M Winkworth Plc

Interim Results for the six months ended 30 June 2018

M Winkworth Plc ("Winkworth" or the "Company") is pleased to announce its unaudited Interim Results for the six months ended 30 June 2018

Highlights for the period

- Revenues up 10.2% to £2.80 million (2017: £2.54 million)
- Profit before taxation up 10.4% to £596k (2017: £540k)
- Cash balance at 30 June 2018 of £3.16 million (30 June 2017: £3.00 million)
- Rental income increased to 49% of total revenues (2017: 45%)
- Four new offices opened
- Dividends of 3.7p declared and paid during the period (2017: 3.6p)

Dominic Agace, Chief Executive Officer of the Company, commented:

"We made solid progress in the first half of 2018, not only with revenue and profit ahead of last year but also with a sharp increase in new franchise applicants. We anticipate that the number of new franchised offices and resales to talented operators will continue to grow, building a compounding revenue stream for the group. After the successful completion of the return of capital, our financial position remains strong and we remain confident for the future."

For further information please contact:

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Chairman's Statement

I would like to borrow a sailing term to describe Winkworth's progress in 2018 - steady as we go, but I believe the wind is behind us. We remain confident in our model and the service we provide to our franchisees, enabling them to maintain or improve their market share.

In 2017 we welcomed seven new franchises to the network, with potentially more in 2018, giving us visibility on future growth. Usually these businesses take three years to mature, but some achieve this in two. In addition, we have upgraded five franchises through resales and this typically boosts each relaunched office's growth by over 20%.

Winkworth is a steady and reliable competitor. While our gross turnover may in the short term be affected when the market weakens, in my experience it rebounds quickly.

Our rentals sector continues to grow. We have avoided purchasing rental businesses to boost turnover, preferring to grow organically. Potential interest rate rises, changes in landlord taxation, loss of tenant fees, regulation – all these, to us, represent opportunities to grow, so why leverage the business now?

Following the return of capital we have reserved enough capital to take advantage of market opportunities and we continue to work to maintain and steadily increase our quarterly dividends. Since flotation, our dividend has increased from 4.3p in 2010 to 7.25p in 2017.

The residential property market is presenting some new challenges and, as a retired Chartered Surveyor who has practiced as a principal since 1967, I would like to share some thoughts on the industry.

Over this time, I have seen mortgage rationing and sky-high mortgages, booms, busts and slowdowns. Aggressive agencies have introduced new formats and now we are competing against various digital experiments. It is interesting to note that the UK remains a rarity in the Western world in that UK law does not require estate agents to be licensed to take instructions to rent or sell property.

My view is that when the market booms, newcomers make headway on the back of higher volumes, but when the market slows they lack the skill to make deals happen. The economies of scale work also against them as they can only reduce staff costs and not their major overheads of rent, council tax and advertising.

Elsewhere, much has been said about the dynamics of the first-time buyer. My long-held regret is that Mortgage interest relief at source ('MIRAS') was withdrawn in 2000. In my opinion, tax offset for first time buyers is a better and safer mechanism than the government's current equity scheme, which is based on new build, as it enables the younger buyer to enter the cheaper, second hand market or even renovate property. This would provide real first steps on the ladder, a system that succeeded in getting an earlier generation onto the property ladder.

The return of MIRAS for first time buyers would be a fairer way of subsidising home ownership than shared equity, which in a falling market risks creating negative equity, as, for example, was the case in the past in London's Docklands.

Simon Agace
Non-Executive Chairman
12 September 2018

CEO's Statement

Despite ongoing uncertainty surrounding the outcome of Brexit we produced a solid performance in H1 2018, with revenue and profit ahead of the same period last year, driven by central service initiatives and the continued strong performance of the lettings and management business. The local knowledge and experience of our franchisees has enabled them to adapt quickly to testing times and, as a result, we are pleased to see our metrics outperform peers of a similar geography. The strength of the network has also allowed us to continue to grow our new franchised offices in line with budget, with our target of 8 new franchises for the year looking positive. We continue to attract talented operators looking to take control of their earnings through active participation in our network.

