**Foxtons Group plc**

**PRELIMINARY RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2017**

**28 FEBRUARY 2018**

Foxtons Group plc, London's leading estate agent, today announces its financial results for the year ended 31 December 2017.

**Financial summary**

| Year ended 31 December | **2017** | 2016 |
|---|---|---|
| Group revenue | **£117.6m** | £132.7m |
| Group Adjusted EBITDA[1] | **£15.1m** | £24.6m |
| Adjusted EBITDA margin | **12.8%** | 18.5% |
| Profit before tax | **£6.5m** | £18.8m |
| Net cash from operating activities | **£13.5m** | £23.4m |
| Net free cash flow[2] | **£11.3m** | £16.8m |
| Basic earnings per share | **1.9p** | 5.7p |
| Adjusted earnings per share[3] | **2.6p** | 5.7p |
| Full year dividend per share - ordinary | **0.70p** | 2.00p |

**Financial highlights:**

- Resilient performance from Lettings business with revenue of £66.3m down 3% versus prior year driven by lower rental rates in the market.
- Sales revenue of £42.6m, down 23%, a result of continued market weakness causing lower transaction volumes.
- Alexander Hall mortgage revenue £8.7m, down 1%. A solid performance driven by re-mortgages.
- Focus on tight cost control with costs reduced by £5.6m excluding Adjusted items versus prior year.
- Strong cash performance during the year, supporting a balance sheet with no debt and £18.6m cash at year end.
- Profit before tax £6.5m; £8.8m excluding £2.3m charge relating to Adjusted items.
- 0.70p full year dividend in line with policy (includes 0.43p interim dividend paid during the year).

**Operational highlights:**

- Maintained No 1 market listings position in both sales and lettings delivering market leading service for customers.
- MyFoxtons portal for buyers and tenants was launched in H2. Conversion of seller enquiries to instructions has increased with MyFoxtons.
- New retention and loyalty initiatives for existing landlords launched during H2, and were well received.
- Two new branches in Wembley and Wood Green opened in Q1-2017 as planned. Network now covers c85% of the London market.
- Marketing spend refocused towards digital channels, which has reduced cost of acquisition and improved customer engagement

**Investing for growth:**

- Branch expansion programme complete with technology being used to expand branch reach.
- Investment re-directed from capital expenditure on branch expansion to other areas of service proposition.
- This investment will be in brand, people and technology in order to support our differentiated customer proposition, make the existing estate more profitable and position the business for future growth.

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

"We are pleased to have delivered a performance in line with market expectations. However, sales activity in the London property market is near historic lows and this had a significant impact on our overall performance in 2017.

Our large and less cyclical lettings business continues to provide a solid recurring revenue stream which adds resilience to Group revenues. Landlords, under increasing pressure from regulation and taxation need a professional agent to help with compliance and yield maximisation and we are well placed to deliver against these key requirements. Growing our lettings business is a priority for Foxtons and we have already seen some encouraging results from the introduction of new customer initiatives and our use of technology and data; we aim to build on these going forward. We anticipate the implementation of the Tenant Fees Bill in 2019. Though at this stage it is unclear exactly what the legislation will look like, we are exploring ways to mitigate the impact.

Estate agency is fundamentally a people business and we know that our customers want to deal with knowledgeable, experienced and committed people who will deliver results throughout the complicated process of selling or letting a property. Additionally, our brand is a cornerstone of the business prompting awareness and associating customers with consistent, high levels of service across our network. Technology can amplify these important areas and as our branch expansion is now complete, further investment can be made in our brand, people and technology to extend our market leading position.

Looking ahead, we expect trading conditions to remain challenging during 2018, and our current sales pipeline is below where it was this time last year. The cost actions we have taken and our net cash position mean we are well placed to withstand these conditions and make the investment we have identified. We are confident that our high-touch approach to customer service and knowledgeable people delivers tangible results for customers differentiating us from the competition. The London property market has attractive long-term characteristics and our brand strength, coverage and approach, position us well to manage through the current market uncertainties and take advantage of any future market recovery."

**For further information, please contact:**


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A live webcast of the management team's presentation to analysts and investors at 1030 a.m. today can be accessed via the Group's website at www.foxtonsgroup.co.uk. An audio dial in will also be available – dial in details: UK - +44 (0)330 336 9411, US - +1 323 794 2551, Confirmation code: 4641925. There will also be a replay of the call: UK - +44 (0)207 660 0134. US: +1 719 457 0820 or +1 888-203-1112

[1] Adjusted EBITDA is defined by the Group as profit before tax, depreciation, amortisation, finance costs, finance income, Adjusted items, profit on disposal of assets, and share based payments.

[2] Net free cash flow is defined as net cash from operating activities less net cash used in investing activities.

3 Adjusted earnings per share is defined as earnings per share excluding Adjusted items.

4. A number of alternative performance measures are used by the Board as they provide a clearer understanding of the underlying operations of the Group. See Financial Review.

