Winkworth

M Winkworth Plc

Audited final results for the year to 31 December 2020

M Winkworth plc ("Winkworth" or the "Company"), the leading franchisor of real estate agencies, is pleased to announce its results for the year ended 31 December 2020.

Highlights for the year

- Franchised office network revenue of £47.7 million (2019: £48.3 million)
- Revenues of £6.41 million (2019: £6.42 million)
- Profit before taxation £1.53 million (2019: £1.63 million)
- Year-end cash balance of £4.66 million (2019: £3.57 million)
- Rental income 50% of total revenues (2019: 51%)
- Two new franchises opened
- Dividends of 6.68p declared (2019: 7.8p)

Dominic Agace, CEO of the Company, commented: "Our business model was tested by extreme conditions in 2020 and proven to be very robust. The benefits of local expertise, highly motivated managers and a state-of-the-art digital platform meant that we were quick to emerge from lockdown and improve our market share. While challenges remain, we expect to see an increase in activity in 2021 and we are well positioned to further grow our network and respond to the evolving needs of our customers."

For further information please contact:

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About Winkworth

Winkworth is the leading London 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 long-established 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

Chairman's Statement

We have delivered a positive set of results for 2020, especially in view of the shutdown of sales in the second quarter of the year. Management and lettings activity held up well and was carefully managed throughout the lockdown. Clearly, the close relationship between the local office teams and their clients and tenants has been an important factor and maintaining the revenue from this business line reflects well on our systems and training.

During both the first and second lockdowns, the benefit of our outlets being in key locations was once again proven. Our local experience meant that we were able to perform valuations remotely and it was noticeable that, on the lifting of lockdown, our clients were delighted to meet us in a controlled environment. We believe that this relationship helped to power our recovery, which confirms our confidence in Winkworth's high street presence. It is not our intention to develop remote working - this pandemic has demonstrated that our business is reliant on teamwork and good communications.

In recent months we have seen some reduction in interest in lettings and, in particular, there has been lower demand in central London, especially in the foreign student market. As families re-plan their lives, however, the market has swung back towards sales. This has been driven by buyers seeking extra room for workspace and gardens, while still maintaining access to central London. Our country offices have experienced an influx of new buyers, while in the suburbs we have been inundated with buyers seeking additional or outside space. We expect this trend to continue.

We acted with caution during the first lockdown but progressed with the projects in hand such as the improvements to our knowledge and regulation hub, which we use to deliver our support services and training to our franchisees, and further upgrades to our website. We will be adding new franchises in 2021 and will continue to use the Company's substantial resources to attract and back entrepreneurial estate agents in key growth areas of Southern England, acting opportunistically as opportunities arise.

Winkworth ended the year with no debt and a healthy cash balance of £4.66m after paying dividends for 2020 of 6.68p per share. The reduction in quarterly payments on the previous year reflected restraint in the face of the unpredictable fluctuations in trading due to lockdowns. Our offices have now been open since mid-May of last year and, after a rebound in sales activity in the second half, we have experienced strong momentum going into the first quarter of this year. Having repaid the furlough money received from the government for franchisor staff, the board remains committed to paying a quarterly dividend and restoring its progressive dividend policy.

Simon Agace
Non-Executive Chairman
7 April 2021

CEO's Statement

After the dramatic shutdown of the property market in March last year, following the first lockdown when all non-essential sales were suspended, the property market bounced back strongly once trading resumed.

The pandemic brought a new set of buyers to the market, driven by a desire to change their living conditions after several months of working from home. It effectively brought forward moves that may well have been up to five years away, as people pushed for more space in suburban London or moved to the country.

This new influence, boosted by a stamp duty holiday, led to a surge in sales in the second half of the year, creating a logjam in conveyancing and extending transaction times considerably as the system struggled to cope with demand. All our markets benefitted from this with the exception of central London, where a lack of international travel and the repatriation of much of the international community limited demand in sales.

We further improved our strong position in the marketplace and ranked 2nd in London with a market share of 4.53%, having increased our share of SSTC properties in 2020 by 0.35%[1]. From a national perspective the results were also good as we saw our market share of SSTC properties increasing, climbing by another place in the UK rankings to 11th in 2020.

