



Foxtons Limited

Company: Foxtons Limited
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Presenters: Nick Budden
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Operator: Good morning and welcome to the Foxtons Interim results for the Six Months ending 30th June 2016. Today's conference is being recorded. If you wish to ask a question during the Q&A session, please press *1 on your telephone keypad. At this time, I would like to turn the conference over to Nick Budden, Foxtons' Chief Executive Office. Please go ahead Mr. Budden.

Nick Budden: Thanks. Morning everyone and thanks again for taking the time to join us for our 2016 interim results. We'll follow the normal programme, as we have in previous meetings. I'll begin today's session by giving you a brief overview of our H1 performance. And then I'll spend some time reviewing with you what we've been seeing in the market over the last 6 months, and I'm sure it won't come as a surprise to anyone to realise that both the EU referendum and, just as significantly actually, the introduction of the stamp duty surcharge for buy-to-let and second homes, has had a level of disruption in the sales and, in fact, the lettings market as well, and to our short term results, and as we outlined in our recent trading update on 27th June. Having said that we remain in a really strong position with a leading brand and a resilient and balanced business, and a clear strategy to grow throughout London. Which, despite current uncertainty, still offers an amazingly attractive property market for both sales and lettings. And I'll say a little more about that early on in my part of the presentation. I also want to remind you of our strategic priorities, which have stayed the same. And then I'll hand over to Gerard, who'll take you through the detailed numbers, which are in line with the trading update that we gave a couple of weeks ago.

Now 2016 actually started very strongly for us, primarily due to the stamp surcharge on buy-to-let and second homes, that was introduced in April, creating a significant pull forward effect of sales from Q2 to Q1 in the market. And you'll see just how significant that was in a moment.



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They all rushed to beat the deadline on the 1st of April, and so much so in fact that our Q1 revenues were actually at record levels. But as the EU referendum debate continued, uncertainty and confusion among customers and clients did lead to significantly weaker market conditions in Q2. And that was obviously exacerbated by just the level of business that was pulled forward from Q2 into Q1 from investors and landlords. Overall, given the market conditions that we were facing we delivered solid performance at the top line with group revenues just down 3% from 71 to 69 million. Our property sales revenues held up reasonably well at 31 million for the first half, and our lettings business delivered revenues of almost £33 million, despite higher renewal rates, which as you know, depress fees slightly. And a drop off significantly in business from relocation agents, who, due to the uncertainty their clients were experiencing, chose to either reduce relocation budgets or delay relocations entirely. We mentioned, last time we spoke, about the increasing level of competition in the lettings market, and I'll brief you in a moment about some exciting competitive initiatives that we have underway for Q3 and Q4, which are already starting to have an impact. Alexander Hall had a great half with mortgage revenues up 28% to 4.7 million, partly due to significantly higher demand obviously from landlords. And EBITA for the first half fell to 13.1 million, and that was really due to our choice to continue to invest in expansion during the period of relative market weakness. And Gerard will take you through an analysis of that in more detail during his part of the presentation. Our ability to generate high levels of cash enabled us to return £28 million to shareholders during the first half, which was £17 million of dividend and £11 million of share buyback. We're proposing to maintain our basic dividend at 1.67p, and we'll review the case of paying further special dividends at the end of the year. And with these distributions, that brings to the total since IPO about £91 million worth of returns to shareholders.

Looking ahead, although we expect markets in London to remain pretty constrained through to the end of the year until greater certainty surrounding our position in Europe returns, we're pretty confident about the long term fundamentals of the market. And we're positioned in a very strong position to capture future growth as London's leading brand. Our organic expansion strategy will continue, and we remain focussed on our objective to open 100 branches throughout London. Although we are currently reviewing our 2017 expansion programme, and



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expect probably to temporarily slow the rate of expansion next year to help support margins during the period of this uncertainty.