5. A definition of Adjusted items is included in Note 3.

**Performance at a Glance**

| | 2017 | 2016 | |
|---|---|---|---|
| **Income statement** | | | |
| Revenue | £117.6m | £132.7m | (11%) |
| Adjusted EBITDA | £15.1m | £24.6m | (39%) |
| Adjusted EBITDA margin | 12.8% | 18.5% | |
| Profit before tax | £6.5m | £18.8m | (65%) |
| | | | |
| **Earnings per share** | | | |
| Basic and fully diluted EPS | 1.9p | 5.7p | (67%) |
| Adjusted EPS | 2.6p | 5.7p | (54%) |
| | | | |
| **Dividends** | | | |
| Interim paid | 0.43p | 1.67p | |
| Final proposed | 0.27p | 0.33p | |
| **Total Dividend for the year** | **0.70p** | **2.00p** | |
| | | | |
| **Cash flow** | | | |
| Operating cash conversion[1] | 91.8% | 93.9% | |
| Net free cash flow | £11.3m | £16.8m | |
| Net free cash flow as a percentage of Adjusted EBITDA | 75.2% | 68.4% | |
| Year end cash balance | £18.6m | £9.5m | |
| | | | |
| **KPIs** | | | |
| Sales revenue | £42.6m | £55.5m | |
| Sales units | 2,962 | 4,026 | |
| Revenue per sales unit | £14,376 | £13,783 | |
| | | | |
| Lettings revenue | £66.3m | £68.3m | |
| Lettings units | 19,806 | 19,832 | |
| Average revenue per lettings unit | £3,348 | £3,446 | |
| | | | |
| Mortgage broking revenue | £8.7m | £8.9m | |
| Units | 4,243 | 4,221 | |
| Average revenue per broking unit | £2,062 | £2097 | |

Definitions:

1. Operating cash conversion is computed as Adjusted operating cash flow/Adjusted EBITDA. Adjusted operating cash flow is defined as the summation of Adjusted EBITDA, change in working capital and net capital spend.

## CHAIRMAN'S STATEMENT

**Overview**

Group revenues reduced to £117.6 million (2016: £132.7m), principally reflecting the challenging sales market. Cost savings of £5.6 million were achieved as a result of realigning our cost base to the ongoing challenging conditions. However, we have built an infrastructure for the long term. In the short term therefore, our cost structure is relatively fixed, and for this reason Adjusted EBITDA fell to £15.1 million (2016: £24.6 million). Further cost reductions were implemented during the latter part of the year resulting in a charge to the income statement in respect of Adjusted items of £2.3m. Profit before tax was £6.5 million (2016: £18.8 million).

**Board and governance**

The Board places significant importance on corporate governance and compliance with the UK Corporate Governance Code. Full details are set out in the Corporate Governance section of our Annual Report and Accounts.

**Board update**

Annette Court resigned as a Non-Executive Director of the Company at the Company's Annual General Meeting (AGM) on 17 May 2017. On behalf of the Board, I would like to thank Annette for her valuable contribution as a Non-Executive Director and Senior Independent Director of Foxtons since the Company's IPO in 2013.

Ian Barlow, who has served on the Board since the IPO in 2013, was appointed as the Company's Senior Independent Director on 17 May 2017.

On 14 September, the Board appointed Sheena Mackay as a Non-Executive Director and, as Chair of the Remuneration Committee, succeeding Andrew Adcock in that role. She is also a member of the Audit and Nomination Committees. Sheena is currently Group HR Director at Smiths Group plc, with 28 years of experience in HR.

**Dividend**

In line with our policy, the Board has proposed a final dividend of 0.27 pence per share bringing the total ordinary dividend for the year to 0.70 pence per share (2016: 2.00 pence per share). Foxtons maintains a robust balance sheet with no debt and the Board remains committed to returning excess cash to shareholders when appropriate.

Subject to Shareholder approval at the AGM on 17 May 2018, the proposed dividend will be paid on 25 May 2018 to Shareholders on the register at 27 April 2018.

**Summary**

Notwithstanding the challenging environment, Foxtons retains a strong balance sheet, high cash generation and no debt which allows us selectively to invest in areas that will drive long-term growth of the business. We have made progress aligning our cost base with market conditions whilst keeping the infrastructure which has been built for the long term. Sales volumes are subdued across the market, yet Foxtons remains the number one property agent in London by instructions with an unrivalled network focused on delivering the best service to buyers, sellers, tenants and landlords. We have a strong and determined team and I am confident that they will build on Foxtons' unique platform and deliver long-term value to shareholders. I would like to take this opportunity on behalf of the Board to thank everyone at Foxtons for their passion, dedication and hard work.

