Countrywide plc

Preliminary Results

Year ended 31 December 2017

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This presentation has been presented in £ and £ms. Certain totals and change movements are impacted by the effect of rounding.

Summary

Peter Long

Executive chairman

Summary

- 2018 – start of a new era and recovery plan underway
- Significant underperformance in the year in Sales and Lettings; 26% loss of market share since 2014
- Strong areas of the business B2B and FS impacted by this underperformance
- Change in leadership
- Back to basics in Sales and Lettings
- Laying the foundations for growth

2017 Financial performance

Himanshu Raja

CFO

Group summary financials

	2017 £m	2016 £m	YoY %
Income	671.9	737.0	(9%)
Adjusted EBITDA*	64.7	83.5	(23%)
Operating profit	37.7	62.1	(39%)
Net finance costs	(12.5)	(9.4)	(34%)
Profit before tax	25.2	52.7	(52%)
Tax	(5.7)	(10.7)	(47%)
Underlying earnings	19.5	42.0	(54%)
Exceptional and non-trading items	(227.5)	(24.5)	n/a
(Loss)/profit after tax	(208.1)	17.5	n/a
Adjusted EPS (pence)	8.4	19.3	(56%)
Operating cash flow	58.1	27.9	108%
Net debt	192.0	247.9	(23%)
Leverage	2.97x	2.97x	

- Group performance impacted by poor performance in Sales and Lettings
- Tough 2016 comparatives
- Total income down 9% YoY not offset by corresponding reduction in costs
- Exceptional items are primarily non-cash goodwill and intangibles write downs
- Cash flow and working capital focus in H2 2017 drives significant improvement in OCF to £58m
- Leverage at 2.97x - medium term aim to be within 1.5 – 2.0x and to drive to lower thereafter
- No dividend

* Earnings before interest, tax, depreciation, amortisation, exceptional items, contingent consideration, share-based payments and share of losses from joint venture, referred as 'adjusted EBITDA'

Countrywide

Cash flow and leverage – 90% OCF conversion

	2017 £m	2016 £m
Adjusted EBITDA	**64.7**	83.5
Working capital	11.3	(19.7)
Exceptional items	(6.1)	(12.6)
Provisions	(13.3)	(20.0)
Other	1.5	(3.3)
Operating cash flow	**58.1**	27.9
Pension contributions	(2.0)	(1.9)
Net finance expense	(9.8)	(8.2)
Tax	(3.0)	(8.7)
Capex	(14.5)	(29.0)
Operating free cash flow	**28.8**	(19.9)
Acquisitions/deferred consideration	(3.4)	(33.7)
Disposals	0.7	48.3
Dividends	-	(33.0)
Share placing/(buy-back)	35.5	(18.1)
Other	(5.8)	(6.6)
Net debt movement	**55.8**	(63.0)
Opening net debt	**(247.9)**	(184.9)
Closing net debt	**(192.1)**	(247.9)
Net debt/adjusted EBITDA	**2.97x**	2.97x

- Strengthened working capital management in H2 leads to significant improvement in operating cash-flow
- Capex reduced significantly through improved financial disciplines
- Cash interest cost expected to be broadly flat YoY
- Absolute level of debt reduced by £56m, aided by organic cash flow and share placing
- Leverage ratio flat on 2016 at 2.97x
- RCF amended; £275m expiring March 2020. Reducing debt level and leverage is a key strategic priority

Countrywide

UK Sales and Lettings – a disappointing year

	2017 £m	2016* £m	YoY %
Income	205.2	247.8	(17%)
Adjusted EBITDA	14.9	27.8	(47%)
Adjusted EBITDA Margin	7%	11%	
KPIs			
Exchanges	41,722	50,362	(17%)
Average cash fee (£)	2,381	2,511	(5%)
Average house price (£)	203,068	198,122	3%
Managed properties (Average)	62,646	65,352	(4%)
Branches (Average)	666	783	(15%)
Employees FTE (Average)	3,710	4,710	(21%)

- Loss of 1,000 employees through branch closures leading to loss of market share
- Total sales volumes: 41,722 ; down 17% in a broadly flat market
- Average sales fee down 5% to £2,381 despite a 3% increase in house prices
- Lettings impacted by loss of expertise and centralisation of property management centres resulting in 4% fall in managed properties; 8% decline in Lettings income

* Restated from prior year following internal restructuring of operations between Retail, London and B2B business units

Countrywide

London Sales and Lettings – difficult market

	2017 £m	2016* £m	YoY %
Income	155.3	172.6	(10%)
Adjusted EBITDA	11.5	20.6	(44%)
Adjusted EBITDA Margin	7%	12%	
KPIs			
Exchanges	8,778	10,951	(20%)
Average cash fee (£)	8,267	8,054	3%
Average house price (£)	686,503	665,799	3%
Managed properties (Average)	26,644	25,792	3%
Branches (Average)	246	278	(12%)
Employees FTE (Average)	1,848	2,147	(14%)

