

Foxtons Group

Interim results

Valuation offers 100% upside

Foxtons Group's H1 results clearly highlight the success of the strategy the company embarked on at the start of last year. Although there is still work to be done, significant progress has been made and it now appears likely that the medium-term target of reaching operating profit in the range of £25–30m can be achieved. Although we have maintained our existing forecasts and valuation, we believe the risks appear to be to the upside, considering that the underlying macroeconomic data appear to be supportive; something that has been lacking for some time.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/22	140.3	13.7	3.0	0.9	22.0	1.4
12/23	147.1	15.2	2.9	0.9	22.9	1.4
12/24e	157.6	19.4	3.7	1.3	17.9	2.0
12/25e	166.6	22.5	4.4	1.6	14.8	2.4

Note: *PBT is normalised, excluding amortisation of acquired intangibles, exceptional items, discontinued business and share-based payments. EPS is similar but after charging for share-based payments and excluding deferred tax re-measurement attributable to the corporate tax charge (ie diluted company definition).

Benefits of market stability and internal initiatives

H1 revenue rose 10.7% to £78.5m. Growth was registered in all three divisions, with the key driver being Sales. Adjusted operating profit increased 23.9% to £8.5m as losses were significantly reduced in Sales, reflecting the inherent operational gearing. Adjusted PBT increased 22.7% to £7.4m and adjusted, diluted EPS rose 40.8% to 1.8p. The interim dividend was increased 10% to 0.22p/share in line with the strategy and net debt came in at £11.3m versus £2.1m at H123, largely reflecting the impact of acquisitions and lease repayments.

Material progress towards medium-term targets

Foxtons continues to demonstrate progress towards its medium-term target of generating operating profit of £25–30m per year. So far it has achieved the growth and demonstrated the returns in Lettings, exceeded its market share target in Sales and made progress towards the target growth rate in Financial Services. This is being achieved partly due to the introduction of internal initiatives to retain and add headcount where required, to embrace AI-driven activities to improve the quality of leads as well as introducing targeted, themed marketing plans to raise brand awareness.

Valuation: Unchanged at 132p/share

Following the H124 results, we retain our existing FY24 and FY25 estimates and our 132p/share valuation, which is discussed in our [FY23 results note](#). That said, we believe that the risks to forecasts appear to be to the upside considering the remarkable expansion of market share in Sales in a flat market and the prospect of improved sentiment across the housing market, as base rates have now been lowered for the first time in several years and economic growth appears to be accelerating from a low base.

Real estate

20 August 2024

Price 66p

Market cap £202m

Net debt (£m) at 30 June 2024 11.3

Shares in issue 303.5m

Free float 100%

Code FOXT

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.6 (3.5) 71.1

Rel (local) (1.5) (3.2) 48.4

52-week high/low 71p 34p

Business description

Foxtons Group is London's leading and most widely recognised estate agency. It operates from a network of 60 interconnected branches offering a range of residential-related services, which break down into three separate revenue streams: Lettings, Sales and Financial Services.

Next events

Q3 trading update October 2024

Preliminary results March 2025

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[Edison profile page](#)

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H124 results a key milestone in the Foxtons journey

The benefits of market stability and successful growth initiatives were clearly seen in H124, with revenue and profits increasing by 10.7% and 23.9% respectively. Although Lettings is seen as the key driver of increased recurring revenue and therefore improved quality of income, the Sales operation performed particularly strongly, but in a flat market, testament to the success of the company's strategy. In fact, material progress has been achieved in all three divisions, and with a growing economy and declining mortgage rates, it would appear that further success is possible. Our estimates are unchanged but include the potential for Foxtons to hit the bottom of its £25–30m operating profit target range in FY26.