**Garry Watts**
Chairman

## CHIEF EXECUTIVE'S REVIEW

**Review of the year**

2017 was a challenging year for the property market in which Foxtons operates. Whilst the lettings business continues to deliver a steady income stream for the Group, the London sales market continues to be weighed down by the impact of stamp duty tax changes introduced during 2016 and declining consumer confidence, as a result of the general macro-political uncertainty. The unexpected general election led to a further slowing of sales transaction levels in Q2 2017, a trend which continued throughout the second half of the year.

Foxtons' 2017 Group revenue was £117.6 million (2016: £132.7 million) comprising sales revenue of £42.6 million (2016: £55.5 million), lettings revenue of £66.3 million (2016: £68.3 million) and mortgage broking revenue of £8.7 million (2016: £8.9 million).

The 23% fall in sales revenue is largely a result of continued market weakness causing lower transaction volumes. Revenue from lettings was down 3% on the prior year due to downward pressures on market rents; nonetheless, we believe our lettings business continues to provide a resilient, less-cyclical revenue stream and now represents 57% of Group revenue. Revenue at Alexander Hall, our mortgage broker, comprised a higher proportion of re-mortgage business, but decreased by 1% overall as the result of lower average revenue per deal.

For 2017, our Group Adjusted EBITDA reduced to £15.1 million (2016: £24.6 million) due principally to the lower revenue in the sales business. We succeeded in delivering against our cost reduction targets, reducing costs by £5.6m despite the difficult environment and inflationary pressures. Whilst we continue to review our cost base, we believe the current level is integral to maintaining our customer service proposition and we will continue to invest in key growth areas including lettings, digital marketing and technology.

We incurred a £2.3million charge in respect of Adjusted items in the second half of the year, mainly due to our decision not to develop a small number of prospective branches, instead investing to drive volume through our leading physical and technology platforms. Overall Profit before tax reduced 65% to £6.5million (2016: £18.8million), £8.8 million excluding Adjusted items.

The Group continues to be cash generative, delivering £11.3m of net free cash flow during the year. At year-end the Group held a cash balance of £18.6m and remains debt free.

**Property sales market**

2017 was a difficult year for the residential property sales market in London. The 2016 changes to the stamp duty regime continue to depress volumes and the unexpected election in May 2017 led to a further slowing of transaction levels. However, despite these issues, London remains a global and economic powerhouse with strong long-term fundamentals including high population density and limited housing stock.

**Lettings market**

In recent years, London has experienced a significant shift in tenure, with nearly 30% of private households now living in rented accommodation – double the level of a decade ago. This increase in demand for private rentals in London underpins our lettings business, which continues to be a key component of our future growth strategy.

Our lettings business is the largest single brand portfolio in London and has benefitted from an increased operational focus alongside well-received new customer initiatives during the year. New let volumes were flat in the year, while the proportion of actively managed properties in the portfolio increased in the period to 32% (2016: 31%). We also achieved growth in our short lets business despite the corporate relocation market remaining constrained.

Whilst demand for rental properties remains high, there has been pressure on average rental prices due to an increase in the supply of rental property following the surge in buy-to-let activity in Q1 2016.

The growth of the high-quality, professionally managed Institutional Private Rented Sector (PRS) has increased choice and quality in the rental sector. Foxtons is well placed to benefit from this emerging rental product; our market-leading lettings experience, IT infrastructure and operational processes have been well received by Institutional PRS operators. Our pipeline remains strong, though many schemes remain at build stage.

The lettings market is both growing, and becoming more complex, with landlords needing to understand and comply with significant new regulation, legislation and tax changes. In this environment our focus on compliance and professionalism makes our lettings business the ideal partner for landlords.

**Investing for future growth**

Over nearly four decades Foxtons has built a distinctive business which covers most of London/M25 through its leading brand, professional and motivated people, and innovative application of technology. We want to build on this through selective investment in order to create the most resonant customer offering in the market place.

Since our IPO in 2013 we have increased our branch footprint by 60% and technological advances mean we are able to service the London/M25 network with circa 70 branches, a smaller network than we originally planned. Additionally, we have reacted to market conditions through taking appropriate cost out of the business and in so doing have created a lean business without damaging the integrity of our high service offering. The multi-year branch roll out was enabled by a consistent capex programme and this roll out is now largely complete. Our investment has now shifted from capex into other areas in order to make the existing estate more profitable and position Foxtons for future growth.

This investment programme is now focused on areas that are both core to our offering and where we can reinforce our differentiation, namely in our brand, people and technology. We know customers want results, they want to sell their house or let their property for the best price with a professional, personal service. Estate agency remains a people business and customers value experienced, knowledgeable and professional people committed to working hard to achieve results. Our brand is well known and work has begun on how we can use it to reinforce our differentiation ensuring Foxtons is closely associated with satisfying customer needs. Our business has been built on the skill, knowledge and work ethic of our people and we are investing in initiatives to improve retention and hire experienced staff to augment our teams.

Foxtons was an early adopter of technology using it to enhance the customer offer and make our business as efficient as possible. It remains vital today enabling us to save costs and increase the reach of each branch with targeted digital marketing. We also have a vast customer database which, with new analytical tools, presents an opportunity for us to better understand customer behaviour.