- London market slower to recover from 2016 SDLT increase and Brexit
- Overall market volumes down 22%[1]
- Sales volumes down 20%; operating with an 11% smaller estate
- Hamptons and John D Wood - premium London brands – a resilient performance in a difficult market
- Average sales fee up 2.6% to £8,267
- Lettings income flat and accounts for 51% of total (2016: 46%)

- Restated from prior year following internal restructuring of operations between Retail, London and B2B business units

(1) Source: HMRC

Countrywide

B2B – resilient performance

	2017 £m	2016* £m	YoY %
Income	220.7	224.8	(2%)
Adjusted EBITDA	35.6	31.5	13%
Adjusted EBITDA Margin	16%	14%	
KPI's			
Surveys and valuations (Total)	365,223	364,957	-
Surveying average fee (£)	197	190	4%
CRDS exchanges #	3,705	4,896	(24%)
Corporate properties under management (avergae)	36,624	36,635	-

- 13% increase in adjusted EBITDA despite a 2% decline in income
- 2% growth in Surveying income, EBITDA growth of 13%
- Decline in conveyancing income (low referrals from the core)
- Circa 25% market share in Surveying
- Strong performance from our commercial business LSH; every major contract renewal won in the year:
  - Income flat YoY, adjusted EBITDA + 10%
  - Corporate properties under management held flat YoY

- Restated from prior year following internal restructuring of operations between Retail, London and B2B business units

\# Countrywide Residential Development Solutions (formerly CW Land & New Homes and Hamptons RDI

Countrywide

Financial Services – strong growth in mortgage distribution

	2017 £m	2016 £m	YoY %
Income	87.3	88.2	(1%)
Adjusted EBITDA	19.7	22.7	(13%)
Adjusted EBITDA Margin	23%	26%	
KPIs			
Gross mortgage value (core) £'bn	5.0	5.6	(11%)
Gross mortgage value (non core) £'bn	12.7	10.1	26%
Total mortgages completed (number)	96,031	90,262	6%
Gross mortgage value (total) £'bn	17.7	15.7	13%

- 6% growth in total mortgages completed (market growth at 4%*); market share grows to 7% (2016: 6%)
- 13% growth in gross mortgage distribution to £17.7bn (2016: £15.7bn)
- Core mortgage distribution down 11% due to lower referrals from Sales and Lettings
- Strong performance from our non-core businesses and network in terms of value of mortgages completed:
  - The Buy to Let Business (telephony) + 30%
  - The Mortgage Bureau + 21%
  - Mortgage Intelligence (network) + 15%
- 3% increase in mortgage protection income
- Strong partner relationships with major contract renewals

* Source: UK Finance (Council of Mortgage Lenders)

Countrywide

Strategy update

Peter Long

Executive chairman

Paul Creffield

Group operations director

Himanshu Raja

CFO

Strong platform underpins the recovery

850+ estate agency branches in the UK

Largest lettings portfolio in the sector

One of UK's largest mortgage broker

Market leader in Surveying; c25% market share

Strong commercial business - leading regional presence

Strong and experienced team leading the turnaround

65 brands – strong regional resonance

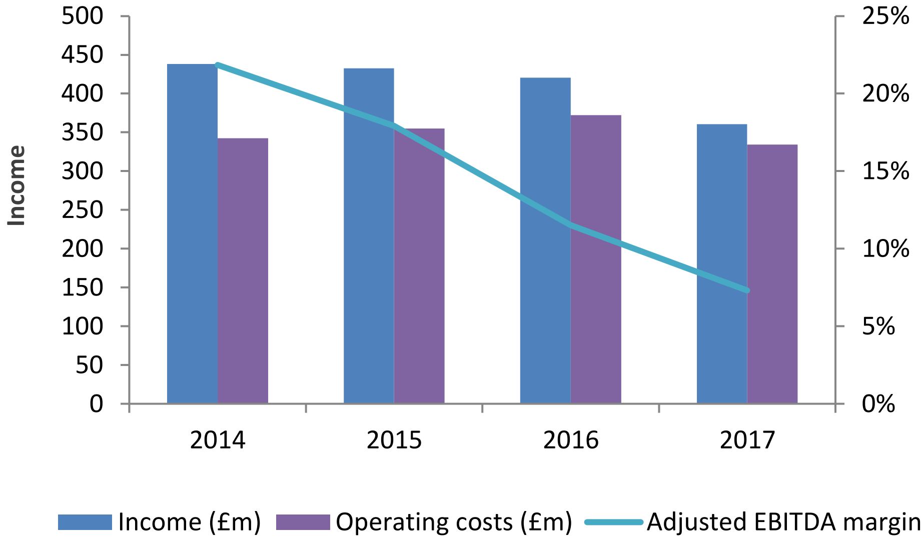
Recent performance – flawed strategy and execution

