

**Bridgemarq Real Estate Services Inc.**

**Second Quarter 2022 Earnings Conference Call**

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## **CORPORATE PARTICIPANTS**

### **Philip 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 Justin, and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. 2022 Second Quarter Results Conference Call.

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

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

Thank you, Justin, and good morning, everybody. On the call with me today is our Chief Financial Officer, Glen McMillan. We appreciate you joining us on the call today.

I will begin with a brief overview of the Company's second quarter results and business updates. Glen will then discuss our financial results in more detail, and I'll jump back on and conclude with some remarks on operational highlights, Company updates and market development. Following our remarks, Glen and I would be happy to take your question.

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 states. I encourage everyone to review the cautionary language found in our news release and on our regulatory filings. These can all be found on the Bridgemarq website and on SEDAR.

After two and a half years, the COVID-19's pandemics' hold on our day-to-day lives appears to be fading. However, we will be dealing with the economic consequence of managing this health emergency for some time, including the need to tighten monetary policy to slow inflation and the impact of such majors could have on the economy, the real estate market, and our business.

The Company performed admirably during the pandemic, and we remain optimistic. However, it is important to remain vigilant. We're pleased with the Company's agent growth during the past year as our highly regarded brands resonate with real estate professionals across the country. How the sector performs in the future will be impacted by Canada's economic performance and more specifically employment levels and mortgage rates.

In previous quarters, you heard us speak of record double-digit real estate market growth. We've called this the COVID catalyst where the perfect storm of rock bottom interest rates, government stimulus, soaring consumer savings, pent-up demand and most importantly, the hyper focus on the importance of the family home created a huge surge in the number of (inaudible) trading hands in our nation. As a result, market set new records for both home prices and sales volumes, and they are now moderating.

Technically, we are in a balanced housing market right now, but this is quickly transitioning towards a buyer's market, particularly in our largest and most expensive cities where demand is down year-over-year as consumers adopt (audio interference) during the transition. However, it is important

to remember that home values remain well above pandemic levels and sales in most regions are close to or above historical.

For the six months of the year, revenue for the Company was \$27.2 million which is a slight increase compared to the same period last year. During the second quarter revenue was \$13.8 million, down slightly from the \$14 million we produced last year. Distributable cash flow decreased to \$5.9 million from \$6.4 million last year. The Company's steady financial performance is a result of network growth which has subsequently offset a decline in the transaction activity in the Canadian market and other structural safeguards built into our model that we'll talk about later, and Glenn will provide more commentary on the Company's financials.

I'm pleased to report that the network agent count has risen to 20,538 which reflects net growth of 950 agents or 4.6 percent compared to June of last year; a very strong period based on historical norms.

At its meeting yesterday, the Board of Directors approved a dividend payment on September 30 (inaudible), \$0.25 per share to shareholders of record on August 31. This indicates an annualized dividend of \$1.35 per share, which is consistent with 2021.

With that, I'll turn things over to Glen for a look at our quarter financial performance in more detail.

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

Thank you, Phil, and good morning, everyone. As Phil mentioned, revenue during the first six months was \$27.2 million, up slightly from the \$27.1 million generated in the same period last year. In the second quarter alone, revenue was \$13.8 million, down slightly from the \$14 million we generated last year, reflecting a decline in unit sales partly offset by healthy network growth, as Phil just mentioned.

Net earnings for the quarter were \$11.3 million or \$0.36 per share compared to \$900,000 during the second quarter of 2021. The results reflect a gain on the fair valuation of our exchangeable units of \$8.1 million in the quarter compared to a loss of \$2.5 million last year.

Distributable cash flow amounted to \$5.9 million in the second quarter, down from \$6.4 million in Q2 of 2021. The decrease was primarily due to lower revenues from a decline in market activity and higher income tax expense. For the rolling 12 month period ended June 30, 2022, distributable cash flow amounted to \$20.9 million or \$1.63 per share compared to \$18.4 million or \$1.43 per share for the same period ended June 30 of 2021. The improvement was driven by strong real estate markets in the last half of 2021 and the first quarter of 2022.

During the quarter, the Canadian residential real estate market closed down 22 percent at \$110.7 billion compared to Q2 of 2021. This was driven by a 24 percent decrease in unit sales, partly offset by a 3.4 percent increase in average selling price. The Greater Toronto area real estate market saw a year-over-year decrease of 35 percent at \$26.1 billion during the second quarter. The primary driver was a 41 percent decrease in unit sales while the average selling price increased by 12 percent. As a point of reference, the GTA represents approximately one quarter of the national housing market.

The Greater Vancouver market was down 29 percent at \$11.2 billion in the second quarter, driven by a 34 percent decrease in unit sales and a 9 percent increase in average selling price, while the Greater Montreal area decreased 4 percent, reflecting a 14 percent decrease in unit sales and a 10 percent increase in average selling price.

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

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

Thanks very much, Glen.

When real estate markets climb to reach record highs and home prices appreciate at a much quicker rate than underlying wages and salaries, they eventually correct with lower or even low flat or declining house prices. This is what is occurring right now after the record performance from the end of 2020 and 2021.