In addition, we will continue to ensure our offer matches customers' growing expectations. This will be through initiatives like dedicated account management for our largest landlords in lettings, and in sales the launch of Foxtons Prime, a new offering for high net worth buyers and sellers.

**Outlook**

Looking ahead, we expect trading conditions to remain challenging in 2018, and our current sales pipeline is below where it was this time last year. Our less cyclical lettings business provides resilience against sales market cycles and we continue to target growth in this area. Enhanced operational focus, customer initiatives and utilisation of technology and data have already shown some progress; we aim to build on this going forward.

Foxtons remains in an attractive position with a robust balance sheet, good cash generation and with no debt. We will continue to review and optimise our business structure and leverage our proprietary technology and data in order to make our agents as productive and competitive as possible.

In the longer term, whilst recent political events have produced uncertainty for buyers and sellers, we expect London to remain a highly attractive property market for sales and lettings. We have several initiatives underway to promote growth in our lettings business and remain focused on growing market share in our less mature branches. Our commitment to achieving the best result for our customers and powerful brand continue to be key differentiators. We are managing the business according to these conditions and remain well placed to take advantage of any change in conditions.

Nic Budden
Chief Executive Officer

## Financial review

### Overview

The sales market remains subdued, whilst the lettings market continues to provide a consistent recurring revenue stream despite increasing competition. Total revenue fell by 11% and during the year we took action to realign our cost base with the challenging sales market conditions. We have built a branch network to support our customer service proposition, and continue to invest in key growth areas. In the short-term therefore, the majority of our costs are substantially fixed, and for this reason Adjusted EBITDA fell by 39%. Despite difficult trading conditions, the Group remains cash generative and debt free.

### Summary income statement

| Year ended 31 December | **2017** | 2016 | % change |
|---|---|---|---|
| Group revenue | **£117.6m** | £132.7m | (11%) |
| Group Adjusted EBITDA | **£15.1m** | £24.6m | (39%) |
| Profit before tax | **£6.5m** | £18.8m | (65%) |
| Net cash from operating activities | **£13.5m** | £23.4m | (42%) |
| Basic earnings per share | **1.9p** | 5.7p | (67%) |
| Adjusted earnings per share | **2.6p** | 5.7p | (54%) |
| Dividend per share | **0.7p** | 2.0p | (65%) |

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 year and the comparability between periods.

### Revenue

The Foxtons Group comprises three business 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 | **2017** | 2016 | % variance |
|---|---|---|---|
| Sales | **42.6** | 55.5 | (23%) |
| Lettings | **66.3** | 68.3 | (3%) |
| Mortgage broking | **8.7** | 8.9 | (1%) |
| Total revenue | **117.6** | **132.7** | (11%) |

### Sales

The London property sales market worsened year on year as continued market weakness caused lower transaction volumes. Revenues fell by 23% versus the prior year, primarily driven by a 26% fall in volumes. “Average revenue per transaction” increased by 4% versus prior year. This increase was due to underlying London price inflation with the average price of Foxtons property sales increasing to £580k (2016: £568k) together with an increasing number of deals at our higher multi-agency rate.

### Lettings

The Lettings segment continues to provide a consistent recurring revenue stream which comprises 57% of group revenues. Lettings revenue remained resilient, and was £66.3 million down 3% versus prior year driven by lower rental rates in the long let market.

### Mortgage broking

Revenue at our mortgage business Alexander Hall, fell by 1%. In the context of the London Sales market, this was a solid performance driven by a higher proportion of re-mortgage deals.

**Balanced business**

A key strategic priority for the Company is to maintain a balanced business through economic cycles. With the current subdued sales market, lettings revenue has risen in significance and is an increasing focus for the Group.

| % of total revenue | **2017** | 2016 |
|---|---|---|
| Sales | **36%** | 42% |
| Lettings | **57%** | 51% |
| Mortgage broking | **7%** | 7% |
| Total revenue | **100%** | 100% |

**Organic expansion**

The Group opened two new branches during the period in Wembley and Wood Green and the network now totals 67 branches giving 85% coverage of London inside the M25. The multi-year branch expansion is largely complete with plans to use technology to enable increased reach.