I know many of you will be keen to get into detail of what's been happening specifically short term around Brexit and stamp duty changes, and I'll certainly cover that off in a moment. But before I do, I think it's worth just stepping back and reminding you just how valuable the property markets of London and the South East are from a strategic opportunity perspective for us. Even, frankly, at the recent relatively subdued levels of activity. You can see on these two charts, in 2015 the combined value of sales and lettings commissions across the South East of England and London was around about £5.5 billion, with London accounting for over half that total amount. So a massive market that we're focussed on. It's clearly that high concentrated source of value within London which draws us to focus there. And it's why we're totally confident and committed to our strategy of organic expansion to a 100 branches within the M25. Longer term, with our strong brand and our really advanced and scalable technology, we'll be developing an effective estate agency proposition for the South East market outside London, in what we call the Outer London Commuter Belt and the South East Ring. And we're currently considering options for the best way to enter that market over the coming years. And I hope to be able to say more about that towards the end of the year, or in quarter one next year.

So the long term fundamentals are pretty secure and are clear and strong within London, but we have seen a period of quite extreme volatility in the last 6 months, obviously. But also in the last 3 years. And as you can see, that's led to difficult trading conditions. The graph on this chart here shows London property sales transactions over the last 3 years, and just to take a few data points, market volumes fell by 20% between February 2012 and February 2013. But just a year later, volumes spiked up by around 40% in February 2014. And that was key, obviously, to the outstanding results that we had in 2013. By 2015 February, volumes had fallen back on prior year by 20%. And then in March 2016, as a result of the rush to buy to let, volumes grew by a 100%, only to fall back between March and April by 75%. So you can see just how extreme the underlying conditions are, because of the general macro-economic uncertainty, and also the



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impact that taxation legislation can have in the property market. It's obviously very early days, but what we've seen in the last 4 weeks following the EU referendum suggests that volumes will be subdued through to the end of the year. Essentially we've seen a sharp decline in the sales and lettings applicants, which is not surprising, immediately following the referendum outcome. And relatively low levels of exchanges as buyers attempt to renegotiate sales deals. None of that a surprise at all given the outcome of the vote. And levels have now stabilised, but it's clearly difficult to predict with any real accuracy what's likely to happen by year end. We'll obviously keep you updated and provide further formal updates in Q3.

Turning to lettings, the London lettings market is highly valuable for us and generates a stable and recurring income stream for Foxtons, and it continues to be a growing opportunity for us. Mentioned earlier, our H1 lettings revenue of 31 million represented 50% of the group's total revenue over the same period. And that's generated from a portfolio of about 19,000 properties. The reduction we saw in lettings revenue H1 and the slower of growth we've experienced over the last couple of years is due to a couple of factors, which we've been through before. We've seen significant increases in tenancy renewal, which attract lower fees since 2011, for example. Tenancy renewal rates have increased by over 20%. And secondly we've seen an increase in initial tenancy lengths recently, which has had the effect of pulling forward income into prior years. Average tenancy lengths have increased by about 10% just since 2014. Now, those dynamics are actually very positive for us long term because they enable us to deliver longer term relationships with clients, and it can increase average values longer term. But they can have a short term impact between years. The EU referendum, as I mentioned briefly earlier, also did have a negative impact on lettings during Central London during the first half, resulting from reduced activity from re-lo agents. Foreign businesses have cut their budgets and have delayed relocations all together, waiting for greater certainty return and following the EU referendum vote.

For the second half, I mentioned we had a couple of new competitive initiatives under way to enhance our lettings business, including zero price campaigns for new branches in Loughton, Peckham and Vauxhall. And that will be the first time that we've extended our very successful



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zero campaign to our lettings. And if, as we expect, they prove to accelerate market share there, we'll build them in as a standard feature to our future branch openings and to our marketing activity more generally. We've also recently launched a PRS lettings service to the institutional investor sector. And I'm very pleased to say that we've already won a number of large contracts there, and we have a good pipeline of potential future business opportunities, which we hope very much can emulate the success that we've had with new homes in our property sales business. And what's quickly become evident in our work with those institutional investors is that it's our data and our expertise that's proved really valuable to them in helping them refine their business models and their launch strategies. And we believe that that capability will give us a real advantage that's sustainable going through in terms of that segment.