"Building our Future"	Back to Basics
• Business defined as retail - Sales and Lettings merged • Loss of senior Sales and Lettings expertise • Staff cut at branch level **Consequences:** • Lost market share and shrinking pipeline • Loss of ancillary services income • Further complicated by competing hybrid proposition	• Business redefined into Sales and Lettings • Building back experienced industry team • Investing in front line staff **Consequences:** • Build the pipeline and regain market share • Grow ancillary services income • Remove competing hybrid proposition
• Central costs increased significantly	• **Cost efficiency**
• Poor cash conversion	• **Financial discipline and cash flow**

Grow earnings and cash flow

Countrywide

Sales and Lettings: 2014 – 2017 – we scored own goals



2014 – 2017 Financial performance

- 18% decline in income
- Costs continued to climb up to 2016;
- Cost actions cut into core capability in the form of lost c1,300 staff and 200 closed branches
- 72% decline in adjusted EBITDA from £96m to £26m
- Adjusted EBITDA margin dropped from 22% in 2014 to 7% in 2017

	2014	2015	2016	2017	17 v 14
Housing market transactions	1,195,370	1,205,700	1,210,420	1,193,340	FLAT
CW house exchanges	73,450	67,402	66,210	54,205	(26%)
Market share	6.1%	5.6%	5.5%	4.5%	

Loss of 26%[(1)] market share in a flat housing market

[(1)] Housing market transactions per HMRC

Countrywide

The recovery plan priorities

1. Back to basics in Sales and Lettings
2. Continued growth in Financial Services and B2B
3. Cost efficiency
4. Financial discipline and cash flow

