



**Foxtons**

**Preliminary results presentation**

*For the year ended December 2017*



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### **Important information**

This presentation includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believe”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will”, or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include matters that are not historical facts and include statements regarding the Company’s intentions, beliefs or current expectations.

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## Overview

Nic Budden, Chief Executive Officer

# GROUP OVERVIEW

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## FINANCIAL PERFORMANCE

- Group revenue in the year £117.6m delivering £15.1m EBITDA
- Lettings revenue £66.3m (-3%). Volumes flat offset by decline in rental rates. Remains a resilient, recurring revenue stream
- Sales revenue £42.6m (- 23%). Decline a result of continued market weakness causing lower transaction volumes
- Mortgage broking revenue £8.7m (-1%). Solid performance in a constrained sales market
- Focus on tight cost control reduced costs by £5.6m versus prior year<sup>(1)</sup>
- Strong cash generation supporting balance sheet with no debt. £18.6m net cash at period end
- 0.27 pence per share final dividend in line with policy; £93m returned to shareholders since IPO<sup>(2)</sup>

## STRATEGY AND OPERATIONAL FOCUS

- Maintain number 1 London market position in listings and brand awareness by providing exceptional service and results for our customers<sup>(3)</sup>
- Focus and prioritisation of lettings business whilst positioning sales business to capture upside from any sales market recovery
- Invest in new initiatives including marketing and brand, people, tech and data to continue to grow through the cycle with significant potential upside from immature branches

Note: Throughout this presentation EBITDA refers to Adjusted EBITDA. Operating cash flow refers to adjusted operating cash flow

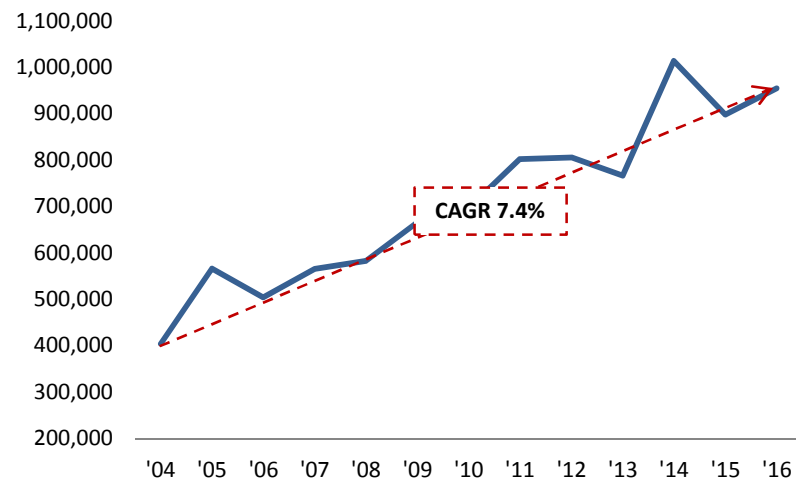
1) Excludes depreciation, amortisation, LTIPS and Adjusted items