In terms of our overarching strategic priorities, you'll remember this slide from previous presentations. These remain the same and continue to offer us significant competitive differentiation. And as you'll see on the next slide, our strategic capabilities enable us to perform better than the markets in which we operate in. Our current and medium focus remains in London, as I mentioned earlier. As I showed you, this disproportionate value in both sales and lettings commissions is an opportunity for us. And we're still relatively small in that market and so lots of growth potential for us going forward. It's also where our brand is strongest. You'll remember from our previous meeting that research we did last year shows that our non-prompted awareness basis, our brand awareness is streets ahead of any other estate agency brand in London. Finally, our focus on the mid-price segment and Outer London zones for expansions means that we continue to further improve financial resiliency as we expand. And I'll touch on that again in a moment.

Our centralised balanced business model and leading brand, which combines the best of technology with a highly motivated sales force enables us to reduce average cost per branch whilst delivering excellent service. Which substantiates our prices, our fees have been consistent throughout H1, has they have been for the last 15 years. And helps us to sustain high levels of repeat business among our key client areas. Finally, our organic expansion programme



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continues to develop, although as I said before, we'll just be looking at attenuating our pace of rollout in 2017. I'll take you through the economics of how our newer branches are continuing to perform later on in the deck.

In terms of resiliency of the business model, we talk a lot about that, and it's often in more challenging markets that the strengths of our business model really comes through. And it's important to remember that we built Foxtons specifically to withstand sales markets cycles, because we understand that they're actually a fundamental feature of the markets in which we operate. From a balance sheet perspective, we're debt free and asset light, and that enables us to generate high levels of cash. In particular, our organic expansion model clearly doesn't need us to build up any debt to finance acquisitions. And our branch rollouts re-pay very quickly, we'll talk about pay back periods in a moment. And our long term focus on building a profitable lettings business, which is less exposed to cycles, gives us a consistent revenue stream and does protect us from down turns in sales. And to illustrate that point, you can see on the chart on the left hand side there, back in 2008 during the global financial crash when the property sales market was severely impacted, we delivered group EBITA of £10 million, almost exclusively from the lettings business. And which is obviously much, clearly, much bigger now, contributing some 21 million to EBITA in 2015. Our brand and our quality of service has also enabled us, as I mentioned before, to outperform the market over the last 7 to 10 years. You can see on the right hand side there how Foxtons volumes have outpaced the market by a factor of 2 or 3.

Mentioned a lot today about our expansion programme. We've opened 5 branches, this year, in Loughton, Sutton, New Malden, and Fulham, Bishop's Park, we have a second office in, in Fulham Broadway, and in Maida Vale. And we'll be opening up new offices in Vauxhall and Peckham in September, and they're the two in which we're going to be trialling our zero lettings campaign.

The slides on this page here show you how, as I mentioned earlier, our expansion into outer zones within London are delivering a more diverse revenue and profit base as we become less dependent on Central London. Since 2013 we've opened up 21 new branches, 20 of which are



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outside zone 1. And as those newer branches mature, we benefit from revenues and profits coming from a much wider geographical spread. Today, for example, almost 70% of our EBITA is generated outside zone 1 as I've said. Because of the operational leverage inherent in the business, new branches remain consistent in terms of the J-curve and the payback periods that we are experiencing, with new offices becoming cash flow positive within about 7 months, and break even in cash terms within 19 months. And that means, obviously, that losses that we experience with individual branches are contained to within relatively short periods. And it's important to recognise too that over half of our existing branches, and all of those since the IPO, are not fully mature yet and they were all opened in relatively challenging market conditions. And that means that we can expect them to deliver further revenue and EBITA over time.

With that I'll hand over to Gerard to take you through the detailed financials, and I'll come back at the end to talk about outlook and take any questions you have.

Gerard Nieslony: Thanks, Nick. The challenging economic environment, as described by Nick, has had a significant impact on Foxtons financial results and this can be seen from our KPIs. As Nick mentioned, 2016 property sales market volumes have been particularly volatile due to the introduction of the stamp duty surcharge on buy-to-let properties, which lead to a surge of transactions into March, as was mentioned, of a 100% on prior year in the month of March. And then market volumes then fell by 48% in the month of April, after the introduction of the tax. This surge of transactions into Q1 masked the underlying impact of the EU referendum as Q1 simply benefited from a re-phasing of deals, bringing them forward into Q1. In reality, the market is in fact operating at similar levels to that last seen in the financial crash of 2008/9. For ~~each one~~ Foxtons sales volumes were down 10.2%. However, analysing the movement by quarter reveals the volatility within the first half. Versus prior year, Foxtons volumes were up in Q1 by 24.5%, and down by 38.3% in Q2. This market volatility has presented challenges within the company on managing head count and costs, which we will return to later. Sales revenue per deal increased by 3.6%, with property price inflation being offset by the mixed effect of a reduced number of deals in higher price zones as we opened new branches in Outer London, lower priced territories. Lettings revenue fell by 2.7%, lettings volumes were also impacted by