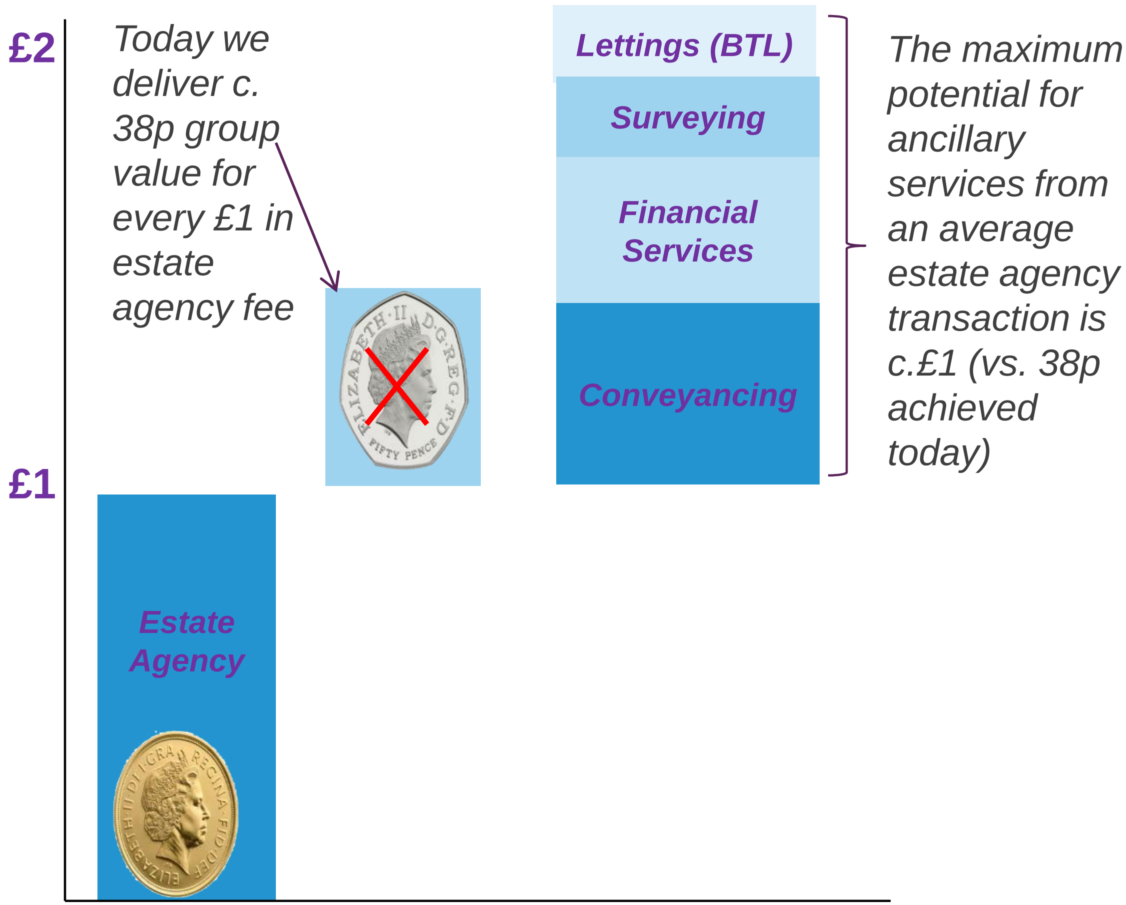
1. Back to basics – Sales and Lettings

- Right level of staffing and capability at area, regional and branch level
- Restore Lettings capability and expertise
- Deliver complementary financial and conveyancing services
- Decentralise decision making and empower branch network
- Define our digital proposition for Sales and Lettings
- Deliver the performance metrics and measures to enable each business to measure progress internally and against the market

1. Back to basics – Refocus on Lettings

- Focus back on Lettings as a service line
- Gradually instil dedicated Lettings management where appropriate
- Closer alignment between property management, branches and landlords
- Improve the process and working practices within Lettings branches
- Develop sale of ancillary services – a more joined up approach

1. Back to basics – Realise ancillary services opportunity



More for us to go for…

- At IPO in 2013, we were selling 50p of ancillary services for every £1 of EA fee
- Today we are at 38p
- Promoting more ancillary services directly linked with house sales (FS and Conveyancing) over an increased level of EA completions would enable us to get back to at least the IPO levels
- Further upside potential from Lettings management, surveying and remortgage (maximising the customer LTV through their mortgage cycle)

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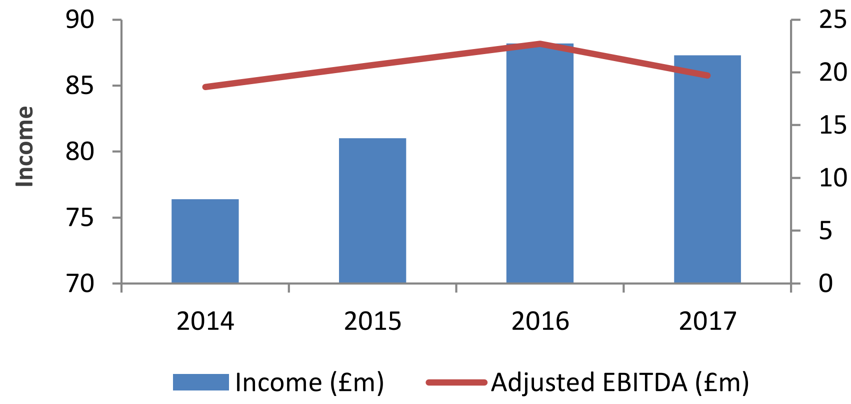
2. Continued growth in Financial Services



2014 – 2017:

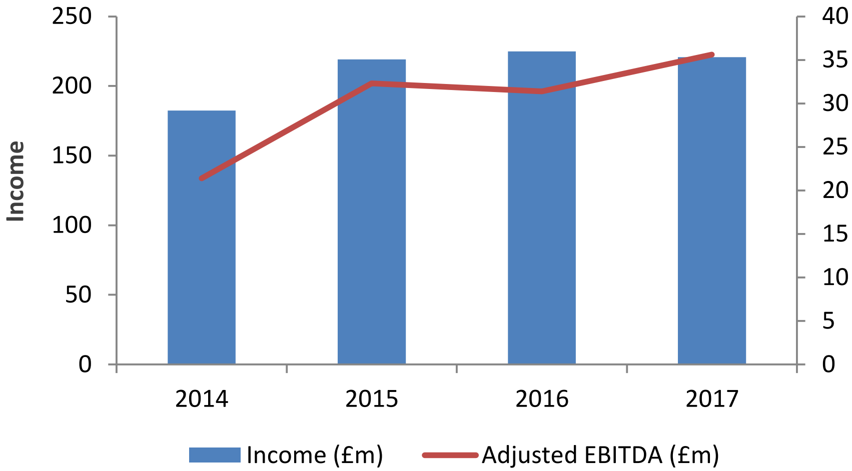
- One of UK's largest brokers in terms of mortgages completed (£17.7bn in 2017 up from £10.3bn in 2014).
- Number of mortgages completed increased 36% to over 96k since 2014
- Income has increased 14% since 2014 to £87.3m and adjusted EBITDA has increased 6% to £19.7m
- Number of successful brands addressing various segments of the property mortgage market; provide significant opportunity for further growth