2) Includes share buy-backs and proposed 2017 final dividend

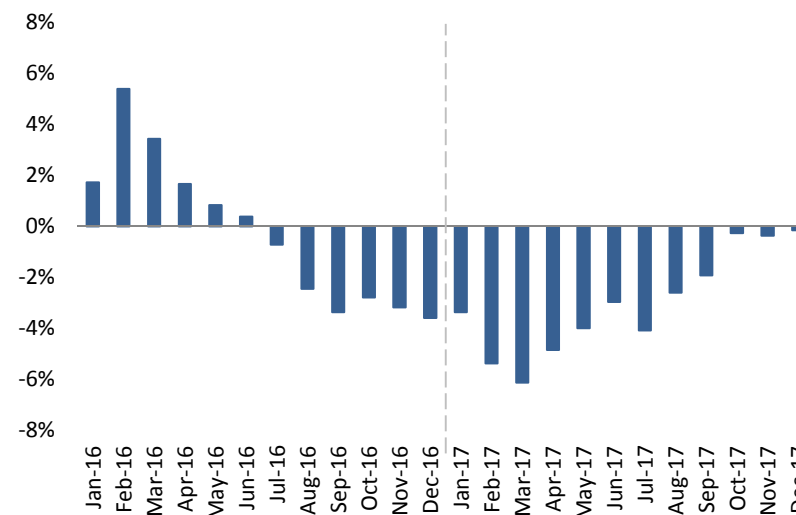
3) Source: Zoopla, YouGov

# LETTINGS MARKET UPDATE

**Number of privately rented homes in London**  
(Number of households)<sup>(1)</sup>



**Change in rental prices**  
(1 year change)<sup>(2)</sup>



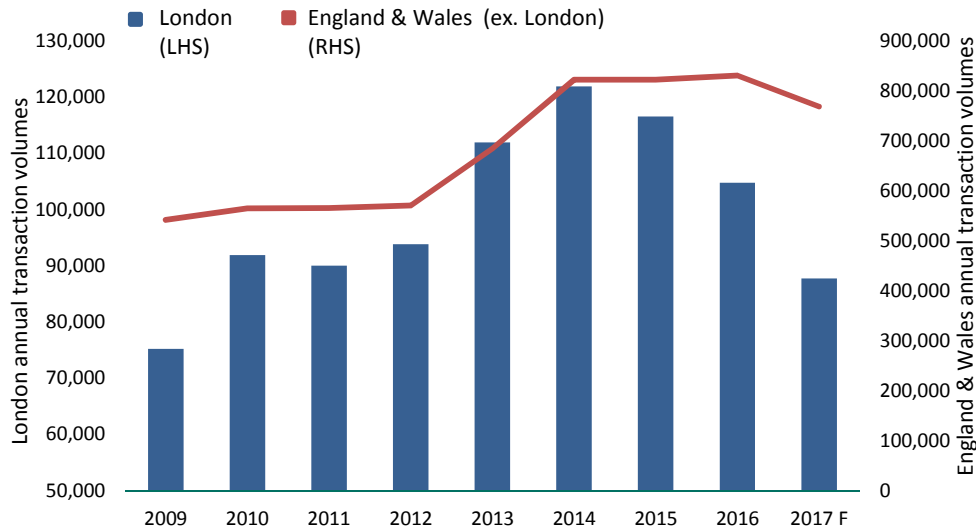
- Market fundamentals remain strong with 30% of households in London in private rentals (1m), nearly double the rate in rest of UK<sup>(3)</sup>
- Rental prices followed downward trend seen in Q2-Q4 2016 driven by; (i) increased supply of rental properties following surge in buy-to-let transactions in Q1 2016, (ii) reduction in international demand and (iii) inflationary pressures on wages
- 2017 average rent 3% lower than prior year (2017: £444 per week, 2016: £457 per week)<sup>(4)</sup>
- Increasing complexity for landlords - with additional regulatory, legislative and tax changes introduced in the last couple of years - driving flight to higher quality agents better able to safeguard landlord interests
- Strong tenant take-up of Institutional PRS as high-quality, professionally managed schemes reach completion. However majority of developments still at build stage

1) Source: Department for Communities and Local Government  
 2) Source: Foxtons research. 3m average  
 3) Source: Department for Communities and Local Government  
 4) Source: Foxtons research

# SALES MARKET UPDATE

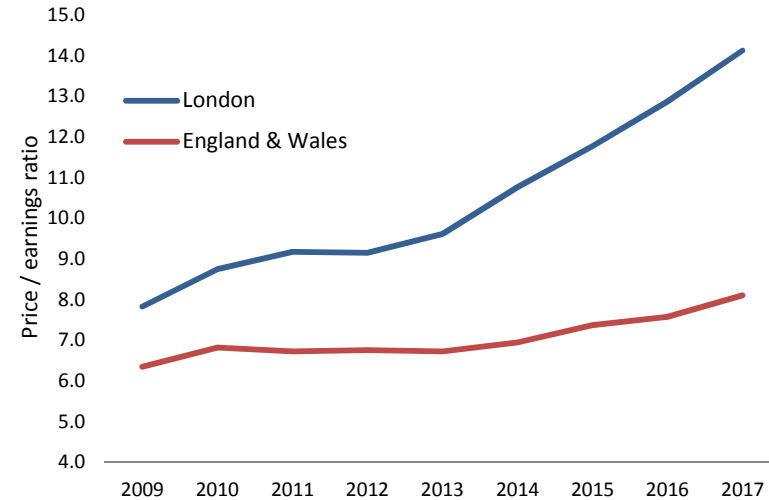


**Residential property sales transaction volumes<sup>(1)</sup>**



**Affordability key driver of low volumes**

(House price / earnings ratio)<sup>(2)</sup>



- Sales market continues to be negatively weighed upon by political and macro economic uncertainty including the unexpected general election in Q2 and the uncertain status of European Union exit negotiations
- In addition, rapid house price growth post-2009 has not been matched by corresponding wage growth leading to increased unaffordability further exacerbated by tighter mortgage lending criteria
- London house prices inflation continued in 2017 with average prices increasing 3%<sup>(3)</sup>
- These factors combined resulted in extremely constrained transaction volumes in 2017. London volumes were at levels similar to those seen in 2009/10 and 47% below 2007
- Foxtons remains number 1 agent in London despite intense competition as market listings levels decrease<sup>(5)</sup>

Note: London defined as the Greater London administrative area. Central London defined as TFL Zone 1

1) Source: Land Registry, Foxtons research. Annualised Jan-Oct 2017.  
 2) Source: ONS, Land Registry, Foxtons research  
 3) Source: Land Registry  
 4) Source: Land Registry, Foxtons Registry. Annualised Jan-Oct 2017.  
 5) Source: Zoopla



