

M Winkworth Plc

Interim Results for the six months ended 30 June 2019

M Winkworth Plc (“Winkworth” or the “Company”) is pleased to announce its unaudited Interim Results for the six months ended 30 June 2019

Highlights for the period

- Revenues down 2.5% to £2.73 million (H1 2018: £2.80 million)
- Profit before taxation down 1.0% to £588k (H1 2018: £594k)
- Cash balance at 30 June 2019 of £2.51 million – after returning £1.15m to shareholders in August 2018 (30 June 2018: £3.16 million)
- Rental income increased to 53% of total revenues (H1 2018: 49%)
- Three new offices signed up
- Dividends of 3.8p declared and paid during the period (H1 2018: 3.7p)

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

“While the sales market continues to be undermined by political and economic uncertainty, our ship remains steady and we look forward to an eventual revival in activity. In the meantime, I am delighted by the ongoing growth in our lettings and management business as our franchisees have worked tirelessly to build this side of the business. We are confident of our proposition and very pleased to see continuing high numbers of potential new franchisees applying to join the group.”

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Chairman's Statement

I am pleased to say that our business held up well in the first half of 2019, during which the team continued to grow the rentals and management side of the business. Sales volumes are historically low and the rentals business, while attractive as a counterbalance, is not, however, as profitable as sales. Our policy, therefore, is not to invest heavily in buying rental businesses but to prepare for an upturn in sales volumes which should increase our profitability in the future.

Among Winkworth's key strengths are its franchisees' individual skills, which are paramount to concluding transactions, be these sales, purchases or rentals. Within sales in particular, we believe that these personal skills will enable us to maximise any increase in volumes.

Despite the uncertain times, we are confident that we will be able to continue to distribute dividends at the current level and hopeful that even a modest upturn in the marketplace will lead to positive news on that front. We are satisfied that with our substantial cash reserves, no debt or significant financial obligations, our company will continue to perform well.

Meanwhile, we welcome the regulation and registration of estate agency staff. We believe this will certainly be of benefit to Winkworth.

Simon Agace

Non-Executive Chairman

11 September 2019

CEO's Statement

Following a weak market towards the latter part of 2018 and a slow start to the current year as buyers awaited the delivery of the March Brexit deadline, we enjoyed a pick-up in sales activity following its postponement. This highlights that the will remains, particularly in the family house market, for people to get on with their lives in an environment where lower property prices have offset some of the stamp duty burden and both mortgage rates and employment remain positive for buyers. This has been reflected in our sales applicants being 9% ahead of 2018 in the year-to-date.

Prices in the first half were broadly flat, supported by the low levels of property coming onto the market and the price falls of previous years. The shortage of sellers coming to the market in London, however, impacted on transactions, and as a result our London sales income fell by 15%. This was to an extent counter-balanced by a 15% rise in revenues in the country markets which, typically, have a greater domestic focus and where reduced prices encouraged activity. Commission rates of offices were on average little changed.

The rentals and management side of our business has continued to perform strongly following initiatives taken over the last five years to grow this activity, and in the year-to-date we have experienced an increase of 32% in lettings applicants registering versus the same period in 2018. The recent tax changes in the buy-to-let sector have contributed to a significant reduction in the number of new landlords entering the sector and, therefore, we believe that our growth ahead of that of our peers has been driven by market share gains.

In H1 2019, gross revenues of the franchised office network of £21.4m were 1% ahead on H1 2018 (£21.3m). Sales income fell by 8% to £10.0m (H1 2018: £10.9m) but lettings and management rose by 10% to £11.4m (H1 2018: £10.3m), equating to a 53% lettings and management / 47% sales income split across the business at the half year, resulting in rentals outweighing sales for the first time. As well as a strong performance in the lettings and management business, it is worth noting that we saw good growth in the country markets, with rentals income up by 16% and sales income up 15%. Central London, where revenues are most sensitive to political uncertainty, was the most affected by Brexit turmoil, with income down by 10% on H1 2018. Since May, this market has picked up and sentiment improved.

Winkworth's revenues declined by 2.5% to £2.73m (H1 2018: £2.80m) and profit before taxation decreased by 1.0% to £588k (H1 2018: £594k). The Group's cash balance as at 30 June 2019 was £2.51m (30 June 2018: £3.16m prior to the return of £1.15m to shareholders in August 2018) and dividends of 3.8p were declared for the first half of the year (2018: 3.7p).