A lacklustre sales market in H2 2017, following the snap election in the key selling months of the Spring, fed into a slow start to 2018 with pipelines lower than normal at the turn of the year. Activity rebuilt from January onwards, but we did not enjoy the early boost normally seen in the first few months of a new year and it took time for new deals arranged to feed through into exchanges and completions. Consequently, H1 2018 transactions were down by 6% on H1 2017, albeit above the market average.

Over the last twelve months we have seen price falls across London, following the trend set by central London which was impacted earlier by stamp duty increases and economic uncertainty. Prices in outer London have come off by some 8% over the last twelve months and around 12% since negative reactions to the Brexit vote compounded stamp duty changes. In the country, prices have remained static, the market being more domestically focussed and less affected by stamp duty changes, as well as affordability ratios looking more attractive.

Against this background, our sales commission rates increased in the UK overall as clients showed their willingness to pay for trusted expert advice to help them achieve their goals in uncertain markets, maintaining the dynamic seen in 2017.

We continue to push the growth of the rentals and management side of our business through centralised services such as the corporate relocation department, increased training, and the ongoing development and integration of the franchised networks' database. Rentals and management income rose by 6% overall, with country offices up 8% and London offices up 6%. Lettings now accounts for 29% of group revenues, up from 28% in 2017, and combined with property management income, now represents 49% of group revenues, up from 45% in H1 2017. Property management revenues continue to grow strongly, with a 13% increase on H1 2017, and now represent 40% of the total lettings and management revenue of the network, up from 37% in H1 2017.

In H1 2018 gross revenues of the franchised office network were 1% down at £21.3m (£21.4m) with sales down 8% at £10.8m (£11.7m), lettings up 3% at £6.2m (£6m) and property management up 13% to £4.1m (3.7m).

Winkworth's total revenues rose by 10% to £2.80m (£2.54m) and profit before taxation was also up by 10% to £596k (£540k). The cash balance as at 30 June was £3.16m (£3.00m) and the company remains debt free. An increased dividend of 3.7p (3.6p) was declared and paid and an extra capital repayment, of £1.15 million, was delivered in July/August 2018. Trade receivables at £2.56m, whilst up from their level at the end of 2017 (£1.62m), were broadly in line with the equivalent period in 2017 (£2.44m) reflecting the seasonal nature of the billings and collections.

With the sales market continuing to remain testing under the ebb and flow of Brexit negotiations, the opportunity for acquiring the best talent in the industry remains. We have continued to invest in attracting these candidates, who in many cases are looking to take control of their earnings rather than see their pay reduced to sustain the overheads of the less profitable parts of the business they work for. They can achieve this by either opening a new Winkworth office or looking to acquire an existing one where they see their energy and talent can take the business to a new level. This, alongside lettings businesses looking to add sales revenues to offset the loss of tenancy administration fees, continues to drive our new franchise applicants.

To-date we have opened four new offices compared to three this time last year, and our new franchising applicants have increased by 135% from 57 in H1 2017 to 134 in H1 2018. This momentum will feed through to the remainder of the year and beyond, with four further new franchises planned for 2018 and a building pipeline of office openings for 2019.

Outlook

Whilst we expect income from sales to increase due to the seasonal nature of the business, activity is likely to be subdued so long as uncertainty surrounding Brexit remains and the additional stamp duty taxation measures introduced in 2014 continue to impact on prices in the £1m plus property market. We do not, however, expect transaction volumes to fall further. Where prices have been reduced we are noting improved sales activity as customers take advantage of the closing price differential between flats and houses to move up the property ladder.

In the rental market we continue to see record numbers of applicants registering. With many holding off purchasing and a reduction in buy-to-let investors registering, we expect to see activity continuing to grow and prices starting to move upwards.

We expect the second half of the year to show an improvement on the first as further new franchises open and sales agreed in the Spring market complete. The rentals and management business is expected to benefit from the important lettings months of August and September. Based on our first half performance and recent trading, we expect full year results to be in line with management expectations.

