# Interim Results for the six months ended 30 June 2019

**31 July 2019**

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# Countrywide plc

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Countrywide plc (LSE: CWD) announces its results for the six months ended 30 June 2019.

**Commenting on the results and outlook for the Group, Executive Chairman, Peter Long said:**

"The fundamental changes we have made to our business in the last 18 months are beginning to bear fruit. Our register and pipeline of agreed sales is healthy and we continue to rebuild market share[(1)], re-establishing our market-leading position across both Sales and Lettings. The market, however, remains weak, affected by political and Brexit uncertainty. In view of this environment, during the first half, we took a series of further self-help actions to accelerate and reset our cost structure in order to reflect current activity levels with significant benefits starting to flow through in the second half. The actions we have taken give us confidence that the Group will deliver full year results[(2)] in line with the Board's expectations."

### HIGHLIGHTS

- The first half performance of £3.9 million adjusted EBTIDA[(2)] was in line with the Board's expectations and delivered against a backdrop of a weak sales market and in spite of our Commercial business' adjusted EBITDA[(2)] being down £5 million year on year
- Continued to rebuild market share – re-established market leader position in Sales with 8.4%[(1)] share of listings and retained leading position in Lettings with a 7.3%[(1)] share of listings
- Self-help actions to increase sales of complementary services in Conveyancing and Financial Services, and further actions to accelerate and re-set our cost structure to reflect the current market have underpinned delivery to date with a significant adjusted EBITDA[(2)] benefit flowing through into the second half
- A new covenant package with lenders provides the financial flexibility to continue to execute the turnaround plan
- The Group continues to make operational and financial progress, and whilst there remains more to do, it is well-positioned to benefit from any upturn in levels of activity

### OUTLOOK

- Second half adjusted EBITDA[(2)] will benefit strongly from the increased momentum in sales of complementary services and cost actions taken in the first half
- Confident that the full year results[(2)] will be in line with the Board's expectations
- Political and Brexit uncertainty remains

### UNDERLYING AND STATUTORY FINANCIAL PERFORMANCE

2019 represents the first reporting period following the adoption of IFRS16, the new leasing standard, with no restatement of 2018 comparatives required.

- Group income declined by 4% to £290.6 million (H1 2018: £302.9 million[(3)])
- Adjusted EBITDA[(2)] (before IFRS16) of £3.9 million is in line with recent guidance (H1 2018: £9.9 million[(3)])
- Adjusted EBITDA[(4)] of £20.2 million
- Operating profit of £10.0 million[(6)] (H1 2018: £(3.3) million) before £41.1 million of exceptional costs - principally non-cash exceptional charges for goodwill, intangible and tangible asset impairments (H1 2018: £226.8 million)
- Net debt[(7)] £90.0 million (December 2018: £70.7 million) with net debt /adjusted EBITDA[(2)] 3.4x (FY 2018: 2.2x)

| Six months ended 30 June | Underlying[(5)] | | Statutory | |
|---|---|---|---|---|
| | **H1 2019** | H1 2018[(3)] | **H1 2019** | H1 2018[(3)] |
| Total income | **£290.6m** | £302.9m | **£290.6m** | £302.9m |
| Adjusted EBITDA[(4)] | **£20.2m** | n/a | **n/a** | n/a |
| Adjusted EBITDA[(2)] (pre-IFRS16) | **£3.9m** | £9.9m | **n/a** | n/a |
| Operating profit/(loss) before exceptional items | **£10.0m** | £(3.3)m | **n/a** | n/a |
| Exceptional items | **£(41.1)m** | £(226.8)m | **£(41.1)m** | £(226.8)m |
| Profit/(loss) for the period | **£4.8m** | £(6.4)m | **£(37.7)m** | £(206.4)m |
| Earnings/(loss) per share | **0.3p** | (2.7)p | **(2.3)p** | (87.7)p |

(1) Based on Rightmove data in Countrywide's playing areas

(2) Earnings determined using pre-IFRS 16 lease accounting principles (see note 4.1b for further details of the impact of IFRS 16) before interest, tax, depreciation, amortisation, exceptional items, employment-linked contingent consideration, share-based payments and share of profits from joint venture, referred to hereafter as adjusted EBITDA pre-IFRS 16

(3) Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4) and the re-allocation of Countrywide Residential Development Solutions and Auctions from B2B to Sales and Lettings

(4) Earnings before interest, tax, depreciation, amortisation, exceptional items, employment-linked contingent consideration, share-based payments and share of profits from joint venture, referred to hereafter as adjusted EBITDA (see note 8 for reconciliation)

(5) Underlying results exclude exceptional items, amortisation of acquired intangibles, employment-linked contingent consideration and share-based payments (net of taxation impact for basic EPS)

(6) Operating profit before exceptional items, amortisation of acquired intangibles, employment-linked contingent consideration, share-based payments and share of profits from joint venture

(7) Net debt calculated before the effect of IFRS16 and leverage calculated on the basis of net debt to EBITDA on a rolling 12 month basis

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**Conference call and Notes to Editors:**

The Company will be hosting an analyst presentation at Hudson Sandler, 25 Charterhouse Square, London EC1M 6AE and a teleconference at 9:00am (BST) this morning to discuss the results with slides available by registering at https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/7467/114972/Lobby/default.htm. This will be available to listen into by dialling +44 (0)20 3003 2666 or 0808 109 0700. A recording of the webcast will be available for seven days by dialling +44 (0)20 8196 1998 – pin code: 6708099#. For further information on Countrywide plc, please visit our corporate website at www.countrywide.co.uk.

This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law.

## SEGMENTAL RESULTS

Management has determined the operating segments based on the operating reports reviewed by the Board that are used to assess both performance and strategic decisions. Management has identified that the Board is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'. The Board considers the business to be split into three main types of business generating revenue: Sales and Lettings, Financial Services and Business to Business (B2B); and 'all other segments' comprising central head office functions.

During H1 2019 we realigned both our new homes (Countrywide Residential Development Solutions) and our Auctions operations with the Sales and Lettings business. As a result, H1 2018 has been restated to transfer £6.4 million of revenue, £1.2 million adjusted EBITDA loss and 1,396 house exchanges from B2B to Sales and Lettings.

## SEGMENTAL RESULTS

| Six months ended 30 June | Total Income | | | Adjusted EBITDA[1] | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018[2] | Variance | | | 2019 | 2018 [2] | Variance |
| | **£'000** | £'000 | % | **As reported £'000** | IFRS 16 impact £'000 | **Pre-IFRS16 £'000** | £'000 | % |
| Sales and Lettings | **157,854** | 164,799 | -4 | **8,424** | 12,936 | **(4,512)** | (3,713) | -22 |
| Financial Services | **40,065** | 40,228 | - | **6,851** | 460 | **6,391** | 7,277 | -12 |
| B2B | **92,493** | 97,409 | -5 | **10,057** | 2,427 | **7,630** | 12,625 | -39 |
| All other segments | **176** | 510 | -65 | **(5,127)** | 513 | **(5,640)** | (6,267) | 10 |
| Total Group | **290,588** | 302,946 | -4 | **20,205** | 16,336 | **3,869** | 9,922 | -61 |

[1] Earnings before interest, tax, depreciation, amortisation, exceptional items, employment-linked contingent consideration, share-based payments and share of profits from joint venture, referred to hereafter as adjusted EBITDA (see note 8 for reconciliation)
[2] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4) and transfer of new homes and auctions operations from B2B into Sales and Lettings

## SEGMENTAL VOLUMES

| | **Number H1 2019** | Number H1 2018[1] |
|---|---|---|
| House sales exchanged | | |
| - UK | **19,119** | 19,313 |
| - London | **2,505** | 2,713 |
| Group total | **21,624** | 22,026 |
| Properties under management | | |
| - UK | **63,567** | 65,378 |
| - London | **22,497** | 22,459 |
| - B2B | **40,134** | 36,930 |
| Group total | **126,198** | 124,767 |
| Mortgages arranged, number | **51,685** | 51,134 |
| Mortgages arranged, value | **£9.8bn** | £9.5bn |
| Total valuations and surveys completed | **192,224** | 192,097 |
| Conveyances completed (excluding third party) | **13,247** | 11,398 |

[1] Restated from prior year following the transfer of new homes and auctions operations from B2B into Sales and Lettings

## OPERATING REVIEW BASED ON SEGMENTAL RESULTS

## SALES AND LETTINGS

**Summary**

- Income down 4% compared with a 7% decline in H1 2018;
- Adjusted EBITDA profit of £8.4 million; adjusted EBITDA pre-IFRS16 loss of £4.5 million, down 22% year on year
- Properties under management 86,064, down 2%, Lettings income down 2% due in part to the effect of the Tenant Fee Ban
- 21,624 homes exchanged, down 2%
- Average FTE down 1% to 5,605

The Group entered 2019 having built back industry expertise and staffing levels in sales and lettings at regional and branch management level against the backdrop of an uncertain market but with an expectation that the market for the whole of 2019 would be broadly even following a decision around Brexit in March 2019. With the continued delay in Brexit, the first six months of 2019 have been challenging for the UK housing market with new listings overall for H1 2019 having declined by 7% according to Rightmove data and the overall market for sales completed reduced by 9.9% in the first quarter based on Land Registry data.

Against this backdrop Countrywide improved its share of listings through H1 2019, with our register of properties in line with the prior year. Countrywide has re-established itself as a clear leader in listings by market share with an 8.4% share of the UK market and remains the No. 1 Lettings agent with over 7% of listings market share based on Rightmove data. We finished the half year with our pipeline in line with 2018 and £13.5 million higher than at the beginning of the year.

The lettings market has contracted with the number of listings reducing by 10.8% and available stock in the market at 30 June was 12% lower than in 2018 based on Rightmove data. Changes to taxation have prompted a number of landlords to exit the market. The Tenant Fee Ban came into effect on 1 June 2019.

In light of market uncertainty, during the first half of 2019, the Group took a series of actions to close a number of loss making branches that the Group considered non-viable in this market, reduced staffing levels in each of our local markets based on activity levels, reduced the levels of marketing spend where there was not the appropriate level of return in each local market, and took further actions to accelerate and reset our cost structure across the business and to reduce discretionary costs and overheads. This has underpinned the delivery of the first half performance, with significant adjusted EBITDA benefit flowing through into the second half and gives the Board confidence in the outlook for the full year.

***Sales***

Total income for H1 2019 declined £4.5 million, down 6% year on year. Adjusting for the effect of closed branches, estate agency was 3% down year on year. There was a good performance in our UK estate agency business which was down 2% year on year compared with the 23% decline in H1 2018. UK exchanges levels were in line with the prior year. The London market remains very challenging and that was reflected in a 12% decline in estate agency income in our London business with the more prime central London areas seeing a steeper decline partially offset by the Home Counties offices who fared more positively.

***Lettings***

Our lettings business continues to be highly resilient. Lettings income decreased by £1.4 million, 2% year on year with the number of properties under management down 2% at 86,064 (30 June 2018: 87,837). Our landlord retention rates continue to improve despite a number of landlords exiting the market. The first half of the year also saw the introduction of new regulation for Tenant Fees from 1 June and our plans are broadly on track to mitigate some of the effects of this. Overall the lettings business has performed well against the backdrop of 4% fewer properties overall in this sector and the impact of tenant fee ban.

***Income from complementary services***

Income from complementary services, comprising financial services and conveyancing recognised in our Sales and Lettings business, has increased from 43p pence in 2018 to 49p in the £. This is the additional income driven from this activity expressed as an amount compared to each £ of income from sales exchanged income. Our income from conveyancing grew 27% year on year. The branch network also supported our Financial Services business with a 4.5% increase in first appointments.

## FINANCIAL SERVICES

**Summary**

- Income flat year on year
- Adjusted EBITDA of £6.9 million; adjusted EBITDA pre-IFRS16 of £6.4 million, down 12% reflecting investments in H1 2019
- £9.8 billion mortgage completions, up 3% on 2018

Between January and May 2019 the UK mortgage market grew by approximately 0.5% year on year, with overall gross lending of £112 billion. In comparison, Countrywide mortgages completed grew 3% from £9.5 billion in 2018 to £9.8 billion in 2019.

Financial Services income at £40 million was in line with last year (2018: £40 million). As we built back staffing levels in our branch network in support of estate agency, we also invested in the number of mortgage and protection consultants in the branch network and in our Buy to Let Business. There is a natural lag between the investment in these fee earning consultants and the contribution to profitability, and the effect of this was a 12% reduction in adjusted EBITDA pre-IFRS16 to £6.4 million (2018: £7.3m). We expect to see the benefits of the investments made coming through in the second half.

## B2B

**Summary**

- Income down 5%
- Adjusted EBITDA at £10.1 million; adjusted EBITDA pre-IFRS16 of £7.6 million was down £5.0 million, a deficit driven wholly from a weaker performance in our Commercial business (Lambert Smith Hampton)
- Strong half for contract retention and service delivery improvement in Surveying
- Strong growth in Conveyancing

B2B delivered another resilient performance in the six months to 30 June 2019, with total income of £92.5 million being 5% below H1 2018 (£97.4 million). Adjusted EBITDA pre-IFRS16 of £7.6 million was 39% below H1 2018 (£12.6 million), with the year on year decline all attributable to Lambert Smith Hampton, reflecting an extremely challenging UK commercial transactional market.