H124 grew strongly and benefited from internal initiatives

In H124, Foxtons benefited from both market stability and its strategic initiatives, which are beginning to generate significant traction. Revenue increased 10.7% to £78.5m, with growth being registered in all three divisions, with the key driver being Sales. Adjusted operating profit increased 23.9% to £8.5m, as losses were significantly reduced in Sales as the operational gearing inherent in the business came to bear. Adjusted PBT increased 22.7% to £7.4m and adjusted and diluted EPS rose 40.8% to 1.8p as the tax rate reduced.

The interim dividend was increased 10% to 0.22p/share, in line with the strategy, and net debt came in at £11.3m, versus £2.1m as at H123, largely reflecting the impact of acquisitions and lease repayments. We calculate free cash flow almost doubled year-on-year, from £3.4m in H123 to £6.4m, which is a fairer reflection of the underlying cash performance in the business.

Exhibit 1: Interim results summary

£m	H119	H120	H121	H122	H123	H124	H123 vs H119	H124 vs H123
Revenue								
Lettings	32.4	25.7	32.9	39.4	49.8	52.4	61.5%	5.2%
Sales	15.4	11.1	25.2	20.8	16.9	21.6	39.9%	27.6%
Financial Services	4.0	3.6	5.2	4.8	4.2	4.5	14.7%	7.5%
Total revenue	51.8	40.4	63.4	65.1	70.9	78.5	51.5%	10.7%
Adjusted operating profit								
Lettings	2.0	2.0	1.5	7.3	14.1	12.9	-	-8.5%
Sales	(3.5)	(4.8)	4.4	(0.7)	(6.4)	(3.7)	-	-41.2%
Financial Services	0.6	0.5	1.1	0.8	0.2	0.6	-	197.5%
Corporate costs	-	-	(1.5)	(1.2)	(1.2)	(1.3)	-	15.3%
Total adjusted operating profit	(0.9)	(2.4)	5.4	6.2	6.8	8.5	-	23.9%
PBT (ex-exceptionals)	(2.1)	(3.5)	4.4	5.2	6.0	7.4	-	22.7%
EPS – adjusted, diluted (p)	(0.7)	(1.6)	1.1	1.1	1.3	1.8	-	40.8%
DPS (p)	-	-	0.18	0.20	0.20	0.22	-	10.0%
Net cash	14.5	40.5	24.4	11.6	(2.1)	(11.3)	-	437.0%

Source: Foxtons Group, Edison Investment Research

Lettings revenue growth and underlying retention improve

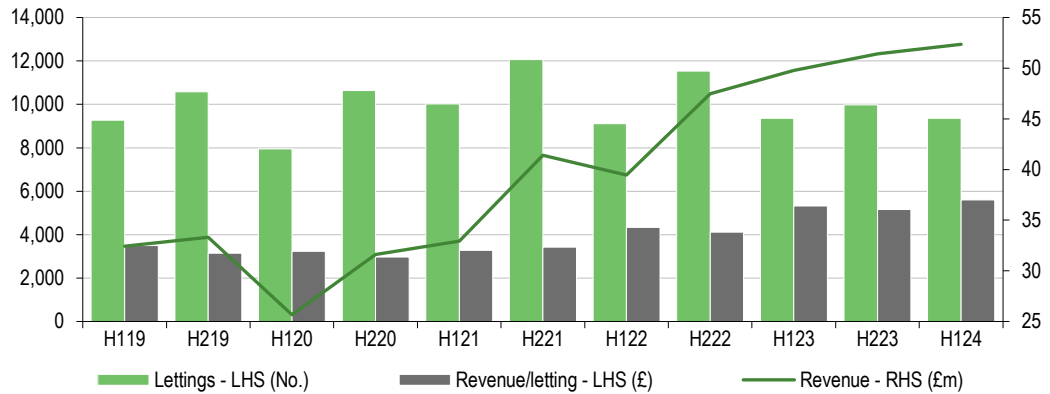
In H1, Foxtons' Lettings revenue increased 5.2% to £52.4m (H123: £49.8m) and accounted for just under 70% of total group revenue for the period. Average revenue per transaction increased by a modest 3.7% to £5,514 as the demand and supply dynamics stabilised and there was a 1.4% increase in the overall lettings volumes to 9,495. Of the £2.6m revenue increase, £2.2m was accounted for by two additional months' trading from Atkinson McLeod (acquired in March 2023) and an additional six months of trading from Ludlow Thompson, acquired in November 2023, and interest on client monies rose from £2.3m to £3.4m.