We anticipate that the number of new franchised offices and resales to new, talented operators will continue to grow, building a compounding revenue stream for the group. Combined with an increasing number of quality applicants looking to join Winkworth and the company's strong financial position, the outlook remains positive.

Dominic Agace
Chief Executive Officer
12 September 2018

M WINKWORTH PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period 1 January 2018 to 30 June 2018

		(Unaudited) Period 1.1.18 To 30.6.18 £000's	(Unaudited) Period 1.1.17 To 30.6.17 £000's	(Audited) Year ended 31.12.17 £000's
CONTINUING OPERATIONS				
Revenue		2,798	2,544	5,423
Cost of sales		(811)	(661)	(1,292)
GROSS PROFIT		1,987	1,883	4,131
Administrative expenses		(1,436)	(1,376)	(2,829)
OPERATING PROFIT		551	507	1,302
Finance costs		-	-	-
Finance income		45	33	74
PROFIT BEFORE TAXATION		596	540	1,376
Taxation		(117)	(99)	(273)
PROFIT FOR THE PERIOD		479	441	1,103
OTHER COMPREHENSIVE INCOME		-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		479	441	1,103
Earnings per share expressed in pence per share:	3			
Basic		3.76	3.46	8.66
Diluted		3.74	3.29	8.66

M WINKWORTH PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2018

	Notes	(Unaudited) 30.06.2018 £000's	(Unaudited) 30.06.2017 £000's	(Audited) 31.12.2017 £000's
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	4	696	734	796
Property, plant and equipment		81	99	98
Investments		7	7	7
Trade and other receivables		887	619	516
		1,671	1,459	1,417
CURRENT ASSETS				
Trade and other receivables		1,673	1,820	1,102
Tax receivable		-	212	208
Cash and cash equivalents		3,156	3,005	3,579
		4,829	5,037	4,889
TOTAL ASSETS		6,500	6,496	6,306
EQUITY				
SHAREHOLDERS' EQUITY				
Share capital		64	64	64
Share premium		1,793	1,793	1,793
Share option reserve		51	51	51
Retained earnings		3,750	3,539	3,742
TOTAL EQUITY		5,658	5,447	5,650
LIABILITIES				
NON-CURRENT LIABILITIES				
Deferred tax		8	7	11
CURRENT LIABILITIES				
Trade and other payables		644	1,042	645
Tax payable		190	-	-
		834	1,042	645
TOTAL LIABILITIES		842	1,049	656
TOTAL EQUITY AND LIABILITIES		6,500	6,496	6,306

M WINKWORTH PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period 1 January 2018 to 30 June 2018

	Share capital £000's	Retained earnings £000's	Share option reserve £000's	Share premium £000's	Shareholders' equity £000's
Balance at 1 January 2017	64	3,556	51	1,793	5,464
Total comprehensive income	-	441	-	-	441
Dividends paid	-	(458)	-	-	(458)
Balance at 30 June 2017	64	3,539	51	1,793	5,447
Total comprehensive income	-	662	-	-	662
Dividends paid	-	(459)	-	-	(459)
Balance at 31 December 2017	64	3,742	51	1,793	5,650
Total comprehensive income	-	479	-	-	479
Dividends paid	-	(471)	-	-	(471)
Balance at 30 June 2018	64	3,750	51	1,793	5,658

M WINKWORTH PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the period 1 January 2018 to 30 June 2018

	Notes	(Unaudited) Period 1.1.18 To 30.6.18 £000's	(Unaudited) Period 1.1.17 To 30.6.17 £000's	(Audited) Year ended 31.12.17 £000's
Cash flows from operating activities				
Cash generated from operations	i	(259)	766	2,115
Tax paid		278	(250)	(417)
Net cash from operating activities		19	516	1,698
Cash flows from investing activities				
Purchase of intangible fixed assets		(12)	(54)	(224)
Purchase of tangible fixed assets		(4)	(3)	(23)
Interest received		45	33	74
Net cash used in investing activities		29	(24)	(173)
Cash flows from financing activities				
Equity dividends paid		(471)	(458)	(917)
Net cash used in financing activities		(471)	(458)	(917)
Increase/(decrease) in cash and cash equivalents		(423)	34	608
Cash and cash equivalents at beginning of period		3,579	2,971	2,971
Cash and cash equivalents at end of period	ii	3,156	3,005	3,579

