

Bridgemarq Real Estate Services Inc.

2024 Third Quarter Results Conference Call

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CORPORATE PARTICIPANTS

Spencer Enright

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

Glen McMillan

Bridgemarq Real Estate Services Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Jeff Fenwick

Cormark Securities — Analyst

PRESENTATION

Operator

Good morning. My name is Sylvie and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. 2024 Third Quarter Results Conference Call. This call is being recorded. Note that all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. For those of you who dialed into the conference call, if you would like to ask a question, simply press star then the number one on your telephone keypad. And if you would like to withdraw from the question queue, press star then two. For those of you joining us via webcast, if you would like to ask a question, simply type it into the Q&A box on your screen. We will answer these questions following the dial-in questions after the presentation, time permitting.

I would now like to introduce Mr. Spencer Enright, Chief Executive Officer of Bridgemarq Real Estate Services Inc. Sir, you may begin your conference.

Spencer Enright — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Thank you, Sylvie. Good morning, everyone, and thanks for joining us on the call today. With me today is our Chief Financial Officer, Glen McMillan. I will begin with a brief overview of our Company's third quarter results, Glen will then discuss our financial results in more detail, and I'll conclude by providing some remarks on operational highlights, Company updates, and market developments. Following our remarks, Glen and I would be happy to take your questions.

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 the anticipated future results expressed or implied by such forward-looking statements. I encourage everyone to review the cautionary language in our news release and on all our regulatory filings. These can be found on our website and on SEDAR+.

We are pleased with our performance in the third quarter. Revenue for Q3 was \$126.8 million compared to \$12.8 million last year, which I'll remind you reflects the addition of the businesses that were acquired on March 31st. At its meeting 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, which is consistent with 2023.

And with that, I'll turn the call over to Glen for a closer look at our third quarter financial performance.

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

Thank you, Spencer, and good morning, everyone.

Revenue during the first nine months of the year was \$249.2 million, a significant increase over the \$37.6 million that we recorded in 2023. As Spencer mentioned during the quarter, revenues were \$126 million, up from \$12.8 million recorded in the same period last year. The year-over-year

improvements are a result of including gross commission income from the brokerage operations we acquired at the beginning of the second quarter.

Franchise fees were substantially unchanged from the prior year after adjusting for intercompany eliminations. The number of realtors in our franchise network currently sits at 20,430, a net decline of 99 agents since the start of the year. This includes 2,010 agents operating at the Royal LePage and Via Capitale brokerages that we recently acquired. Including the Proprio Direct brokerage, which operates throughout the province of Quebec, our corporately-owned brokerages are comprised of 2,724 realtors operating in the GTA, the Greater Vancouver Area, and the province of Quebec.

In the third quarter the Company generated a net loss of \$10.8 million compared to net earnings of \$8.6 million in 2023. The lower earnings are largely driven by a loss of \$10.8 million on the fair valuation of the exchangeable units compared to a gain last year. Our adjusted net earnings, which considers our operating earnings before certain non-cash, non-operating adjustments, and payments to holders of exchangeable units, amounted to \$2.7 million in the quarter, down from \$3.7 million in the third quarter of last year. The lower results were as a result of higher amortization expense on the assets that we acquired in March, higher interest rates, partly offset by the positive earnings impact of the brokerage operations.

During the quarter, cash provided by operating activities amounted to \$2.7 million compared to \$4.5 million in 2023. The decrease is driven primarily by increased distributions to holders of exchangeable units, which were issued to complete the acquisition earlier in the year, and increased working capital investment.

The Company generated \$5.3 million in free cash flow in the quarter, an improvement over the \$5.1 million generated in the same quarter of last year.

The Canadian residential real estate market grew in the third quarter of 2024, closing at \$80 billion, an increase of 5% compared to the same period in 2023, driven by a 1% rise in average selling price and a 4% increase in sales. The Greater Toronto area real estate market was flat year over year, closing at \$16.7 billion in the third quarter. The Greater Vancouver real estate market was down 9% year over year, driven by an 8% decrease in unit sales and a 2% decline in average selling price. In the province of Quebec, the residential real estate market recorded an increase of 18%, closing at \$10.3 billion in the third quarter of 2024 compared to last year. This reflects a 12% increase in unit sales and a 5% increase in average selling price.