The headline figures hide double-digit growth in new business, as there was an offsetting temporary reduction in the volume of existing tenancies re-transacting in the period, the result of a deliberate decision to lengthen tenancy terms that were originally signed in 2022 and 2023. In the short term,

this implies fewer re-transactions, but in the longer term it improves client retention rates and therefore the proportion of recurring revenues within the group, which is a key element of the group’s strategy. The average tenancy duration has improved by c 20% since 2022.

Exhibit 2 below tracks the number of lettings, revenue and revenue per letting since H119. Although volumes have been broadly flat, revenue per letting has increased materially since H220, implying that total revenue in H124 was over £50m and at a record for the company. We expect further growth in H2 to reflect market strength and seasonality, which tends to see greater volumes of lettings in H2.

Exhibit 2: Foxtons Lettings activity by half year since H119



Source: Foxtons Group

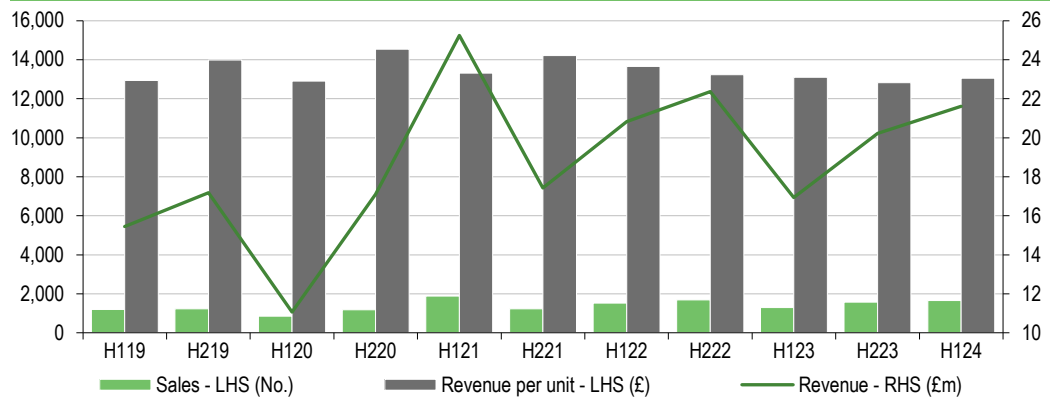
Despite the 5% growth in the top line, operating profit declined 8.5% to £12.9m in H124 due to increased central cost allocations, which in turn were the result of the increased cost of growth initiatives and overall cost inflation.

Sales market share jumps in a flat market.

Sales revenue increased 28% to £21.6m as exchange volumes handled by Foxtons increased by the same amount, despite flat London exchange volumes as the internal initiative to retain fee-earning staff in the downturn began to pay off. As a consequence of this dynamic, Foxtons’ market share increased markedly, from 3.9% to 5.1%, which is ahead of its medium-term target of 4.5%. Average revenue per transaction was flat year-on-year as the average sales price and the average commission rates earned were broadly maintained, at £581k (FY23: £584k) and 2.16% (FY23: 2.17%) respectively.

The chart below clearly shows that although revenue per unit over the medium term has remained at c £13k, revenue is now c 50% higher that it was in 2019, as volumes have increased by c 25%. The outlook in the current market as measured by the agreed sales pipeline supports this growth momentum.