We have signed three new franchises so far this year, and have opened two, in Leigh on Sea and Southwold. We have a further two offices likely to open in H2 of this year. We continue to experience strong interest in new franchises, with applicants slightly down at 121 in H1 2019 versus 134 in H1 2018 but still significantly up on H1 2016 (49) and H1 2017 (57). A reflection of the interest in our proposition is the increase of over 50% that we have seen in web traffic to our franchising site, which we hope will feed through to increased applications in a more certain environment.

Outlook

While there are a number of macro factors that can still affect market conditions in the coming months, we will continue to invest in our business and pay dividends while positioning ourselves to take advantage of any upturn once Brexit uncertainty clears.

Since the tenant fee ban came into force in June this year, early indications are that as our offices' charges have been lower than our peers', and given the relatively small revenue that we derive from this source in the context of our total lettings and management revenues, we will see a limited impact and anticipate that our lettings revenues will continue to grow year-on-year. We do, however, envisage that with more landlords having to bear these costs, combined with the ongoing impact of changes to tax relief and increased stamp duty, there will be further contraction in the buy-to-let sector. Landlords will de-leverage in order to offset these factors and boost yields, which with increased applicants and less available stock is likely to lead to rising rents over the course of the year.

In the sales market we see prices underpinned by low interest rates and high employment and anticipate that these will stabilise at their new level. While uncertainty remains, we expect to see an uptick in activity as buyers seize the opportunity to take their next step on the property ladder.

From an operational point of view, we look to continue to both evolve our digital offering through new services and to bring a new generation of talent on board. We see an opportunity to attract franchisee managers into the business as constrained earnings at some competitors enhance the attraction of equity ownership.

Where we have done this to date, we have seen significant uplifts in the performance of offices and we are taking full advantage of the earnings opportunities in some of the key areas we cover, while also enhancing our brand. We look forward to welcoming more new managers on board over the coming months and to supporting some of the best talent in the industry through company loans or, in very selective cases, equity participation.

We continue to see significant levels of franchisee applicants and the quality of these is improving. It was interesting to note there was a significant uptick in applicants in the period post the delay to Brexit in March and we anticipate seeing an acceleration in conversions to new franchises once the broader economic and political outlook becomes clearer.

Dominic Agace
Chief Executive Officer
11 September 2019

About Winkworth

Established in Mayfair in 1835, Winkworth is a leading franchisor of residential real estate agencies with a pre-eminent position in the mid to upper segments of the sales and lettings markets. The franchise model allows entrepreneurial real estate professionals to provide the highest standards of service under the banner of a well-respected brand name and to benefit from the support and promotion that Winkworth offers.

Winkworth is admitted to trading on the AIM Market of the London Stock Exchange.

For further information please visit: www.winkworthplc.com

M WINKWORTH PLC

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period 1 January 2019 to 30 June 2019**

	(Unaudited) Period 1.1.19 To 30.6.19 £000's	(Unaudited) Period 1.1.18 To 30.6.18 as restated £000's	(Audited) Year ended 31.12.18 as restated £000's
CONTINUING OPERATIONS			
Revenue	2,727	2,798	5,979
Cost of sales	<u>(668)</u>	<u>(811)</u>	<u>(1,547)</u>
GROSS PROFIT	2,059	1,987	4,432
Administrative expenses	<u>(1,483)</u>	<u>(1,412)</u>	<u>(3,015)</u>
OPERATING PROFIT	576	575	1,417
Finance costs	(20)	(26)	(50)
Finance income	<u>32</u>	<u>45</u>	<u>83</u>
PROFIT BEFORE TAXATION	588	594	1,450
Taxation	<u>(114)</u>	<u>(117)</u>	<u>(288)</u>
PROFIT FOR THE PERIOD	474	477	1,162
OTHER COMPREHENSIVE INCOME	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	474	477	1,162
Prior year adjustment	<u>(19)</u>	<u>(19)</u>	<u>(19)</u>
TOTAL COMPREHENSIVE INCOME SINCE LAST ANNUAL REPORT	<u><u>455</u></u>	<u><u>458</u></u>	<u><u>1,143</u></u>
Earnings per share expressed in pence per share:			
3 Basic	3.72	3.75	9.13
Diluted	<u>3.72</u>	<u>3.75</u>	<u>9.13</u>