## Financial review

Mark Berry, Chief Financial Officer

# A BALANCED BUSINESS THROUGH THE CYCLE

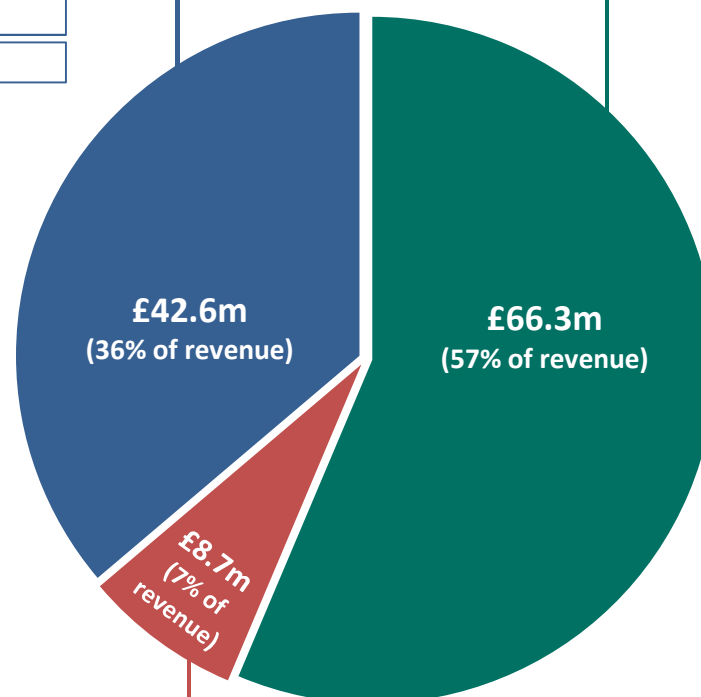
## Sales

23%	Revenue decrease
26%	Volume decrease
4%	Revenue per unit increase

- Revenue: £42.6m (2016: £55.5m)
- Contribution margin 59% pre-allocation of shared costs (2016: 61%)
- Sales volumes: 2,962 (2016: 4,026)
- Revenue per unit £14.4k (2016: £ 13.8k)
- Average Foxtons sales price: £580k (2016: £568k)

## Mortgage broking

- Revenue £8.7m (2016: £8.9m)
- Good performance driven by remortgages in a challenging sales market
- Revenue per unit £2.1k (2016: £2.1k)



## Lettings

3%	Revenue decrease
-	Volumes flat
3%	Revenue per tenancy decrease

- Revenues resilient at £66.3m (2016: £68.3m)
- Deal volumes broadly flat at 19,806 (2016: 19,832)
- Downward pressure on rents continued, with 2017 average rents 3% lower than 2016
- Contribution margin maintained in line with prior year at 73%, pre-allocation of shared costs
- 32% of portfolio with Foxtons Property Management (2016: 31%) which generally attracts higher renewal rates



# INCOME STATEMENT

## Income statement

£m	2017	2016	Change
Revenue	117.6	132.7	(11%)
Operating costs	(102.5)	(108.1)	5%
<b>EBITDA</b>	<b>15.1</b>	<b>24.6</b>	<b>(39%)</b>
Depreciation, amortisation & LTIP	(6.3)	(5.8)	(9%)
Adjusted items	(2.3)	-	-
<b>Profit before tax</b>	<b>6.5</b>	<b>18.8</b>	<b>(65%)</b>
Tax	(1.2)	(3.1)	
<b>Profit after tax</b>	<b>5.3</b>	<b>15.7</b>	<b>(66%)</b>
Basic EPS	1.9p	5.7p	(67%)
Adjusted EPS <sup>(2)</sup>	2.6p	5.7p	(54%)

- £13m of revenue decrease resulted from sales business
- Lettings revenue £2m lower driven by 3% reduction in rental prices. Volumes in line with prior year

- Delivered operating cost savings of £5.6m, despite increased business rates and inflationary pressures <sup>(1)</sup>
- Cost control achieved whilst continuing selective revenue investments in lettings, technology and digital marketing to drive company growth and positioning to capture future recovery
- Continue to proactively review cost base

