FINAL TRANSCRIPT

Bridgemarq Real Estate Services Inc.

Second Quarter of 2019 Conference Call

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CORPORATE PARTICIPANTS

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Bridgemarq Real Estate Services Inc. — President and Chief Executive Officer

Glen McMillan
Bridgemarq Real Estate Services Inc. — Chief Financial Officer

PRESENTATION

Operator

Good morning. My name is Chris, and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. Second Quarter of 2019 Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

I would like to introduce you to Mr. Phil Soper, President and CEO of Bridgemarq Real Estate Services Inc.

Mr. Soper, you may begin your conference call.

Phil Soper — President and Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Thank you, Chris, and good morning, everyone. We appreciate you joining us. With me on the call today is our Chief Financial Officer, Glen McMillan.

Following the usual format for our quarterly conference call, I will begin with a brief overview of the second quarter. Afterwards, Glen will discuss our financial results for the quarter, and I'll conclude by providing some remarks on recent business operational highlights and market developments. Following our remarks, both Glen and I would be happy to take your questions.

I wanted to remind you that some of the remarks expressed during the call may contain forward-looking statements. You should not place reliance on these forward-looking statements because they involve known and unknown risks and uncertainties that may cause the actual results and performance of the Company to differ materially from the anticipated future results expressed or applied by such forward-looking statements. Encourage everyone to look at the cautionary language found in our news release and all of our regulatory filings. All of these documents can be found on our website and on SEDAR.

Net earnings for the quarter were 7.8 million, driven in large part by a noncash gain of 6.7 million on the fair value of exchangeable units issued by the Company. Glen will get into that during the detailed dive into our numbers.

We are continuing to see healthy demand for our brands, and our network of REALTORS continues to grow. Due to the Company's fixed-fee business model, network growth, as well as ancillary or new service lines fees have resulted in improved company revenue compared to the second quarter of 2018. Again, Glen will provide more colour on these financials later in the call.

The Company's continued ability to generate a healthy and reliable revenue stream has allowed for increased investment in our leading delivery platform while supporting the goal of paying a significant portion of our cash flow as dividends to shareholders. Year to date, the Company has distributed dividends of $6.4 million to shareholders. Yesterday, the Board of Directors approved a dividend payable September 30th of $0.1125 per share to shareholders of records on August 30th. This indicates an annualized dividend of $1.35 per share.

The fixed nature of the Company's revenues provides the Company some protection from the impact of change in housing market. It also reduces the degree in which the Company participates in periods of rapid market expansion. Of course, in the last couple of years, we've had a period of contraction, so the fixed nature of our fees has been a much-valued protection for the Company overall.

On previous calls, I commented on the impact of the federal mortgage stress test known as B-20, which was implemented on January 1, 2018. In the second quarter, we saw signs that Canadians were adjusting to this new policy as sales recovered in the face of improving consumer confidence. In the month of July, for example, sales volumes in both Vancouver and Toronto were up 24 percent year over year.

Real estate markets in the Prairie provinces do remain soft, and the very specific tax policies that British Columbia put in place has meant that it's taken longer to work through some of the policy adjustments for the market there.

With that, I'd like to turn the call over to Glen for a look at our second quarter's financial performance.

Glen McMillan — Chief Financial Officer, Bridgemarq Real Estate Services Inc.

Thank you, Phil, and good morning, everyone. The Company generated net earnings of $7.8 million in the quarter compared to a net loss of 3.7 million in the second quarter of last year. Net earnings for the quarter were positively affected by a large noncash gain on the fair value of our exchangeable units of $6.7 million. Our second quarter results last year were negatively affected by a $7 million loss on the fair value of those same exchangeable units.

Distributable cash flow for the first six months of 2019 amounted to $8.4 million compared to the $4.7 million generated over the same period in 2018.

In the first quarter of 2018, the Company acquired Franchise Agreements from the Manager for $8.6 million, negatively impacting distributable cash flow. As a result of changes to our Management Services Agreement, or MSA, which we discussed at our Annual Meeting webcast, no such acquisitions were completed in 2019.