The rentals and management side of the business was little affected in the first half of the year, with lettings income proving resilient as many tenants stayed put and renewals business increased. Over the course of the second half of the year our London rentals saw some weakness, but country rentals progressed well. Once again, our management fees continued to grow as landlords chose our management service to guide them through a rapidly changing regulatory environment, growing by 6% and accounting for 21% of group revenue (2019: 20%).

In central London, the pandemic had a more immediate impact on rentals demand due not only to a lack of international travel, but also to students and young professionals returning to family homes in the country. Whereas our outer London rentals revenues were broadly unchanged on 2019, central London rents declined by up to 20% in certain areas in 2020 and our overall London revenues fell by 4%. Our country rental income, however, grew by 12%.

In 2020, gross revenues of the franchised network of £47.7m were broadly flat year-on-year (2019: £48.3m). Sales income was unchanged at £23.8m (2019: £23.8m) while Lettings and Management fell by 2% to £23.9m (2019: £24.4m), producing an equal revenue split between these two activities compared to a ratio of 45% Sales and 55% Lettings and Management at the end of H1.

Winkworth's revenues were flat at £6.41m (2019: £6.42m) and profit before taxation was 6% lower at £1.53m (2019: £1.63m). The Group's cash position at year end increased to £4.66m (2019: £3.57m). Dividends of 6.68p were declared for the year (2019: 7.8p).

Despite the challenging market conditions, we were able to open two new franchises in Long Melford and Bagshot, with a new office in Hellesdon falling into 2021. We have several further offices scheduled to open in 2021 and maintain our target of opening five new offices per year.

Tooting, in which we made an investment in 2019, continued to show promising growth, with revenues up by 17%. Having started the year ranking second in the area by market share of sales agreed, it ended it ranking consistently as the leading agent. Tooting is now the 13th largest office in the Winkworth network by gross revenue.

As we pursue the strategy of backing talented operators, and where appropriate taking an equity position to deliver more than the 8% franchise return, in 2020 we took a second step by investing in the Crystal Palace office. Having mapped target markets and identified individuals who we believe can make a significant contribution to our business, we have further developments in the pipeline. We will incentivize these individuals with the prospect of earning equity in the office or offices that they manage.

Last year saw a resurgence of merger and acquisition activity in the sector and some consolidation amongst our peers. We believe that this will provide us with an opportunity to attract new franchisees and managers looking for an opportunity to strike out on their own. The strength of our brand, our ongoing investment in the digital platform, our compliance solutions, and the support that we provide from our central office are all powerful selling points for dynamic entrepreneurs.

Outlook

Sparked by the stamp duty holiday on purchases up to £500,000, demand has remained strong throughout the recent lockdown and there is a considerable backlog of transactions to be cleared. The government has signaled its intention to continue to support homeownership, extending the existing stamp duty holiday until June and on purchases up to £250,000 until September, as well as committing to help first time buyers by providing guarantee support on 95% mortgages.

With a successful vaccination campaign making great progress, and as travel and nonessential shops and hospitality open again, we expect the residential sales market to continue to show healthy momentum. After several years in the doldrums due to Brexit uncertainty, and backed by a proactively supportive government, the prospects look positive, albeit that affordability constraints in London will limit price growth.

We expect the appeal of owning property in central London to return. With prices having come off some 15% since 2014, and with Brexit and its initial uncertainty now behind us, we would expect central London to regain its safe haven status and attract significant investment once international travel resumes.

As cities re-open in 2021, we would also expect rentals demand to recover as young professionals return to city living and the re-opening of borders brings back international students, reversing some of the price declines seen in 2020. Supply may be limited by landlords selling down their portfolios after the difficulties of the last 12 months and as the stricter legislative requirements to which they are now required to adhere to discourage marginal participants. While these elements should help activity and rental prices to recover, it may take several years for urban rents to surpass 2019 levels.

Growth in rental prices in the country may slow as demand eases slightly and the support for 95% LTV mortgages from the government encourages tenants into the sales market, but we believe that activity will hold up well, albeit with more measured price growth of around 3%.

In the first quarter we have seen a strong uptick in sales agreed and a very encouraging increase in applications for both sales and rentals. We anticipate an increase in transactions this year and Winkworth is set to benefit from this, as a more active market encourages agents to set up and manage their own agency. Franchising under a top-quality name is the safest and quickest way to do this. We also see the opportunity to accelerate our growth by financially supporting talented agents and increasing our market share in high potential areas, thus enhancing our returns.