- Mainly costs associated with prospective branches no longer required

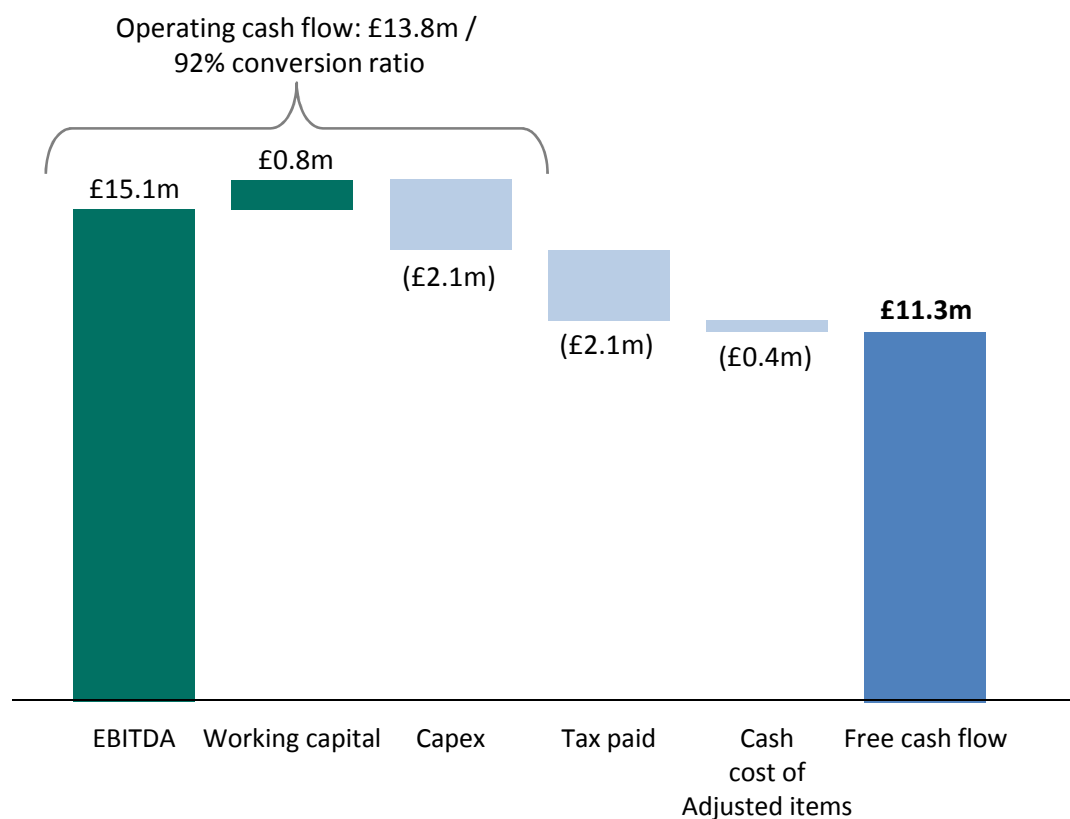
- PBT £8.8m before Adjusted items

1) Excludes depreciation, amortisation, LTIPS and Adjusted items  
 2) Excludes Adjusted items

# CONSISTENTLY CASH GENERATIVE WITH NO DEBT



## EBITDA to free cash flow conversion



## Uses of cash flow

Opening cash	£9.5m
Free cash flow	£11.3m
Dividends paid	(£2.1m)
Other	(£0.1m)
<b>Increase in cash</b>	<b>£9.1m</b>
<b>Cash at end of period</b>	<b>£18.6m</b>

**FY18 capex guidance c.£2.5m, depreciation, amortisation and LTIPS c.£6.5m**

# FREE CASH FLOW PRIORITIES

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## FREE CASH FLOW PRIORITIES

- Fund investment in the future development of the business
- Maintain a strong balance sheet
- Return excess cash to shareholders

## CORE DIVIDEND POLICY

- Return 35% - 40% of profit after tax as an ordinary dividend
- 0.27pps proposed final dividend. Full year dividend 0.70pps
- Cash cost of 2017 total declared dividends £2m

## EXCESS CASH RETURNS POLICY

- Excess cash after operational needs distributed to shareholders as special dividend
- The Board remains committed to returning excess cash when appropriate

**Final dividend will be paid on 25 May 2018 to shareholders on the register on 27 April 2018**

# FINANCIAL SUMMARY

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## BALANCED BUSINESS BUILT TO WITHSTAND THE CYCLE

- Resilient lettings performance
- Subdued sales volumes throughout the year

## FOCUS ON EFFICIENCY

- Strong cost control achieved in 2017 and continue to review and align cost base with market conditions
- Current infrastructure is integral to maintaining customer service and experience levels
- Selective investments to maximise productivity of our people

## CASH GENERATIVE WITH NO DEBT

- 92% conversion of EBITDA to operating cashflow
- Year end net cash position of £18.6m and no debt
- 0.27pps proposed final dividend bringing full year dividend to 0.70pps, in line with policy; £93m returned to shareholders since IPO<sup>(1)</sup>

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1) Includes share buy-backs and proposed 2017 final dividend



## Strategy and operational update

Nic Budden, Chief Executive Officer

# KEY STRATEGIC PRIORITIES



## Objectives:

## Detail

## Results

### FOCUS ON LESS CYCLICAL LETTINGS BUSINESS

- Deepening relationships with existing landlords to increase retention
- Continue to grow institutional PRS offering
- Partially mitigate tenant fees ban

- ✓ Maintained deal volumes in a challenging market with an increasing number of agents switching focus to lettings
- ✓ New retention and loyalty initiatives for existing landlords launched and well received

### INVEST IN TECH TO SUPPORT SERVICE QUALITY

- MyFoxtons online portal launched giving all customers the ability to transact online

- ✓ Buyers and tenants portal launched in 2017, with further enhancements to follow in 2018
- ✓ Conversion of seller and landlord instructions has significantly increased with MyFoxtons

### DATA DRIVEN MARKETING TO REDUCE ACQUISITION COSTS

- Experienced data analytics and digital marketing teams in place
- Refocus of marketing spend to digital channels

- ✓ Customer analytics and profiling leading to reduced cost of acquisition and improved engagement (e.g. +13% increase in conversions on Foxtons website)
- ✓ New digital marketing channels and deepened relationships with Aggregators including beta partner status