***Surveying***

The Surveying business has had a resilient first half with revenue down only 1% year on year and the adjusted EBITDA pre-IFRS16 was flat year on year. The business is well placed for H2 2019 and beyond, having recently maintained a material allocation from three of the Group's largest clients' contracts. Service to our corporate clients remains a key focus and investments in capacity continue to drive improvements in this area, with a further trainee programme planned for H2 2019. We are also delighted to have secured the contract to provide a new survey product "Homefact" to Santander first-time buyers. Homefact enables new purchasers to be better informed about the condition of the home they are buying.

***Conveyancing***

The Conveyancing business invested heavily in H1 to grow capacity in order to capitalise on an enhanced focus on complementary income from the branch network. The pipeline of live cases with the Conveyancing business now stands 18% higher than this time last year. Customer engagement remains crucial with the effort and focus in the business being reflected in consistently excellent net promoter scores from the buyers and sellers of property that use our services. Net promoter scores have been consistently above 60 in H1 2019 and driven a current Feefo rating of 4.3. Full roll out of our customer portal has delivered operational benefits and an enhanced, more secure, customer journey.

***Lambert Smith Hampton***

With the UK economy experiencing heightened political uncertainty and Brexit postponed until 31 October 2019, the UK investment market has seen a sharp slowing down in the first half of the year. Consequently Lambert Smith Hampton saw a first half year on year decrease of 20% in transactional revenue, leading to an overall decrease of 9% in total revenue, and £5 million decline in adjusted EBITDA pre-IFRS16.

Overall, the outlook across our portfolio of B2B businesses remains robust, despite clear challenges in the commercial market.

## Financial summary

During the six months ended 30 June 2019, the Group adopted IFRS16, using the modified transition method which means that comparatives are not required to restated (see note 4). The impact on H1 2019 has been split out in the results tables to allow comparability with H1 2018.

Whilst Group revenue and cash are unaffected by adoption of IFRS16, the following areas are impacted by the change in standard:

- Group adjusted EBITDA increases by £16.3 million to £20.2 million as lease charges are now included within depreciation and finance costs and therefore excluded from adjusted EBITDA
- Group adjusted EBITDA margin increases from 1.3% to 7.0%
- Interest charges increase by £3.3 million to £5.5 million and depreciation charges increase by £5.4 million
- The balance sheet shows recognition of right of use assets of £45.1 million (net of impairments of £76.8 million taken to reserves on initial recognition as explained in note 4) and £121.0 million of lease liabilities on transition
- Total indebtedness therefore increases although this does not impact the Group's covenants which are measured on a frozen GAAP basis (pre-IFRS16)
- Cash generated from operations and free cash flow measures are impacted as lease rental payments are no longer recognised as operating cash outflows and cashflows are instead split between interest paid and repayments of obligations under lease liabilities which both increase

***Adjusted EBITDA***

The Group's adjusted EBITDA margin in H1 2019 was 7.0% (H1 2018: 3.3%). Statutory results were impacted by impairment charges and strategic restructuring costs, resulting in a loss for the period of £37.7 million (2018: loss of £206.4 million).

A reconciliation of total adjusted EBITDA and adjusted EBITDA pre-IFRS16 before exceptional items to statutory loss for the period is provided as follows:

| **Six months ended 30 June** | | | 2019 | 2018[1] |
|---|---|---|---|---|
| | **As reported £'000** | IFRS16 Impact £'000 | Pre- IFRS16 £'000 | As Reported £'000 |
| **Group adjusted EBITDA before exceptional items** | **20,205** | 16,336 | 3,869 | 9,922 |
| Depreciation on property, plant and equipment and amortisation of software | **(10,219)** | (5,385) | (4,834) | (13,187) |
| **Group operating profit/(loss) before exceptional items and amortisation** | **9,986** | 10,951 | (965) | (3,265) |
| Amortisation arising on intangibles recognised through business combinations | **(2,771)** | 148 | (2,919) | (2,031) |
| Contingent consideration | **194** | - | 194 | (4,640) |
| Share-based payment costs | **(1,101)** | - | (1,101) | (1,723) |
| Exceptional income | **-** | **-** | - | 3,186 |
| Exceptional costs (excluding exceptional financing costs not in 2018 operating profit) | **(41,133)** | 3,153 | (44,286) | (226,215) |
| **Group operating loss** | **(34,825)** | 14,252 | (49,077) | (234,688) |
| Net finance costs | **(5,143)** | (3,264) | (1,879) | (8,797) |
| **Loss before taxation** | **(39,968)** | 10,988 | (50,956) | (243,485) |
| Taxation | **2,266** | (2,252) | 4,518 | 37,075 |
| **Loss for the period** | **(37,702)** | 8,736 | (46,438) | (206,410) |

[1] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4)

The Group continues to make good operational progress in the execution of its turnaround plan and entered the year anticipating that the UK property market for the whole of 2019 would be broadly in line following a decision around Brexit in March 2019. With the continued delay in Brexit, the first six months of 2019 have been challenging for the UK housing market with new listings overall for H1 2019 having declined by 7% according to Rightmove data and the overall market for sales completed reduced by 9.9% in the first quarter based on Land Registry data. Accordingly, the Group has revised its cashflow projections looking forward and this has resulted in further impairment charges since those taken at the full year. Cash flows underpinning the current impairment review align to the latest three-year strategy and turnaround plan that has been endorsed by the Board.

Exceptional costs incurred in the period amounting to £41.1 million (2018: £230.0 million) comprise items that have or will result in cash charges of £3.4 million and £37.7 million of non-cash charges as follows:

- Impairment charges of £36.4 million (2018: £210.7 million) in respect of:
  - £30.3 million of goodwill associated with the Financial Services and Countrywide Residential Development Services cash generating units;
  - £6.1 million of intangible (computer software) and tangible fixed assets associated with the UK cash generating unit and assets within the central functions used to support that business;
- People-related restructuring costs of £1.3 million (2018: £3.7 million), notably in relation to closure of branch operations, with additional restructuring and cost optimisation consultancy costs of £2.1 million (2018: £3.4 million) arising from our three year IT transformation programme; and
- £1.2 million (2018: £0.8 million) of property closure costs.

Amortisation of acquired intangibles has increased to £2.8 million (H1 2018: £2.0 million) as we adopted finite lives of up to fifteen years in respect of all of our brand names from 1 July 2018.

Contingent consideration is a net credit of £0.2 million (H1 2018: charge of £4.6 million) to the income statement in respect of revisions to assessments of post-combination employment expenses, principally in relation to our Financial Services businesses as a result of revisions to performance expectations of specific agreements with remaining periods extending into 2022.

Net finance costs (before inclusion of exceptional charges in 2018 of £3.8 million) have increased only £0.1 million during the period to £5.1 million. Interest payable on the revolving credit facility reduced significantly after the £125 million repayment in August 2018. This benefit has been offset in the current period by the inclusion of £3.3 million of interest charges on lease liabilities following the adoption of IFRS16.

***Cashflow***

In the statutory cashflow, cash generated from operations increased by £26.3 million to an inflow of £9.1 million for the period (2018: outflow of £17.2 million), driven by both the impact of lease charges of £16.3 million being reclassified to capital repayments and interest charges after the adoption of IFRS16, but also continued improvements in working capital management. During the period the Group have concluded the triennial review of the pensions scheme's assets and liabilities and the pension contributions have been agreed with the trustees at £2.0 million for the next three years and £1.3 million in 2023.

The non-GAAP cashflow is presented below. Focus has continued on working capital management, delivering further reductions in the debtor days within our Commercial business unit, Lambert Smith Hampton. IT transformation incorporates: capital expenditure which has been focused primarily on computer hardware as part of the three year transformation programme of our IT estate which commenced in 2018; and exceptional consultancy costs.

**Non-GAAP cashflow**

| | Six months ended 30 June | |
|---|---|---|
| | **2019 (post IFRS16) £m** | 2018 (pre-IFRS16) £m |
| **Adjusted EBITDA** | **20.2** | 9.9 |
| Changes in working capital: | | |
| Decrease in trade and other receivables | **3.4** | 3.4 |
| Decrease in trade and other payables | **(6.7)** | (11.8) |
| Increase in provisions | **(0.6)** | 3.0 |
| **Operating cashflow** | **16.3** | 4.5 |
| **Use of funds** | | |
| Capital expenditure (steady state) | **(2.5)** | (2.1) |
| Repayment of leases (2018: finance leases) | **(12.8)** | (1.6) |
| Interest, tax and pension | **(6.1)** | (4.0) |
| **Cash from operations** | **(5.1)** | (3.2) |
| Deferred and contingent consideration | **(4.5)** | (7.2) |
| IT transformation | **(8.9)** | (3.0) |
| Restructuring | **(1.2)** | (14.2) |
| Investments, buybacks and finance fees | **-** | 13.0 |
| **Total cashflow** | **(19.7)** | (14.6) |
| RCF drawn | **15.0** | 30.0 |
| **Net (decrease)/increase in cash and cash equivalents** | **(4.7)** | 15.4 |
| Opening cash | **17.4** | 22.5 |
| **Closing cash** | **12.7** | 37.9 |

***Net debt, maturity and changes to committed bank facilities***

The Group's debt reflects the adoption of IFRS16, which recognised an additional £121 million of lease liabilities resulting in net debt at 30 June of £194.3 million.

The Group's covenants are calculated on a "frozen GAAP" basis (before the adoption of IFRS16), and result in a net debt of £90.0m (31 December 2018: £70.7 million). The net debt to adjusted EBITDA ratio (pre-IFRS16) is 3.4 times (31 December 2018: 2.2 times).

We continue to invest in cost and growth initiatives to build a sustainable and profitable business for the long term and remain committed to reducing our leverage. With this in mind, the Board is not recommending the payment of an interim dividend (2018: nil).

Our firm placing and placing and open offer announced on 2 August 2018 raised net proceeds of £125 million which was used to reduce the Group's debt. The Group reduced its borrowing facility to a £125 million revolving credit facility repayable in September 2022, and at the same time agreed a package for leverage and interest cover and various information covenants. In July 2019, in view of the continuing and challenging market for residential and commercial property transactions in the UK, the Group's lenders agreed to a new covenant package including an expansion of the leverage covenants and various changes to its information covenants.

The new net debt/adjusted EBITDA leverage covenants are:

| | Jun 19 | Sep 19 | Dec 19 | Mar 20 | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 | Sep 21 |
|---|---|---|---|---|---|---|---|---|---|---|
| New leverage covenants | 6.00x | 4.75x | 4.25x | 4.25x | 4.00x | 4.00x | 3.75x | 3.75x | 3.75x | 2.50x |
| Previous leverage covenants | 6.00x | 4.75x | 4.25x | 4.00x | 3.50x | 2.75x | 2.50x | 2.50x | 2.50x | 2.50x |

The Group's lenders remain supportive of the business and the amended covenant package provides the Group with the financial flexibility to continue to execute the turnaround plan. The Board has previously acknowledged its commitment to reduce the leverage ratio down to the Group's medium term target of below 1x and in agreeing the amended covenant package, the Board has agreed, as part of the new covenant package, to share its plans with the Group's lenders through the turnaround period as they continue to be developed and executed.

***Going concern***

The Group finances its operations through a £125 million committed revolving credit facility syndicated across a Group of six lenders, expiring in September 2022. There are two principal financial covenants relating to the Group's debt. The covenants are measured before the effects of IFRS16 and test the ratio of net debt relative to Group adjusted EBITDA and interest cover. In addition, the Group's information covenants keep the lender Group appraised of the Group's performance, including forecasts for income statement, balance sheet and cash flow liquidity.

As part of the Board's assessment of going concern and ongoing liquidity, forecasts were prepared for the three years to December 2021. These forecasts included sensitivities on a variety of downside scenarios including future property transaction volumes, which recognise the uncertain UK political and Brexit environment, and options to mitigate the effects of these downside scenarios. These sensitivities have been used in assessing the Group's forecast compliance with its leverage and interest covenants over the three years and to assess liquidity.

In light of market uncertainty, during the first half of 2019, the Group took a series of actions to close a number of loss making branches that the Group considered non-viable in this market, reduced staffing levels in each of our local markets based on activity levels, reduced the levels of marketing spend where there was not the appropriate level of return in each local market, and took actions across the business to reduce discretionary costs and overheads. This has underpinned the delivery of the first half performance and gives the Board confidence in the outlook for the full year. The Board fully expects the Group to be in compliance with its leverage and interest covenants in 2019. For 2020 and 2021, the forecasts scenarios assumed a continuing impact from the uncertain political and Brexit environment and in these scenarios the headroom on the leverage covenants reduced in 2020. In response to this, the Group developed a series of further cost action plans to mitigate the downside risks.

At the same time, the Group agreed new leverage covenant levels in July 2019 which gives the Group the financial flexibility to execute its turnaround. The interest covenant level was deemed to be appropriate relative to current and anticipated levels of headroom throughout the plan period.

The scenarios also assessed the Group's liquidity in light of the cyclical nature of the Group's cash flow, and the importance of funding the Group's IT transformation. The Group has significantly improved its working capital management over the past 24 months and continues to see further opportunities for improvement. These include: improved collections in the Group's estate agency and in its B2B businesses; improved supplier management; and further focus on discretionary capital expenditure. Having assessed the Group's liquidity outlook on the basis of the above projections and sensitivities, ongoing enhanced liquidity monitoring and the mitigating actions available to the Group, the Board concluded that the Group has sufficient headroom compared to its available borrowing facility.