2018 priorities:

- Invest and grow the number of mortgage and protection consultants in our branch network
- Drive ancillary services through Sales and Lettings
- Improve productivity through investment in sales skills
- Improve remortgage conversion through enhanced customer contact
- Improve retention and renewal

Countrywide

2. Continued growth in B2B



2014 – 2017:

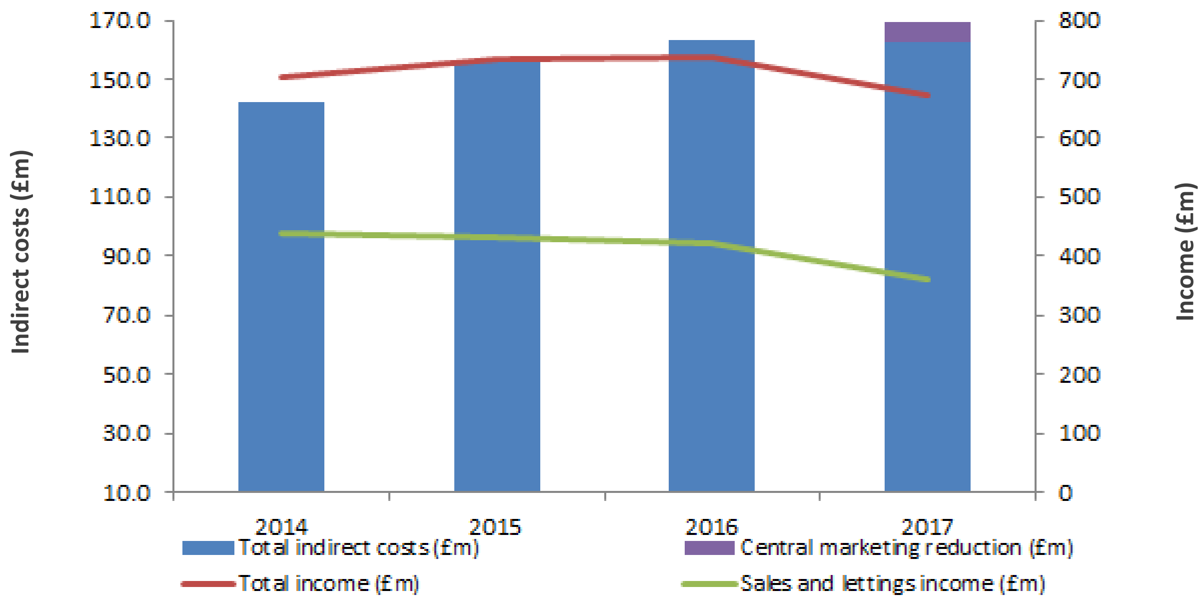
- 66% growth in adjusted EBITDA; with adjusted EBITDA margin growth from 12% to 16% in 2017
- c25% share of surveying market; 365k surveys and valuations in 2017 up 10% from 332k in 2014
- Conveyancing volumes suffer as dependent on Sales and Lettings for instructions (down more than 20% since 2014)

2018 priorities:

- Focus on highest levels of service delivery for our existing lender clients
- Target new business opportunities
- Invest in new techniques and technologies to drive innovation in our Surveying and valuation businesses to increase productivity and enhance customer service
- Continue to build on our combined offering to developers and property investors providing "joined up" services for acquisition, development, management and sales/lettings
- Continue to invest in our B2B academy – driving our graduate/colleague intake programme to support our talent pipeline