[1] *Source: TwentyCI*

Dominic Agace
Chief Executive Officer
7 April 2021

Winkworth

M WINKWORTH PLC
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
CONTINUING OPERATIONS			
Revenue		6,406	6,416
Cost of sales		(1,137)	(1,320)
GROSS PROFIT		5,269	5,096
Other operating income		48	-
Administrative expenses		(3,921)	(3,561)
Negative goodwill		119	68
OPERATING PROFIT		1,515	1,603
Finance costs		(22)	(29)
Finance income		39	54
PROFIT BEFORE TAXATION		1,532	1,628
Tax	4	(295)	(320)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,237	1,308
Profit and total comprehensive income attributable to:			
Owners of the parent		1,169	1,285
Non-controlling interests		68	23
		1,237	1,308

	Notes	2020	2019
Earnings per share expressed in pence per share:	6	£	£
Basic		9.18	10.09
Diluted		9.14	10.06

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M WINKWORTH PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2020

	Notes	2020 £'000	2019 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		850	668
Property, plant and equipment		827	607
Prepaid assisted acquisitions support		338	541
Investments		71	43
Trade and other receivables		307	372
		2,393	2,231
CURRENT ASSETS			
Trade and other receivables		911	913
Cash and cash equivalents		4,661	3,571
		5,572	4,484
TOTAL ASSETS		7,965	6,715
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital		64	64
Share based payment reserve	8	51	51
Retained earnings		5,147	4,867
		5,262	4,982
Non-controlling interests		165	97
TOTAL EQUITY		5,427	5,079
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables		512	294
Deferred tax		90	66
		602	360
CURRENT LIABILITIES			
Trade and other payables		1,756	1,085
Corporation tax payable		180	191
		1,936	1,276
TOTAL LIABILITIES		2,538	1,636
TOTAL EQUITY AND LIABILITIES		7,965	6,715

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Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2020

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2019	64	4,550	-	51	4,665	-	4,665
Changes in equity							
Dividends	-	(968)	-	-	(968)	-	(968)
Acquired with subsidiary	-	-	-	-	-	74	74
Profit and total comprehensive income	-	1,285	-	-	1,285	23	1,308
Balance at 31 December 2019	64	4,867	-	51	4,982	97	5,079
Changes in equity							
Dividends	-	(889)	-	-	(889)	-	(889)
Profit and total comprehensive income	-	1,169	-	-	1,169	68	1,237
Balance at 31 December 2020	64	5,147	-	51	5,262	165	5,427

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M WINKWORTH PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit before tax		1,532	1,628
Depreciation charges		555	573
Reduction in fair value of fixed asset investments		-	10
Impairment of intangible		66	-
Negative goodwill		(119)	(68)
FV uplift on investment		(28)	-
Finance costs		22	29
Finance income		(39)	(54)
		1,989	2,118
Increase in trade and other receivables		67	(1,464)
Increase/(decrease) in trade and other payables		706	1,621
Cash generated from operations		2,762	2,275
Tax paid		(313)	(255)
Net cash from operating activities		2,449	2,020
Cash flows from investing activities			
Purchase of intangible fixed assets		(142)	(170)
Purchase of tangible fixed assets		(82)	(9)
Assisted acquisitions support		(17)	(98)
Cash acquired on acquisition		-	116
Cash paid to acquire subsidiary		-	(23)
Interest received		39	54
Net cash from investing activities		(202)	(130)
Cash flows from financing activities			
Principal paid on lease liabilities		(246)	(257)
Interest paid on lease liabilities		(22)	(29)
Equity dividends paid		(889)	(968)
Net cash from financing activities		(1,157)	(1,254)
Increase/(decrease) in cash and cash equivalents		1,090	636
Cash and cash equivalents at beginning of year		3,571	2,935
Cash and cash equivalents at end of year		4,661	3,571

WINKWORTH PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. STATUTORY INFORMATION

M Winkworth Plc is a public company, registered in England and Wales and listed on AIM. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared under the historical cost convention, with the exception of financial instruments as set out below, and in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS"). The financial statements are presented in pound sterling, which is also the company's functional currency. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Going concern
The directors have, at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

Although Covid-19 will inevitably continue to have an impact on the market over the remainder of 2021, the directors have outlined on page 6 the risks which the group may be faced with, and how they intend on mitigating these risks. This demonstrates that the group has sufficient working capital for the foreseeable future.