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the uncertainty in the run up to the EU referendum together with increasing tenancy lengths, higher renewals rates, and increasing competition in the market. As Nick mentioned, we have initiatives under way to grow lettings, namely growing our activities in institutional PRS, which is gathering momentum. And, a zero lettings campaign, which launched on the 1st of August in two of our recently opened branches, plus launching in two further new branches planned to open this autumn. Average revenue per lettings deal increased partially due to increasing rental rates and also a change in the mix of lettings deals. Mortgage revenue increased by 27.9%. This was primarily volume driven due to a 20.6% increase in advisor head count enabling the division to take advantage of the significant number of leads provided by the estate agency business, and the increasing use of intermediaries by the banks. In both revenue and EBITDA terms, the company has a broadly ~~based~~ balanced business, although there has been a slight shift towards lettings due to the difficulties within the sales market.

So, that's an overview of our KPIs and how we've performed in revenue terms. Let's now look at how this translated into group profitability. Of course these challenging market conditions have impacted profitability. Group revenue of 68.8 million fell by 3.1% on prior year for the reasons discussed earlier. Adjusted EBITA fell by 35.9% to 13.1 million, versus the prior year of 20.5. And we'll look at the movement in more detail shortly using an EBITDA bridge. As can be seen from the segmental analysis, the majority of the reduction was felt within property sales, although lettings EBITDA was also impacted. Profit before tax reduced by 42.2% due to the previously mentioned performance plus higher depreciation charges, while profit after tax and EPS fell by circa 41%.

So let's look at a bridge analysis to better understand the movement in EBITDA. As can be seen from the analysis, the decline in EBITDA is market driven. In this analysis, we have looked at the 51 branches in operation pre-2015. We have then looked at the performance of the new branches opened in 2015, 2016, plus the cost of the branches yet to be opened. This tranche totals 19 branches. Majority of the reduction in EBITDA is attributable to branches pre-2015, with a fall in EBITDA of 7.1 million, being primarily revenue driven due to the previously mentioned market contraction. However, there were some cost increases due to rent reviews



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and other building related costs, etc. Of the 19 new branches, 12 were actually in operation during the period, whilst 7 are in the pipeline to open. 2 of this 7 are scheduled to open in the autumn of 2016, and those are the Vauxhall and Peckham branches that were referred to earlier. The new branch increase in revenue of 2.5 million excludes 1 million of notional revenue generated from the 0% property sales incentive during the period. Although, actual net negotiated commissions were paid on those deals and is included within the 2 million cost associated to this tranche of branches. The 2 million cost increase comprises mainly salaries, 1.3 million, and rent rates, etc. of 0.4 million. 0.5 million increase in HQ costs is a 4% increase on prior year, and this increase is primarily due to salary inflation and due to enhancements to our IT systems. There were also 0.6 million of non-recurring, one off costs. Finally, EBITDA in mortgage broking increased by 0.3 million, a 63% increase on prior year.

So let's look at how EBITDA converted into cash. The company continues to be cash generative. The company has minimal working capital requirements, and due to our organic growth strategy, we have a low capital spend requirement with the majority of spend being attributable to the opening of 5 branches in each period. In 2016, we opened branches in Loughton, Sutton, New Malden, Bishop's Park in Fulham, and Maida Vale. All of these branches are in zones 2 to 6, thereby helping us to diversify away from Central London. We continue to convert in excess of 80% of EBITDA into operating cash. After corporation tax payments we produced 6.8 million of net free cash, which equates to 51.5% of EBITDA compared to 62.7% last year. This ratio reduced slightly due to 4.2 million of corporation tax payments in each year. And it's worth mentioning that the corporation tax payments remained flat, that these payments were based on prior year profit before tax generated from 2015 and 2014, of just over 40 million in both years. The company has no debt, so all of our net free cash is available for distribution back to our shareholders.