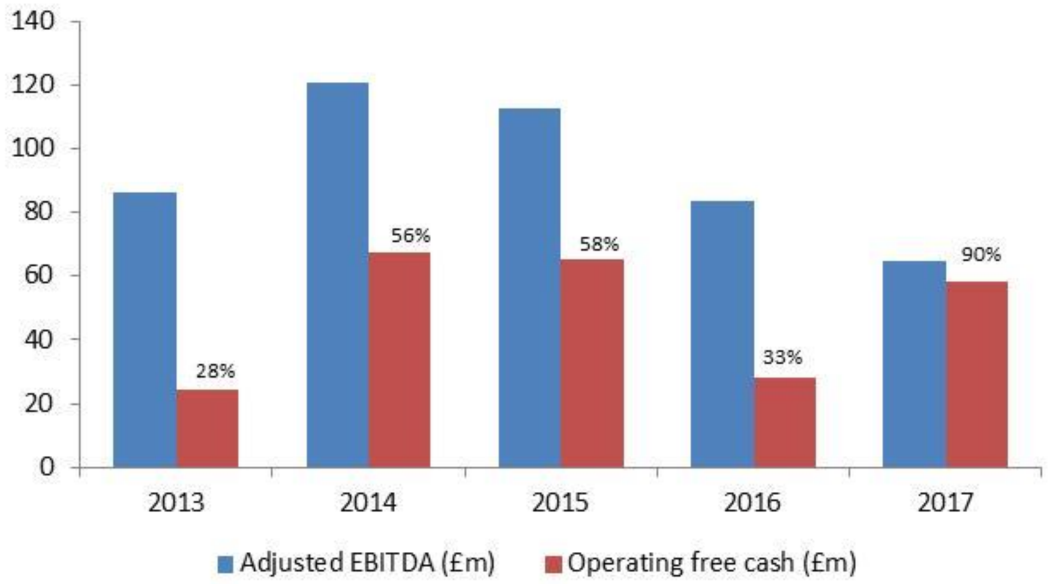
Countrywide

3. Cost efficiency



- Right size and drive cost efficiency in our central support functions
- Invest to address our legacy IT infrastructure and line of business applications
- Contact centre optimisation to improve customer experience through localisation and improved productivity

4. Financial discipline and cash flow



- Continue to drive better working capital management
- Improved capital discipline and capital allocation
- Leverage the Group's purchasing power through better procurement
- Strengthen the balance sheet
- Commitment to reduce leverage to 1.5-2x in the medium term

Foundations of recovery and turnaround

- **Wide range of actions underway to strengthen the Group**
  - This business is fixable
  - "Back to basics" in Sales and Lettings
  - Paul Creffield - Group operations director
  - Bring expertise back to Sales and Lettings - regional, area and branch level
  - Continue to grow Financial Services and B2B
  - Drive cost efficiency and cash flow

- **Outlook**
  - Opening pipeline significantly below 2017
  - First half reduction in profit of around £10m, unlikely to be recovered in the second half of the year
  - Detailed recovery plan under development; update at the interims

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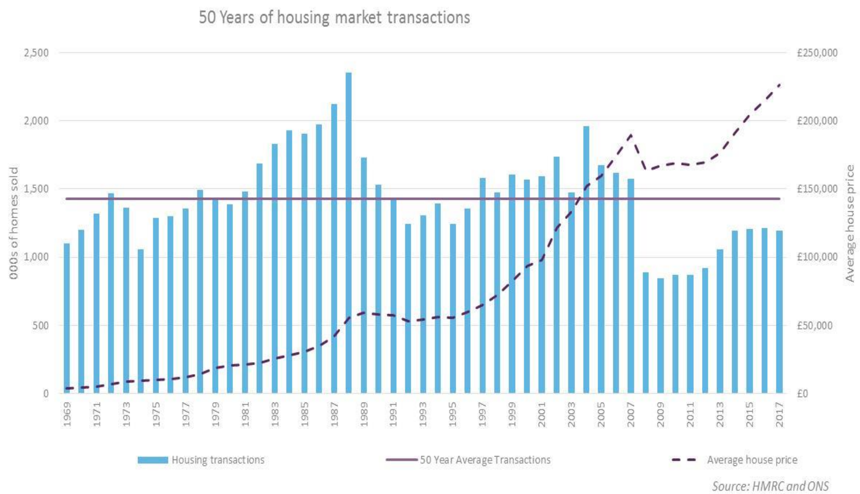
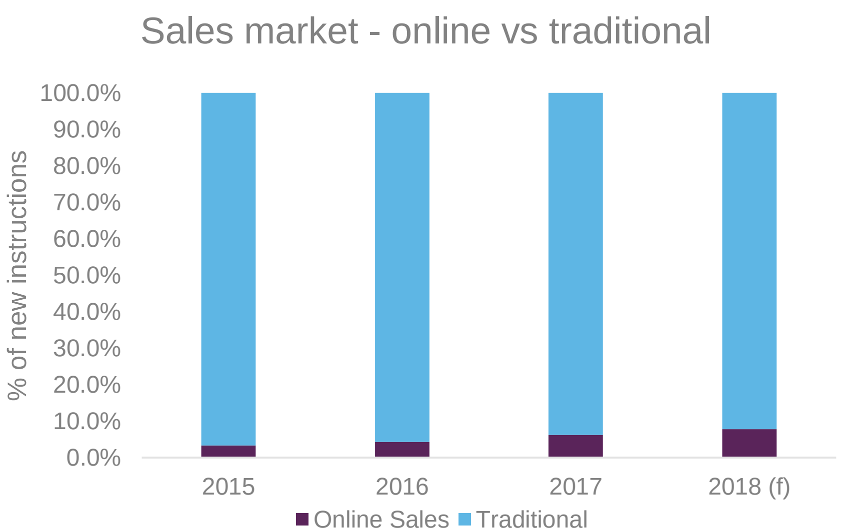
Questions?

