

7 August 2023

LSL Property Services plc ("LSL" or "Group")

Pre-Close Trading Update

LSL provides the following trading update for the six months ended 30 June 2023 ahead of publishing its Half Year results.

During the period, we made significant strategic progress to simplify the Group and focus on business-to-business services, with the franchising of our Estate Agency network and the disposals of Marsh & Parsons and our direct-to-consumer financial services businesses.

As expected, the Group's results over H1 were impacted by significant changes in the mortgage market, particularly our Surveying Division, as well as Financial Services. We had expected some of these changes to moderate during H2, with improved consumer sentiment and more stable lending conditions. However, the larger than expected increase in the Bank of England base rate announced in June has had a material impact on the mortgage market, reducing the level of Purchase and Remortgage activity and increasing further the proportion of Product Transfer business (where customers stay with their existing lender on completion of their mortgage scheme).

Whilst Group Underlying Operating Profit was broadly in line with our expectations in the first half, the recent change in mortgage market conditions will significantly impact second half Group profits which are now expected to be lower than our previous expectations.

Divisional trading performance: Financial Services

Our strategy has placed the Financial Services Network business at its core, and in the first half of 2023 the independent mortgage broker business model continued to demonstrate resilience and agility. In challenging conditions, LSL members increased share in each of the sub-segments of the mortgage market. Against the same six-month period in 2022, LSL Purchase lending reduced by 27%, slightly less than the overall market reduction of 30%. Remortgage lending decreased by 15% compared to the market which fell by 21%. Product Transfer business increased by 48%, compared to the market which we estimate was up c.15%. Total LSL mortgage lending advice declined just 4% reflecting strong performance against the market, although higher Product Transfers impacted margin, due to the lower Lender procurement fees. Whilst this change in the nature and volume of mortgage lending was largely included in our expectations for H1, the most recent trading following the June interest rate rise indicates that this shift has increased further and we now expect these conditions to persist in H2, with a resulting impact on margins and full year profit.

Performance of LSL's independent mortgage broker firms was particularly strong, increasing share of the Purchase and Remortgage market¹ from 6.2% to 6.6%. The combined distribution of LSL's previously owned direct-to-consumer businesses which are now owned by Pivotal Growth but still members of the LSL network, and LSL's mortgage club, was stable at 3.8%. Overall share of the UK Purchase and Remortgage market was 10.4% (H1 2022: 10.1%).

LSL Network Protection sales were resilient despite the market conditions, with revenue unchanged compared to H1 2022. The challenging market background led to caution by network members on adviser levels, and adviser numbers fell by 5% during the period. Encouragingly, the recruitment pipeline at 30 June, built during the second quarter, was the highest since September 2021, which will benefit future periods.

Divisional trading performance: Surveying

The impact of the challenging market conditions was most pronounced in Surveying. Increased interest rates resulted in higher Product Transfers, requiring no valuation service. Reduced activity in the Buy-to-Let and Equity Release markets, and Purchase market more generally, also reduced valuation instructions from lenders. In H1, Bank of England mortgage approvals reduced by 27% year on year in the Purchase market, and by 31% for Remortgages. LSL lender instructions fell by 27%, slightly better than the market.

Although instruction volume had been building steadily in the first half, more recently trading has been significantly impacted by the larger than expected interest rate increase. In recent weeks, our lender instructions fell by c.40% to levels substantially below historic norms and are currently around half those in the same period in 2022. A strong focus on cost will continue in H2, however this will be balanced to ensure that the business retains sufficient capacity to meet demand when the market recovers. This means that in the short term, we will carry material excess staff costs so we can take advantage of the significant profit opportunity in more normal market conditions.

Divisional trading performance: Estate Agency

In June, we executed contracts for the remaining few owned estate agency branches, completing the franchising of our entire Estate Agency branch network. The ongoing transition is proceeding well, with cost savings ahead of plan.

Group financial performance in H1 2023

Given restructuring activity to date, reported revenue and costs are not comparable between 2022 and 2023. Adjusting for the impact of franchising and disposals, total Revenue was c.20% lower on a comparable basis, which compares with a 27% reduction in the overall Purchase and Remortgage lending market, and an 18% fall in housing transactions. Reported total Revenue was c.£104m (H1 2022: £160.9m).

Total operating expenditure was c.31% lower than H1 2022. Costs in May and June were down over 50% on the same period last year, reflecting significantly lower costs due to the disposals and franchising of Estate Agency, as well as other cost measures across the business.

The Group delivered Underlying Operating Profit of c.£3.5m, broadly in line with our expectations (H1 2022: £14.2m).

At 30 June 2023, Net Cash was £36.0m (31 December 2022: Net Cash £40.1m, H1 2022: £30.7m), providing flexibility for future deployment of capital.

Outlook

The mortgage lending market in H2 remains highly uncertain, resulting in a wider range of possible outcomes for the Group than usual. We now expect that there will be lower levels of Purchase and Remortgaging activity than previously forecast for the second half of the year, with this only partly offset by increased lower margin Product Transfers. This change in the mortgage market will significantly impact Surveying and will also affect Financial Services, although to a lesser extent. Full year Group profits will now be substantially lower than previously expected. We continue to expect Group profits in the second half of the year to be an improvement on H1, reflecting a more typical split across the year.

A further update on current trading and outlook will be shared with the Half Year results in the second half of September.

David Stewart, Group CEO, commented:

"LSL made a lot of progress over the past 6 months, delivering important strategic projects. Market conditions have been challenging, and more recently have become more difficult, impacting this year's financial performance.

"The more challenging market conditions in the short-term will not prevent us from continuing to take the required steps to deliver on the identified opportunities for future growth. Our strong balance sheet allows us to take a long-term view and we will continue to invest to deliver our Financial Services Network growth strategy and retain the capacity required to enable our Surveying business to meet the future demands of our clients. Our Financial Services Network and Surveying businesses have established leading market positions and have performed strongly in recent years and will perform more strongly when the market recovers. Notwithstanding the near-term challenges the Board remains confident about the Group's medium-term prospects."

This announcement contains inside information.

Notes:

- 1 Share of the Purchase and Remortgage market is calculated excluding product transfers. Source: New mortgage lending by purpose of loan, UK (BOE) - Table MM23 (published 31 July 2023)

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Notes on LSL

LSL is one of the largest providers of services to mortgage intermediaries and estate agent franchisees.

Its c.2,700 advisors represent around 10% of the total purchase and remortgage market. PRIMIS was named Best Network, 300+ appointed representatives at the 2022 Mortgage Strategy Awards.

Its 61 estate agency franchisees operate a network of around 300 branches.

LSL is also one of the UK's largest providers of surveying and valuation services, supplying seven out of the ten largest lenders in the UK. e.surv was named Best Surveying Firm at the 2022 Mortgage Finance Gazette Awards.

For further information please visit LSL's website: lsips.co.uk

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