**Segmental Contribution and Adjusted EBITDA**

A key metric for management is the contribution generated by business segments. Contribution is defined as revenue less direct salary costs of front office staff and costs of bad debt. The Group contribution margin was in line with the prior year as we aligned our front office headcount with market conditions.

| **Contribution** | **2017 £m** | **2017 margin** | 2016 £m | 2016 margin |
|---|---|---|---|---|
| Sales | **25.1** | **59.0%** | 34.0 | 61.2% |
| Lettings | **48.6** | **73.3%** | 50.2 | 73.5% |
| Mortgage broking | **4.4** | **49.8%** | 4.2 | 46.9% |
| Group contribution | **78.1** | **66.4%** | 88.4 | 66.6% |

Adjusted EBITDA comprises contribution less shared costs and before Adjusted items.

| **Adjusted EBITDA** | **2017 £m** | **2017 margin** | 2016 £m | 2016 margin |
|---|---|---|---|---|
| Sales | **1.2** | **2.8%** | 7.0 | 12.7% |
| Lettings | **12.1** | **18.3%** | 16.2 | 23.6% |
| Mortgage broking | **1.8** | **20.0%** | 1.4 | 16.1% |
| Group Adjusted EBITDA | **15.1** | **12.8%** | 24.6 | 18.5% |

Lettings EBITDA and margin reduced versus prior year driven primarily by lower revenue, and an increased apportionment of shared costs, which for the purposes of segmental reporting are allocated between the sales and lettings segments according to headcount. As 2017 headcount was higher in the lettings business than in the sales business, a higher proportion of shared cost has been allocated to Lettings than in the prior year. A full reconciliation of these items to Profit before tax is included in note 3.

Sales EBITDA and margin reduced versus prior year driven primarily by lower revenue, partially offset by lower costs arising from lower headcount.

**Adjusted items**

As part of a detailed review of operations, we incurred a £2.3million charge in respect of Adjusted items in the second half of the year. The costs comprised exiting a number of property leases primarily relating to future potential branches that are no longer required, and a limited number of staff changes.

**Profit before tax (PBT)**

Profit before tax was £6.5 million (2016: £18.8 million) and was after charging:

- Direct salary costs of front office staff of £39.5 million (2016: £44.3 million)
- Shared costs of £63.0 million (2016: £63.8 million)
- Depreciation and amortisation £4.9 million (2016: £4.9 million)
- Share based payment charge of £1.3 million (2016: £0.9 million)
- Adjusted items £2.3 million (2016: £nil); and
- Net finance costs £0.1 million (2016: £nil)

Profit before tax reduced due to lower property sales transactions across London, partially offset by cost savings arising from front office headcount reductions, primarily through natural attrition, as we controlled costs due to weak sales market conditions. Tight cost control also saw our shared costs fall slightly despite cost inflation in the year.

**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. Foxtons always sets out to be transparent, open and honest in its dealings with tax authorities. Foxtons' effective tax rate exclusive of the impact on deferred tax of future tax rates movements was 17.0% (2016: 21.5%). This compares to the statutory blended corporation tax rate of 19.25% (2016: 20.0%).

The absolute tax charge for the period fell by £1.9 million due to:

- Reduced profitability of £12.2 million resulting in a difference in the current year tax charge of £2.5 million
- Offset partially by prior year tax movements £0.3 million; and
- Movements within the deferred tax charge of £0.3 million for the period with a prior year credit due to the impact of a change in the tax rate on the intangible brand asset being partially offset by the recognition of deferred tax on inter-company losses within the Foxtons Group.

Tax payments during the year totalled £2.1 million (2016: £6.3 million).

**Earnings per share (EPS)**

Basic and fully diluted earnings per share was 1.9p (2016: 5.7p) driven by reduced profitability. Adjusted earnings per share was 2.6p (2016: 5.7p).

**Cash flow**

Net free cash flow for the period was £11.3 million (2016: £16.8 million). The reduction of £5.5 million was due to reduced cash generated by operations of £14.1 million offset by £4.4 million savings in capital spend and £4.2 million lower tax payments.

The Group held net cash of £18.6m as at year end (2016: £9.5m), and has a £10 million Revolving Credit Facility which remains entirely undrawn.

**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.

A final dividend in respect of 2016 of 0.33p per share was paid in May 2017 and an interim dividend for 2017 of 0.43p per share was paid in September. In line with our policy of returning 35% to 40% of profit after tax as an ordinary dividend, a final dividend for 2017 of 0.27p per share will be proposed for payment in May 2018.

**Share buy-backs**

No share buy-backs were undertaken during the period (2016: £11.2 million).

**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 is debt-free;
- 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 Company to make certain defined contribution payments for our employees.

**Mark Berry**

**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.

**External factors**

| **Risk** | **Impact on company** |
|---|---|
| Market Risk | Continuous high property price inflation may impact affordability which in turn may reduce transaction levels in the market. The market may also be affected by a reduction in London's standing as a major financial city caused by the UK's decision to leave the EU.<br>The market is also reliant on the availability of mortgage finance, a deterioration in which may adversely affect Foxtons.<br>The market may also be 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.<br>The Mortgage broking division is authorised and regulated by the FCA and could be subject to sanction for non-compliance. |

**Internal factors**

| **Risk** | **Impact on company** |
|---|---|
| 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. |
| 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 preliminary 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 27 February 2018. 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.

