FINAL TRANSCRIPT

Bridgemarq Real Estate Services Inc.

2020 Third Quarter Results 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 Ian, and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. 2020 Third Quarter Results 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 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.

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

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

Today, I will begin with a brief overview of the Company's third quarter results and business updates. Afterwards, Glen will discuss our financial results in more detail, and I'll conclude today's call by providing some remarks on operational highlights and market development. 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 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 from the anticipated future results expressed or implied by such forward-looking statements. I encourage everyone to read the cautionary language found in our news release and in all of our regulatory filings, which can be found on our website and, of course, on SEDAR.

Related to our traditional cautionary language, I feel that it is important to speak about the impact that COVID-19, the pandemic, may have on the economy, on the real estate market, and on the Company.

Our Royal LePage business is recognized as the leader in Canadian real estate and has been providing quarterly insights into the Canadian housing market for decades through its forecasting program. While many organizations have suspended providing forecasts, Royal LePage did release its forecast on schedule at the end of the first quarter.

It was one of the few forecasts that got the general flow of 2020 to date correct: a drop in activity levels and home prices during the spring lockdowns, followed by a rise in activity levels and prices thereafter as buyers, encouraged by historically low mortgage rates and the perceptions of bargains to be had, reentered the market. What Royal LePage underestimated was the unprecedented strength of the recovery.

You are going to hear numbers on today’s call like a plus 63 percent year over year. Last quarter, we shared numbers that were equally jaw-dropping on the downside during the actual lockdown. This is uncharted territory for the economy and for our industry. The fundamentals driving our business are strong, and we remain positive about the medium-term outlook for the Company.

But it is important to note that the uncertainty in the duration and the magnitude of the pandemic, the possibility of additional government intervention in response to the pandemic, and even the impact of advances or setbacks from science and medicine may make the immediate future a very murky place upon which to gaze. Simply put: The Company cannot reasonably determine the impact that the pandemic may have on operations or financial position.

Throughout the third quarter, realtors across Canada have been able to provide services during the pandemic. By using precautions and social distancing, it was determined by provincial governments that this activity could safely continue. The Company is pleased with Canada's housing market recovery. During the third quarter, transactional dollar volume increased 63 percent year over year to a record-breaking $109 billion. It was the first time quarterly dollar volume crossed the $100 billion mark in history.

Remarkably, despite the historic shutdown of the industry during the all-important spring market, year-to-date Company revenues of $33.3 million are less than $0.5 million behind last year's total during the same period. Glen will provide further detail on this in a moment.

The Board of Directors has approved a dividend payable on December 31st of $0.1125 per share to shareholders of record on November 30th. This indicates an annualized dividend of $1.35 a share, which is consistent with last year.

Based on the underlying strength of our operations and the Canadian real industry itself, the Company has continued to maintain its dividend payments to shareholders despite the uncertainty created by the pandemic. The strength of the real estate market in the third quarter supported this position.

So the Company has benefitted from the support of its largest investor, which has agreed to allow the Company to defer payment of its management fees and interest on exchangeable units to support these dividend payments and the Company overall and its liquidity.

And with that, I'll turn the call 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. As Phil mentioned, revenue in the third quarter was $10.7 million compared to $11.7 million in the third quarter of last year.

In April of 2020, the Company introduced the Pandemic Fee Relief Plan as an alternative to its standard fee plan. Under the relief plan, the Company suspended fixed franchise fees for approximately 82 percent of its network and implemented an increased variable fee, subject to a cap. Strong real estate markets in the third quarter have contributed to a large number of agents reaching that cap. As a result, we do expect revenues in Q4 to be lower than they were last year.

For the nine months ending September 30th, revenues were $33.3 million, comparable to the $33.7 million generated last year, as Phil mentioned.

The net loss for the third quarter is $2.2 million, or $0.23 per fully diluted share. These results included a $3.5 million loss on the fair value of the exchangeable units issued by the Company. The fair value of the units is driven by the closing share price of the Company's restricted voting shares as of the balance sheet date. The loss reflects an increase in the Company's share price from $11.75 at the start of the quarter to $12.81 at the end of the quarter.

In the third quarter of last year, the Company generated net earnings of $2.4 million, which included a gain on the fair valuation of the exchangeable units of $0.6 million, due to a decrease in the share price during that quarter.

Distributable cash flow for the third quarter of 2020 amounted to $4.2 million compared to $4.8 million generated in the third quarter of last year. The decrease in distributable cash flow was driven by lower revenues. On a rolling 12-month basis, distributable cash flow came in at $1.24 per share, just slightly below the $1.26 generated for the 12 months ended September 30th last year.

As Phil mentioned, during the quarter, the Canadian residential real estate market closed up 63 percent compared to last year. The increase was driven by a 39 percent increase in unit sales and a 22 percent increase in average selling price.

The greater Toronto area real estate market saw a significant year-over-year improvement as well, rising 60 percent to $31.2 billion. The primary driver was a 37 percent increase in unit sales, as average selling prices increased 13 percent.

The greater Vancouver market closed up 55 percent at almost $11 billion in the third quarter, driven by a 40 percent increase in units sold and a 12 percent increase in price. Likewise, Montreal was up 66 percent, reflecting a 43 percent increase in unit sales and a 24 percent increase in average selling price.

I'll turn it back over to Phil, who'll provide you with some additional insights into the markets and an update on our operations.

Phil Soper

Thanks, Glen. Canada's housing market recovery during the quarter, while it exceeded expectations, it really was nothing short of remarkable.