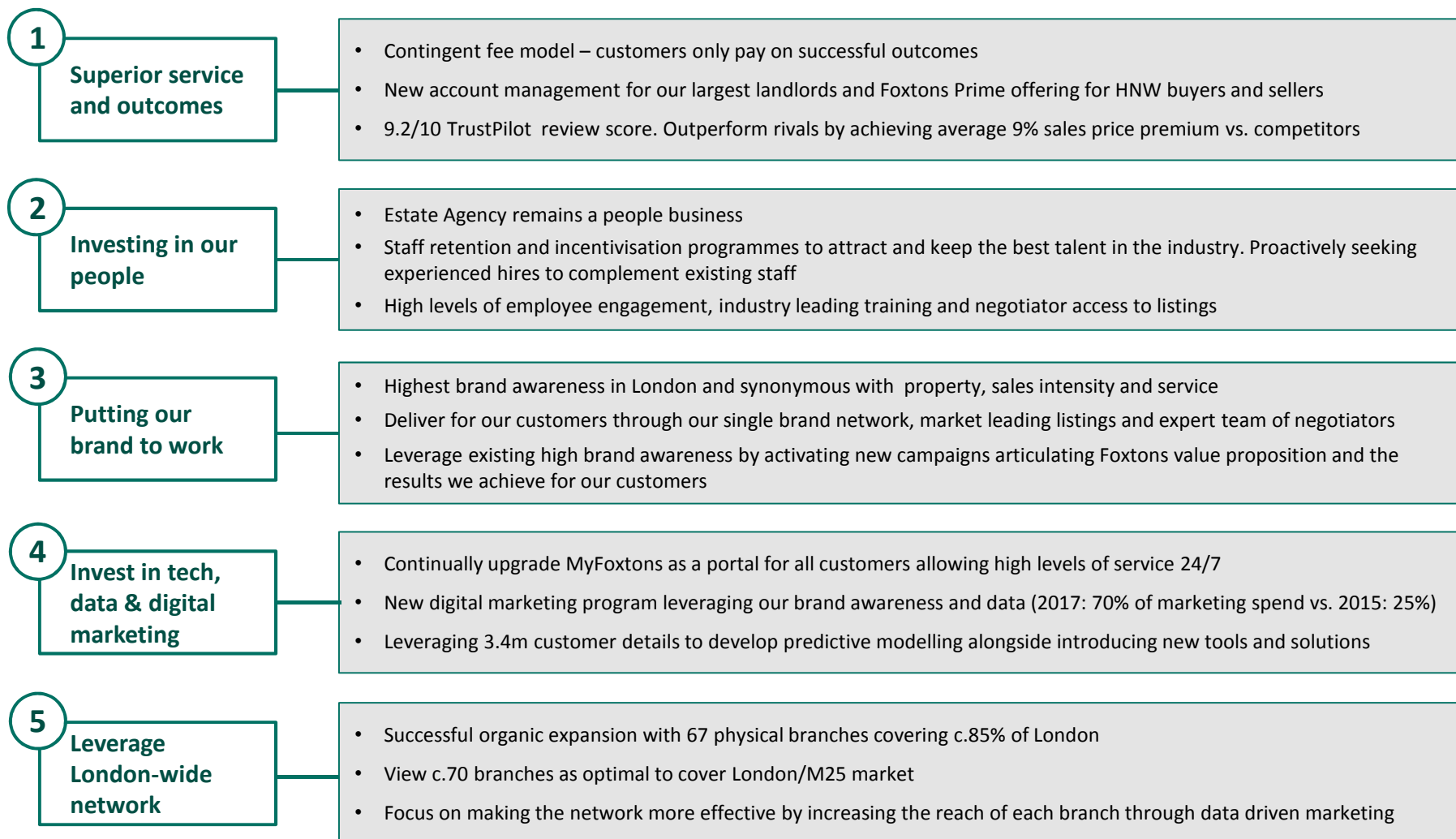
### DRIVE UP MATURITY PROFILE OF NEWER BRANCHES

- London branch rollout programme largely complete
- Focus on accelerating maturity of newer branches

- ✓ 2 branches opened in 2017 with c.85% coverage of London achieved<sup>(1)</sup>
- ✓ Staff upskilling and productivity programmes underway

1) By transaction volumes

# INVESTING FOR FUTURE GROWTH



**REFOCUSING INVESTMENT FROM CAPEX TO OPEX FOLLOWING SUCCESSFUL BRANCH ROLLOUT PROGRAMME**

# SUMMARY AND OUTLOOK

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## LONDON'S LEADING AGENT

- Tech-enabled, centralised business with strong single brand and culture of exceptional service and results for all our customers
- Number 1 market position and brand awareness in London estate agency
- Well positioned in current environment – highly cash generative, debt free and strong balance sheet
- Lettings business responded well to new customer initiatives and operational focus to help offset the effects of downward pressure on rents and increased competition
- Sales and mortgage broking continue to be profitable whilst aligning to weaker market conditions
- Delivered planned £5.6m cost savings as we continue to align our cost base with market conditions