The Board have confirmed that, after due consideration, they have a reasonable expectation that the Company and the Group will be able to meet their liabilities when they fall due. For this reason, they continue to adopt the going concern basis in preparing the interim financial statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of risks and uncertainties facing the business. As a consequence of the continued subdued external environment, the Board has continued to review the principal risks and uncertainties, and in particular the risk around political and Brexit related uncertainty. These risks and uncertainties and mitigating factors are described in more detail on pages 38 to 42 of the Countrywide plc Annual Report for the year ended 31 December 2018 (a copy of which is available on the Group's website). There has been no significant change to the assessment of these risks, since disclosure in the annual report, which are summarised below.

- financing and capital structure;
- exposure to UK housing market trends – there remains significant uncertainty in relation to the political environment in the UK and around the outcome of the Brexit;
- professional indemnity exposure;
- potential loss of a major business partner or contract;
- resilience of IT infrastructure and arrangements for the protection of data;
- changing regulatory environment;
- increasing competition in the evolving markets that we operate in; and
- securing and retaining excellent people.

Whilst it is not possible to predict the outcome of Brexit, the directors have considered specific threats to the business and methods to mitigate those risks, as outlined in the 'Exposure to UK housing market trends' risk set out in the Group's 2018 Annual Report. The Directors have set out below their continued monitoring of this risk and the actions taken during the first half to mitigate that risk:

***Political and Brexit uncertainty***

The UK is due to leave the European Union ('EU') in October 2019, ('Brexit'). Brexit has created inherent uncertainty across the UK which is affecting both our sector and consumer confidence as a whole. The directors recognise that the outcome of Brexit presents an unavoidable risk. Since the referendum in June 2016 there has been a material impact to the results of the Group as a result of the reduction in residential and commercial property transactional volumes in the market. Whilst it is not possible to quantify the full impact of the continuing uncertainty surrounding the UK's exit from the EU – and in particular whether there is a "hard" (no agreement) or "soft" (agreed transition) Brexit - the Board continues to carefully monitor the potential impact on UK residential and commercial transaction markets and to consider and take action to mitigate the effect on the Group.

As set out under the going concern considerations above, during the first half, the Group took a series of actions to mitigate the effects of Brexit, which delivered savings in the Group's direct and indirect costs that under-pinned the first half performance and provides the Board with confidence in the outlook for the full year.

As Brexit could also impact future cash flows and forecasts, the directors performed sensitivity analysis on the carrying value of assets and liabilities, and in particular goodwill and the outcome of these reviews are reflected in the financial statements for the six months to 30 June 2019. These assessments are based on the same assumptions and forecasts used in our going concern assessment. As the Group operates within the UK, has a limited number of EU employees and is primarily service based, the Board considers it is protected from other significant Brexit risks.

## FORWARD LOOKING STATEMENTS

This report may contain certain 'forward-looking statements' with respect to some of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including but not limited to statements about our beliefs and expectations, may be forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause the Group's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. We refer you to the Group's financial statements which can be downloaded from the Group's website: www.countrywide.co.uk/investor-relations. These documents contain and identify important factors that could cause the Group's actual results, performance or achievements to differ materially from those indicated in any forward-looking statement. The important factors in the Group's financial statements are not exhaustive and there may be other risks, including risks of which the Group is unaware, that could adversely affect the Group's results or the accuracy of the forward-looking statements in the report.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that this condensed consolidated interim financial report has been prepared in accordance with International Accounting Standard 34 'Interim financial reporting', as adopted by the European Union and that the interim report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year;
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report; and

The directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

***Changes in directors during the period***

During the period, Cathy Turner stepped down from the Board as an independent non-executive director on 30 April 2019 and Jane Lighting stepped down on 26 June 2019. Lisa Charles-Jones joined the Board as an independent non-executive director on 26 June 2019.

A list of the current directors is maintained on the Countrywide plc investor relations website:
www.countrywide.co.uk/investor-relations/board-of-directors.

**On behalf of the Board**

| **Peter Long** | **Himanshu Raja** |
|---|---|
| Executive chairman | Chief financial officer |
| 31 July 2019 | 31 July 2019 |

# Condensed consolidated interim income statement

For the six months ended 30 June 2019

| | | 2019 (unaudited) | | | 2018 (Restated) (unaudited)[1] | | |
|---|---|---|---|---|---|---|---|
| | Note | **Pre-exceptional items, amortisation, employment-linked contingent consideration and share-based payments £'000** | **Exceptional items, amortisation, employment-linked contingent consideration and share-based payments £'000** | **Total £'000** | Pre-exceptional items, amortisation, employment-linked contingent consideration and share-based payments £'000 | Exceptional items, amortisation, employment-linked contingent consideration and share-based payments £'000 | Total £'000 |
| Revenue | | **287,541** | **—** | **287,541** | 297,896 | — | 297,896 |
| Other income | | **3,047** | **—** | **3,047** | 5,050 | — | 5,050 |
| | 8 | **290,588** | **—** | **290,588** | 302,946 | — | 302,946 |
| Employee benefit costs | | **(185,524)** | **(907)** | **(186,431)** | (185,462) | (6,363) | (191,825) |
| Other operating costs | | **(84,859)** | **—** | **(84,859)** | (107,562) | — | (107,562) |
| Adjusted EBITDA* | | **20,205** | | | 9,922 | | |
| Depreciation and amortisation | 12,13,14 | **(10,219)** | **(2,771)** | **(12,990)** | (13,187) | (2,031) | (15,218) |
| **Group operating profit/(loss) before exceptional items** | | **9,986** | **(3,678)** | **6,308** | (3,265) | (8,394) | (11,659) |
| Employee benefit costs | | **—** | **(1,333)** | **(1,333)** | — | (3,737) | (3,737) |
| Other operating costs | | **—** | **(3,357)** | **(3,357)** | — | (8,582) | (8,582) |
| Impairment of non-current assets | | **—** | **(36,443)** | **(36,443)** | — | (210,710) | (210,710) |
| Exceptional items (net): | 9 | **—** | **(41,133)** | **(41,133)** | — | (223,029) | (223,029) |
| **Operating profit/(loss)** | 8 | **9,986** | **(44,811)** | **(34,825)** | (3,265) | (231,423) | (234,688) |
| Finance costs | 9 | **(5,516)** | **—** | **(5,516)** | (5,159) | (3,778) | (8,937) |
| Finance income | | **373** | **—** | **373** | 140 | — | 140 |
| Net finance costs | | **(5,143)** | **—** | **(5,143)** | (5,019) | (3,778) | (8,797) |
| **Profit/(loss) before taxation** | | **4,843** | **(44,811)** | **(39,968)** | (8,284) | (235,201) | (243,485) |
| Taxation (charge)/credit | 10 | **(82)** | **2,348** | **2,266** | 1,908 | 35,167 | 37,075 |
| **Profit/(loss) for the period** | | **4,761** | **(42,463)** | **(37,702)** | (6,376) | (200,034) | (206,410) |
| **Loss per share** ** | | | | | | | |
| Basic and diluted loss per share | 11 | | | **(2.30)p** | | | (87.66)p |

[1] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4)

* Adjusted EBITDA is a non-GAAP measure of earnings before interest, tax, depreciation, amortisation, exceptional items, contingent consideration, share-based payments and share of profits/(losses) from joint venture

The notes are an integral part of this condensed consolidated interim financial report.

# Condensed consolidated interim statement of other comprehensive income

For the six months ended 30 June 2019

| | Note | **2019 (unaudited) £'000** | 2018[1] (Restated) (unaudited) £'000 |
|---|---|---|---|
| Loss for the period | | **(37,702)** | (206,410) |
| **Other comprehensive (expense)/ income:** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial (loss)/gain arising in the pension scheme | 23 | **(928)** | 626 |
| Deferred tax arising on the pension scheme | | **176** | (119) |
| | | **(752)** | 507 |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Foreign exchange rate loss | 22 | **(7)** | (6) |
| Cash flow hedge: reclassification adjustments for gains included in profit or loss | 22 | **—** | 337 |
| Deferred tax arising on cash flow hedge | 22 | **—** | (63) |
| | | **(7)** | 268 |
| **Other comprehensive (expense)/income for the period** | | **(759)** | 775 |
| **Total comprehensive expense for the period, net of tax** | | **(38,461)** | (205,635) |

[1] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4)

The notes are an integral part of this condensed consolidated interim financial report.

# Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2019

| | Note | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Retained earnings/ (losses) £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| | | Attributable to owners of the parent (unaudited) | | | | |
| **Audited balance at 1 January 2018** | | 2,413 | 211,838 | (18,088) | 109,293 | 305,456 |
| Loss for the period[1] | 4 | — | — | — | (206,410) | (206,410) |
| **Other comprehensive (expense)/income** | | | | | | |
| Currency translation differences | 22 | — | — | (6) | — | (6) |
| Cash flow hedge: fair value on termination | 22 | — | — | 337 | — | 337 |
| Cash flow hedge: deferred tax on termination | 22 | — | — | (63) | — | (63) |
| Actuarial gain on the pension fund | | — | — | — | 626 | 626 |
| Deferred tax movement relating to pension | | — | — | — | (119) | (119) |
| Total other comprehensive income | | — | — | 268 | 507 | 775 |
| **Total comprehensive income/(expense)** | | — | — | 268 | (205,903) | (205,635) |
| **Transactions with owners** | | | | | | |
| Share-based payment transactions | | — | — | — | 1,855 | 1,855 |
| Deferred tax on share-based payments | | — | — | — | (317) | (317) |
| Purchase of treasury shares | 22 | — | — | (499) | — | (499) |
| Utilisation of treasury shares for DSBP options | 22 | — | — | 39 | (39) | — |
| **Transactions with owners** | | — | — | (460) | 1,499 | 1,039 |
| **Unaudited balance at 30 June 2018**[1] | 4 | 2,413 | 211,838 | (18,280) | (95,111) | 100,860 |
| **Audited balance at 31 December 2018 as originally presented** | | 16,413 | 329,357 | (18,254) | (107,249) | 220,267 |
| Effect of initial application of IFRS 16 | 4 | — | — | — | (70,601) | (70,601) |
| **Restated total equity at 1 January 2019**[2] | | 16,413 | 329,357 | (18,254) | (177,850) | 149,666 |
| Loss for the period | | — | — | — | (37,702) | (37,702) |
| **Other comprehensive (expense)/income** | | | | | | |
| Currency translation differences | 22 | — | — | (7) | — | (7) |
| Actuarial loss on the pension fund | | — | — | — | (928) | (928) |
| Deferred tax movement relating to pension | | — | — | — | 176 | 176 |
| Total other comprehensive expense | | — | — | (7) | (752) | (759) |
| **Total comprehensive expense** | | — | — | (7) | (38,454) | (38,461) |
| **Transactions with owners** | | | | | | |
| Share-based payment transactions | | — | — | — | 1,188 | 1,188 |
| Deferred tax on share-based payments | | — | — | — | (117) | (117) |
| Utilisation of treasury shares for DSBP options | 22 | — | — | 6 | (6) | — |
| **Transactions with owners** | | — | — | 6 | 1,065 | 1,071 |
| **Unaudited balance at 30 June 2019** | | **16,413** | **329,357** | **(18,255)** | **(215,239)** | **112,276** |

(1) Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4)
(2) Restated from prior year following the adoption of IFRS16 (see note 4)

The notes are an integral part of this condensed consolidated interim financial report.

# Condensed consolidated interim balance sheet

As at 30 June 2019

| | Note | **30 June 2019 (unaudited) £'000** | 31 December 2018 (unaudited) £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 12 | **189,336** | 233,820 |
| Other intangible assets | 12 | **64,704** | 74,191 |
| Property, plant and equipment | 13 | **8,344** | 7,403 |
| Right-of-use assets | 14 | **38,973** | — |
| Investments accounted for using the equity method: | | | |
| Investments in joint venture | 15 | **1,464** | 1,464 |
| Financial assets at fair value through profit or loss | 15 | **153** | 153 |
| Deferred tax assets | | **30,732** | 18,389 |
| **Total non-current assets** | | **333,706** | 335,420 |
| **Current assets** | | | |
| Trade and other receivables | 16 | **79,803** | 88,817 |
| Cash and cash equivalents | | **10,888** | 17,426 |
| | | **90,691** | 106,243 |
| Assets classified as held for sale | 24 | **9,524** | — |
| Total current assets | | **100,215** | 106,243 |
| **Total assets** | | **433,921** | 441,663 |
| **Equity and liabilities** | | | |
| **Equity attributable to the owners of the parent** | | | |
| Share capital | 21 | **16,413** | 16,413 |
| Share premium | | **329,357** | 329,357 |
| Other reserves | 22 | **(18,255)** | (18,254) |
| Retained losses | | **(215,239)** | (107,249) |
| **Total equity** | | **112,276** | 220,267 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 18 | **98,302** | 84,432 |
| Lease liabilities | 18 | **80,827** | — |
| Net defined benefit scheme liabilities | 23 | **3,757** | 4,634 |
| Provisions | 20 | **12,985** | 10,916 |
| Deferred income | 19 | **151** | 239 |
| Trade and other payables | 17 | **9,185** | 9,931 |
| Deferred tax liability | | **5,905** | 7,756 |
| **Total non-current liabilities** | | **211,112** | 117,908 |
| **Current liabilities** | | | |
| Borrowings | 18 | **2,074** | 3,663 |
| Lease liabilities | 18 | **24,001** | — |
| Trade and other payables | 17 | **71,374** | 81,146 |
| Deferred income | 19 | **1,760** | 2,143 |
| Provisions | 20 | **8,192** | 16,536 |
| | | **107,401** | 103,488 |
| Liabilities directly associated with assets classified as held for sale | 24 | **3,132** | — |
| **Total current liabilities** | | **110,533** | 103,488 |
| **Total liabilities** | | **321,645** | 221,396 |
| **Total equity and liabilities** | | **433,921** | 441,663 |

The notes are an integral part of this condensed consolidated interim financial report.