The surge in buyer demand that marked the end of the second quarter extended right through the three months in the last quarter, resulting in record-breaking quarterly sales, as well as significant price appreciation.

Prior to March this year, when the market was disrupted by COVID-19 for the first time, demand for real estate was strong, and that demand far exceeded supply, particularly in Ontario, Quebec, and it was headed that direction in British Columbia.

During the pandemic, new-buyer demand developed as first-time and move-up buyers sought to improve the quality of their life by upgrading their housing situation. Millions of Canadians continue to work from home. Many students are learning and studying at home. And all of this is putting stress on household space and encouraging families to look for more of it, more space, even if it means leaving their current communities. Historically low mortgage rates have helped to dull the sting of higher home prices, as many people make purchase decisions based on monthly carrying cost versus the sticker price of a property.

Further, people are not spending. It's not unusual for the national savings rate to rise during a recession, as people tend to put off big purchases. But during the second quarter of 2020, that rate rose from a typical 2 to 3 percent of GDP to 28 percent, the highest level of savings since 1961. That's 60 years. People are saving because they can't spend on travel, entertainment, dining out, numerous things.

And these savings are finding their way into real property through home renovations, upgraded principal residences, whether people upgrade their rental situation, or they purchase a different home. And the record buying activity is extending into our recreational property markets, as some people actually move their work-from-home situation to the mountains, to the lake, this sort of thing.

Many of the country's major markets have suffered through insufficient housing supply for years. Pent-up and new demand again overwhelmed markets this quarter. September saw the highest level of sales to available inventory in 20 years. The market was clearly unbalanced.

While strong market conditions in many Canadian cities continued through October, it remains to be seen whether broader economic factors, such as higher unemployment, GDP contraction, integration restrictions will offset the desire of Canadians to improve their housing situation, particularly in the face of this limited supply that I've talked to.

However, recent government updates and announcements are largely supportive of the real estate market. Unemployment has continued to improve since May of this year when it surged to as high as 14 percent as a result of the economic impact of the pandemic and the voluntary shutdown of business across the country during the great lockdown.

In September, Canada added 378,000 jobs, and according to Statistics Canada, almost all were full-time positions. To keep this update in context, the job market in September remained almost 750,000 positions below pre-pandemic levels. These are very unusual times.

Immigration is critical to the health of Canada's economy and housing market. In 2019, research conducted by Royal Lepage and Leger showed that one in five homes is purchased by a newcomer to Canada, meaning someone who has been in the country for less than 10 years.

The Company is pleased that immigration remains a government priority based on two recent announcements. On October 30th, the federal ministry responsible for immigration announced an aggressive target of 1.2 million immigrants over the next three years. Last year's total target was 1 million over three years, but the country fell well short of that due to COVID-19 and the resulting travel restrictions.

Early in October, the federal government also announced that international students will be allowed to reenter Canada if they're attending a designated learning institution with provincially approved COVID-19 protocols in place. The contribution of students in general, and foreign students specifically, is very significant to Canada's economy and the real estate market.

Canada is the world's third-most popular destination for international students. In 2019, almost 830,000 foreign students contributed over $21 billion to the Canadian economy. This is welcome news for the many owners of investment properties relying on international and domestic student demand.

The leadership of the Company’s brands have continued to meet the evolving demands of the network, and this has allowed REALTORS to productively navigate, providing real estate services during the pandemic.

The Company successfully began the phased rollout of rlpSPHERE during the second quarter of 2020, and rollout activities will continue for the upcoming months. As mentioned on previous calls, rlpSPHERE is our new technology platform designed to drive revenue, reduce costs, and improve client service levels. This end-to-end digital ecosystem, a first and only in Canada, seamlessly brings together all of the tools and systems and business services that our franchisees and their front-line realtor practitioners need to more easily operate and grow their businesses.

In September, rlpSPHERE was officially launched in the media and received positive news coverage in top-tier real estate business industry outlets in both Canada and the United States. rlpSPHERE is recognized as a game-changing technology, and the Company expects it to be a market differentiator that attracts and retains top performers.

The Company has continued to be highly productive while working remotely. As a real estate tech company, the initial move to remote work was fairly seamless. The technology our staff needs to be successful was already available and in use before the pandemic. We are very grateful to have highly talented and committed teams supporting all three of the Company’s brands.

In conclusion, the Canadian real estate market experienced a sharp surge in demand to put significant upward pressure on housing prices during the third quarter. While there remain many unknowns regarding long-term impact of the pandemic, the recent immigration announcements and improved employment numbers are supportive of real estate demand in the short term.

The strength of the real estate market and support of its largest investors has allowed the Company to maintain our regular dividend payments. The highly anticipated launch and rollout of rlpSPHERE has been a great success. Agent and broker testimonials have been very positive as the benefits of this new digital ecosystem quickly materialized.

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

Q&A

Operator

At this time, if you would like to ask a question over the phone lines, please press *, then 1 on your telephone keypad. We will pause for a moment to compile the Q&A roster.

Once again, if you would like to ask a question over the phone lines, please press *, then 1 on your telephone keypad.

There are no questions over the phone lines at this time. I turn the call back over to the presenters.

Phil Soper

Thank you. And thank you for those who both tuned in to listen to our live quarterly update and the many who sign on afterwards to listen to the recorded comments.

I wish to thank Glen and everyone else for contributing to the Company in these unusual times.

Look forward to keeping you up to date, both on these quarterly calls and with regular updates between them.

So until then, I will sign off.

Operator

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