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS
for the period 1 January 2018 to 30 June 2018

i. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	(Unaudited) Period 1.1.18 To 30.6.18 £000's	(Unaudited) Period 1.1.17 To 30.6.17 £000's	(Audited) Year ended 31.12.17 £000's
Profit before taxation	596	540	1,376
Depreciation and amortisation	133	117	246
Finance income	(45)	(33)	(74)
	684	624	1,548
(Increase) in trade and other receivables	(941)	(376)	446
Increase/(decrease) in trade and other payables	(2)	518	121
Cash generated from operations	(259)	766	2,115

ii. CASH AND CASH EQUIVALENTS

The amounts disclosed in the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	30.6.18 £000's	30.6.17 £000's	31.12.17 £000's
Cash and cash equivalents	3,156	3,005	3,579

NOTES TO THE CONSOLIDATED INTERIM RESULTS
for the period 1 January 2018 to 30 June 2018

1. ACCOUNTING POLICIES

Basis of preparation

The interim report for the six months ended 30 June 2018 and the comparative information for the periods ended 30 June 2017 and 31 December 2017 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the most recent statutory accounts for the year ended 31 December 2017 has been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The financial information for the six months ended 30 June 2018 and 30 June 2017 is unaudited. The financial information for the year ended 31 December 2017 is derived from the group's audited annual report and accounts.

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

The accounting policies and methods of computation used in this financial information is consistent with those applied in the group's latest annual audited financial statements, except as noted below. The directors do not anticipate that any new standards, applicable to the year ending 31 December 2018, will have an impact on the results of the group.

Taxation

Income tax expense has been recognised based on the best estimate of the weighted average annual effective income tax rate expected for the full financial year.

Deferred tax is recognised in respect of all material temporary differences that have originated but not reversed at the balance sheet date.

2. SEGMENTAL REPORTING

The directors believe that the group has only one segment, that of a franchising business. Currently, these operations principally occur in the UK, with only limited business in other territories. Accordingly no segmental analysis is considered necessary.

NOTES TO THE CONSOLIDATED INTERIM RESULTS
for the period 1 January 2018 to 30 June 2018

3. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

	Earnings £000's	Weighted average number of shares	Per-share amount pence
Period ended 30.06.18			
Basic EPS			
Earnings/number of shares	479	12,733	3.76
Effect of dilutive securities	-	87	-
Diluted EPS			
Adjusted earnings/number of shares	479	12,820	3.74
Period ended 30.06.17			
Basic EPS			
Earnings/number of shares	441	12,733	3.46
Effect of dilutive securities	-	659	-
Diluted EPS			
Adjusted earnings/number of shares	441	13,392	3.29
Year ended 31.12.17			
Basic EPS			
Earnings/number of shares	1,103	12,733	8.66
Effect of dilutive securities	-	-	-
Diluted EPS			
Adjusted earnings/number of shares	1,103	12,733	8.66

NOTES TO THE CONSOLIDATED INTERIM RESULTS
for the period 1 January 2018 to 30 June 2018

4. INTANGIBLE ASSETS

	£000's
Net book value at 1 January 2017	777
Additions	54
Amortisation	(97)
Net book value at 30 June 2017	734
Additions	170
Disposals	(180)
Amortisation	72
Net book value at 31 December 2017	796
Additions	12
Amortisation	(112)
Net book value at 30 June 2018	696

5. POST BALANCE SHEET EVENTS

Following approval by shareholders through the passing of a special resolution on 9 July 2018 and the approval of the Court on 24 July 2018, the Company's share premium account of £1.793m was cancelled, and an amount of £1.146m was returned to qualifying shareholders as a capital payment and the balance of £578k, being the remainder of the share premium account less the costs relating to the capital reduction, was credited to distributable profits."

6. INTERIM RESULTS

Copies of this notice are available to the public from the registered office at 1 Lumley Street, London, W1K 6TT, and on the Company's website at www.winkworthplc.com