Appendices

Our Markets

Sales – stable yet challenging market overall





Source: Countrywide market estimates

2017:

- Price growth; albeit at slower rate
- 1.2m homes sold, flat on 2016
- Growth driven by North and Midlands
- Activity and prices fall in many London regions

2018 and beyond:

- Pick up in earnings growth expected, but reaching peak employment
- Price growth to continue, but at a lower rate
- Small growth in transactions, volume at 2016 level
- FTB stamp duty to have a small impact on activity
- Home ownership rates to hold up better than previous years
- Traditional estate agency model will retain >90% of market share

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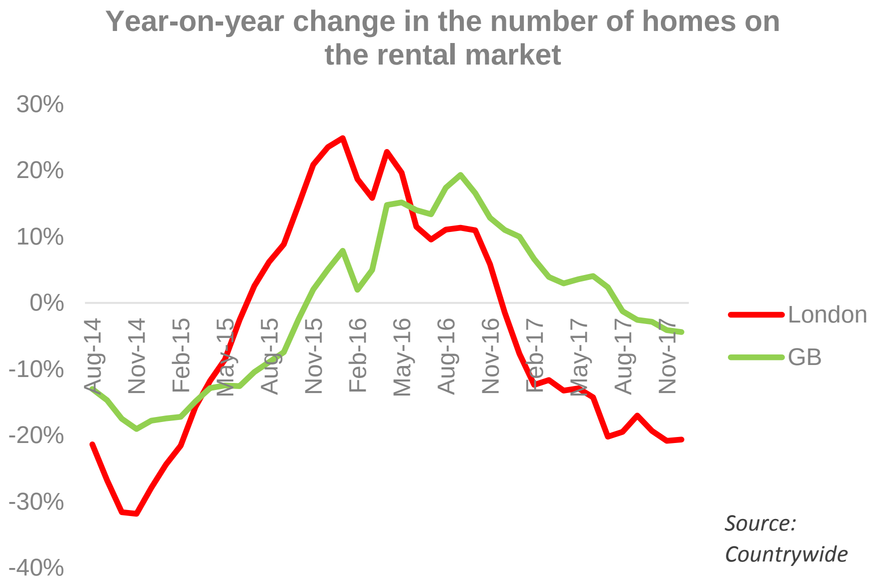
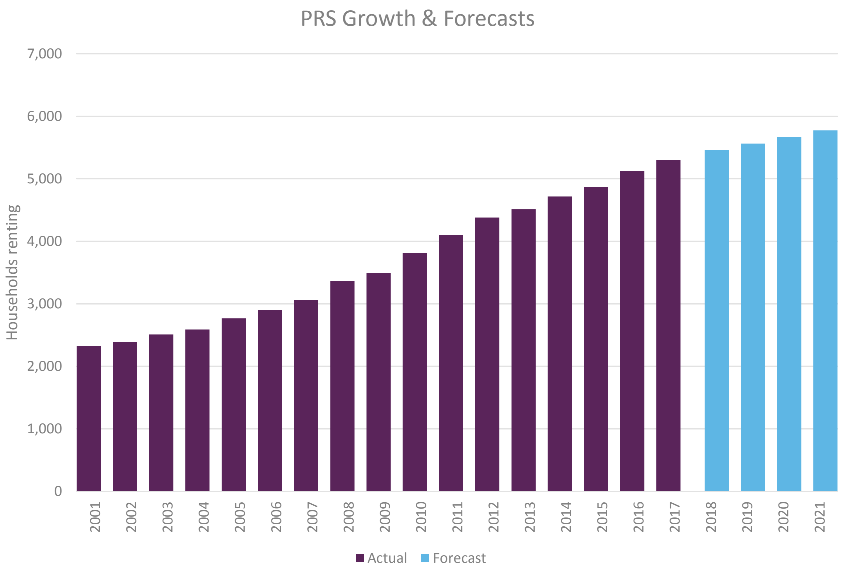
Lettings market buffeted by politics and policy over the last two years, but is returning to a new normal





2017:

- Fall in stock level in 2017; London down 20% and GB overall down 3%
- Rental growth accelerated; rents grew 2.4% in 2017 vs 1.8% in 2016
- Total size of sector continued to grow as per the last English Housing Survey (+3.4% YoY)

2018 outlook:

- Rental market to grow in size, despite lower levels of investor activity and reducing stock levels
- Rental growth to continue as stock availability is limited
- Continuing growth in the Private Rental Sector (PRS)