# Condensed consolidated interim cash flow statement

For the six months ended 30 June 2019

| | Note | **2019 (unaudited) £'000** | 2018[1] (unaudited) £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | **(39,968)** | (243,485) |
| Adjustments for: | | | |
| Depreciation | 13,14 | **7,381** | 8,902 |
| Amortisation of intangible assets | 12 | **5,609** | 6,316 |
| Share-based payments | | **1,188** | 1,855 |
| Impairment of intangible assets | 12 | **32,398** | 185,473 |
| Impairment of tangible assets | 13,14 | **4,045** | 25,237 |
| Loss/(profit) on disposal of fixed assets | | **148** | (35) |
| Finance costs | | **5,516** | 5,159 |
| Finance income | | **(373)** | (140) |
| | | **15,944** | (10,718) |
| Changes in working capital (excluding effects of acquisitions and disposals of Group undertakings): | | | |
| Decrease in trade and other receivables | | **3,357** | 3,022 |
| Decrease in trade and other payables | | **(10,805)** | (13,359) |
| Increase in provisions | | **625** | 3,837 |
| **Net cash generated from/(used in) operating activities[2]** | | **9,121** | (17,218) |
| Pension paid | 23 | **(2,000)** | (2,000) |
| Interest paid | | **(5,137)** | (4,024) |
| Income tax received | | **901** | 2,037 |
| Net cash inflow/(outflow) from operating activities | | **2,885** | (21,205) |
| **Cash flows from investing activities** | | | |
| Deferred consideration paid in relation to prior year acquisitions | | **(667)** | (247) |
| Purchase of property, plant and equipment | 13 | **(7,378)** | (1,852) |
| Purchase of intangible assets | 12 | **(1,821)** | (3,302) |
| Proceeds from sale of property, plant and equipment | | **4** | 24 |
| Purchase of investments | | — | (1,300) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | — | 15,980 |
| Interest received | | **8** | 140 |
| Net cash (outflow)/inflow from investing activities | | **(9,854)** | 9,443 |
| **Cash flows from financing activities** | | | |
| Term and revolving facility loan drawn | 18 | **15,000** | 30,000 |
| Financing fees paid | | — | (888) |
| Principal elements of lease payments (2018: principal elements of finance lease payments) | | **(12,768)** | (1,528) |
| Purchase of own shares | 22 | — | (499) |
| Net cash inflow from financing activities | | **2,232** | 27,085 |
| Net (decrease)/increase in cash and cash equivalents | | **(4,737)** | 15,323 |
| Cash and cash equivalents at 1 January | | **17,426** | 22,533 |
| Cash and cash equivalents at 30 June | | **12,689** | 37,856 |
| Cash and cash equivalents classified as held for sale | 24 | **(1,801)** | — |
| Cash and cash equivalents at 30 June | | **10,888** | 37,856 |

[1] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4)

[2] Included within net cash generated from operating activities is £3.4 million of net cash expended on exceptional strategic and restructuring costs (excluding property closure costs which have been provided but not yet incurred) as discussed in note 9 in relation to 2019 (2018: £5.5 million).

The notes are an integral part of this condensed consolidated interim financial report.

# Notes to the condensed consolidated interim financial report

**1. General information,**

Countrywide plc (the "Company") and its subsidiaries (together, the "Group") is the leading integrated, full service residential estate agency and property services group in the UK, measured by both revenue and transaction volumes in 2018. It offers estate agency and lettings services, together with a range of complementary services, and has a significant presence in key areas and property types which are promoted through locally respected brands. The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK (registered number: 08340090). The address of its registered office is Greenwood House, 1st Floor, 91-99 New London Road, Chelmsford, Essex, CM2 0PP.

This condensed consolidated interim financial report was approved for issue on 31 July 2019.

This condensed consolidated interim financial report does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Consolidated financial statements for Countrywide plc for the year ended 31 December 2018 were approved by the Board of directors on 7 March 2019 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed consolidated interim financial report has been reviewed, not audited.

**2. Basis of preparation**

This condensed consolidated interim financial report for the six months ended 30 June 2019 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim financial reporting', as adopted by the European Union. The condensed consolidated interim financial report should be read in conjunction with the annual financial statements of Countrywide plc for the year ended 31 December 2018, which have been prepared in accordance with IFRSs as adopted by the European Union.

**3. Going concern**

The Group finances its operations through a £125 million committed revolving credit facility syndicated across a Group of six lenders, expiring in September 2022. There are two principal financial covenants relating to the Group's debt. The covenants are measured before the effects of IFRS16 and test the ratio of net debt relative to Group adjusted EBITDA and interest cover. In addition, the Group's information covenants keep the lender Group appraised of the Group's performance, including forecasts for income statement, balance sheet and cash flow liquidity.

As part of the Board's assessment of going concern and ongoing liquidity, forecasts were prepared for the three years to December 2021. These forecasts included sensitivities on a variety of downside scenarios including future property transaction volumes, which recognise the uncertain UK political and Brexit environment, and options to mitigate the effects of these downside scenarios. These sensitivities have been used in assessing the Group's forecast compliance with its leverage and interest covenants over the three years and to assess liquidity.

In light of market uncertainty, during the first half of 2019, the Group took a series of actions to close a number of loss making branches that the Group considered non-viable in this market, reduced staffing levels in each of our local markets based on activity levels, reduced the levels of marketing spend where there was not the appropriate level of return in each local market, and took actions across the business to reduce discretionary costs and overheads. This has underpinned the delivery of the first half performance and gives the Board confidence in the outlook for the full year. The Board fully expects the Group to be in compliance with its leverage and interest covenants in 2019. For 2020 and 2021, the forecasts scenarios assumed a continuing impact from the uncertain political and Brexit environment and in these scenarios the headroom on the leverage covenants reduced in 2020. In response to this, the Group developed a series of further cost action plans to mitigate the downside risks.

At the same time, the Group agreed new leverage covenant levels in July 2019 which gives the Group the financial flexibility to execute its turnaround. The interest covenant level was deemed to be appropriate relative to current and anticipated levels of headroom throughout the plan period.

The scenarios also assessed the Group's liquidity in light of the cyclical nature of the Group's cash flow, and the importance of funding the Group's IT transformation. The Group has significantly improved its working capital management over the past 24 months and continues to see further opportunities for improvement. These include: improved collections in the Group's estate agency and in its B2B businesses; improved supplier management; and further focus on discretionary capital expenditure. Having assessed the Group's liquidity outlook on the basis of the above projections and sensitivities, ongoing enhanced liquidity monitoring and the mitigating actions available to the Group, the Board concluded that the Group has sufficient headroom compared to its available borrowing facility.

The Board have confirmed that, after due consideration, they have a reasonable expectation that the Company and the Group will be able to meet their liabilities when they fall due. For this reason, they continue to adopt the going concern basis in preparing the interim financial statements.

## 4. Accounting policies

The accounting policies adopted in the preparation of this condensed consolidated interim financial report are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new or amended standards which became applicable for the current reporting period (see 4.1) and for items as stated below:

- Taxes on income in the interim periods are accrued using the forecast tax rate that would be applicable to expected total annual profit or loss.
- Brand names, which previously were assigned an indefinite life, have been subject to review following impairments in prior years. We concluded a change in accounting estimate effective from 1 July 2018. Brand names were assigned useful economic lives of up to fifteen years and amortisation will commence from that date.

The change to the Group's segmental presentation in H1 2019 is aligned with management's current internal financial reporting framework (including monthly management information reports reviewed by the Directors, and the Board as the chief operating decision maker) and the basis on which decisions for allocation of resources and assessing performance of segments in undertaken.

*Standards, amendments and interpretations effective and adopted by the Group*

The following new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2019 have had the following impact on the Group:

### 4.1 IFRS 16 'Leases'

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's condensed consolidated interim report and discloses the new accounting policies that have been applied from 1 January 2019. The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

***4.1A Adjustments recognised on adoption of IFRS 16***

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.89%.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date and there were no remeasurements to the lease liabilities recognised as adjustments to the related right-of-use assets after the date of initial application.

| | 2019<br>£'000 |
|---|---|
| Operating lease commitments disclosed under IAS17 as at 31 December 2018 | **105,690** |
| Discounted using the Group's incremental borrowing rate as at the date of initial application | **(9,148)** |
| Add: finance lease liabilities recognised under IAS17 as at 31 December 2018 | **2,068** |
| Add: payments due in periods covered by extension options that are included in the lease term | **22,389** |
| **Lease liability recognised as at 1 January 2019** | **120,999** |
| Of which: | |
| Current lease liabilities | **26,815** |
| Non-current lease liabilities | **94,184** |
| | **120,999** |

The associated right-of-use assets for all leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid (or accrued) lease payments related to that lease recognised in the balance sheet as at 31 December 2018. In addition, there were onerous lease provisions and closed property provisions recognised in the balance sheet as at 31 December 2018 which have been reclassified as impairments against the right-of-use assets at the date of initial application. Furthermore, given the impairments in the UK Sales & Lettings cash generating unit as at 31 December 2018, all related right of use assets recognised at transition have been impaired in full on application of IFRS 16 amounting to £70.8 million. In addition, impairments in the Commercial cash generating unit as at 31 December 2018 have resulted in the need to recognise impairments amounting to £13.5 million against goodwill and then prorated across all other assets, including right of use assets recognised.

The recognised right-of use assets relate to the following types of assets:

| | **30 June 2019 £'000** | 1 January 2019 £'000 |
|---|---|---|
| Properties | **36,162** | 40,323 |
| Motor Vehicles | **1,931** | 3,123 |
| Computer software | **880** | 1,681 |
| Total right-of-use assets | **38,973** | 45,127 |

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

| | **31 December 2018 As previously reported £'000** | **Impact of IFRS16 £'000** | **1 January 2019 Restated £'000** |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 7,403 | (965) | 6,438 |
| Goodwill | 233,820 | (8,774) | 225,046 |
| Other intangible assets | 74,191 | (3,587) | 70,604 |
| Right-of-use assets | — | 45,127 | 45,127 |
| Deferred tax assets | 18,389 | 12,303 | 30,692 |
| Impact on non-current assets | 333,803 | 44,104 | 377,907 |
| **Current assets** | | | |
| Trade and other receivables | 88,817 | (4,410) | 84,407 |
| **Total impact on assets** | 422,620 | 39,694 | 462,314 |
| **Equity and liabilities** | | | |
| Retained losses | (107,249) | (70,601) | (177,850) |
| **Non-current liabilities** | | | |
| Borrowings | 84,432 | (890) | 83,542 |
| Lease liabilities | — | 94,184 | 94,184 |
| Provisions | 10,916 | (2,884) | 8,032 |
| Deferred tax liability | 7,756 | (1,353) | 6,403 |
| **Total impact on liabilities** | 103,104 | 89,057 | 192,161 |
| **Current liabilities** | | | |
| Borrowings | 3,663 | (1,178) | 2,485 |
| Lease liabilities | — | 26,815 | 26,815 |
| Trade and other payables | 9,931 | (728) | 9,203 |
| Provisions | 16,536 | (3,671) | 12,865 |
| Total impact on current liabilities | 30,130 | 21,238 | 51,368 |
| Total impact on equity and liabilities | 25,985 | 39,694 | 65,679 |

The impact on retained earnings on 1 January 2019 was £70.6 million in respect of the impairments in both the UK and Commercial cash generating units as at 31 December 2018 at transition (detailed in the notes above), net of the impact of taxation.

Basic loss per share decreased by 0.53 pence per share for the six months to 30 June 2019 as a result of the adoption of IFRS 16.

*Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group applied a range of discount rates from 5.6 to 7.9% to these portfolios
- Reliance on previous assessments on whether leases are onerous, but with additional impairments recognised where identified
- The accounting for operating leases with a remaining lease term of less than twelve months as at 1 January 2019 as short-term leases, with the exception of those leases with an extension option which were reasonably certain to be extended
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition the date the Group relied on its assessment made applying IAS17 and IFRIC 4 'Determining whether an arrangement contains a lease'.

#### *4.1B The Group's leasing activities and how these are accounted for*

The Group has over 5,000 leases in respect of various properties, motor vehicles and IT equipment. Rental contracts are typically made for average periods of five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivable
- Incremental payments in relation to extension options which are reasonably certain to be exercised

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of any initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received; and
- Any initial direct costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low value items are those less than £3,000.

*Critical judgements in determining the lease term*

Extension and termination options are included in a number of property and vehicle leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Approximately 13% of the total lease payments made in 2019 were optional.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonable certain to be extended (or not terminated). Potential future cash outflows of £10.6 million have been included in the lease liability because it is reasonable certain that the leases will be extended.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that it is within the control of the Group.

#### 4.2 Prior year restatement in respect of IFRS 15 'Revenue from contracts with customers'

IFRS 15 'Revenue from contracts with customers' establishes principles for determining when and how revenue arising from contracts with customers should be recognised. An entity should recognise revenue when it transfers goods or services to a customer based on the amount of consideration to which the entity expects to be entitled from a customer in exchange for fulfilling its performance obligations.

The Group adopted IFRS 15 on 1 January 2018 and elected to restate comparative information from prior periods. The adoption of IFRS 15 impacted the B2B and Sales and Lettings business units. The Group applied the practical expedients under which contracts that began or ended in 2017, or contracts that were completed prior to 1 January 2017, were not restated.