Let's see how this strong cash generation is returned to our shareholders via dividends and share buybacks. Significant returns have been made to our shareholders whilst remaining debt free. In H1 2016, the company returned 28.3 million to shareholders comprising 17.1 million of dividends and 11.2 million of share buybacks. The share buyback programme was initiated by



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the company in late December 2015. This, and any future share buyback programmes, are in line with company's policy of returning excess cash to shareholders. The completion of this programme in February 2016 resulted in the purchase of 7.1 million shares for a total cost of £12 million, and comprises 2.5% of the issued share capital of the company. For H1 2016, we will be maintaining the interim dividend at the same level as prior year. That is to say 1.67 pence. However, we will not be paying a special dividend due to the uncertain economic environment. This dividend will be paid on the 27th of September. Since IPO in September 2013, the company will have returned a total of 90 million to shareholders, including the 2016 dividend payable and the share buybacks.

That concludes the financial presentation and I'll pass you back to Nick.

Nick Budden: Thanks, Gerard. As we said at the beginning, results in line with the update that we gave on the 27th of June, so quite a quick run through today on the presentation. So, certainly interesting times as Gerard and I have explained in the first half. Clearly, and unsurprisingly, the EU referendum and the stamp duty changes have significantly impacted markets. Both in H1 overall, and between Q1 and Q2. And against that background, and our choice to continue to invest in the commitments we've made to expand this year, our H1 results were in line with what we would have expected given all the conditions. For the rest of this year it's obviously too early to accurately predict how the London property sales market will play out following the UK's decision to leave the EU, but we're anticipating relatively weak market volumes through to the end of the year. But the long term fundamentals, as I've spoken about this morning, of London remain very attractive and represent a huge opportunity for growth. And our resilience in our business model, and our brand, continues to give us strength. Our build out throughout the highly valuable London property market will continue, although as we've pointed out this morning, we'll probably just take our foot off the pedal a little bit in 2017. Naturally taking a more cautious approach to investment whilst the market settles down. The business continues to generate excellent levels of cash, enabling us, as Gerard's just mentioned, to maintain our interim dividend. And as I said before, we'll review the potential for further special dividends at the end of the year.



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That's all really we have to say this morning, but obviously very happy to spend the rest of the time we've got answering any questions that individuals in the room or on the phone have.

Operator: Thank you. If you would like to ask a question at this time, please press the * key followed by the digit 1 on your telephone. Please ensure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, please press *1 if you would like to ask a question. We can pause now for a brief moment to allow anyone's signal.

Gavin Jago: Morning, it's Gavin Jago at Peel Hunt, 3 if I could please? The first one was just on the branch openings, Nick. To what extent in 2017 do you think they'll be curtailed, at this stage? Are you going to do low single digit, or is it going to be zero? What's your feeling at this current point?

Nick Budden: It's highly unlikely to be zero, we're still looking at it. Since the IPO our stated intention has been 5 to 10, we've done 7, which is at the upper end. And it won't be 7 next year, and it won't be zero, it will be somewhere in between. But we're still looking at that, and we've got some commitments we've made already on leases. But it's just a pragmatic approach, I think, because of the very short term volatility, we don't want to make too many commitments into additional branches right now. And that has an impact back in the business on cost because clearly part of our fixed cost base is the future investments that we make in succession planning and leases, etc. for ongoing expansion. So, that will have an impact both in this year and in next. But, no, as soon as we've decided how many it is we'll let you know.

Gavin Jago: Ok, thanks. The second one was just on the sales trends through Q2, you've given us a pitch for what it was overall, I think down about 38%. Can you give us a feel for how that trended maybe through each month and what you've seen in July as well?

Nick Budden: I mean basically, as you'd expect, given the unexpected nature of the vote you saw quite a dramatic fall in new applicants in the week or two following Brexit. And, exchanges slowed



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because people were trying to renegotiate deals. That was a sharp decline, but that stabilised and since then it hasn't got any worse, and it's starting to get a little bit more stable and improving as we go through. But it's very early days, it's impossible to predict how that will pan out. Even really over the next couple of months.