Exhibit 3: Foxtons Sales activity by half year since H119



Source: Foxtons Group

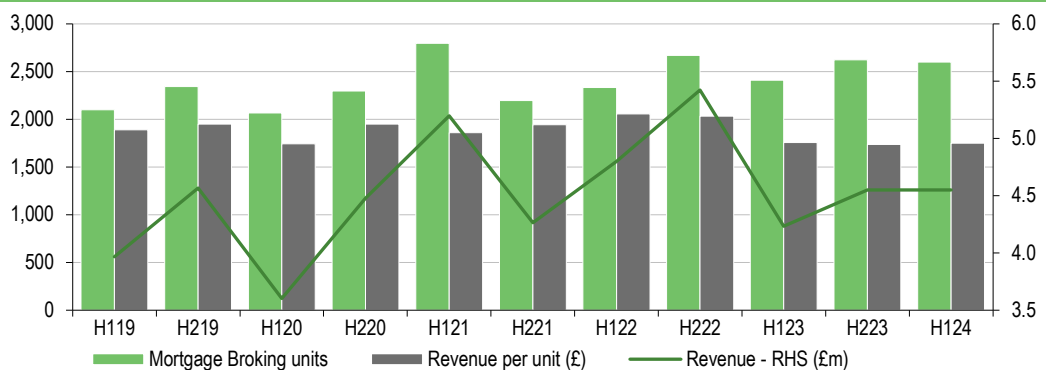
Partially as a result of the material growth in revenue, operating losses were nearly halved, from £6.4m in H123 to £3.7m in H124, as the benefit of increased revenue fed through, offset by an increase in the allocation of central costs.

Financial Services continues robust performance

Financial Services revenue increased by 7% to £4.5m, which is the highest H1 figure recorded in the last six years, bar the COVID-booster period in H121. The division handled a volume increase of 8%, with the average revenue per transaction flat, as a 2% increase in the average loan size was offset by an adverse product mix as product transfers, rather than new loans, continued to grow.

In the period, £2m of the £4.5m of divisional revenue was generated by non-cyclical and recurring refinance activity, and the balance was largely made up of purchase activity.

Exhibit 4: Foxtons Financial Services activity by half year since H119



Source: Foxtons Group

Operating profit in Financial Services increased by £0.4m y-o-y versus an increase of £0.3m in revenue, as productivity gains were extracted from the business. The operating margin jumped from 5% in H123 to 13%.

Operational initiatives bear fruit

The growth discussed above and the progress towards strategic targets mentioned in the next section have been at least in part driven by a series of internal initiatives. These include:

- An increase in the fee-earner headcount, which was up 5% over the previous year and is now considered to be broadly at a level consistent with further growth. Fee earner retention levels have improved as has the level of experience in the business, which has been complemented by a comprehensive training programme and a return to Foxtons' high-performance culture.
- An increase in lead generation and conversion, assisted by a new AI-driven lead-scoring platform that was developed and deployed internally. This new platform complements and

builds on the 2023 lead-scoring software employed within Foxtons' dedicated customer prospecting centre.