The group has a strong cash base and no borrowings, with a high level of discretionary expenditure, which can be cut at short notice. Income would need to fall substantially for a prolonged period, beyond six months, before a cash shortfall arose, at which point stronger measures would be taken to cut costs. Thus they continue to adopt the going concern basis of accounting in preparing the accounts.

Revenue
Revenue represents the value of commissions and subscriptions due to the group under franchise agreements, together with the value of fees earned by its subsidiary lettings business. Revenue in respect of commissions due on house sales is recognised at the point of the relevant property sale having been completed by the franchisee. Revenue in respect of commissions due on lettings, property management and administration services is recognised in the period to which the services relate. The group earns a straight 8% by value on all sales and lettings income generated by the franchisees.

In Tooting Estates Limited and Crystal Palace Estates Limited, revenue in respect of commissions due on house sales is recognised on completion. Revenue in respect of commissions due on lettings and property management is recognised over the life of the rental agreement.

3. SEGMENTAL REPORTING

The board of directors, as the chief operating decision making body, review financial information and make decisions about the group's business and have identified a single operating segment, that of estate agency and related services and the franchising thereof.

The directors believe that there are two material revenue streams relevant to estate agency franchising.

	2020	2019
	£'000	£'000
Revenue		
Corporate owned offices	1,083	498
Management service fees	5,323	5,918
	6,406	6,416

4. TAXATION

Analysis of tax expense

	2020	2019
	£'000	£'000
Current tax:		
Taxation	302	311
Adjustment re previous years	(3)	6
Total current tax	299	317
Deferred tax	(4)	3
Total tax expense in consolidated statement of profit or loss and other comprehensive	295	320

Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2020	2019
	£'000	£'000
Profit before income tax	1,532	1,628
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2019 – 19%)	291	309
Effects of:		
Expense not deductible for tax purposes	3	10
Adjustment in respect of prior periods	(3)	6
Depreciation in excess of capital allowances	5	11
Income not taxable	-	(13)
Other movements	(1)	(3)
Tax expense	295	320

5. DIVIDENDS

	2020	2019
	£'000	£'000
Ordinary shares of 0.5p each	889	968

6. EARNINGS PER SHARE

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

	Earnings	2020 Weighted average number of shares	Per-share amount
	£'000	'000	pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,169	12,733	9.18
Effect of dilutive securities	-	57	-
Diluted EPS			
Diluted earnings	1,169	12,790	9.14

	Earnings	2019 Weighted average number of shares	Per-share amount
	£'000	'000	pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,285	12,733	10.09
Effect of dilutive securities	-	37	-
Diluted EPS			
Diluted earnings	1,285	12,770	10.06

7. CALLED UP SHARE CAPITAL

		2020	2019
Authorised:		£'000	£'000
20,000,000	Ordinary shares of 0.5p	100	100

		2020	2019
Issued and fully paid:		£	£
12,733,238	Ordinary shares of 0.5p	64	64

8. RESERVES

Retained earnings are earnings retained by the Company not paid out in dividends.

Share premium is the premium paid on shares purchased in the Company.

Other reserves are the fair value equity components recognised over the vesting period of share based payments.

9. POST BALANCE SHEET EVENTS

On 13 January 2021, M Winkworth Plc declared dividends of 1.8p per share for the fourth quarter of 2020.

On 23 March 2021, the Heads of Terms were signed in relation to Winkworth Franchising Limited's acquisition of a further 35% of Tooting Estates Limited, which operates the Winkworth franchise in the Tooting area, for £136,963.

10. FINANCIAL INFORMATION

The financial information contained within this announcement for the year ended 31 December 2020 is derived from but does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 have been filed with the Registrar of Companies and those for the year ended 31 December 2020 will be filed following the Company's annual general meeting. The auditors' reports on the statutory accounts for the years ended 31 December 2020 and 31 December 2019 are unqualified, do not draw attention to any matters by way of emphasis, and do not contain any statements under section 498 of the Companies Act 2006.

11. ANNUAL REPORT AND ACCOUNTS

Copies of the annual report and accounts for the year ended 31 December 2020 together with the notice of the Annual General Meeting to be held at the offices of M Winkworth Plc on 11 May 2021, will be posted to shareholders shortly and will be available to view and download from the Company's website at www.winkworthplc.com