The Countrywide plc consolidated financial statements for the year ended 31 December 2018 noted that, subsequent to the Group's 2018 Interim Results for the period ended 30 June 2018, further information identified that a proportion of revenue earned from Tenant Introduction (or Tenant Renewal) was recognised over the life of the tenancy agreement. Such revenue is now recognised when the underlying tenancy agreement commences (or is renewed) in accordance with the satisfaction of the performance obligations, together with a liability for future refunds. This resulted in the amendment of the Group's opening transition adjustment within the consolidated financial statements for the year ended 31 December 2018. The impact on the balance sheet as at 30 June 2018 and the income statement for the six month period ended 30 June 2018 is set out in the tables below.

| *Consolidated balance sheet (extract)* | 30 June 2018 As previously reported (unaudited) £'000 | Impact of IFRS 15 (B2B) (unaudited) £'000 | Impact of IFRS 15 (Sales and Lettings) (unaudited) £'000 | 30 June 2018 Restated (unaudited) £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Deferred tax assets | 19,740 | 10 | (3,683) | 16,067 |
| **Current assets** | | | | |
| Trade and other receivables | 100,474 | (47) | 4,380 | 104,807 |
| **Impact on total assets** | 120,214 | (37) | 697 | 120,874 |
| **Equity and liabilities** | | | | |
| Retained earnings | (112,056) | (37) | 16,982 | (95,111) |
| **Non-current liabilities** | | | | |
| Deferred income | 10,728 | — | (10,348) | 380 |
| **Current liabilities** | | | | |
| Trade and other payables | 84,244 | — | 485 | 84,729 |
| Deferred income | 9,804 | — | (7,548) | 2,256 |
| Provisions | 16,576 | — | 1,126 | 17,702 |
| **Impact on current liabilities** | 110,624 | — | (5,937) | 104,687 |
| **Impact on total equity and liabilities** | 9,296 | (37) | 697 | 9,956 |

| *Consolidated income statement (extract)* | Six months ended 30 June 2018 As previously reported (unaudited) £'000 | Impact of IFRS 15 (B2B) (unaudited) £'000 | Impact of IFRS 15 (Sales and Lettings) (unaudited) £'000 | Six months ended 30 June 2018 Restated (unaudited) £'000 |
|---|---|---|---|---|
| Revenue | 298,570 | 30 | (704) | 297,896 |
| Other income | 5,050 | — | — | 5,050 |
| Total income | 303,620 | 30 | (704) | 302,946 |
| Other operating costs | (107,502) | (30) | (30) | (107,562) |
| **Adjusted EBITDA** | 10,656 | — | (734) | 9,922 |
| **Loss before taxation** | (242,751) | — | (734) | (243,485) |
| Taxation credit | 36,935 | — | 140 | 37,075 |
| **Loss for the period** | (205,816) | — | (594) | (206,410) |

Basic loss per share for 2018 was not materially impacted as a result of the restatement of IFRS 15.

## *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. None of these new standards or interpretations is expected to have a material impact on the consolidated financial statements of the Group.

Other standards, amendments and interpretations not yet effective and not discussed above are not relevant or considered significant to the Group.

### 5. Critical accounting judgements and estimates

The preparation of the condensed consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2018 with the exception of the update in relation to the going concern judgement (detailed in note 3) and adoption of IFRS 16 (detail of judgements in note 4.1B).

## 6. Financial risk management and financial instruments

***Financial risk factors***

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk; liquidity risk; counterparty credit risk; and price risk.

The condensed consolidated interim financial report does not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes in the operation of risk management or in any risk management policies since the year end.

***Liquidity risk***

Compared to the year end, there has been a material change in the contractual financial liabilities (see note 18) following the adoption of IFRS16 and the additional draw down against the revolving credit facility. There has been a change in the covenants levels applicable in respect of the revolving credit facility since the year end, as disclosed the financial summary and note 18.

***Fair value estimation***

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined, in accordance with IFRS 13 'Fair value measurement', as follows:

- inputs other than quoted prices (included in Level 1) that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2019:

| | **Level 3 £'000** |
|---|---|
| **Assets** | |
| Financial assets at fair value through profit or loss | **153** |
| **Liabilities** | |
| Contingent consideration | **8,163** |

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018:

| | Level 3 £'000 |
|---|---|
| **Assets** | |
| Financial assets at fair value through profit or loss | 153 |
| **Liabilities** | |
| Contingent consideration | 12,240 |

There was no change in valuation technique from that applied at 31 December 2018.

***Fair value measurements using significant unobservable inputs (Level 3) and valuation processes***

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Financial assets at FV through profit or loss £'000** | **Contingent consideration £'000** | Financial assets at FV through profit or loss £'000 | Contingent consideration £'000 |
| **Opening balance at 1 January** | **153** | **(12,240)** | 1,232 | (13,162) |
| Acquisition | — | — | 1,300 | — |
| Contingent consideration paid | — | **3,883** | — | 7,011 |
| Gains and losses recognised in profit or loss | — | **194** | — | (4,640) |
| **Closing balance at 30 June** | **153** | **(8,163)** | 2,532 | (10,791) |

Contingent consideration relates to amounts payable in the future on acquisitions undertaken in prior years. The amounts payable are based on the amounts agreed in the contracts and based on the future profitability of each business acquired. In valuing each provision, estimates have been made as to the future profitability of each business at this date.

The Group's finance department performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values where appropriate. This team reports directly to the Chief Financial Officer and the Group Audit & Risk Committee. Discussions of valuation processes and results are held between the Chief Financial Officer, Group Audit and Risk Committee and the valuation team in line with the Group's half-yearly reporting dates.

The fair value of all other financial assets and liabilities approximate to their carrying amount.

**7. Seasonality of operations**

The UK housing market is seasonal, with peaks in the summer months. Typically, more income is recognised in the second half of the year. In 2018 income was split 48% in the first half and 52% in the second half. The Group's operating profits are typically higher in the second half than in the first half of the year because, while fixed costs (such as wages, salaries and finance costs, which are not seasonal) tend to be consistent throughout the year, volumes of transactions in the second half are typically higher and therefore there is a higher marginal contribution over such fixed costs.

**8. Operating segment information**

Management has determined the operating segments based on the operating reports reviewed by the Board that are used to assess both performance and strategic decisions. Management has identified that the Board is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'.

The Group's segmental presentation in H1 2019 has changed to align with management's current internal financial reporting framework (including monthly management information reports reviewed by the Directors, and the Board as the chief operating decision maker) and the basis on which decisions for allocation of resources and assessing performance of segments is undertaken. During H1 2019 we realigned both our new homes (Countrywide Residential Development Solutions) and our Auctions operations with the Sales and Lettings business. As a result, H1 2018 has been restated to transfer £6.4 million of revenue, £1.2 million adjusted EBITDA loss and 1,396 house exchanges from B2B to Sales and Lettings.

The Board considers the business to be split into three main types of business generating revenue: Sales and Lettings, Financial Services and Business to Business (B2B); and 'all other segments' comprising central head office functions.

The Sales and Lettings network combines estate agency and lettings operations. Estate agency generates commission earned on sales of residential property and Lettings earns fees from the letting and management of residential properties and fees for the management of leasehold properties. The Financial Services division receives commission from the sale of insurance policies, mortgages and related products under contracts with financial service providers. Business to Business (B2B) services comprise all lines of business which are delivered to corporate clients, including Surveying Services, Conveyancing Services and revenue from Lambert Smith Hampton. Surveying Services generates surveying and valuation fees which are received primarily under contracts with financial institutions with some survey fees being earned from home buyers. Conveyancing Services generates revenue from conveyancing work undertaken from customers buying or selling houses through our network. Lambert Smith Hampton's revenue is earned from commercial property consultancy and advisory services, property management and valuation services. Other income generated by head office functions relates primarily to sub-let rental income or other sundry fees.

The Board assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of exceptional items, share-based payments charges, employment-linked contingent consideration and income from joint ventures. Finance income and costs are not allocated to segments as this type of activity is driven by the central treasury function which manages the cash and debt position of the Group.

The revenue from external parties reported to the Board is measured in a manner consistent with that in the income statement.

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2019 and 2018 respectively.

***Total income***

| | **Six months ended 30 June 2019** | | | Six months ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | **Total segment income £'000** | **Inter-segment income £'000** | **Total income £'000** | Total segment income [(1)] (Restated) £'000 | Inter-segment Income [(1)] (Restated) £'000 | Total income [(1)] (Restated) £'000 |
| Sales and Lettings | **152,509** | **5,345** | **157,854** | 160,204 | 4,595 | 164,799 |
| Financial Services | **38,870** | **1,195** | **40,065** | 38,991 | 1,237 | 40,228 |
| B2B | **99,033** | **(6,540)** | **92,493** | 103,241 | (5,832) | 97,409 |
| All other segments | **176** | **—** | **176** | 510 | — | 510 |
| | **290,588** | **—** | **290,588** | 302,946 | — | 302,946 |

[(1)] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4) and reallocation of CRDS and Auctions business units from B2B into Sales and Lettings

***Disaggregation of segment revenue***

| Six months ended 30 June 2019 | Sales and Lettings £'000 | Financial Services £'000 | B2B £'000 | All other segments £'000 | Total revenue £'000 |
|---|---|---|---|---|---|
| **Major service lines** | | | | | |
| Sales | 72,105 | — | 999 | — | 73,104 |
| Lettings | 78,974 | — | — | — | 78,974 |
| Financial Services | — | 38,127 | — | — | 38,127 |
| Surveying | 373 | 60 | 35,667 | — | 36,100 |
| Commercial | 103 | — | 49,300 | — | 49,403 |
| B2B other | 3,976 | 1,195 | 6,628 | — | 11,799 |
| Other | — | — | — | 34 | 34 |
| | **155,531** | **39,382** | **92,594** | **34** | **287,541** |
| **Timing of revenue recognition** | | | | | |
| Services transferred at a point in time | 78,692 | 25,527 | 67,944 | 34 | 172,197 |
| Services transferred over a period of time | 76,839 | 13,855 | 24,650 | — | 115,344 |
| | **155,531** | **39,382** | **92,594** | **34** | **287,541** |

| Six months ended 30 June 2018 | Sales and Lettings (Restated)[1] £'000 | Financial Services £'000 | B2B (Restated)[1] £'000 | All other segments £'000 | Total Revenue (Restated)[1] £'000 |
|---|---|---|---|---|---|
| **Major service lines** | | | | | |
| Sales | 76,592 | — | 1,270 | — | 77,862 |
| Lettings | 80,421 | — | — | — | 80,421 |
| Financial Services | — | 38,537 | — | — | 38,537 |
| Surveying | 186 | 44 | 36,058 | — | 36,288 |
| Commercial | 67 | — | 53,423 | — | 53,490 |
| B2B other | 3,137 | 1,241 | 6,484 | — | 10,862 |
| Other | — | — | — | 436 | 436 |
| | **160,403** | **39,822** | **97,235** | **436** | **297,896** |
| **Timing of revenue recognition** | | | | | |
| Services transferred at a point in time | 82,131 | 25,140 | 67,901 | 15 | 175,187 |
| Services transferred over a period of time | 78,272 | 14,682 | 29,334 | 421 | 122,709 |
| | **160,403** | **39,822** | **97,235** | **436** | **297,896** |

[1] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4) and reallocation of CRDS and Auctions business units from B2B into Sales and Lettings

***Adjusted EBITDA before exceptional items***

| | Six months ended 30 June | |
|---|---|---|
| | **2019 £'000** | 2018 [1] £'000 |
| Sales and Lettings | **8,424** | (3,713) |
| Financial Services | **6,851** | 7,277 |
| B2B | **10,057** | 12,625 |
| Segment adjusted EBITDA before exceptional items | **25,332** | 16,189 |
| All other segments | **(5,127)** | (6,267) |
| Group adjusted EBITDA before exceptional items | **20,205** | 9,922 |

[1] Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4.2) and reallocation of CRDS and Auctions business units from B2B into Sales and Lettings

***Reconciliation of adjusted EBITDA to statutory operating loss and loss before income tax***

A reconciliation of total adjusted EBITDA before exceptional items to statutory operating loss and loss before income tax is provided as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2019** **£'000** | 2018 [(1)] £'000 |
| **Adjusted EBITDA before exceptional items for reportable segments** | **25,332** | 16,189 |
| All other segments | **(5,127)** | (6,267) |
| Group adjusted EBITDA before exceptional items | **20,205** | 9,922 |
| Depreciation on property, plant and equipment and amortisation of software | **(10,219)** | (13,187) |
| **Group operating profit/(loss) before exceptional items and amortisation** | **9,986** | (3,265) |
| Amortisation arising on intangible recognised through business combinations | **(2,771)** | (2,031) |
| Contingent consideration | **194** | (4,640) |
| Share-based payment costs | **(1,101)** | (1,723) |
| Exceptional income | **—** | 3,186 |
| Exceptional costs (excluding exceptional financing costs not reported in operating profit) | **(41,133)** | (226,215) |
| **Group operating loss** | **(34,825)** | (234,688) |
| Finance costs (including exceptional financing costs) | **(5,516)** | (8,937) |
| Finance income | **373** | 140 |
| **Loss before income tax** | **(39,968)** | (243,485) |

[(1)] Restated from prior year following amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4.2)

There has been a material change in segment total assets or liabilities from the amount disclosed in the last annual financial statements principally due to the adoption of IFRS 16 (see note 4.1) and impairments arising in Financial Services (see note 9).

| | **Sales and Lettings £'000** | **Financial Services £'000** | **B2B £'000** | **All other Segments £'000** | **Total £'000** |
|---|---|---|---|---|---|
| **30 June 2019** [(1)] | | | | | |
| Total assets | 95,973 | 87,746 | 221,399 | 28,803 | 433,921 |
| Total liabilities | 630,049 | 191,129 | 188,787 | (688,320) | 321,645 |
| **31 December 2018** | | | | | |
| Total assets | 83,858 | 115,597 | 219,880 | 22,328 | 441,663 |
| Total liabilities | 536,907 | 193,844 | 181,453 | (690,808) | 221,396 |

[(1)] See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period segment disclosures

**Adjusted items**

As permitted by IAS 1 'Presentation and disclosure' certain items are presented separately in the income statement as exceptional where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Examples of material and non-recurring items which may give rise to disclosure as exceptional items include costs of restructuring existing businesses, integration of newly acquired businesses, asset impairments, costs associated with acquiring new businesses and profit on sale of financial assets.