Gavin Jago: The final one, just looking back to yesterday, one of your peers reported they'd claimed that they had taken significant market share in the London mid-market. I think they'd said the listings in their first half had gone from number 3 in the first 6 months of last year, to number 1 first 6 months of this year. Obviously, we quizzed them on how that had been attained and some of it had been on price, it's seen further falls in commission rates, to grow that share. What are you going to be doing, if anything, to grow your market share, particularly as we enter a more difficult time, there's going to be more competition on for you. Are you still steadfast on holding that 2.5%?

Nick Budden: Yeah, on the sales side we're not intending to reduce our fees, certainly. And, I would caution people looking at listings really, for market share. The only other thing I would say is that remember we're still a relatively small player in London, we've got 6 to 7% market share, which is substantial. But, there's still a lot for us to go at with our expansion, and certainly the competitive landscape generally we haven't seen changing dramatically in London estate agency, on the south side. There's certainly more competition in lettings, and I've run through some of the things that we're doing to help there. And that's really, and I think, a result of many sales agents who were exclusively in sales, up until the last couple of years, moving their attention to lettings because the sales markets have been weak for some time now. But no, we're not seeing a dramatic change in competitive complexion on sales.

John Bell: Morning, it's John Bell at Barclays, I've got two. On lettings on the zero offers, is that a practice that you're observing being done by some of your competitors in the market, and do you envisage rolling that out across all your branches in time? And secondly, any noises you're picking up on up front letting fees, given the new mayor?



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Nick Budden: Yeah, good question. We're not following a trend of zero in lettings, really. In the past, one of the reasons that we haven't done is that when we move into a new area obviously in many of the tenancies out there are still in live tenancies, and therefore are not available to pick up even through marketing programmes. But, what we're finding is because average tenancies are getting longer, and because renewal rates are increasing, maturity within the lettings branches has been lower than we'd have liked, really. It's a market based thing, and so I think that we are likely pick up and accelerate that maturity back to the sorts of levels that we expect at the time of the IPO. So that's the reason for doing that. In terms of upfront fees, no, we're still intending to charge those, and our tenancy fees are still as they were, we have no intention changing that pricing model.

John Bell: Thanks.

Nick Budden: No, that was just as a result of answering the direct question there. We don't have any plans to reduce our lettings fees beyond where they are now.

Speaker 1: Ok, thank you, there we go, mike's working. And just the second one is just in terms of the cost base and the flexibility you have there, appreciate there are some levers around head count that you can flex, but in terms of any other additional levers that you could perhaps use, potentially outsourcing, are there any there that you could use if transactions continue to remain very subdued?

Nick Budden: We haven't got any plans to outsource major parts of our business. As you know, we only focus internally on areas which we think are strategically important to us, like our IT, etc. and our marketing, and we intend to maintain control over those. The main lever is really in terms of just attenuating short term the expansion programme, which just feeds back into the business on the fixed costs that we've spoken about already this morning, really.

Speaker 1: Thank you, and then just the last one. Just a push in terms on current trading and trends that you see there. Do you track any forward looking indicators, such as website visits or



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phone call enquiries, and if you do, have you seen any, or what are the trends you're seeing there?

Nick Budden: The main key indicator for forward looking business for us in the 4 to 8 week period is new applicant levels. Not because they have any chance, really, of buying or selling within the 4 week period, but because that gives you an indication of the overall level of demand of buyers. And also, our pipeline. And both of those, as you would expect in the 2 or 3 weeks after Brexit have come down. But it would be, I think, misleading for us to give any real indications of specific numbers at the moment, because it is such a short term period. You saw the volatility on the graph, there, and it's really, I think, I think it would be misleading to give any real numbers during that 8 week period. But I think we will be giving more data out, obviously, as time goes on, and at the Q3 update.

Speaker 1: Thank you.

Chris Millington: Morning, Chris Millington at Numis, a few from me, please. I'd just like to first touch on capex in light of what you're talking about on the branch opening programmes, and perhaps you can talk us through the expectations, the maintenance capex as opposed to expansionary and how that might move with the branch numbers? I'll come on to the other ones afterwards.