For the quarter, distributable cash flow was $4.5 million compared to $6.8 million generated in Q2 of 2018. The primary driver of the decline in distributable cash flow for the quarter is higher management fees paid as a result of changes to the MSA, partly offset by lower income tax payments and higher revenues.

An important measure as we transition to the new MSA from a historical reporting perspective is distributable cash flow on a rolling 12-month basis. This is a measure of per share cash flow generated by the Company in the previous 12 months which is available for distribution to shareholders on a diluted basis. For the 12 months ended June 30, 2019, we generated distributable cash flow of $1.42 per share compared to $1.30 per share for the rolling 12 months ended June 30, 2018.

Revenues during the second quarter increased 2 percent compared to the second quarter of 2018, rising to $11.7 million. The improvement in revenue is primarily due to growth in the number of REALTORS represented by the Company’s real estate brands. Ancillary revenues transferred to the Company under changes to the MSA serve to substantially offset the loss of premium fees earned in the second quarter of 2018.

At the end of the second quarter, the network was comprised of more than 19,000 REALTORS operating under approximately 300 franchise agreements providing services for more than 675 locations across the country.

In the second quarter, the Canadian residential real estate market closed up 7 percent compared to the same period last year. The increase was driven by a 5 percent increase in volumes and a small decrease in price. The total transactional dollar volume during the second quarter was $76.3 billion.

For the rolling 12-month period ended June 30, 2019, the Canadian market was down 3 percent at 225.3 billion compared to the previous rolling 12-month period, reflecting a 1 percent decrease in price and a 3 percent decrease in units sold.

The Greater Toronto Area real estate market saw significant year-over-year improvement, rising 22 percent to $23.1 billion. The primary driver was an 18 percent surge in sales volume compared to Q2 of last year, while the average price increased by 3 percent for the same period. The GTA represents approximately 30 percent of the national housing market.

Greater Vancouver continued to struggle to absorb government initiatives introduced over the last three years designed to improve affordability. These included new tax policies focused on foreign buyers, homeowners of properties that have a value of more than $3 million, and homeowners who reside outside of the province.

The Greater Vancouver market closed down 23 percent at $6.6 billion in the second quarter compared to Q2 of 2018, driven by a 17 percent decrease in volumes and a 7 percent decrease in price. The Greater Vancouver market represents 10 percent of the total Canadian market, which is well below the 19 percent that it represented just three years ago.

And on the brighter side, as Phil mentioned earlier, Vancouver did show a year-over-year improvement for the month of July, with a 24 percent increase in unit sales.

Phil will now provide some additional insights into the market and an update on our operations.

Phil Soper

Thanks very much, Glen. We have had a much more healthy national real estate market in the second quarter. 2018 with the overshooting on home prices that had occurred at, say, the 2014 to ‘16 time frame and the introduction of the mortgage stress test saw the most significant market correction in Canada since the Great Recession a decade ago.

Home prices have been remarkably resilient, however, even in Calgary, where the combination of the national housing correction was layered on top of the now five-year-old challenge the market has had since the precipitous drop in oil prices that hit the market in late 2014. Even in Calgary, home prices have hung on.

The magic here is that as the demand has slackened, so fewer people are looking for homes, fewer people are also listing their homes for sale. So to a great degree, supply and demand have been matched.

And so what we needed was for the market to adjust to the new mortgage regulations. And as Glen pointed out, particularly in July, but in the second quarter as well in Central Canada, Quebec, and Atlantic Canada, we saw very healthy activity and home prices that were rising at much more sustainable levels in the single digits compared to the double-digit home price inflation we had to deal with in the 2014 to ‘16 time frame. So overall, we’re much happier with where the market is at this stage than we were at any point during the last year and a half.

With that said, as I pointed out earlier, the business model itself is designed to be insulated from these kinds of fluctuations in the market. So it’s only that relatively small part of our revenue that is driven by the actual rise and fall of transactional volumes in the real estate market that’s impacted. Our fixed fee revenue has been very stable and, in fact, continued to grow as we’ve expanded the size of our network.

Let me touch on just a few things on a broader economic context that we believe will impact the Canadian housing market, the first being unemployment. We continue to be very pleased with the low unemployment rate, historically low unemployment rate that we’re enjoying in Canada. It stood at 5.5 percent during the quarter.