## OUTLOOK

- Little forward visibility on 2018 sales market
- Exchanges and pipeline subdued throughout H2 2017 and into early 2018
- Cash resources allow us to fully support strategic initiatives - selectively investing in brand, people and technology





## Appendices



## STRONG BALANCE SHEET – NET CASH AND NO DEBT

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	2017	2016	
Goodwill & intangibles	120.1	119.3	
Property, plant & equipment	24.0	28.0	
Net working capital	(0.2)	1.0	← Low working capital requirements
Net deferred tax	(15.8)	(16.4)	
Provisions and deferred revenue	(5.8)	(4.8)	
Net cash	18.6	9.5	← Net cash position with £10m Revolving Credit Facility available
<b>Net assets</b>	<b>140.9</b>	<b>136.6</b>	

## SEGMENTAL EBITDA AND KPIs



	H1 17	H2 17	FY 17		H1 16	H2 16	FY 16
Sales revenue (£m)	22.3	20.3	42.6		31.5	24.0	55.5
Sales EBITDA (£m)	1.4	(0.2)	1.2		5.3	1.7	7.0
Sales units	1,544	1,418	2,962		2,314	1,712	4,026
Lettings revenue (£m)	32.1	34.2	66.3		32.7	35.6	68.3
Lettings EBITDA (£m)	4.9	7.2	12.1		7.1	9.1	16.2
Lettings units	9,435	10,371	19,806		9,322	10,510	19,832
Mortgage broking revenue (£m)	4.2	4.5	8.7		4.7	4.2	8.9
Mortgage broking EBITDA (£m)	0.8	0.9	1.7		0.8	0.6	1.4
Mortgage broking units	1,992	2,251	4,243		2,152	2,069	4,221

## EARNINGS PER SHARE AND EFFECTIVE TAX RATE

	2017	2016
Basic earnings	£5.3m	£15.7m
Weighted average number of shares*	274.8	275.2m
Basic earnings per share	1.9p	5.7p
Earnings excluding Adjusted items	£7.3m	£15.7m
Adjusted earnings per share	2.6p	5.7p

\*Number of shares used for EPS calculation purposes excludes shares held in Treasury

### Taxation

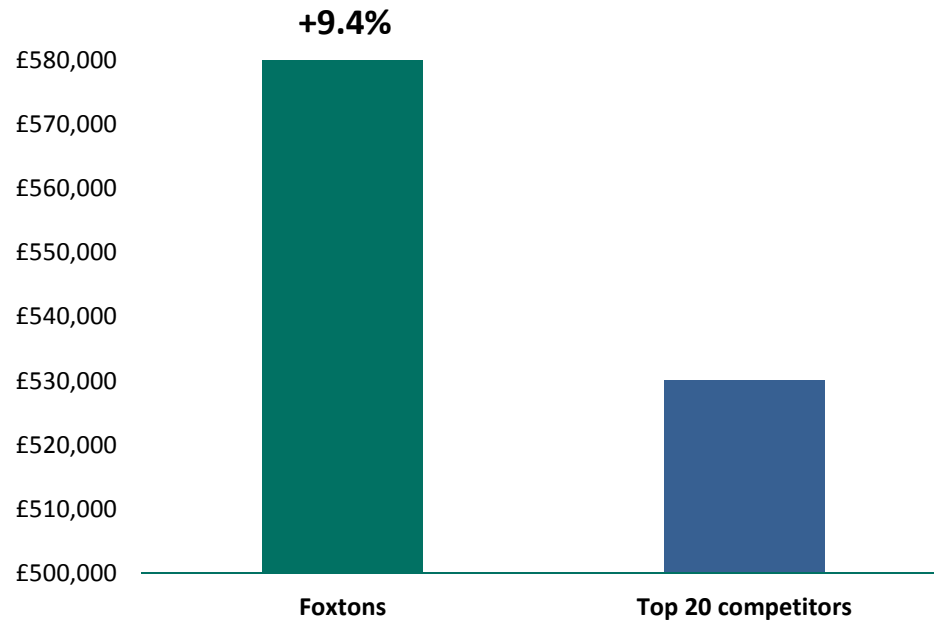
Effective tax rate	18.0%	16.2%
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- Effective tax rate below corporation tax rate due to recognition of a deferred tax asset in 2017 and the change in future tax rates on deferred tax liability in 2016

