a single discount rate for portfolios of leases with reasonably similar characteristics. The Group applied a range of discount rates from 2.6% to 4.62%;
- relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review; and
- applied the short-term leases exemptions to leases with lease term that ends within 12 months and do not contain a purchase option at the date of initial application.

Impact of transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The effect of adoption IFRS 16 as at 1 January 2019 to the Statement of Financial Position is as follows:

- Right-of-use assets of £61.0m were recognised and presented within property, plant and equipment in the statement of financial position. This relates only to the lease assets treated previously as operating leases.
- Lease liabilities of £62.4m were recognised and presented separately in the statement of financial position, allocated between current and non-current liabilities.
- Prepayments of £2.5m and rent premiums of £0.7m (both included in trade and other receivables) related to previous operating leases were derecognised.

- Rent free period accruals of £2.7m (included in trade and other payables) related to previous operating leases were derecognised.
- A £0.9m finance lease adjustment was recognised in relation to Group's sub-lease arrangements.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£'000
Operating lease commitments as at 31 December 2018	**76,053**
Less:	
Commitments relating to short-term leases	(157)
Adjusted operating lease commitments as at 31 December 2018	75,896
Discounted by: weighted average incremental borrowing rate as at 1 January 2019	4.5%
Lease liabilities as at 1 January 2019	**62,436**
Of which are:	
Current lease liabilities	11,768
Non-current lease liabilities	50,668

IMPACT FOR THE PERIOD ENDED 30 JUNE 2019

Below, the impact of IFRS 16 on the 30 June 2019 reporting period is presented since it is relevant to understanding the Group's 30 June 2019 financial statements.

Impact on the consolidated statement of comprehensive income: 30 June 2019

The application of IFRS 16 has resulted in a decrease in lease rental income, a decrease in other operating expenses and an increase in depreciation and finance costs compared to IAS 17.

	30 June 2019 results as reported £'000	**30 June 2019 IFRS 16 impact** £'000	**30 June 2019 results on a pre-IFRS 16 basis** £'000
Revenue	51,125	(160)	51,285
Administrative expenses	(53,073)	825	(53,898)
Operating (Loss)/Profit	**(1,948)**	**665**	**(2,613)**
Other gains	(55)	-	(55)
Finance income	67	34	33
Finance costs	(1,300)	(1,270)	(30)
(Loss)/Profit before tax	**(3,236)**	**(571)**	**(2,665)**
Tax credit	250	-	250
(Loss)/Profit and total comprehensive income for the year	**(2,986)**	**(571)**	**(2,415)**

Impact on the consolidated statement of financial position: 30 June 2019

	30 June 2019 results as reported £'000	30 June 2019 IFRS 16 impact £'000	30 June 2019 results on a pre-IFRS 16 basis £'000
Non-current assets			
Goodwill	9,349	-	9,349
Other intangible assets	101,248	-	101,248
Property, plant and equipment	72,936	57,853	15,083
Interest in associate	1,265	-	1,265
Deferred tax assets	1,407	-	1,407
	186,205	**57,853**	**128,352**
Current assets			
Trade and other receivables	10,950	564	10,386
Current tax assets	82	-	82
Prepayments	5,070	(3,244)	8,314
Cash and cash equivalents	14,516	-	14,516
	30,618	**(2,680)**	**33,298**
Total assets	**216,823**	**55,173**	**161,650**
Current liabilities			
Trade and other payables	(13,042)	2,867	(15,909)
Lease liabilities	(11,788)	(11,788)	-
Provisions	(1,419)	439	(1,858)
Deferred revenue and lettings refund liability	(5,397)	-	(5,397)
	(31,646)	**(8,482)**	**(23,164)**
Net current assets	**(1,028)**	**(11,162)**	**10,134**
Non-current liabilities			
Lease liabilities	(47,235)	(47,235)	-
Deferred tax liabilities	(16,830)	-	(16,830)
	(64,065)	**(47,235)**	**(16,830)**
Total liabilities	**(95,711)**	**(55,717)**	**(39,994)**
Net assets	**121,112**	**(544)**	**121,656**
Total equity	**121,112**	**(544)**	**121,656**