**Responsibility statement:**

The following statement will be contained in the 2017 Annual Report and Accounts:

Each of the Directors confirms that to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

**Mark Berry**

27 February 2018

# Financial Statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| Continuing operations | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Revenue** | 3 | **117,648** | 132,688 |
| Administrative expenses | | **(111,055)** | (113,877) |
| **Operating profit** | | **6,593** | 18,811 |
| Finance income | | **1** | 34 |
| Finance costs | | **(70)** | (80) |
| **Profit before tax** | | **6,524** | 18,765 |
| Tax | 5 | **(1,175)** | (3,043) |
| **Profit and total comprehensive income for the year** | | **5,349** | 15,722 |
| **Earnings per share** | | | |
| Basic and diluted (pence per share) | 7 | **1.9** | 5.7 |
| Adjusted (pence per share)[1] | 7 | **2.6** | 5.7 |

[1]Adjusted earnings per share is defined as earnings per share excluding Adjusted items. See note 7.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | **19,168** | 19,168 |
| Other intangible assets | | **100,975** | 100,104 |
| Property, plant and equipment | | **24,009** | 28,077 |
| Deferred tax assets | | **1,015** | 468 |
| | | **145,167** | 147,817 |
| **Current assets** | | | |
| Trade and other receivables | | **7,082** | 7,753 |
| Prepayments | | **6,341** | 5,681 |
| Cash and cash equivalents | 8 | **18,630** | 9,476 |
| | | **32,053** | 22,910 |
| **Total assets** | | **177,220** | 170,727 |
| **Current liabilities** | | | |
| Trade and other payables | | **(12,634)** | (11,313) |
| Current tax liabilities | | **(1,003)** | (1,184) |
| Provisions | | **(1,307)** | (286) |
| Deferred revenue and lettings refund liability | | **(4,524)** | (4,473) |
| | | **(19,468)** | (17,256) |
| **Net current assets** | | **12,585** | 5,654 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **(16,830)** | (16,830) |
| | | **(16,830)** | (16,830) |
| **Total liabilities** | | **(36,298)** | (34,086) |
| **Net assets** | | **140,922** | 136,641 |
| **Equity** | | | |
| Share capital | | **2,751** | 2,751 |
| Other capital reserve | | **2,582** | 2,582 |
| Capital redemption reserve | | **71** | 71 |
| Own shares held | | **(720)** | (1,540) |
| Retained earnings | | **136,238** | 132,777 |
| Total equity | | **140,922** | 136,641 |

The financial statements of Foxtons Group plc, registered number 07108742, were approved by the Board of Directors on 27 February 2018.

Signed on behalf of the Board of Directors

**Mark Berry**
Chief Financial Officer

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Notes | Share capital £'000 | Own shares held £'000 | Other capital reserve £'000 | Capital redemption reserve £'000 | Share premium £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | | **2,751** | **(1,540)** | **2,582** | **71** | **-** | **132,777** | **136,641** |
| Total comprehensive income for the year | | - | - | - | - | - | **5,349** | **5,349** |
| Dividends | 6 | - | - | - | - | - | **(2,089)** | **(2,089)** |
| Exercise of shares from EBT | | - | **820** | - | - | - | **(820)** | **-** |
| Credit to equity for share based payments | | - | - | - | - | - | **1,021** | **1,021** |
| **Balance at 31 December 2017** | | **2,751** | **(720)** | **2,582** | **71** | **-** | **136,238** | **140,922** |

| | Notes | Share capital £'000 | Own shares held £'000 | Other capital reserve £'000 | Capital redemption reserve £'000 | Share premium £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | | 2,817 | (1,540) | 2,582 | 5 | 52,727 | 95,994 | 152,585 |
| Total comprehensive income for the year | | – | – | – | – | – | 15,722 | 15,722 |
| Dividends | 6 | – | – | – | – | – | (21,694) | (21,694) |
| Share buy-back | | (66) | – | – | 66 | – | (11,163) | (11,163) |
| transaction costs | | – | – | – | – | (52,727) | 52,703 | (24) |
| Credit to equity for share based payments | | – | – | – | – | – | 1,215 | 1,215 |
| **Balance at 31 December 2016** | | 2,751 | (1,540) | 2,582 | 71 | – | 132,777 | 136,641 |

