

Bridgemarq Real Estate Services Inc.

Third Quarter of 2019 Conference Call

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CORPORATE PARTICIPANTS

Phil Soper

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 Jody, and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. Third 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, 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, Jody, and good morning, everyone. With me today is our Chief Financial Officer, Glen McMillan. We would—we welcome you to the call and look forward to answering your questions at the conclusion. Following our usual format, I'll begin with a brief review of the quarter, Glen will then discuss our financial results, and I'll conclude by providing some deeper dives into each recent business, operational highlights, and market developments.

I want to remind you that some of the remarks expressed during this 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 anticipated future results expressed or implied by such forward-

looking statements. I encourage everyone to review the cautionary language found in our news release and in our regulatory filings on SEDAR.

Net earnings for the quarter were 2.4 million or \$0.26 cents per share, compared to 12.5 million or \$1.32 in the same period in 2008 (sic). Primary driver of this reduction is a determination of fair value on the exchangeable units issued by the Company. It's not an operating change.

The Company's network has grown to 19,184 realtors, an increase of 385 compared to the third quarter of 2018. Due to the Company's fixed-fee business model, network growth has resulted in improved company revenue compared to the third quarter of 2018. Glen will provide more details on this later in the call.

Year to date, the Company has distributed dividends of 9.6 million to shareholders. Yesterday, the Board of Directors approved a dividend payable on December 31st of \$0.1125 per share to shareholders of record on November 29th. This indicates an annualized dividend of \$1.35 per share.

The Company remains committed to being an income-focused investment and paying out a significant portion of our distributable cash flow to shareholders, subject to our working capital requirements, of course, and the availability—the necessity to have capital for other growth opportunities.

This quarter, the Royal LePage brand announced its end-to-end digital operating platform, rlpSPHERE. It is by far the most advanced real estate brokerage solution in Canada. Development has been underway since this past summer. It will be available to the network in the spring of 2020. The response from our people across the country has been extremely positive and we're very excited about its potential for both improving the lives of our consumer clients, our agents, our management, and for recruiting both new franchisees as well as new realtors to our network. I'll provide more details later in the call.

Low interest rates and healthy employment levels continue to buoy consumer confidence in support of the Canadian real estate market's recovery after a difficult 2018 and a very slow start to 2019. Year-over-year unit sales have improved significantly in both Greater Vancouver and Greater Toronto compared to this time last year. Later in the call, I will give an overview of exactly what this means.

With that, I'm going to turn things over to Glen for a look at our third quarter financial performance.

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

Thank you, Phil, and good morning, everyone. Distributable cash flow for the nine months of 2019 amounted to \$13.2 million, a 17 percent increase from the \$11.3 million generated last year. In the first quarter of 2018, the Company acquired franchise agreement [audio gap] for \$8.6 million, negatively impacting distributable cash flow. As a result of changes to the management services agreement, or MSA, which governs the management of the Company, no such acquisitions were completed in 2019, as the Company now enters into franchise agreements directly with franchisees.

For the quarter, distributable cash flow was \$4.8 million compared to \$6.7 million generated in the third quarter 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.

Revenues during the third quarter increased 4 percent compared to Q3 of 2018, rising to \$11.6 million. The improvement in revenue is primarily due to growth in the number of realtors, represented by the Company's real estate services brands, as well as the addition of non-franchise fee revenues, which were previously earned by the manager of the Company. These revenues were transferred to the Company under the terms of the MSA, which is renewed at the start of the year.

As Phil mentioned, at the end of the third quarter, the Company—the network comprised 19,184 realtors. These realtors operated under 293 franchise agreements and provided services from 674 locations across Canada. Since 2003, the Company’s network has grown at a 5 percent compound annual growth rate, outperforming the 4 percent growth in the industry, despite the addition of competitive offerings over that same period.

In the third quarter, the Canadian residential real estate market closed up 15 percent compared to Q3 of last year. The increase was driven by a 10 percent increase in unit sales and a 1 percent increase in price. Total transactional dollar volume in the third quarter was \$66.8 billion.

For the rolling 12-month period ended September 30, 2019, the Canadian market was up 1 percent at \$233.9 billion compared to the previous rolling-12-month period, reflecting a 1 percent increase in units sold and flat pricing.

The Greater Toronto Area real estate market saw significant year-over-year improvements during the quarter, rising 24 percent to \$19.5 billion. The primary driver was a 19 percent increase in unit sales compared to last year, while the average price increased by 3 percent. The GTA represents just under 30 percent of the national housing market.

And in the Greater Vancouver market, where it closed up 20 percent at \$7 billion in the third quarter compared to last year, driven by a 26 percent increase in units and a 7 percent decrease in prices. Market activity in Greater Vancouver was stalled during 2018 and the early part of 2019 as consumer confidence and provincial tax measures were introduced, targeting the real estate market.

Now Phil will provide some additional insights into the markets and an update on our operations.

Phil?

Phil Soper

Thanks very much, Glen. On previous calls, I mentioned the importance of Canada's low unemployment rate in relation to—and how it relates to our real estate market. Canada's unemployment rate remains historically low at 5.5 percent. When people are working and they feel confident about the job market, they also feel confident in their family's ability to make a major financial decision like investing in a home. In addition to these employment numbers, low interest rates are also supportive of the real estate market. On October 30th, the Bank of Canada held its benchmark rate at 1.75 percent.