Impact on the consolidated cash flow statement: 30 June 2019

	30 June 2019 results as reported £'000	30 June 2019 IFRS 16 impact £'000	30 June 2019 results on a pre-IFRS 16 basis £'000
Operating activities			
Operating (loss)	**(1,948)**	**665**	**(2,613)**
Adjustments for:			
Depreciation of property, plant and equipment	6,383	4,682	1,701
Adjusted items charge	385	-	385
Other (losses)	(55)	-	(55)
(Profit) on disposal of property, plant and equipment	(42)	(3)	(39)
Amortisation of intangible assets	278	-	278
(Decrease) in provisions	(130)	807	(937)
Share-based payment charges	392	-	392
Cash settlement of share incentive plan	(448)	-	(448)
Operating cash flows before movements in working capital	**4,815**	**6,151**	**(1,336)**
(Increase) in receivables	(4,958)	(3,244)	(1,714)
Increase in payables	2,664	2,867	(203)
Cash generated by operations	**2,521**	**5,774**	**(3,253)**
Income taxes received	130	-	130
Net cash from operating activities	**2,651**	**5,774**	**(3,123)**
Net cash used in investing activities	**(204)**	**-**	**(204)**
Interest paid	**(30)**	-	(30)
Repayment of lease liabilities	**(5,934)**	(5,934)	-
Finance sub-lease income received	**160**	160	-
Purchase of own shares	**(54)**	-	(54)
Net cash used in financing activities	**(5,858)**	**(5,774)**	**(84)**
Net (decrease)/increase in cash and cash equivalents	**(3,411)**	**-**	**(3,411)**

14. ALTERNATIVE PERFORMANCE MEASURES

In reporting financial information the Group presents Alternative Performance Measures (APMs) such as Adjusted EBITDA, Contribution and Net Free Cash Flow which are not defined or specified under the requirements of IFRS. The Group believes that the presentation of APMs provides stakeholders with additional helpful information on the performance of the business, but does not consider them to be a substitute for or superior to IFRS measures.

Our APMs are aligned to our strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because if included, these items could distort the understanding of our performance for the period and the comparability between periods.

As set out in Note 13, IFRS 16 has been applied using the modified retrospective approach on 1 January 2019 and therefore the 2018 comparators do not require to be restated. To assist with the comparison of the Group's 2019 APMs with the 2018 APMs, certain 2019 APMs are presented on both a pre-IFRS 16 basis and on an IFRS 16 basis. Following the application of IFRS 16, and as market practice evolves, the Group's APMs will be reviewed for continuing relevance.

Adjusted EBITDA

Adjusted EBITDA is defined as profit before tax, finance costs, finance income, other gains/losses, depreciation, amortisation, profit on disposal of assets, share-based payments and Adjusted items (defined below). This measure is reported to the directors for the purpose of resource allocation and assessing segmental and Group performance.

Adjusted items include costs or revenues which due to their size, incidence and departure from the Group's strategy require disclosure in the financial statements to give a true representation of the underlying performance of the Group and allow comparability of performance from one period to another. Items include restructuring and impairment charges together with any particularly significant one-off items.

Share-based payments are excluded from Adjusted EBITDA since they are a non-cash item and vary depending on the share price at the date of grants under the Group's share option schemes, and depending on the assumptions used in valuing these awards as they are granted. Excluding share-based payment charges removes volatility and improves comparability of the Group's results with prior periods. Additionally, excluding the charges improves comparability of the Group's results with peer companies which exclude the charges where applicable.

The closest equivalent IFRS measure to Adjusted EBITDA is profit/loss before tax. Refer to Note 3 for a reconciliation between profit/loss before tax and Adjusted EBITDA.

Adjusted EBITDA margin

Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue. This APM is a key performance indicator of the Group and is used to measure the delivery of the Group's strategic priorities.

Contribution and contribution margin

Contribution is defined as revenue less direct salary costs of front office staff and costs of bad debt. Contribution margin is defined as Contribution divided by revenue.

Contribution and contribution margin are key metrics for management since both are measures of the profitability and efficiency of the Group and operating segments before the allocation of shared costs. The closest IFRS measure is revenue. A reconciliation between revenue and contribution is presented below.