Gerard Nieslony: On capex, the vast majority of the capex is currently branches and it's circa maybe 500,000 to 600,000 each branch. So if you back out that from the capex that we normally spend, we've been spending about 7 million a year, that'll get you down to maybe a couple of million capex, if there were to be no branches, but obviously we will be opening up some branches next year.

Chris Millington: Second one's just about the zero campaign in lettings, and just how you propose to hold onto those lettings when they get to the renewal period and what contractual tie ins you going to have for people.



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Nick Budden: Yeah, the programme itself will be very similar in terms of the terms as our sales zero campaign. So, very open, very valuable offer for clients. The way to hold on to customers is to give them good levels of service, and we already see with our landlords upwards of 70% retention in our lettings business. So, really, it's a different way of acquiring customers compared to either organically, just through waiting for them to come, or through acquisition of lettings books. It's one of the things that we've been testing, we believe that potentially these kinds of offers will offer a better payback and investment profile than acquisition of books of lettings contracts. We have completed one of those last year but we think we can test more than one way to skin a cat, really, in the market, and we think that might be actually quite effective for us.

Gerard Nieslony: And just to add to that, the 0 percent is 0 percent for 12 months, so if we do a 2 year deal, it will be 0 percent for the first year, and it includes property management as well. This is an attempt to also improve the level of management that we have out there, as well. So, it's the first 12 months for free, so if we do a 2 year deal, or a 3 year deal, the first 12 months are free, and then we'll be charging our normal rates for the years 2 and 3. And if it goes into renewals, that will go to us then, renewals terms as well. And then also what we have in there is, we have an exclusivity period to re-let the property, for a period of 60 days, which is quite important because in lettings it's very normal to be multi-agency. So that gives us an advantage there. And the real benefit of all of this is, is if you look at some of our peers that do a very acquisition type methodology, or model, they're generally paying maybe 2 times [revenueearnings](#). And that's very expensive, especially when you take into account that when you pay for these lettings portfolios, it's not tax deductible. So, we're, in a sense, on the new branches giving away a year free, but that is far, far cheaper than an acquisition route, so it's an economic way of growing the business.

Nick Budden: But I mean it's great news for the landlords that are in our new branch areas, they could save £2/3/4,000 up front in terms of letting their properties. So, I think it will be a very exciting and dramatic proposition for them, and as I say, we're right in the middle of it now and we're just compiling the first initial deals we speak, really.



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Chris Millington: The final one from me is really just about costs and how the run rates of this reduced expansion programme feeds through over the next couple of years. I'm assuming, I think you alluded to a benefit in the second half, and then probably an annualised benefit.

Nick Budden: Yeah, I think we're still early days to really give you a clear indication, but I think that second half million pounds or so, incremental cost differences, and maybe in a full year 3, 3.5, 4 million, something like that. So those are the numbers that I would throw out at the moment, but I think just take those with a pinch of salt and we'll have to give you a bit more data as and when we decide exactly what we do in terms of the pace of rollout.

Chris Millington: All right I'm going to be cheeky and get a say on this. Cancellations, cancelled change, change falling through, has that settled down as well as the general run rate of...

Nick Budden: I think that happens, that happened quite quickly, post referendum. People that decided, or wanted to decide, that they were no longer going to buy or sell their property as a result of voting out of Europe, I think that happens quite quickly. We're still seeing quite a bit of renegotiation in the pipeline, which ultimately, as you know before we've spoken in previous meetings about the affordability issues in London. I think, ultimately, if prices come off a little that will be a good thing for both consumers and for Foxtons, because we're a volume player. And so that will continue to work its way out the system. I think, as you know, the age of our pipeline typically is 8 to 10 weeks, so in 8 to 10 weeks' time I think anything that needs to be renegotiated will have been renegotiated and then will be in a fresh pipeline of stability.

Chris Millington: Thank you.

Operator: Thank you. If anyone would like to ask a question over the phone, please press *1 on your telephone keypad. Again, that's *1 on your telephone keypad. We have no questions over the phone at this time, I'd like to turn the call back over to you gentleman for any additional comments.



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Nick Budden: Well thank you very much, everyone, and thanks for everyone that dialled in. Thanks for coming.

Operator: Thank you. That will conclude today's conference call, thank you for your participation ladies and gentleman, you may now disconnect.