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2019

	Notes	(Unaudited) 30.06.2019 £000's	(Unaudited) 30.06.2018 as restated £000's	(Audited) 31.12.2018 as restated £000's
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	4	638	696	674
Property, plant and equipment		797	1,018	940
Investments		57	7	53
Trade and other receivables		655	887	725
		<u>2,147</u>	<u>2,608</u>	<u>2,392</u>
CURRENT ASSETS				
Trade and other receivables		1,641	1,673	1,026
Tax receivable		-	-	-
Cash and cash equivalents		2,513	3,156	2,935
		<u>4,154</u>	<u>4,829</u>	<u>3,961</u>
TOTAL ASSETS		<u>6,301</u>	<u>7,437</u>	<u>6,353</u>
EQUITY				
SHAREHOLDERS' EQUITY				
Share capital		64	64	64
Share premium		-	1,793	-
Share option reserve		51	51	51
Retained earnings		4,519	3,729	4,529
		<u>4,634</u>	<u>5,637</u>	<u>4,644</u>
TOTAL EQUITY		<u>4,634</u>	<u>5,637</u>	<u>4,644</u>
LIABILITIES				
NON-CURRENT LIABILITIES				
Deferred tax		14	8	17
CURRENT LIABILITIES				
Trade and other payables		810	644	724
Contract liabilities		716	958	839
Tax payable		127	190	129
		<u>1,653</u>	<u>1,792</u>	<u>1,692</u>
TOTAL LIABILITIES		<u>1,667</u>	<u>1,800</u>	<u>1,709</u>
TOTAL EQUITY AND LIABILITIES		<u>6,301</u>	<u>7,437</u>	<u>6,353</u>

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period 1 January 2019 to 30 June 2019

	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 2018	64	3,742	51	1,793	5,650
Prior year adjustment	-	(19)	-	-	(19)
As restated	64	3,723	51	1,793	5,631
Total comprehensive income	-	477	-	-	477
Dividends paid	-	(471)	-	-	(471)
Balance at 30 June 2018	64	3,729	51	1,793	5,637
Capital reduction	-	-	-	(1,146)	(1,146)
Capital reduction expenses	-	(61)	-	-	(61)
Transfer of excess share premium	-	647	-	(647)	-
Total comprehensive income	-	685	-	-	685
Dividends paid	-	(471)	-	-	(471)
Balance at 31 December 2018	64	4,529	51	-	4,644
Total comprehensive income	-	474	-	-	474
Dividends paid	-	(484)	-	-	(484)
Balance at 30 June 2019	64	4,519	51	-	4,634

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CONSOLIDATED STATEMENT OF CASH FLOWS
for the period 1 January 2019 to 30 June 2019

		(Unaudited) Period 1.1.19 To 30.6.19 £000's	(Unaudited) Period 1.1.18 To 30.6.18 as restated £000's	(Audited) Year ended 31.12.18 as restated £000's
	Notes			
Cash flows from operating activities				
Cash generated from operations	i	243	(233)	1,662
Interest paid		(20)	(26)	(50)
Tax paid		(120)	278	56
Net cash from operating activities		103	19	1,668
Cash flows from investing activities				
Purchase of intangible fixed assets		(69)	(12)	(119)
Purchase of tangible fixed assets		(4)	(4)	(70)
Purchase of fixed asset investments		-	-	(78)
Sale of intangible fixed assets		-	-	21
Interest received		32	45	83
Net cash used in investing activities		(41)	29	(163)
Cash flows from financing activities				
Equity dividends paid		(484)	(471)	(942)
Capital reduction				(1,146)
Costs relating to capital reduction				(61)
Net cash used in financing activities		(484)	(471)	(2,149)
Increase/(decrease) in cash and cash equivalents		(422)	(423)	(644)
Cash and cash equivalents at beginning of period		2,935	3,579	3,579
Cash and cash equivalents at end of period	ii	2,513	3,156	2,935

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**NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS
for the period 1 January 2019 to 30 June 2019**

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

	(Unaudited) Period 1.1.19 To 30.6.19 £000's	(Unaudited) Period 1.1.18 To 30.6.18 as restated £000's	(Audited) Year ended 31.12.18 as restated £000's
Profit before taxation	588	594	1,450
Depreciation and amortisation	252	252	508
Profit on disposal of fixed assets	-	-	(3)
(Reversal of) Impairment of fixed asset investments	(4)	-	32
Finance costs	20	26	50
Finance income	(32)	(45)	(83)
	<hr/>	<hr/>	<hr/>
	824	827	1,954
(Increase) in trade and other receivables	(546)	(941)	(133)
Increase/(decrease) in trade and other payables	88	(2)	77
Increase/(decrease) in contract liabilities	(123)	(117)	(236)
	<hr/>	<hr/>	<hr/>
Cash generated from operations	<u>243</u>	<u>(233)</u>	<u>1,662</u>