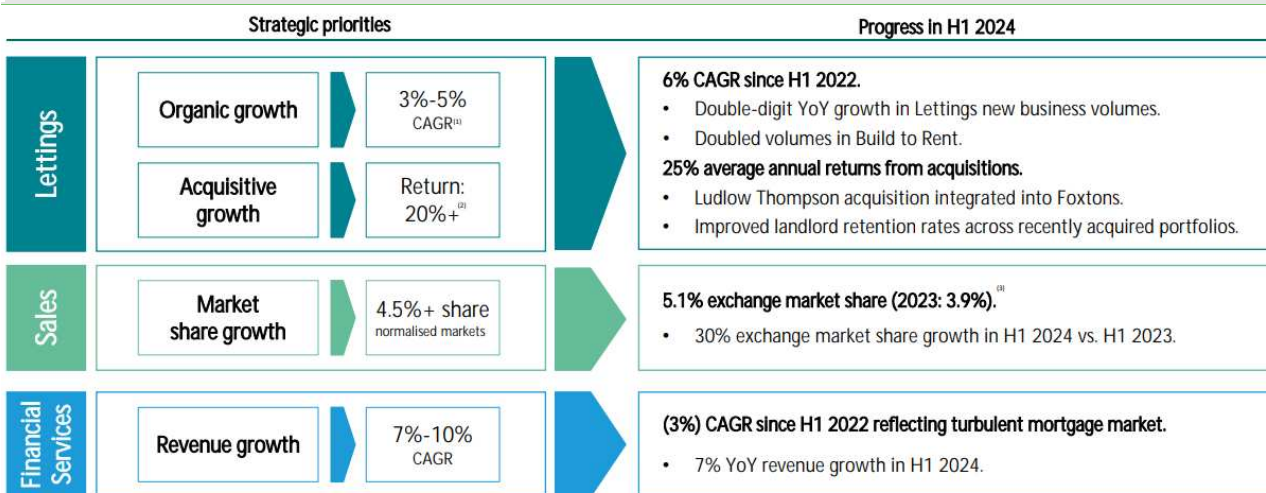
- The launch of seasonal marketing campaigns, which included 'Grab January by the Foxtons' early in the new year, 'Spring into action', obviously in the spring, and 'Ready, Set, Foxtons', designed to generate leads with a sports theme given the anticipated summer of sport, such as Wimbledon and the Olympics.

Furthermore, Foxtons has invested in improved customer services and staff productivity this year, which includes a new real-time customer feedback system that allows Foxtons to better understand the requirements and challenges of its customers. Improved customer service is also a key driver of the property management activity, which in turn should drive landlord retention and therefore the quality of ongoing revenue across the group.

Strategic progress achieved towards ambitions

Foxtons has a medium-term target of delivering operating profit of £25–30m and a long-term strategy of decoupling earnings from the sales market cycles and of increasing the proportion of non-cyclical and recurring revenues. The chart below sets out Foxtons' unchanged strategic priorities by division and the latest progress towards them in H1, which we believe is impressive.

Exhibit 5: Latest progress towards medium-term ambitions



¹⁾ Defined as organic revenue growth excluding interest earned on client monies and the revenue contribution from lettings acquisitions completed since 1 January 2023.

²⁾ Return on invested capital.

³⁾ Year to date market share of exchanges in Foxtons' addressable markets. Source: TwinklCI.

Source: Foxtons Group

For example, in Lettings, which is the bedrock of the recurring revenue target, the company is targeting 3–5% revenue growth pa and returns on acquired expenditure of over 20%. Since H122, Foxtons has achieved 6% pa revenue growth, which has benefited from double-digit year-on-year growth in Lettings new business volumes and a doubling of the volumes of Build to Rent. It has also achieved a 25% average return on the capital invested in acquisitions, including the purchase of Ludlow Thompson, and improved the landlord retention rates within the acquired and existing portfolio by deliberately lengthening the tenancy agreements.

In Sales, Foxtons is targeting a 4.5% market share, compared to a 3.3% share in H122. As a result of numerous management initiatives, including investment in the retention of fee-earning staff, Foxtons enjoyed a 5.1% market share in H124 in a flat exchange market. To put this another way, despite a flat market in volume terms, Foxtons grew its volumes by an impressive 28%, hence the material increase in market share.

In Financial Services, the smallest division, Foxtons is targeting revenue growth of 7–10% pa and has seen volumes decline c 3% pa since H122, due largely to volatile mortgage markets. However,

in H124, revenue increased 7%, in line with the bottom of the target range and, with base rates beginning to edge down, it appears more likely that the target can be achieved in the future.