# FOXTONS MARKET LEADING OUTCOMES DRIVE #1 LISTINGS POSITION

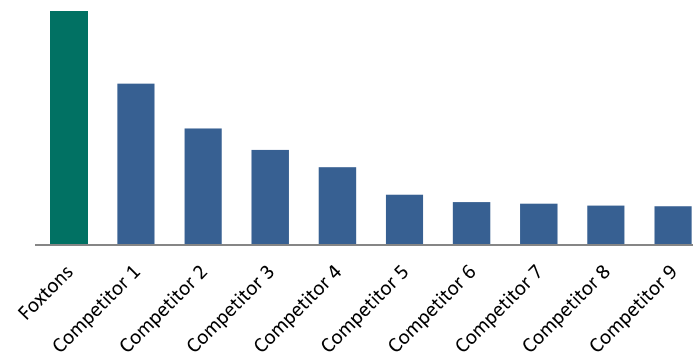


**Foxtons and competitor sales price achieved for average Foxtons house sale <sup>(1)</sup>**

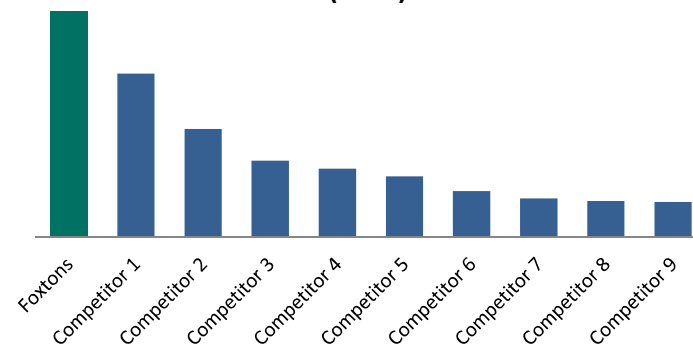


- On average Foxtons achieves 9.4% price premium compared to top 20 competitor agents for the average house sale
- Data calculated using surveyor data and TwentyCi average valuation model

**Sales instructions (2017)<sup>(2)</sup>**



**Lettings instructions (2017)<sup>(2)</sup>**

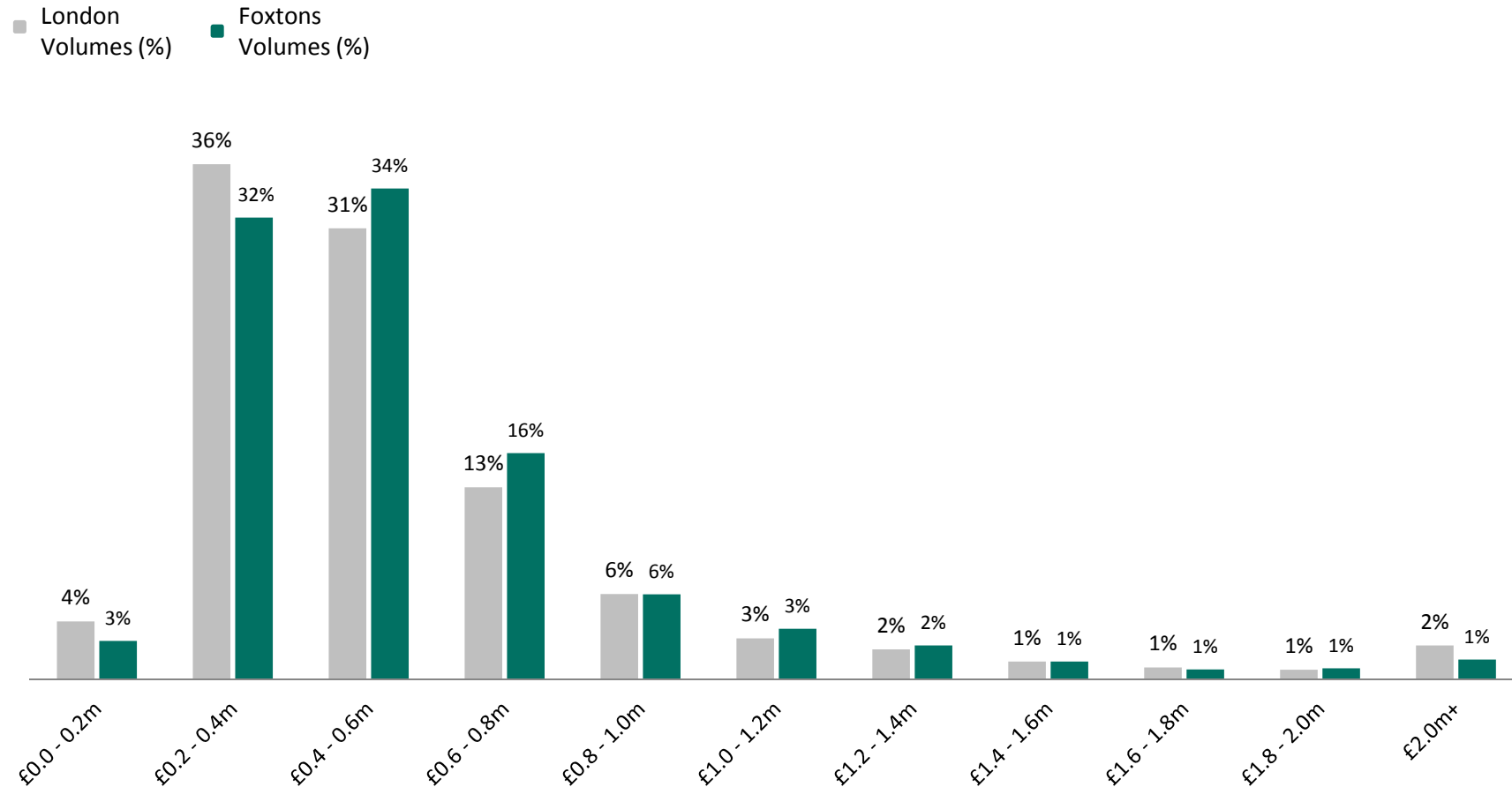


1) Source: TwentyCi research  
2) Source: Zoopla

# FOXTONS MID MARKET SALES POSITION MIRRORS LONDON



London and Foxtons sales distribution by price (2017)