The columnar presentation of our income statement separates exceptional items as well as adjusting items, specifically amortisation of intangibles arising on business acquisitions, contingent consideration and share-based payments, to illustrate consistently the Group's underlying business performance.

The Board believes that excluding each of the adjusted items, considered to be exceptional or non-operational in nature, in arriving at adjusted EBITDA is necessary to provide a more consistent indication of the trading performance of the Group. This alternative performance measure provides additional useful information to shareholders on the underlying trends and comparable performance of the Group over time. We seek to present a consistent measure of trading performance which is not impacted by the volatility in profile of:

- exceptional items (costs or income): these are specific items which are material by their nature, size or incidence and are highlighted, with further descriptions, in note 9 to the condensed consolidated interim financial report;
- amortisation of intangibles arising on acquisitions (excluding software): charges can vary significantly dependent on the level and size of acquisitions undertaken in each period, and the related brand names, customer relationships and contracts recognised. In addition, we do not believe the amortisation charge provides insight into the costs of running our business as these assets are supported and maintained by marketing costs which are reflected within our operating costs. The directors note that the intangibles acquired in business combinations are used in the business to generate revenue, but that there is no equivalent adjustment made to eliminate this revenue;
- contingent consideration: charges can vary significantly dependent on the level and size of acquisitions undertaken and the associated performance criteria linked to the ongoing service requirement. We reassess the fair value of the resulting liabilities across these arrangements at each reporting period end, reflecting our best estimates of future performance. However, these estimates are inherently judgemental as we are required to look beyond our normal three year budgeting and planning cycle for the

five year agreements in place. Remeasurement could cause material volatility in our reported results over the earn out periods which would not be reflective of the business' performance in the period; and

- share-based payments: as the Group is now in a turnaround situation, it is anticipated that the incentivisation of performance will be driven by award of future LTIPs which, provided Group performance meets these LTIP targets, will see the share-based payment charge continue to increase and re-introduce material volatility into the income statement.

The use of an adjusted EBITDA profit measure, as a consistent measure of underlying performance, is also aligned with management's internal financial reporting (including monthly management information reports reviewed by the Board as the chief operating decision maker) and executive director remuneration (being a factor of both the LTIP scheme and annual bonus disclosed in the Remuneration Committee report) and senior management incentive targets.

**9. Exceptional items**

The following items have been included in arriving at loss before taxation:

| | Six months ended 30 June | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| **Exceptional income** | | |
| Professional indemnity | — | 3,186 |
| **Exceptional costs** | | |
| People-related restructuring costs | **(1,333)** | (3,737) |
| Restructuring and related consultancy costs | **(2,135)** | (3,396) |
| Property closure costs | **(1,222)** | (828) |
| Total strategic and restructuring costs, excluding impairment | **(4,690)** | (7,961) |
| Impairment of goodwill | **(30,365)** | (44,815) |
| Impairment of brand names | — | (126,192) |
| Impairment of customer contracts and relationships | — | (9,605) |
| Impairment of non-current assets | **(6,078)** | (30,098) |
| Total impairment charge | **(36,443)** | (210,710) |
| Onerous lease provision | — | (7,544) |
| Financing costs | — | (3,778) |
| **Total exceptional costs** | **(41,133)** | (229,993) |
| **Net exceptional costs** | **(41,133)** | (226,807) |

**2019**

**Exceptional costs**

Exceptional costs comprise items that have or will result in cash charges of £3.4 million and £37.7 million of non-cash charges as follows:

*Strategic and restructuring costs*

During the first half of 2019 the Group progressed a strategic transformation agenda for the fundamental turnaround of the business, which is expected to take place over a period of around three years, resulting in a number of exceptional costs in relation to the project and related restructuring costs. The principal elements are:

- £1,333,000 relating to redundancy costs, principally arising from the branch rationalisation programme that occurred during the period to progress the achievement of an appropriate organisational structure;
- £2,135,000 in respect of restructuring costs, comprising third party consultancy costs in the main arising from our IT transformation projects (commenced in 2018 and running over a three year period, with costs being capitalised where applicable in note 13) and related strategic initiatives which are being project managed centrally and routinely reporting progress to the Group Executive Committee; and
- £1,222,000 of property closure costs in respect of property dilapidations provision costs in respect of properties that have been identified for closure.

*Impairment charges*

Progress has been made with the turnaround plan during the period. However, the continued subdued external environment and the deterioration in trading, which became apparent after conclusion of the 2019 business planning process that underpinned the 2018 impairment review, has resulted in further impairment charges since those taken at the full year. Cash flows underpinning the current impairment review align to the latest three-year strategy and turnaround plan that has been scrutinised and endorsed by the Board.

The Group incurred the following impairment charges, deemed to be exceptional given their size, arising from the impairment review of goodwill and indefinite-life intangible assets undertaken outside of the annual cycle as a result of continuing triggers for impairment (including the market capitalisation level of the Group), and the associated review of other intangible and tangible fixed assets impacted by the impairment review:

- £30,365,000 in respect of goodwill associated with the Countrywide Residential Development Solutions cash generating unit (£867,000) and the Financial Services cash generating unit (£29,498,000) following an assessment of the recoverable amount against the carrying value (see note 12); and

- £6,078,000 in respect of other non-current assets: £958,000 intangible fixed assets (computer software) and £992,000 tangible fixed assets (related computer hardware and other assets) associated with the UK cash generating unit and £1,075,000 intangible fixed assets (computer software), £177,000 right-of-use assets (IT assets) and £2,876,000 tangible fixed assets (related computer hardware and other assets) associated with the Head Office assets following an assessment of the recoverable amount against the carrying value. The Head Office write-down arose as a result of the intangible and tangible asset carrying values exceeding the recoverable amount within the UK cash generating unit triggering an impairment of the assets within Head Office supporting the UK cash generating unit (see notes 12, 13 and 14).

**2018**

**Exceptional income**
*Professional indemnity*
A claim was settled in the Group's favour resulting in the recognition of £2,083,000 of exceptional income.

Estimating the liability for professional indemnity claims is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took advice from our panel of lawyers in respect of open claims. Despite the judgemental nature of the provision, the progress made during the period on individually significant claims, aligned with the low level of claims made, resulted in the assessment of a £1,103,000 release in the provision.

**Exceptional costs**
Exceptional costs comprise items that have or will result in cash charges of £17.7 million and £212.3 million of non-cash charges as follows:

*Strategic and restructuring costs*
During the first half of 2018 the Group progressed a strategic transformation agenda for the fundamental turnaround of the business, which is expected to take place over a period of around three years, resulting in a number of exceptional costs in relation to the project and related restructuring costs. The principal elements are:

- £3,737,000 relating to redundancy costs, principally arising from the restructuring of head office functions undertaken following our announcement on 8 March 2018, and changes to the leadership structure that occurred during the year to progress the achievement of the appropriate organisational structure;
- £3,396,000 in respect of restructuring costs, including the write-down of assets related to curtailed projects, and third party consultancy costs arising from a number of different projects undertaken to tackle cost optimisation targets and related strategic initiatives which are being project managed centrally and routinely reporting progress to the Group Executive Committee; and
- £828,000 of property closure costs, comprising closed property provisions (£628,000) and property dilapidations provision (£200,000) costs in respect of a London office that has been identified for closure and communicated to impacted individuals prior to the period end. The closed property provision covers the onerous commitment for the period from the intended vacation date until the end of the lease term.

*Impairment charges*
Significant progress has been made with the strategy and turnaround plan during the prior period. However, the continued subdued external environment and the deterioration in trading, which became apparent after conclusion of the 2018 business planning process that underpinned the 2017 impairment review, has resulted in further impairment charges since those taken at the full year. Cash flows driving the current impairment review align to the latest three-year strategy and turnaround plan that has been scrutinised and endorsed by the Board.

The Group incurred the following impairment charges, deemed to be exceptional given their size, arising from the impairment review of goodwill and indefinite-life intangible assets undertaken outside of the annual cycle as a result of continuing triggers for impairment (including the market capitalisation level of the Group), and the associated review of other intangible and tangible fixed assets impacted by the impairment review:

- £44,815,000 in respect of goodwill associated with: the UK cash generating unit of £14,044,000 and the London cash generating unit of £30,771,000 following an assessment of the recoverable amount against the carrying value (see note 12);
- £126,192,000 in respect of brand names associated with: the UK cash generating unit of £58,271,000 (reflecting full impairments of all brand names held) and the London cash generating unit of £67,921,000 (reflecting partial impairments of all brand names held) following an assessment of the recoverable amount against the carrying value (see note 12);
- £9,605,000 in respect of customer contracts associated with: the UK cash generating unit of £6,377,000 and the London cash generating unit of £3,228,000 following an assessment of the recoverable amount against the carrying value (see note 12); and
- £30,098,000 in respect of other non-current assets: £2,379,000 intangible fixed assets (computer software) and £17,779,000 tangible fixed assets (related computer hardware and other assets) associated with the UK cash generating unit and £2,482,000 intangible fixed assets (computer software) and £6,741,000 tangible fixed assets (related computer hardware and other assets) associated with the HO assets following an assessment of the recoverable amount against the carrying value. The HO write-down arising as a result of impairments identified exceeds the intangible asset carrying values within the UK cash generating unit triggering an impairment of the assets within HO supporting the UK cash generating unit. Tangible fixed assets of £717,000 associated with the office in London that has been identified for closure (noted above) were impaired during the period (see notes 12 and 13).

*Onerous lease provision*
In addition an analysis was undertaken in the prior period of loss making branches (at the direct branch contribution level) and onerous lease provisions with a present value of £7,544,000 recognised in relation to these economic outflows arising from these onerous contracts, unwinding over periods up to 2026. The economic outflows in relation to these loss making branches will continue to be monitored to ensure that provisions are unwound as a credit to exceptional items in line with the losses being reported within operating results, or released in full

when a branch reaches profitability on turnaround, or ceases to become an onerous contract due to other circumstances, for example if a branch is sublet or a lease is renegotiated so that cash flows become positive.

*Financing costs*

Following the revolving credit facility amendment undertaken on 2 February 2018, previously capitalised financing fees (net of amortisation to date) of £1,573,000 were written off. Fees relating to the amendment were simultaneously capitalised.

Subsequently, costs of £2,205,000 have been incurred in relation to professional fees provided in relation to work undertaken to potentially restructure the Group's borrowing. These do not relate to the projects currently in progress in relation to the refinancing of the business and have therefore been expensed as abortive fees.

Both of these financing costs have been treated as exceptional due to the size of the fees, but also in relation to the non-recurrent costs which have been incurred in relation to refinancing the business to facilitate the financial flexibility to undertake the turnaround transformation.

**10. Income taxes**

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2019 is 5.7% (six months ended 30 June 2018: 15.2%). The low tax rate in H1 2019 is principally as a result of impairment of non-qualifying goodwill and tangible assets in H1 2019 of £29.5 million.

On adoption of IFRS 16 the business has recognised an impairment of right of use assets, goodwill and other assets as detailed in note 4.1. A deferred tax asset of £12.3 million and a reduction in the deferred tax liability of £1.4 million arises as a result of this impairment.

**11. Earnings per share**

Basic earnings per share is calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares of Countrywide plc.

| | **2019**<br>**£'000** | 2018*<br>£'000 |
|---|---|---|
| Loss for the period | **(37,702)** | (206,410) |
| Weighted average number of ordinary shares in issue | **1,635,835,429** | 235,469,507 |
| Basic and diluted loss per share (in pence per share) | **(2.30)p** | (87.66)p |

| **Adjusted earnings** | | |
|---|---|---|
| Loss for the period attributable to owners of the parent | **(37,702)** | (206,410) |
| Adjusted for the following items, net of taxation: | | |
| Amortisation arising on intangibles recognised through business combinations | **2,298** | 1,644 |
| Contingent consideration | **(194)** | 4,640 |
| Share-based payments charge | **1,148** | 1,487 |
| Exceptional income | — | (2,585) |
| Exceptional costs | **39,211** | 194,848 |
| Adjusted earnings/(loss), net of taxation | **4,761** | (6,376) |
| Adjusted basic earnings/(loss) per share (in pence per share) | **0.29p** | (2.71)p |

*Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2018 results as described in the Countrywide plc consolidated financial statements for year ended 31 December 2018 (see note 4.2)

**12. Intangible assets**

*a) Goodwill*

Goodwill decreased on 1 January 2019 following adoption of the leasing standard IFRS16, see note 4.1 for details.

| | £'000 |
|---|---|
| Net book value at 1 January 2019 | 233,820 |
| Change in accounting policy[1] | (8,774) |
| Restated net book value at 1 January 2019 | 225,046 |
| Impairment (note 9) | (30,365) |
| Transferred to assets classified as held for sale (note 24) | (5,345) |
| **Net book value at 30 June 2019** | **189,336** |

[1] See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period disclosures

Goodwill impairment charges of £867,000 and £29,498,000 have been made in relation to the Countrywide Residential Development Solutions and Financial Services cash generating units respectively following an assessment of the recoverable amount against the carrying value. These charges have been included within exceptional items (note 9).