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:

	30.6.19 £000's	30.6.18 £000's	31.12.18 £000's
Cash and cash equivalents	<u>2,513</u>	<u>3,156</u>	<u>2,935</u>

M WINKWORTH PLC**NOTES TO THE CONSOLIDATED INTERIM RESULTS
for the period 1 January 2019 to 30 June 2019****1. ACCOUNTING POLICIES****Basis of preparation**

The interim report for the six months ended 30 June 2019 and the comparative information for the periods ended 30 June 2018 and 31 December 2018 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 2018 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 2019 and 30 June 2018 is unaudited. The financial information for the year ended 31 December 2018 is derived from the group's audited annual report and accounts subject to adjustment in respect of the application of IFRS 16, as set out in note 5.

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.

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.

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NOTES TO THE CONSOLIDATED INTERIM RESULTS
for the period 1 January 2019 to 30 June 2019
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 30.06.19			
Basic EPS			
Earnings/number of shares	474	12,733	3.72
Effect of dilutive securities	-	-	-
Diluted EPS			
Adjusted earnings/number of shares	474	12,733	3.72
Period ended 30.06.18			
Basic EPS			
Earnings/number of shares	477	12,733	3.75
Effect of dilutive securities	-	-	-
Diluted EPS			
Adjusted earnings/number of shares	477	12,733	3.75
Year ended 31.12.18			
Basic EPS			
Earnings/number of shares	1,162	12,733	9.13
Effect of dilutive securities	-	-	-
Diluted EPS			
Adjusted earnings/number of shares	1,162	12,733	9.13

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NOTES TO THE CONSOLIDATED INTERIM RESULTS
for the period 1 January 2019 to 30 June 2019

4. INTANGIBLE ASSETS

	£000's
Net book value at 1 January 2018	796
Additions	12
Amortisation	<u>(112)</u>
Net book value at 30 June 2018	<u>696</u>
Additions	107
Disposals	(30)
Amortisation	(112)
Eliminated on disposal	<u>13</u>
Net book value at 31 December 2018	<u>674</u>
Additions	69
Amortisation	<u>(105)</u>
Net book value at 30 June 2019	<u><u>638</u></u>

5. LEASES

	Note	31/12/2018 £'000	30/06/2018 £'000
Profit for the year (as previously stated)		1,164	479
Depreciation charge	i	(238)	(119)
Interest charge	i	(50)	(26)
Rent payable	i	<u>286</u>	<u>143</u>
Profit for the year (as restated)		<u>1,162</u>	<u>477</u>

i. IFRS 16: Leases

Under IAS 17 Leases, the company was not required to recognise off-balance operating leases as tangible assets.

Under IFRS 16 Leases, there is a requirement to recognise a value in use asset. Therefore, an asset of £1,056k was recognised on transition with a corresponding balance in Contract liabilities of £1,075k, giving rise to a prior year adjustment charge of £19k. The rent payable in the year to 31 December 2018 of £286k was offset against Contract liabilities and depreciation of £238k and interest of £50k were charged to the income statement.

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**NOTES TO THE CONSOLIDATED INTERIM RESULTS
for the period 1 January 2019 to 30 June 2019**

5. TRANSITION TO IFRS 16: LEASES - continued

The change was made in accordance with the transitional provision that allows a company to measure lease assets at an amount based on the lease liability, rather than as if IFRS 16 had always been applied. In line with this the discount rate used was at the date of transition.

6. POST BALANCE SHEET EVENTS

On 1 July 2019, Winkworth Franchising Limited acquired 55% of Tooting Estates Limited, which operates the Winkworth franchise in the Tooting area, for £22,500. The consideration of £22,500, was paid in cash. In addition, Winkworth Franchising Limited advanced a further £92,500 of loans to Tooting Estates Limited repayable over 5 years at a rate of 5%.

As well as the financial impact, the acquisition of Tooting Estates Limited as a subsidiary, will keep Winkworth in touch with and learning from front end experiences and industry trends. It will also provide a live platform to test and develop future digital initiatives and evolve our centralised CRM systems which will be of benefit to all our franchisees.

7. 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