We also had a surge in exports of 5.1 percent reaching 154 billion. And there were widespread increases in exports throughout many product sectors, but it was led by energy products. So all this is very positive as people feel more confident in making large purchase decisions, like a home purchase, when they feel confident about their jobs and their future.

In regulatory terms, in May, the Canadian/US governments each lifted the commissary tariffs on steel, aluminum, and other selected products, which had been in place since, I guess, the second quarter of 2018. Statistics Canada has reported that exports of steel products to the United States have increased by 15.8 percent and aluminum by 47. So this is, again, a very positive sign that we could be seeing some growth in the nation's health from an exporting perspective.

Turning to our operations, the Company's success in attracting highly productive brokerages and agents is rooted in our ability to deliver innovative products and services. During the quarter, our Via Capitale company launched a new global marketing tool that promotes the listings that they have, which cover the entire Province of Quebec, to some 215 million listings browsers in 65 countries around the world. So it's quite an innovative way to get the word out about product that is available in Quebec, both commercial and residential product.

And turning to Royal LePage, we've seen an increasing importance of creating services specifically designed for real estate teams. This is when a lead realtor hires junior realtors, if you will, or assistants, but these are licensed practitioners, to work in a team environment. Think of it as a larger practice.

So we have led the way in Canada in developing a professional training and coaching services for teams. The idea here is we have long offered advisory services to the owners of brokerages within our franchise systems. We have been taking that same learning on effective marketing, cost control, human resources policies, all the things that are necessary to successfully run a business, and customizing those and reapplying them in the team environment, treating it like the business that it is. And the response from our many teams across the country have been very positive.

We've been continuing to drive brand awareness, and our industry-leading public relations and media awareness programs continue to do very well. During the quarter, the Royal LePage business published the Royal LePage House Price Survey, which provides data for 60-some of Canada's largest urban real estate markets through the Royal LePage House Price Composite. And it continues to be a significant driver of website traffic and media impressions for the business overall.

We also published a recreational property release focused on what you'd call summer recreational property. And it's been a very buoyant market, probably the best I've seen since the late 2000s. And a piece that we worked on and copublished, did the research with and copublished with Genworth on first-time buyers that was widely applauded across the country.

Each of these releases, it's one thing to do the release or do the research, come up with the conclusions, but then you also have to leverage it in-market for the benefit of the business. And that's part of why we do this is for educating Canadian consumers, and part is to help educate our practitioners in the field and let them leverage it to drive business into their practices.

So each release is accompanied by a suite of branded images for social media and packaged in a way that it can be delivered through the various channels that people use to read content. Not just business channels like e-mail or websites, but LinkedIn, Facebook, even Instagram are places where soundbites from the research can be distributed by our agents.

In conclusion, with the exception of really the Prairie provinces, and to a lesser extent Newfoundland, Canadian real estate markets have largely absorbed the mortgage stress test downer and consumer confidence is on the rise. And this is driving sales activity to more normal levels. The Company is optimistic for the second half of 2019, as well, of course, for the long-term health of the Canadian market.

We're pleased that company revenue from network growth and the new fees that were introduced with new businesses that were rolled into the Company with the new Management Services Agreement that Glen referred to, that these have offset the premium fee contract that expired in the second quarter of 2018. And in fact, they've actually resulted in year-over-year revenue gains.

Our brands have been successful in developing and delivering tools and services. We believe they're the gold standard in this country, and we will continue to invest in a digital platform strategy that reduce costs for our brokers and our agents and delivers higher levels of client satisfaction. And that will remain our focus for the remainder of the year.

With that, I will turn things back to our Operator and open up the call for questions.

Q&A

Operator

Thank you. At this time, I would like to remind everyone in order to ask a question, press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Again, if you would like to ask a question, press *, then the number 1 on your telephone keypad.

There are no questions at this time. I will now return the call to Mr. Soper.

Phil Soper

Thank everybody for participating in today's call. A reminder that the Bridgemarq Real Estate Services website contains all of the information we talked about to date and more, including all our statements and filings. Look forward to updating you again during our next quarterly earnings call in three months' time.

Operator

This concludes today's conference call. You may now disconnect.