In the Greater Toronto Area, where inventory remains low, brisk sales will likely result in a further reduction in supply and upward pressure on home prices. According to the Toronto Real Estate Board, in September, the MLS House (sic) Price Index composite for the region increased 5.2 percent year over year. This is the highest annual rate of price growth to date this year.

On the West Coast, buyers in Greater Vancouver returned to the real estate market to take advantage of improved affordability from softening (phon) home prices. Glen had mentioned that our unit sales in Greater Vancouver were up 26 percent year over year in the third quarter. In both September and October, unit sales were up approximately 45 percent year over year. This is a real surge in demand after very, very quiet periods in 2018 and early 2019, as buyers see the current prices and are connecting with the fact that this market correction is ending. This should first stabilize prices in the region, which have been down modestly, mid single digits, but then begin a period of price appreciation once more.

The real estate market outlook for both the Greater Montreal and Ottawa regions, a couple of the strongest regions that, frankly, buck the national correctional trends of 2018 and early '19, is that prices in those regions should continue to appreciate at a healthy rate, driven by affordability and good employment. Both regions have experienced sustained increases in demand.

During the third quarter, unit sales in the Greater Montreal area increased 13 percent, resulting in a 21 percent drop in supply in the number of listings. The average price of a home in the region increased 6 percent year over year during the quarter as supply tightened. Again, this 6 percent number, mid-single digits, is a very healthy price appreciation. It's not too much and not too little.

In Ottawa, historically low inventory resulted in a average price increase of 8.4 percent during the first nine months of the year compared to the same periods in 2018, while unit sales were up 2.3 percent.

On October 21st, the Liberal government was re-elected into a minority situation. Parliament addressing housing affordability was prominent across all party platforms, and we expect the federal government will essentially stay its course on promised housing policies, perhaps borrowing some ideas from opposition parties. Key policies laid out during the campaign, expanding the First-Time Home Buyer Incentive through increasing the upper qualifying limit in both Toronto, Vancouver, and Victoria, our most expensive housing markets, to \$800,000. So we're quite curious as to what's actually going to shake out and hit the marketplace once Parliament's back in session and legislation moves through the House.

The Company has an impressive track record of driving new technology that's available in the industry. Our ability to put the best technology into the hands of our network, both from in-house development and from the systems integration of best-of-breed applications from around the world, not only drives productivity, it attracts the industry's best performers.

As mentioned earlier in the call, in the third quarter, Royal LePage announced the launch of rlpSPHERE. This new platform is designed to drive revenue, reduce costs, and improve client service levels. rlpSPHERE is a digital ecosystem that seamlessly brings together all of the tools and systems that are used by our national business, our regional brokerages, and the agents, the thousands and thousands of agents

that work across the country. So it pulls all the pieces together seamlessly, a start-to-finish solution. We are very excited about rolling it out in the spring of 2020 and training has already begun for our leadership team, and we'll move on to our agents in the new year.

During the quarter, our Via Capitale business unveiled a fresh look with a new logo and realtor signage. This is something that's done infrequently but it is important to continually refresh a company's look in the marketplace. And the elegant, modern design is expected to resonate well with both our realtors and consumers.

The Company has continued to enhance brand awareness through industry-leading public relations and media awareness programs. During the quarter, in addition to publishing our Royal LePage House Price Survey and forecast, our Royal LePage brand released a brand-new study. This major market research focused on the relative price per square foot of detached and condominium property and compared it across regions. The report was very well received by the national media, local media, and buyer network. And if you combine that with our other outreach campaigns and educational systems, it resulted in excellent coverage and exposure for our brands to consumers, the media, and our realtors coast to coast.

In conclusion, the Canadian real estate market is well on its road to recovery after a year-and-a-half (phon), as demonstrated by healthy improvement in sales activity during the quarter. Most notably, consumer confidence has returned to the Greater Vancouver real estate market as unit sales climbed markedly during the quarter. In the GTA, where inventory's low, a sustained increase in sales activity, we believe, will point to further price appreciation in the forward and into the all-important 2020 spring market.

As the Company's business model is biased towards fixed fees, network growth does drive revenue, but it's really the increase in the number of realtors in our network that drives our top line. The Company's revenue increased 5 percent to 11.6 million during the third quarter, which was very pleasing during a difficult time for the Canadian real estate market.

The Company's healthy and reliable revenue stream supports our goal of paying regular dividends to investors, as well as strategic investments supportive of our leadership position in brokerage services in this country.

Today, one more time, we have introduced rlpSPHERE to you. We are looking forward to giving you updates on its development and its impact in the marketplace in 2020.

This is—there's considerable excitement across our business for both the improvement in the market and the improvement in our operating platform, and we look forward to providing you further insights into this and its performance next year.

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

Q&A

Operator

Thank you. And as a reminder, to ask a question, you will need to press *, 1 on your telephone. To withdraw your question, press the # or hash key. Please stand by while we compile the Q&A roster. And again, that is *, 1 to ask a question.

And there are no questions at this time. I will turn the call back over to Phil Soper.

Phil Soper

Excellent. And as listeners know, our transcripts are available as well as an audio recording of this call on the Bridgemarq Real Estate Services website. Thank you very much for tuning in and we look forward to updating you next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.