Exhibit 6: Financial summary

	£m	2019	2020	2021	2022	2023	2024e	2025e	2026e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		106.9	93.6	126.5	140.3	147.1	157.6	166.6	173.3
EBITDA		13.5	15.7	25.1	27.8	30.0	35.0	37.7	42.6
Normalised operating profit		0.6	3.8	12.1	15.6	17.1	22.0	24.7	29.6
Amortisation of acquired intangibles		(0.6)	(0.8)	(1.7)	(1.6)	(1.8)	(2.4)	(2.4)	(2.4)
Share-based payments		(0.7)	(1.0)	(1.5)	(0.2)	(1.0)	(2.0)	(2.0)	(2.0)
Total adjusted operating profit		(0.7)	1.9	8.9	13.9	14.3	17.6	20.4	25.2
Exceptionals		(5.7)	(1.1)	(1.4)	(0.1)	(4.5)	0.0	0.0	0.0
Reported operating profit		(6.3)	0.8	7.6	13.8	9.8	17.6	20.4	25.2
Net Interest and exceptionals		(2.5)	(2.2)	(2.0)	(1.9)	(1.9)	(2.6)	(2.2)	(1.9)
Profit Before Tax (norm)		(1.9)	1.6	10.0	13.7	15.2	19.4	22.5	27.6
Profit Before Tax (reported)		(8.8)	(1.4)	5.6	11.9	7.9	15.0	18.2	23.3
Reported tax		1.0	(1.8)	(6.9)	(2.4)	(2.4)	(3.8)	(4.5)	(5.8)
Profit After Tax (norm)		(0.9)	(0.2)	3.1	11.4	12.8	15.6	18.0	21.8
Profit After Tax (reported)		(7.8)	(3.2)	(1.3)	9.6	5.5	11.3	13.6	17.4
Discontinued operations		0.0	0.0	(4.8)	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(0.9)	(0.2)	(1.7)	11.4	12.8	15.6	18.0	21.8
Net income (reported)		(7.8)	(3.2)	(6.2)	9.6	5.5	11.3	13.6	17.4
Basic average number of shares outstanding (m)		275	314	324	308	302	302	302	302
EPS - basic normalised (p)		(0.32)	(0.08)	(0.52)	3.69	4.23	5.17	5.95	7.21
EPS - basic reported (p)		(2.83)	(1.02)	(1.90)	3.11	1.82	3.73	4.51	5.77
EPS - Continuing, diluted, and adjusted. Company definition (p)		(1.06)	(0.16)	1.98	3.00	2.88	3.67	4.44	5.69
Dividend (p)		0.00	0.00	0.45	0.90	0.90	1.29	1.55	1.99
Revenue growth (%)		(-4.1)	(-12.5)	35.2	10.9	4.9	7.1	5.7	4.0
Normalised Operating Margin (%)		0.5	4.1	9.5	11.1	11.6	14.0	14.9	17.1
BALANCE SHEET									
Fixed Assets		178.7	173.4	184.4	191.7	214.2	206.4	197.1	188.0
Intangible Assets		101.0	103.5	107.3	109.3	114.9	116.0	117.1	118.2
Goodwill		9.3	11.4	17.7	26.1	40.7	40.7	40.7	40.7
Tangible Assets		13.0	10.5	9.7	10.7	9.5	13.6	16.3	19.1
Right of use assets		51.4	44.4	43.8	42.6	42.5	29.5	16.5	3.5
Contract assets		0.6	0.4	0.9	1.7	4.7	4.7	4.7	4.7
Investments & other		3.3	3.1	5.1	1.4	1.9	1.9	1.8	1.8
Current Assets		30.2	52.6	39.3	34.5	37.1	41.8	55.3	72.5
Contract assets		1.0	1.7	3.7	5.7	14.3	14.3	14.3	14.3
Debtors		13.4	13.9	16.0	16.0	17.4	20.5	21.7	22.5
Cash & cash equivalents		15.5	37.0	19.4	12.0	5.0	6.6	19.0	35.3