*b) Other intangible assets*

Other intangible assets decreased on 1 January 2019 following adoption of the leasing standard IFRS16, see note 4.1 for details.

| | Computer software £'000 | Brand names £'000 | Customer contracts and relationships £'000 | Other intangibles £'000 | Total £'000 |
|---|---|---|---|---|---|
| Net book value at 31 December 2018 | 10,716 | 49,904 | 13,310 | 261 | 74,191 |
| Change in accounting policy[1] | (502) | (2,287) | (798) | — | (3,587) |
| Net book value at 1 January 2019 | 10,214 | 47,617 | 12,512 | 261 | 70,604 |
| Additions | 1,821 | — | — | — | 1,821 |
| Amortisation | (2,838) | (1,641) | (1,107) | (23) | (5,609) |
| Impairment (note 9) | (2,033) | — | — | — | (2,033) |
| Transferred to assets classified as held for sale (note 24) | (79) | — | — | — | (79) |
| **Net book value at 30 June 2019** | **7,085** | **45,976** | **11,405** | **238** | **64,704** |

(1) See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period disclosures

The assessment of recoverable amount against carrying value resulted in impairment charges of £2,210,000 against computer software associated with the UK cash generating unit (£958,000) and Head Office (£1,075,000). The Head Office write-down arose as a result of the intangible and tangible asset carrying values exceeding the recoverable amount within the UK cash generating unit triggering an impairment of the assets within Head Office supporting the UK cash generating unit. These charges have been included within exceptional items (note 9).

*c) Other intangible assets*

The carrying amounts of various brand names owned by the Group are disclosed below:

| | **30 June 2019 £'000** | 31 December 2018 £'000 |
|---|---|---|
| **Brand names** | | |
| Lambert Smith Hampton | **24,277** | 27,431 |
| Hamptons International | **10,808** | 11,194 |
| John D Wood | **3,152** | 3,265 |
| Bairstow Eves | **1,984** | 2,054 |
| | **40,221** | 43,944 |
| Other brands | **5,755** | 5,960 |
| Net book value | **45,976** | 49,904 |

*(c) Impairment*

Cash generating units (CGUs) represent the smallest identifiable group of assets that generate cash flows that are largely independent of cash flows from other groups of assets. The group of CGUs against which goodwill is monitored comprise UK, London, Countrywide Residential Development Solutions, Financial Services, B2B (Professional Services), and B2B (Commercial). In many cases the operations of the acquired businesses have been fully integrated with existing businesses and consequently the economic flows are not monitored at a lower level than the CGUs identified for goodwill impairment review. Where necessary, assets have been reallocated to the goodwill-level CGUs that are expected to benefit from the business combination in which the goodwill arose as follows:

| | | | | | B2B CGUs | | |
|---|---|---|---|---|---|---|---|
| | UK £'000 | London £'000 | Countrywide Residential Development Solutions £'000 | Financial Services £'000 | Professional Services £'000 | Commercial £'000 | Total £'000 |
| **Goodwill** | | | | | | | |
| Net book value at 31 December 2018 | — | — | 2,111 | 89,885 | 133,050 | 8,774 | 233,820 |
| Change in accounting policy[1] | — | — | — | — | — | (8,774) | (8,774) |
| Net book value at 1 January 2019 | — | — | 2,111 | 89,885 | 133,050 | — | 225,046 |
| Impairment (note 9) | — | — | (867) | (29,498) | — | — | (30,365) |
| Transferred to assets classified as held for sale (note 24) | — | — | — | (5,345) | — | — | (5,345) |
| **Net book value at 30 June 2019** | — | — | **1,244** | **55,042** | **133,050** | — | **189,336** |

(1) See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period provisions disclosures

Under IAS 36 'Impairment of assets', the Group is required to:

- review its intangible assets in the event of a significant change in circumstances that would indicate potential impairment; and
- review and test its goodwill and indefinite-life intangible assets annually or in the event of a significant change in circumstances.

The June 2019 impairment review was performed in accordance with IAS 36 'Impairment of assets' by comparing the carrying amount of each CGU against its recoverable amount.

*Recoverable amount*
The recoverable amount of each CGU is based on its value in use which is calculated by discounting pre-tax cash flow projections derived from formally approved strategic budgets and forecasts. For each of the CGUs with significant amounts of goodwill, the key assumptions used in the value in use calculation are set out below.

*Cash flows*
Cash flow projections for each CGU are based on the latest 2019 forecast and three-year plan covering the period from 2019 to 2021 that has been endorsed by the Board. For details of the key assumptions please refer to the sensitivity analysis below. Growth rates and other assumptions applied within the strategic plan are based on past experience, market data and expectation of future market outlook and development. UK housing market volumes are assumed to decrease by 5-7% per annum over the period from 2019 to 2021 with a decrease in average house prices initially of 5% then 1.3% to 1.5% over the same period. UK mortgage market volumes are assumed to reflect housing transactions with no change to remortgage volumes. Surveyors volumes have been assumed to reduce in line with the market and lender volumes.

The 2018 impairment review was based on cash flows from the strategic budget covering the period from 2019 to 2021.

*Terminal growth rate*
For the purpose of the impairment review, cash flows beyond the period of the plan ending 2021 are extrapolated using a terminal value which includes a growth rate of 1% into perpetuity (consistent with the approach taken in the 2018 impairment review).

*Discount rate*
Cash flows have been discounted using pre-tax discount rates of between 13.2% and 14.4%, reflecting the weighted average cost of capital assigned to each CGU.

The 2018 impairment review used discount rates of between 11.8% and 12.4%.

*Outcome of impairment review*
Whilst the Group has made operational progress in the execution of the turnaround plan during the six months ended 30 June 2019, the review has resulted in further impairment charges. This impairment is a function of the alignment of the turnaround plan to the protracted progress of Brexit since the conclusion of the 2019 business planning process that underpinned the 2018 impairment review. Accordingly, the Group has revised its forward looking projections.

- *Goodwill*

The goodwill impairment review concluded that impairment charges of £30,365,000 were appropriate against goodwill held by the Countrywide Residential Development Solutions (£867,000) and Financial Services (£29,498,000) CGUs respectively (see note 9).

The review concluded that the recoverable amount for all other CGUs to which goodwill is allocated exceeded their respective carrying values, resulting in no further indication of impairment.

- *Other intangible and tangible assets*

The goodwill impairment review resulted in a further impairment charge of £2,033,000 against computer software associated with the UK cash generating unit (£958,000) and Head Office (£1,075,000), an impairment charge of £177,000 against Head Office right-of-use assets (IT assets) and an impairment charge of £3,868,000 against other tangible assets (UK CGU: £992,000; Head Office: £2,876,000). The Head Office write-down arose as a result of impairments identified exceeding the intangible and tangible asset carrying values within the UK cash generating unit, triggering an impairment of assets within Head Office supporting the UK cash generating unit. These charges are included within exceptional items (note 9).

Cumulative impairments, including the goodwill and computer software impairments identified during the current year, combined with previous impairments, amount to the following:

| | Goodwill £'000 | Brand names £'000 | Customer contracts & relationships £'000 | Computer software £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cash generating unit** | | | | | |
| UK | 388,441 | 101,897 | 10,452 | 6,011 | 506,801 |
| London | 131,160 | 78,494 | 4,331 | 1 | 213,986 |
| Countrywide Residential Development Solutions | 867 | — | — | — | 867 |
| Financial Services | 143,885 | — | — | — | 143,885 |
| B2B – Professional Services | 40,000 | — | 100 | 10,500 | 50,600 |
| B2B – Commercial | 9,795 | 2,287 | 798 | 27 | 12,907 |
| Total cash generating units | 714,148 | 182,678 | 15,681 | 16,539 | 929,046 |
| All other segments | — | — | — | 3,557 | 3,557 |
| | 714,148 | 182,678 | 15,681 | 20,096 | 932,603 |

**Sensitivity analysis**
A range of assumptions with varying significance drive the 2019 value in use models used for the impairment reviews. CGU recoverable amounts are most sensitive to the following key assumptions:

- Future property transaction volumes, which recognise the uncertain UK political and Brexit environment; and
- Options to mitigate the effects of these downside scenarios.

A change in the above assumptions, for example, failure to deliver IT saving initiatives, would result in lower CGU adjusted EBITDA.

In order to quantify the impact of the above risks on the goodwill impairment review, management modelled three separate scenarios:

- 5% reduction to adjusted EBITDA from operating cash flows, but keeping all other cash flows such as capital investment in line with the strategic plan;
- 5% increase in pre-tax discount factor; and
- Terminal growth rate of 0% into perpetuity (1% in the base case).

The following table sets out the sensitivity of all CGUs that hold goodwill to possible changes in key assumptions:

| | Reduction in discounted cash flows | | |
|---|---|---|---|
| | Countrywide Residential Development Solutions CGU £'000 | Financial Services CGU £'000 | B2B-Professional Services CGU £'000 |
| **Goodwill** | | | |
| 5% reduction to adjusted EBITDA | (247) | (4,259) | (12,970) |
| 5% increase in pre-tax discount factor | (266) | (3,959) | (12,430) |
| Terminal growth rate of 0% into perpetuity | (371) | (5,945) | (18,749) |

The above scenarios indicate further impairment in the Countrywide Residential Development Solutions CGU and the Financial Services CGU, but mitigating actions are available should any of the scenarios arise. The sensitivity does not indicate impairment in any other CGU.

In 2018 management modelled sensitivity analyses, including a 10% reduction to adjusted EBITDA from operating cash flows, an increase of 10% in the pre-tax discount rate of 11.8% to 12.4% and incorporating a terminal growth rate of 0% into perpetuity (1% in the base case). The sensitivity analyses indicated further impairment in the B2B-Commercial CGU under such scenarios.

### 13. Property, plant and equipment

Property, plant and equipment decreased on 1 January 2019 following adoption of the leasing standard IFRS16, see note 4.1 for details.

| | £'000 |
|---|---|
| Net book value at 31 December 2018 | 7,403 |
| Change in accounting policy[1] | (965) |
| Restated opening net book value at 1 January 2019 | 6,438 |
| Additions | 7,380 |
| Depreciation | (1,529) |
| Impairment (note 9) | (3,868) |
| Transferred to assets classified as held for sale (note 24) | (77) |
| **Net book value at 30 June 2019** | 8,344 |

[1] See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period disclosures

The assessment of recoverable amount against carrying value resulted in impairment charges of £3,868,000 against tangible assets associated with the UK cash generating unit (£992,000) and Head Office (£2,876,000). The Head Office write-down arose as a result of impairments identified exceeding the intangible and tangible asset carrying values within the UK cash generating unit, triggering an impairment of assets within Head Office supporting the UK cash generating unit. These charges have been included within exceptional items (note 9).

***Capital commitments***

As at 30 June 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and computer software amounting to £12.6 million, which have not yet been incurred and which relate to the year ending 31 December 2019 and the three subsequent years (31 December 2018: £7.1 million). These commitments primarily relate to the Group's computer hardware refresh programme which the Group has committed to under agreements with a supplier for outsourcing of IT arrangements (£7.7 million) and £4.9 million in respect of computer hardware and software specific to B2B applications.

### 14. Right-of-use assets

On 1 January 2019 following adoption of the leasing standard IFRS16, assets in relation to leases which had previously been classified as operating leases were recognised, along with the reclassification of finance-leased assets held within tangible and intangible assets to right-of-use assets - see note 4.1 for details.

| | Right-of-use Property Assets £'000 | Right-of-use Vehicle Assets £'000 | Right-of-use IT Assets £'000 | Total Right-of-use Assets £'000 |
|---|---|---|---|---|
| Net book value at 31 December 2018 | — | — | — | — |
| Change in accounting policy[1] | 40,323 | 3,123 | 1,681 | 45,127 |
| Net book value at 1 January 2019 | 40,323 | 3,123 | 1,681 | 45,127 |
| Additions | 166 | — | — | 166 |
| Disposals | — | — | (152) | (152) |
| Depreciation | (4,211) | (1,169) | (472) | (5,852) |
| Impairment (note 9) | — | — | (177) | (177) |
| Transferred to assets classified as held for sale (note 24) | (116) | (23) | — | (139) |
| **Net book value at 30 June 2019** | **36,162** | **1,931** | **880** | **38,973** |

[1] See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period disclosures

### 15. Investments

| | Investment in joint venture £'000 | Financial assets at fair value through profit or loss £'000 |
|---|---|---|
| At 1 January 2019 and 30 June 2019 | 1,464 | 153 |

**16. Trade and other receivables**

| | 30 June 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **65,245** | 65,181 |
| Less: Provision for impairment of receivables | **(5,858)** | (5,157) |
| Trade receivables – net | **59,387** | 60,024 |
| Amounts due from customers for contract work | **1,090** | 776 |
| Other receivables | **2,607** | 4,036 |
| Prepayments | **8,423** | 16,192 |
| Accrued income | **7,066** | 7,329 |
| Corporation tax asset | **1,230** | 460 |
| | **79,803** | 88,817 |