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

| | Notes | **2017** **£'000** | 2016 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit: | | **6,593** | 18,811 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **4,847** | 4,949 |
| Loss on Adjusted items | | **447** | - |
| Gain on disposal of property, plant and equipment | | **(59)** | (113) |
| Amortisation of intangibles | | **101** | 101 |
| Increase in provisions | | **1,021** | 91 |
| Share based payment charges | | **1,292** | 854 |
| Operating cash flows before movements in working capital | | **14,242** | 24,693 |
| Decrease in receivables | | **11** | 4,819 |
| Increase in payables | | **1,334** | 195 |
| Cash generated by operations | | **15,587** | 29,707 |
| Income taxes paid | | **(2,136)** | (6,322) |
| **Net cash from operating activities** | 12 | **13,451** | 23,385 |
| **Investing activities** | | | |
| Interest received | | **1** | 34 |
| Proceeds on disposal of property, plant and equipment | | **340** | 399 |
| Purchases of property, plant and equipment | | **(1,507)** | (6,296) |
| Purchases of intangibles | | **(972)** | (704) |
| **Net cash used in investing activities** | | **(2,138)** | (6,567) |
| **Financing activities** | | | |
| Dividends paid | 6 | **(2,089)** | (21,694) |
| Cancellation of share premium expenses | | **-** | (24) |
| Interest paid | | **(70)** | (80) |
| Share buy-back | | **-** | (11,163) |
| **Net cash used in financing activities** | | **(2,159)** | (32,961) |
| **Net increase/(decrease) in cash and cash equivalents** | | **9,154** | (16,143) |
| **Cash and cash equivalents at beginning of year** | | **9,476** | 25,619 |
| **Cash and cash equivalents at end of year** | | **18,630** | 9,476 |

# Notes to the Financial Statements

## 1. General information

Foxtons Group plc (the "Company") is a company incorporated in the United Kingdom under the Companies Act. 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. Significant accounting policies

The consolidated preliminary results of the Company for the year ended 31 December 2017 comprise the Company and its subsidiaries.

The consolidated preliminary results of the Group for the year ended 31 December 2017 were approved by the Directors on 27 February 2018. The Annual General Meeting of Foxtons Group plc will be held at Chiswick Park on 17 May 2018. These consolidated preliminary results have been prepared in accordance with the recognition and measurement criteria of IFRS. They do not include all the information required for full annual financial statements to comply with IFRS, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

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

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

The financial information for the year ended 31 December 2017 does 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 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting convened for 17 May 2018. The auditor has reported on these accounts; their report 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 accounting policies applied by the Group in these consolidated preliminary results are the same as those applied by the Group in the Foxtons Group plc annual financial statements for the year ended 31 December 2016 with the exception of certain new standards and interpretations adopted in the current period which had no significant effect on the Group's results.

## 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. Adjusted EBITDA represents the profit before tax for the period earned by each segment before allocation of finance costs, finance income, 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.

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.

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

**Segment revenues and results**
The following is an analysis of the Group's revenue and results by reportable segment for the year ended 31 December 2017:

| | Notes | Sales £'000 | Lettings £'000 | Mortgage Broking £'000 | Consolidated £'000 |
|---|---|---|---|---|---|
| **Revenue** | | **42,583** | **66,314** | **8,751** | **117,648** |
| Contribution[1] | | **25,107** | **48,633** | **4,362** | **78,102** |
| Contribution margin[2] | | **59.0%** | **73.3%** | **49.8%** | **66.4%** |
| Adjusted EBITDA | | **1,182** | **12,120** | **1,749** | **15,051** |
| *Adjusted* EBITDA *margin* | | **2.8%** | **18.3%** | **20.0%** | **12.8%** |
| | | | | | |
| Depreciation | | | | | **(4,847)** |
| Amortisation | | | | | **(101)** |
| Profit on disposal of property, plant and equipment | | | | | **59** |
| Adjusted items | 4 | | | | **(2,277)** |
| Finance income | | | | | **1** |
| Finance cost | | | | | **(70)** |
| Share based payment charge | | | | | **(1,292)** |
| Profit before tax | | | | | **6,524** |

1. Contribution is defined as revenue less directly attributable salary costs and bad debts in each business unit.
2. Contribution margin is defined as Contribution divided by revenue.
3. 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.

The following is an analysis of the Group's revenue and results by reportable segment for the year ended 31 December 2016:

| | Sales £'000 | Lettings £'000 | Mortgage Broking £'000 | Consolidated £'000 |
|---|---|---|---|---|
| **Revenue** | 55,489 | 68,349 | 8,850 | 132,688 |
| Contribution[1] | 33,971 | 50,234 | 4,154 | 88,359 |
| Contribution margin[2] | 61.2% | 73.5% | 46.9% | 66.6% |
| Adjusted EBITDA | 7,021 | 16,155 | 1,425 | 24,601 |
| *Adjusted* EBITDA *margin* | 12.7% | 23.6% | 16.1% | 18.5% |
| | | | | |
| Depreciation | | | | (4,949) |
| Amortisation | | | | (101) |
| Profit on disposal of property, plant and equipment | | | | 113 |
| Adjusted items | | | | - |
| Finance income | | | | 34 |
| Finance cost | | | | (80) |
| Share based payment charge | | | | (854) |
| Profit before tax | | | | 18,765 |

1. Contribution is defined as revenue less directly attributable salary costs and bad debts in each business unit.
2. Contribution margin is defined as Contribution divided by revenue.
3. 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.

## 4. Adjusted items

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Reorganisation costs | **1,059** | - |
| Lease exit costs | **1,218** | |
| | **2,277** | - |

Re-organisation costs comprised costs associated with a limited number of staff changes.