Other		0.3	0.1	0.3	0.7	0.5	0.5	0.5	0.5
Current Liabilities		(27.9)	(29.2)	(31.9)	(38.7)	(57.1)	(51.4)	(52.0)	(52.4)
Creditors, tax and social security		(10.5)	(10.3)	(14.5)	(16.7)	(21.4)	(15.9)	(16.8)	(17.4)
Lease liabilities		(9.7)	(10.8)	(8.8)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)
Short term borrowings		0.0	0.0	0.0	0.0	(11.7)	(11.7)	(11.7)	(11.7)
Contract liabilities		(6.3)	(7.7)	(8.2)	(9.7)	(11.8)	(11.8)	(11.8)	(11.8)
Other		(1.4)	(0.4)	(0.3)	(1.5)	(1.6)	(1.4)	(1.1)	(0.9)
Long Term Liabilities		(65.2)	(62.4)	(68.4)	(64.9)	(68.6)	(59.4)	(49.8)	(40.3)
Lease liabilities		(46.2)	(40.7)	(39.3)	(35.8)	(36.9)	(27.7)	(18.1)	(8.6)
Contract liabilities		(1.3)	(1.1)	(1.1)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Other long term liabilities		(17.8)	(20.6)	(28.0)	(28.8)	(31.3)	(31.3)	(31.3)	(31.3)
Net Assets		115.8	134.5	123.5	122.7	125.6	137.5	150.6	167.7
CASH FLOW									
Op Cash Flow before WC and tax		(2.6)	4.3	6.6	15.0	11.6	20.0	22.7	27.6
Depreciation - Right of use assets and goodwill		9.8	9.4	13.8	12.2	12.9	13.0	13.0	13.0
Branch asset impairment		4.3	1.7	1.1	(0.3)	3.4	0.0	0.0	0.0
Gain on disposal of PPE etc		(0.4)	(0.5)	(1.4)	(0.3)	0.2	(0.5)	(0.5)	0.5
Working capital		(2.6)	(0.6)	1.7	(1.2)	(10.8)	(8.6)	(0.3)	(0.2)
Decrease in provisions		0.8	(0.8)	0.2	1.1	(0.5)	(1.0)	(1.0)	(1.0)
Share based payment charges		0.7	1.0	1.5	0.2	1.0	2.0	2.0	2.0
Cash settlement of share incentive plan		(0.4)	0.0	0.0	(0.0)	0.0	(0.5)	(0.5)	(0.5)
Tax		0.2	0.2	(0.2)	(2.7)	(2.2)	(3.8)	(4.5)	(5.8)
Net operating cash flow		9.8	14.7	23.5	23.9	15.7	20.6	30.9	35.5
Capex		(0.3)	(0.4)	(1.7)	(2.9)	(2.1)	(1.9)	(2.0)	(2.1)
Acquisitions/disposals		(0.2)	(3.9)	(14.5)	(9.6)	(15.5)	(2.3)	(0.8)	(0.8)
Net interest		0.0	0.0	(0.0)	0.1	0.1	(0.1)	0.0	0.3
Dividends		0.0	0.0	(0.6)	(1.5)	(2.7)	(2.7)	(3.9)	(4.7)
Repayment of lease liabilities		(12.0)	(10.0)	(15.2)	(12.7)	(12.5)	(12.0)	(12.0)	(12.0)
Purchase of own shares and proceeds from issue		(0.1)	(20.8)	(5.7)	(4.9)	(1.1)	(0.3)	(0.3)	(0.3)
Other		0.3	0.3	0.3	(3.4)	0.2	0.3	0.3	0.3
Net Cash Flow		(2.4)	21.5	(13.9)	(11.1)	(17.9)	1.7	12.3	16.3
Opening net debt/(cash)		(17.9)	(15.5)	(37.0)	(23.1)	(12.0)	6.8	5.1	(7.2)
Other non-cash movements		0.0	(0.0)	0.0	0.0	(0.9)	0.0	0.0	0.0
Closing net debt/(cash) (ex-lease liabilities)		(15.5)	(37.0)	(23.1)	(12.0)	6.8	5.1	(7.2)	(23.5)

Source: Foxtons Group accounts, Edison Investment Research

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