This skews year-over-year comparison since we are now comparing an uncharacteristically active market to an uncharacteristically slow market. In addition, Canadian real estate markets typically experience a seasonal slowdown during the summer months.

This is the case this year as it's the norm, but it was not the case in 2021. There was no slowdown during the summer, no slowdown during the end-of-year holiday period in 2021, a very unusual period during the pandemic. This further adds a difficulty to the year-over-year comparison.

For a broader perspective, the average price of a home in Canada is 45 percent higher than the second quarter of 2019 pre-pandemic, and year-to-date home sale volumes represent the second strongest six-month period ever, second only to 2021. An unintended consequence of aggressive fiscal stimulus employed to get the global economy through the pandemic-related shutdowns as well as the disruptive global supply chains that came as we took three or lower labor levels at the front lines to protect the worker probably unintended consequence ultimately with inflation.

In June, the inflation rate stood at 8.1 percent, highest since January of 1983. (Inaudible) around the world including our Bank of Canada have responded to the inflation check with a series of interest rate hikes. The bank rate currently sits at 2.5%, the highest level in almost 15 years. The naturally occurring market correction I mentioned earlier, combined with a steep climb in interest rates, have impacted consumer confidence negatively.

What happens is both sellers and buyers are pushed to the sidelines as they wait for signs of home price stability. We expect lower sales volume through the balance of 2022 as we move to this period. Looking ahead, there are significant underlying drivers of real estate demand to consider. Historically high immigration and favorable demographics with a larger percentage of younger families in their prime home trading years than other advanced nations around the world will continue to drive strong household formation in Canada.

In addition, our rental markets are tight and rents are high. This has encouraged entrepreneurial investors to trade in real estate, residential real estate as commercial investors. Employment remains



very strong and incomes have grown and are growing while home prices are moderating, somewhat mitigating impact on those higher borrowing rates we talked about.

In addition, there remained a sizable pipeline of buyers who were simply not successful in transacting in the highly competitive sellers market of 2021. It is important to note that despite increasing inventory levels, Canada does not have the supply needed to meet housing demand. According to CMHC, current rates of construction are not meeting the housing needs of Canadians and we will be short 3.5 million housing units by 2030 if construction rates do not improve. It's worth noting that research by Scotia economics and others point to much lower homes per capita in Canada than in other advanced nations around the world.

Commercial real estate markets, on the other hand, have remained active with both high demand for industrial space and the return to office and movement driving demand in our cities and suburbs. As with previous market slow downs, the fixed nature of the Company's revenues provides some protection from the impact of the monitoring and the declining housing market as seen in the second quarter of 2022.

Fixed fees allow the Company the ability to offer investors exposure to the Canadian real estate market while also mitigating the impact of volatility, which is inherent to all real estate markets on cash flows. As buyer demand wains from its recent high, agents will look for brands that can help set them apart from their competition through innovative applied technology, superior coaching, and training focused on how to adapt to these changing client needs and marketing and brand awareness.

The Company has excelled here and continues to make significant investments for future growth. During the second quarter, the Company's history of industry changing innovation continues with the rollout of quick quote. This service offered to Canadians across the country was launched on our royallepage.ca website which is the second most popular portal for consumers to look at real estate in Canada after the industry-owned realtor.ca.

Quick Quote provides Canadians with an instant current market home value estimate alongside helpful related neighborhood analytics while offering a new source of seller lead generation. Quick quote launched to consumers in July of 2022. We believe it will be very attractive to home sellers whereas websites traditionally, including our own, are places that attract home buyers. We're expanding our reach, our new generation leads reach into new markets.

During the quarter, Via Capitale announced a major sponsorship of the permanent exhibition (inaudible) at the Musée (Inaudible) du Québec, Quebec's largest museum. This program is enhancing brand awareness as Via Capitale's logo and branding will be deployed at the museum right through to the end of 2027.

The Company's strong network growth is a testament to the brands delivering on first to market tools that create a competitive advantage. The investment in new and improved products and services are critical to our recruiting and our retention efforts. We're pleased to see the brand's offerings resonating within the industry.

In conclusion, while the second quarter sales volume was markedly weaker compared to last year's record performance, sales are consistent with typical market corrections. Housing values remain

significantly higher than pre-pandemic norms, protecting the investment that nearly 70 percent of Canadian (inaudible) for many of their largest financial assets.

The Company's success in attracting new agents, coupled with a business model designed to mitigate the impact of lower industry transactions, have maintained our revenue at 2021 levels. The impact of a decline in demand for housing is expected to be short-term as low supply and strong demographics will continue to support real estate industry growth. The growth in our network of realtors is a testament to the Company's continued investment in differentiating tools and services which enhance each of our brand's offerings. Our (inaudible) offerings will likely increase importance as agents seek more support in this changing market.

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

## Q & A

### Operator

Thank you. At this time there are no questions. I'll turn the conference back over to you.

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

Thank you, Justin, and thank you, everyone, for once again participating in today's call. We look forward to updating you again next quarter.

### Operator

Well, thank you, and that does conclude today's conference. We do thank you for your participation. Have an excellent day.