Lease exit costs comprised costs associated with exiting a small number of prospective branches which are no longer required, and in the case of one property, the recognition of an onerous lease provision.

## 5. Tax

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Current tax** | | |
| Current period UK corporation tax | **1,874** | 4,065 |
| Adjustments in respect of prior periods | **81** | (231) |
| Total current tax | **1,955** | 3,834 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(749)** | – |
| Impact of change in tax rate | **67** | (990) |
| Adjustment in respect of prior periods | **(98)** | 199 |
| Total deferred tax | **(780)** | (791) |
| Tax on profit on ordinary activities | **1,175** | 3,043 |

Corporation tax for the year ended 31 December 2017 is calculated at 19.25% (year ended 31 December 2016: 20%) of the estimated taxable profit for the period.

From 1 April 2017, the UK corporate tax rate fell from 20% to 19%.

For the year starting 1 April 2020, the UK corporate tax rate will reduce to 17%. This reduction has resulted in a deferred tax credit of £1.0 million in the year ended 31 December 2016 relating to the intangible brand asset.

The deferred tax adjustment in respect of prior periods relates primarily to temporary differences for the prior year for both 2017 and 2016.

The origination and reversal of temporary differences includes a credit of £572k representing the recognition that it has now become probable that there will be future taxable profits available to be utilised against certain tax losses brought forward.

## 6. Dividends

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the period:** | | |
| Final and special dividends year ended 31 December 2016: 0.33p (2016: 6.23p) per ordinary share | **908** | 17,108 |
| Interim dividends year ended 31 December 2017: 0.43p (2016: 1.67p) per ordinary share | **1,181** | 4,586 |
| | **2,089** | 21,694 |

For 2017, the Board recommends a final dividend of 0.27p per ordinary share (£0.7 million) to be paid in May 2018.

These financial statements do not reflect this dividend payable.

## 7. Earnings per share

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Earnings for the purposes of basic and diluted earnings per share being profit for the year** | **5,349** | 15,722 |
| Adjusted for:<br>Adjusted items[1] | **1,909** | - |
| **Adjusted earnings** | **7,258** | 15,722 |
| [1] Adjusted items totalling £2,277k per note 4, less associated tax of £368k, resulting in an after tax cost of £1,909k | | |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **274,791,016** | 275,161,239 |
| Effect of dilutive potential ordinary shares | **727,703** | 786,455 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **275,518,719** | 275,947,694 |
| Basic and diluted earnings per share (in pence per share) | **1.9** | 5.7 |
| Adjusted earnings per share (in pence per share) | **2.6** | 5.7 |

## 8. 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.

## 9. Financial instruments

The Group does not hold any financial instruments categorised as level 1, 2 or 3 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, liabilities and derivative financial instruments are as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Cash and cash equivalents | **18,630** | 9,476 |
| Trade and other receivables | **7,082** | 7,753 |
| Trade and other payables | **(12,634)** | (11,313) |

## 10. 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.

**Remuneration of key management personnel**

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures. Our definition of key management personnel in the year includes the Executive and Non-Executive Directors of Foxtons Group plc and the Chief Operating Officer of Foxtons Limited.

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Short – term employee benefits | **1,972** | 2,079 |
| Share – based payments | **398** | 94 |
| | **2,370** | 2,173 |

## 11. Client monies

At 31 December 2017, client monies (all held by Foxtons Limited) in approved bank and building society accounts amounted to £88.1 million (31 December 2016: £87.4 million). 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.

## 12. Operating cash conversion and net free cash flow

Operating cash conversion is defined as the ratio of Adjusted operating cash to Adjusted EBITDA. Adjusted operating cash is defined as Adjusted EBITDA less the movement in working capital and net capital spend.

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| **Adjusted EBITDA** | **15,051** | 24,601 |
| | | |
| Decrease in receivables | **11** | 4,819 |
| Increase in payables | **1,334** | 195 |
| Adjusted items included in payables and provisions | **(1,467)** | - |
| Increase in provisions | **1,021** | 91 |
| Purchases of property, plant and equipment | **(1,507)** | (6,296) |
| Purchases of intangibles | **(972)** | (704) |
| Proceeds on disposal of property, plant and equipment | **340** | 399 |
| **Adjusted operating cash flow** | **13,811** | 23,105 |
| **Operating cash conversion** | **91.8%** | 93.9% |

Net free cash flow is used as a measure of financial performance and is highlighted on page 1. It is defined as net cash from operating activities less net cash used in investing activities.

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| **Net cash from operating activities** | **13,451** | 23,385 |
| **Investing activities** | | |
| Interest received | **1** | 34 |
| Proceeds on disposal of property, plant and equipment | **340** | 399 |
| Purchases of property, plant and equipment | **(1,507)** | (6,296) |
| Purchases of intangibles | **(972)** | (704) |
| **Net cash used in investing activities** | **(2,138)** | (6,567) |
| **Net free cash flow** | **11,313** | 16,818 |