**17. Trade and other payables**

| | 30 June 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Trade payables | **16,343** | 14,620 |
| Deferred consideration | **1,692** | 2,721 |
| | **18,035** | 17,341 |
| Other tax and social security payable | **22,460** | 23,581 |
| Accruals and other payables | **40,064** | 50,155 |
| | **80,559** | 91,077 |
| Current | **71,374** | 81,146 |
| Non-current | **9,185** | 9,931 |
| | **80,559** | 91,077 |

**18. Borrowings**

| | 30 June 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings | **100,000** | 85,000 |
| Other loans | **—** | 1,000 |
| Capitalised banking fees | **(1,698)** | (1,966) |
| Finance lease liabilities | **—** | 398 |
| | **98,302** | 84,432 |
| **Current** | | |
| Other loans | **2,074** | 1,993 |
| Finance lease liabilities | **—** | 1,670 |
| | **2,074** | 3,663 |
| **Total borrowings** | **100,376** | 88,095 |

[1] See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period lease liabilities disclosures

***Lease liabilities***

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The present value of lease liabilities is as follows:

| | 30 June 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| No later than one year | **24,001** | — |
| Later than one year and no later than five years | **64,138** | — |
| After 5 years | **16,689** | — |
| | **104,828** | — |

***Analysis of net debt***

| | 1 January 2019 £'000 | Cash flow £'000 | Non-cash changes £'000 | Transferred to assets classified as held for sale £'000 | 30 June 2019 £'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 17,426 | (4,737) | — | (1,801) | **10,888** |
| Capitalised banking fees | 1,966 | — | (268) | – | **1,698** |
| Other loans | (2,993) | — | (81) | 1,000 | **(2,074)** |
| Revolving credit facility due after one year | (85,000) | (15,000) | — | – | **(100,000)** |
| Finance leases due after one year[1] | (398) | — | 398 | – | **—** |
| Finance leases due within one year[1] | (1,670) | — | 1,670 | – | **—** |
| Lease liabilities due after one year[1] | — | — | (80,900) | 73 | **(80,827)** |
| Lease liabilities due within one year[1] | — | 12,768 | (36,834) | 65 | **(24,001)** |
| **Total** | (70,669) | (6,969) | (116,015) | (663) | **(194,316)** |

[1] See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period lease liabilities disclosures

***Borrowings and other loans***

At the period end, the facility was a £125 million revolving credit facility (RCF), with any outstanding balance repayable in full on 30 September 2022. Interest was payable based on LIBOR plus a margin of 3.75%. The margin is linked to the leverage ratio of the Group and the margin rate is reviewed four times a year (and can vary between 1.75% and 6.0%). The RCF is available for utilisation subject to satisfying fixed charge, interest cover and leverage covenants.

In July 2019, in view of the continuing and challenging market for residential and commercial property transactions in the UK, the Group's lenders agreed to a new covenant package including an expansion of the leverage covenants and various changes to its information covenants. The Group's covenants are measured on a "frozen GAAP" basis before the effects of IFRS16 for the full term of the facility.

The new net debt/adjusted EBITDA leverage covenants are:

| | Jun 19 | Sep 19 | Dec 19 | Mar 20 | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 | Sep 21 |
|---|---|---|---|---|---|---|---|---|---|---|
| New leverage covenants | 6.00x | 4.75x | 4.25x | 4.25x | 4.00x | 4.00x | 3.75x | 3.75x | 3.75x | 2.50x |
| Previous leverage covenants | 6.00x | 4.75x | 4.25x | 4.00x | 3.50x | 2.75x | 2.50x | 2.50x | 2.50x | 2.50x |

The Group's lenders remain supportive of the business and the amended covenant package provides the Group with the financial flexibility to continue to execute the turnaround plan.

Capitalised banking fees are being amortised over the duration of the RCF, until September 2022.

'Other loans' disclosed above comprise loan notes payable to The Buy to Let Group Limited joint shareholder (49%) and director of £1,590,000 capital and associated interest charges accruing at a rate of 8% per annum that are expected to be repayable in 2020.

**19. Deferred income**

| | £'000 |
|---|---|
| At 1 January 2019 | 2,382 |
| Movement | (426) |
| Transferred to liabilities directly associated with assets held for sale (note 24) | (45) |
| **At 30 June 2019** | **1,911** |
| Current | 1,760 |
| Non-current | 151 |
| | **1,911** |

The Group recognises deferred income as a result of cash received in advance in relation to certain sales distribution contracts and lease incentives relating to the Group's operating leases. The cash is received and amortised over the life of the contracts to which they relate.

**20. Provisions**

| | Onerous contracts | | | | | | |
|---|---|---|---|---|---|---|---|
| | Closed Property £'000 | Loss making branches £'000 | Property repairs £'000 | Clawback £'000 | Claims and litigation £'000 | Other £'000 | Total £'000 |
| At 31 December 2018 | 2,962 | 3,593 | 6,751 | 4,030 | 9,497 | 619 | 27,452 |
| Change in accounting policy[1] | (2,962) | (3,593) | — | — | — | — | (6,555) |
| At 1 January 2019 | — | — | 6,751 | 4,030 | 9,497 | 619 | 20,897 |
| Utilised in the period | — | — | (485) | (1,945) | (701) | (442) | (3,573) |
| Charged to income statement | — | — | 1,569 | 1,972 | 743 | 161 | 4,445 |
| Credited to income statement | — | — | (29) | — | (218) | — | (247) |
| Transferred to liabilities associated with assets classified as held for sale | — | — | (39) | (139) | (6) | (161) | (345) |
| **At 30 June 2019** | **—** | **—** | **7,767** | **3,918** | **9,315** | **177** | **21,177** |
| Current | — | — | 2,993 | 2,208 | 2,814 | 177 | 8,192 |
| Non-current | — | — | 4,774 | 1,710 | 6,501 | — | 12,985 |
| | **—** | **—** | **7,767** | **3,918** | **9,315** | **177** | **21,177** |

(1) See note 4.1 for details about the impact from the change in accounting policy, from the adoption of IFRS 16, in the current period provisions disclosures

Claims and litigation provisions comprise the amounts set aside to meet claims by customers below the level of any professional indemnity excess, the estimation of incurred but not received claims and any amounts that might be payable as a result of any legal disputes. The provisions represent the directors' best estimate of the Group's liability, having taken professional advice.

**21. Share capital**

| | Number | £'000 |
|---|---|---|
| Called up issued and fully paid ordinary shares of 1 pence each | | |
| **At 1 January 2019 and 30 June 2019** | **1,641,303,439** | **16,413** |

**22. Reserves**

The following table provides a breakdown of 'Other reserves' shown on the consolidated statement of changes in equity.

| | Hedging reserve £'000 | Foreign exchange reserve £'000 | Treasury share reserve £'000 | Total £'000 |
|---|---|---|---|---|
| **Balance at 1 January 2018** | (274) | (322) | (17,492) | (18,088) |
| Currency translation differences | — | (6) | — | (6) |
| Cash flow hedge: fair value on termination | 337 | — | — | 337 |
| Cash flow hedge: deferred tax on termination | (63) | — | — | (63) |
| Purchase of treasury shares | — | — | (499) | (499) |
| Utilisation of treasury shares for DSBP options | — | — | 39 | 39 |
| **Balance at 30 June 2018** | **—** | **(328)** | **(17,952)** | **(18,280)** |
| **Balance at 1 January 2019** | — | (312) | (17,942) | (18,254) |
| Currency translation differences | — | (7) | — | (7) |
| Utilisation of treasury shares for DSBP options | — | — | 6 | 6 |
| **Balance at 30 June 2019** | **—** | **(319)** | **(17,936)** | **(18,255)** |

**23. Pensions**

During the period the Group have concluded the triennial review of the pension scheme assets and liabilities and the pension contributions have been agreed with the trustees at £2.0 million for the next three years and £1.3 million in 2023.

During the period the Group made a contribution of £2.0 million (30 June 2018: £2.0 million) into the defined benefit pension scheme. The significant actuarial assumptions used in the valuation of the Group's material defined benefit pension schemes as at 31 December 2018 have been reviewed. The discount and inflation rates used to value the pension liabilities, as well as the updated asset valuations and the net pension liabilities, have moved since 31 December 2018 and an actuarial loss before taxation of £0.9 million (30 June 2018: actuarial gain of £0.6 million) has been recognised in the consolidated statement of comprehensive income. The net pension liability stands at £3.8 million at 30 June 2019 (30 June 2018: £3.3 million).

## 24. Assets held for sale

On 26 June 2019, the Board resolved to dispose of one of the Group's operations. These operations, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and presented separately in the balance sheet. The operations do not meet the definition of a major line of business and therefore do not satisfy the criteria to be disclosed as discontinued operations. The proceeds of disposal are expected substantially to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale. The cumulative income recognised in other comprehensive income relating to the disposal group classified as held for sale is 10.4 million.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

| | **30 June 2019 £'000** |
|---|---|
| Goodwill | **5,345** |
| Other intangible assets | **79** |
| Property, plant and equipment | **77** |
| Right of use assets | **139** |
| Trade and other receivables | **1,994** |
| Tax assets | **89** |
| Cash and cash equivalents | **1,801** |
| Total assets classified as held for sale | **9,524** |
| | |
| Borrowings | **(1,000)** |
| Trade and other payables | **(1,603)** |
| Deferred income | **(45)** |
| Provisions | **(345)** |
| Lease liabilities | **(139)** |
| Total liabilities associated with assets classified as held for sale | **(3,132)** |
| Net assets of disposal group | **6,392** |

## 25. Related party transactions

***Transactions with key management personnel***

Key management compensation amounted to £1.8 million for the six months ended 30 June 2019 (30 June 2018: £2.2 million). See below for details:

| | **30 June 2019 £'000** | 30 June 2018 £'000 |
|---|---|---|
| Wages and salaries | **1,615** | 1,645 |
| Short term non-monetary benefits | **4** | 4 |
| Termination costs | **—** | 121 |
| Share-based payments | **131** | 449 |
| | **1,750** | 2,219 |

***Trading transactions***

| | | Transaction amount | | Balance (owing)/owed | |
|---|---|---|---|---|---|
| Related party relationship | Transaction type | **Six months ended 30 June 2019 £'000** | Six months ended 30 June 2018 £'000 | **30 June 2019 £'000** | 30 June 2018 £'000 |
| TM Group (UK) - Joint venture | Purchases by Group | **(1,299)** | (1,007) | **(274)** | (191) |
| TM Group (UK) – Joint venture | Rebate received/receivable | **112** | 127 | **33** | 31 |
| TM Group (UK) - Joint venture | Management services fee receivable | **750** | 2,250 | **2,231** | 2,250 |
| Vibrant Energy Matters –non-executive directorship held | Purchases by Group | **(397)** | (361) | **(160)** | 6 |
| The Buy to Let Group - subsidiary | Loan payable | **(81)** | (75) | **(2,074)** | (1,915) |
| Oaktree Capital Management | Director's fee paid | **(20)** | (20) | **(10)** | (10) |

These transactions are trading relationships which are made at market value. There is a loan payable within The Buy to Let Group Limited of £1,590,000 that is payable to the joint shareholder and director after February 2019, once performance thresholds have been met, with interest payable at 8% per annum. The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given during 2019 regarding related party transactions.

During the six month period ended 30 June 2019, the Group incurred £20,000 of directors’ fees from Oaktree Capital Management (30 June 2018: £20,000).

**26. Events after the reporting period**

During July 2019, the Company agreed an amended covenant package relating to the revolving credit facility with its lender partners which provides the Company with the financial flexibility to continue to execute the turnaround plan as explained in note 18.

## *Independent review report to Countrywide plc*

**Report on the condensed consolidated interim financial report**

### Our conclusion

We have reviewed Countrywide plc's condensed consolidated interim financial report (the "interim financial statements") in the interim results for the six months ended 30 June 2019 of Countrywide plc for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the condensed consolidated interim balance sheet as at 30 June 2019;
- the condensed consolidated interim income statement and condensed consolidated statement of other comprehensive income for the period then ended;
- the condensed consolidated interim cash flow statement for the period then ended;
- the condensed consolidated interim statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

**Responsibilities for the interim financial statements and the review**

### Our responsibilities and those of the directors

The interim results for the six months ended 30 June 2019, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim results for the six months ended 30 June 2019 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results for the six months ended 30 June 2019 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results for the six months ended 30 June 2019 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
31 July 2019

# Company information

**Contacts**

***Executive chairman***

Peter Long

***Chief financial officer***

Himanshu Raja

***Company secretary***

Gareth Williams

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**Registered office**

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***Registered in England***

08340090

**Corporate headquarters**

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MK7 8JT

**Registrar**

***Link Asset Services****

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

**Corporate advisors**

***Independent auditors***

PricewaterhouseCoopers LLP

***Bankers***

Royal Bank of Scotland plc
HSBC Bank plc
Abbey National Treasury Services plc
Barclays Bank Plc
AIB Group (UK) plc

***Brokers***

Jefferies Hoare Govett

Barclays Bank plc, acting through its investment bank

***Solicitors***

Slaughter and May

**Financial calendar**

| Full year results | March 2020 |
|---|---|

***Shareholder enquiries**

The Company's registrar is Link Asset Services. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them of your change of address or other personal information. There address details are above.

Link Asset Services is a trading name of Link Market Services Limited.

| | |
|---|---|
| Link shareholder helpline: | 0871 664 0300 (calls cost 12p per minute plus network extras)<br>(Overseas: +44 371 664 0300) |
| Email: | enquiries@linkgroup.co.uk |
| Share portal: | www.countrywide-shares.co.uk |

Shareholders are able to manage their shareholding online and facilities included electronic communications, account enquiries, amendment of address and dividend mandate instructions.