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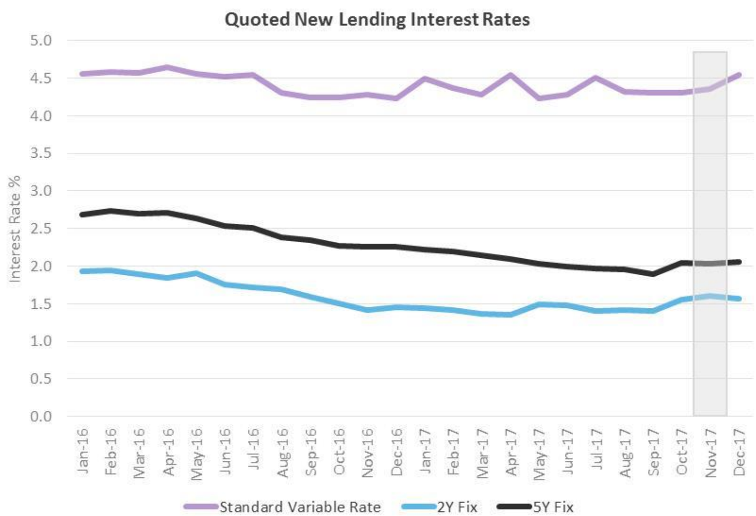
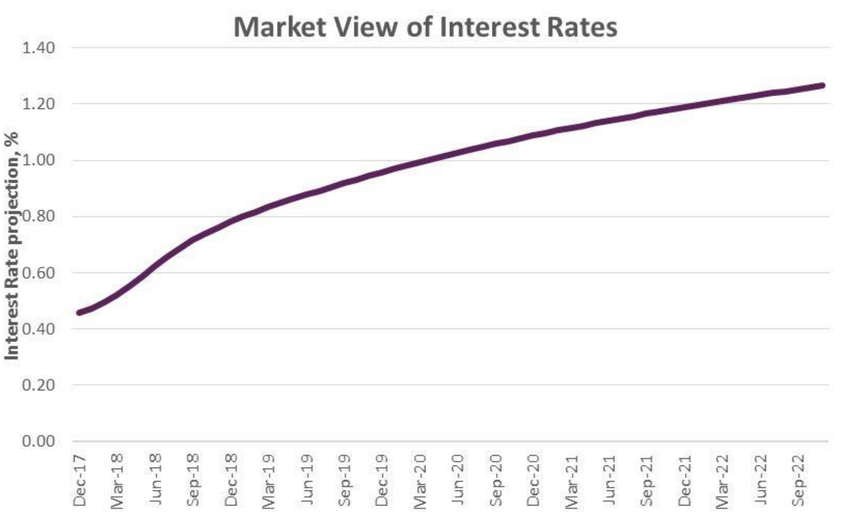
Mortgages – Remortgage growth drives market size





Source: BoE 01/12/2017

2017:

- Total mortgage approvals grew by 1.9% in 2017 boosted by a strong remortgage market
- Rise in base rate drove remortgage growth of 7%
- Mortgage approvals for house purchase fell 1.5%, in line with transactions
- Falls in buy to let lending drove decline in approvals

2018:

- Despite likelihood of small rises to the base rate in 2018 and pressure on lenders margins, mortgage rates will remain low by historic standards.
- Increase in rates will drive a wave of remortgage activity

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Appendix
Exceptional items – mainly non-cash impairment charges

	2017 £m	2016 £m
Non - trading items:		
Amortisation of acquired intangibles	(5.8)	(11.4)
Share based payments	(1.6)	(2.5)
Acquisition related costs	(3.9)	(6.8)
Exceptional items:		
Impairment of goodwill, brands and customer contracts	(210.5)	(20.9)
Strategic and restructuring costs	(7.9)	(26.4)
Impairment of software and tangible assets	(4.1)	-
Profit on disposal of Zoopla shares	-	32.8
Other	(3.4)	2.0
Total before tax	(237.2)	(33.2)
Tax credit on exceptional and non-trading items	9.7	8.7
Total after tax	(227.5)	(24.5)

- Impairment of goodwill, brands and customer contracts
- £4.4m redundancy costs, £1.7m professional fees and £1.8m property closure costs provision
- Other includes additional PI provision for a historic claim
- Cash exceptionals in the year amounted to £6.1m; further £1.8m cash outflow expected over the next three years

Appendix
Countrywide Group

Our business:

Sales and Lettings

- Estate Agency
- Residential Lettings
- Land and New Homes

Financial Services

- Mortgage Services
- Insurance Services

B2B and Commercial

- Estates and Property Management
- Asset Management and Repossession solutions
- Property Care Solutions
- Part Exchange Solutions
- Corporate Property Services
- Relocation Solutions
- Property Auctions
- Surveying and Valuation Services
- Residential Development and Investment Consultancy
- Social Housing Services
- Conveyancing and Legal Services
- Private Conveyancing and Finance Solutions

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