30 June 2019	Sales £'000	Lettings £'000	Mortgage Broking £'000	Consolidated £'000
Revenue	**15,443**	**31,717**	**3,965**	**51,125**
Less: Directly attributable salary costs	(7,458)	(8,815)	(2,106)	(18,379)
Less: Bad debt charges	(117)	(89)	-	(206)
Contribution	**7,868**	**22,813**	**1,859**	**32,540**
Contribution margin	**51.0%**	**71.9%**	**46.9%**	**63.6%**

30 June 2018	Sales £'000	Lettings £'000	Mortgage Broking £'000	Consolidated £'000
Revenue	**17,167**	**31,736**	**4,090**	**52,993**
Less: Directly attributable salary costs	(8,313)	(8,645)	(2,162)	(19,120)
Less: Bad debt charges	(67)	(238)	(1)	(306)
Contribution	**8,787**	**22,853**	**1,927**	**33,567**
Contribution margin	**51.2%**	**72.0%**	**47.1%**	**63.3%**

Adjusted earning/loss per share

Adjusted earnings/loss per share is defined as earnings/loss per share excluding Adjusted items. The measure is derived by dividing profit/loss after tax adjusted for Adjusted items by the weighted average number of ordinary shares in issue during the financial period. This APM is a measure of the Group's underlying earnings per share.

The closest equivalent IFRS measure is basic earnings/loss per share. Refer to Note 6 for a reconciliation between basic earnings/loss per share and Adjusted earnings/loss per share.

Operating cash conversion

Operating cash conversion is defined as the ratio of Adjusted operating cash to Adjusted EBITDA less the repayment of IFRS 16 lease liabilities. Adjusted operating cash is defined as Adjusted EBITDA less the repayment of IFRS 16 lease liabilities, adjusted for movements in working capital and net capital spend.

The APM definition has been revised in the period as a result of the application of IFRS 16 from 1 January 2019, under which, lease payments are excluded from Adjusted EBITDA. In order for the operating cash conversion measure to include lease payments, under the revised definition, the repayment of IFRS 16 lease liabilities is deducted from Adjusted EBITDA. The measure acts as a proxy for cash generation.

At the H1 2019 and H1 2018, the Group's adjusted operating cash is negative and therefore the Operating cash conversion measure is not considered to be relevant and therefore has not been calculated in the current year or prior period. The Group will continue to utilise the measure for the full year.

Net free cash flow

Net free cash flow is defined as Adjusted net cash from operating activities less net cash used in investing activities. Adjusted net cash from operating activities is defined as net cash from operating activities, less repayment of IFRS 16 lease liabilities.

The APM definition has been revised in the period as a result of the application of IFRS 16 from 1 January 2019, under which, lease payments are excluded from net cash from operating activities. In order for the net free cash flow to include lease payments, under the revised definition, the repayment of IFRS 16 lease liabilities is deducted from net cash from operating activities.

The measure is used as a measure of financial performance. The closest equivalent IFRS measure is cash from operating activities. A reconciliation between net cash from operating activities and net free cash flow is presented below.

	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018[1] (unaudited) £'000
Net cash from/(absorbed by) operating activities	**2,651**	(4,513)
Less: Repayment of IFRS 16 lease liabilities[2]	**(5,934)**	-
Adjusted net cash (absorbed by) operating activities	**(3,283)**	(4,513)
Investing activities		
Interest received	**33**	31
Proceeds on disposal of property, plant and equipment	**63**	314
Purchases of property, plant and equipment	**(153)**	(484)
Purchases of intangibles	**(116)**	(350)
Purchases of investments	**(31)**	(1,039)
Net cash used in investing activities	**(204)**	(1,528)
Net free cash (outflow)	**(3,487)**	(6,041)

[1]The Group has applied IFRS 16 using the modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Therefore comparative information has not been restated.

[2]Under IFRS 16 repayment of lease liabilities are excluded from Adjusted EBITDA. In order for operating cash conversion to be a proxy for cash generation repayment of lease liabilities are deducted from 2019 Adjusted EBITDA.

INDEPENDENT REVIEW REPORT TO FOXTONS GROUP PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

25 July 2019