1) Source: Land Registry, Foxtons research



## THE SCALE AND SCOPE OF OUR BUSINESS

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### 2017 STATISTICS

**33,600**

VIEWINGS EACH MONTH

**+9.4%**

PRICE ACHIEVED  
VS. COMPETITORS

**4.8 million**

WEBSITE VIEWS

**250,000**

APPLICANTS REGISTERED

**£1.7 billion**

PROPERTY SOLD

**£0.5 billion**

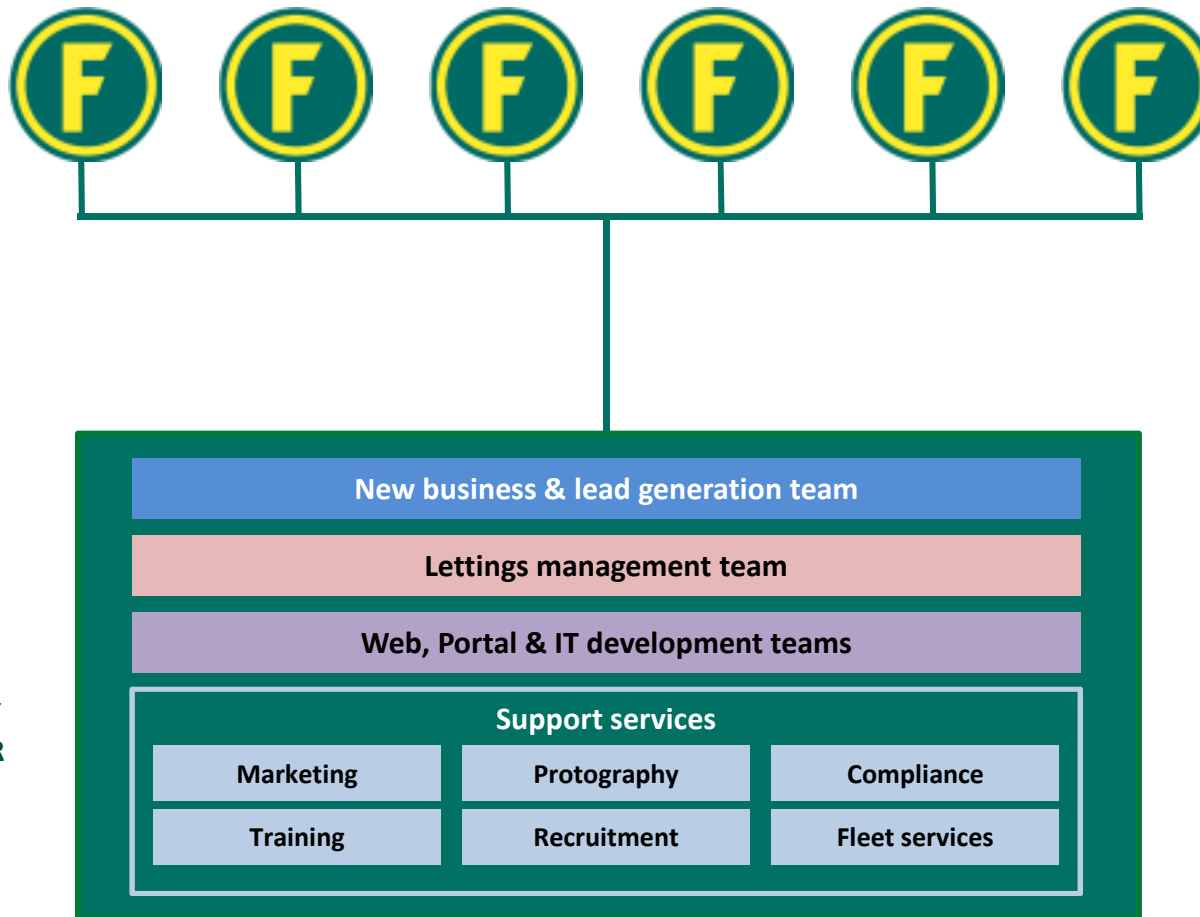
RENT COLLECTED

**1 PROPERTY LET EVERY 16 MINUTES, 1 PROPERTY SOLD EVERY HOUR**

# WE OPERATE A UNIQUE CENTRALISED ESTATE AGENCY MODEL



SINGLE BRAND BRANCH NETWORK FOCUSED SOLELY ON SALES & CUSTOMER SERVICE



OUR SCALEABLE CENTRE IS A KEY DIFFERENTIATOR



# BEST IN THE SECTOR TECHNOLOGY PLATFORM

Foxtons unique technology underpins every aspect of the business and provides a significant competitive advantage