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

Spencer Enright — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Thanks, Glen.

So, in the third quarter, buyer demand remains somewhat sluggish in Canada, largely, you know, our most expensive real estate markets; however, early indicators at the start of the fourth quarter point to a boost in buyer activity. October year-over-year sales increased by 30% nationally, as was announced by the Canadian Real Estate Association this morning. That also included year-over-year increases of 32% in Greater Vancouver and 44% in the GTA. Much of this can be attributed to increased

consumer confidence following multiple rate cuts by the Bank of Canada. Over the last several months we have seen the policy rate drop four times, including by 50 basis points in the most recent announcement in October. Currently, the key lending rate sits at 3.75%.

The central bank has cited falling inflation as one of the key factors influencing their recent rate decisions. Canada's consumer price index, their broadly used measure of domestic inflation, continues to sit just below the bank's target of 2% to 3%. In September, Canada's inflation rate fell at 1.6%. As consumers benefit from materially lower borrowing costs, the state of the Canadian real estate market is expected to improve, a result that would benefit our shareholders and the thousands of real estate professionals in our network.

Our brand portfolio, led by our 111-year-strong flagship national brand, Royal LePage, continues to attract and retain top real estate agents across the country. We remain committed to investing in industry-leading technology platforms, including lead-generating and nurturing tools, and best-in-class training and coaching programs.

For example, during the third quarter we launched RLP InvestorsEdge, a first-of-its-kind investor platform targeted at training and generating leads for our realtors who work with individuals interested in owning real estate for investment purposes. To support agents at our Johnston & Daniel luxury brand with their thought leadership initiatives, we've tailored marketing materials created with a focus on economic and industry-related content. In an effort to nurture the next generation of industry professionals, Via Capitale, our Quebec-based brand and franchise network, began collaborating with a real estate training academy in Montreal. And at our Quebec-based brand, Proprio Direct, we continued

to improve recruiting techniques, attracting a greater number of established professionals to the Company. These important developments empower us to drive growth for our industry-leading brands, unlocking new opportunities and delivering greater value for our shareholders.

Over the past six months of operating our expanded business, we have produced positive results and are excited about the opportunities for growth that lie ahead. We look forward to continuing to share news of our success with you in the future. With that, I'll turn the call back to our operator and open the call up for questions.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, as stated, if you would like to ask a question, please press star followed by one on your touchtone phone. You will then hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. Please go ahead and press star one now if you do have any questions.

First we will hear from Jeff Fenwick at Cormark Securities. Please go ahead.

Jeff Fenwick — Analyst, Cormark Securities

Hi. Good morning, everyone. Thanks for taking my question. So I wanted to maybe start off talking about the integration of the owned brokerage business into the public company. There was some commentary there about the ongoing integration. You've made some good headway there. What are

the things that are left to be done here? Is that integration now largely complete or are there some other areas that you want to enhance or change in some way or additional cost savings that you might be able to find?

Spencer Enright — President & Chief Executive Officer, Bridgemark Real Estate Services Inc.

Thanks, Jeff. Thanks for joining and thanks for the call. Yeah, for the most part, we're complete. We restructured the organizational structure, the leadership structure, shortly after the transaction was completed and then we've also just been doing some other, I'd say organizational structural changes. For example, under Glen, we've consolidated the finance and accounting functions across all the businesses to be a single efficient organization. And my leadership routines now are with an expanded leadership executive across all of the Bridgemark businesses and so that's up and running now. The actual operation of the business, we're looking for opportunities to continue to partner with our other brands. For example, sometimes we have relationships with other suppliers or partners, like mortgage referrals, and so we're looking at opportunities to do more, leverage the bigger scale that we have, and look at it more holistically. But for the most part, from a reorganization, that's all done.

Jeff Fenwick — Analyst, Cormark Securities

Okay. That's very helpful. Thank you. And maybe just some colour would be helpful on the outlook for building the realtor count, and maybe we'll split it between opportunities to do some reflagging and expand the franchise base versus how you're thinking about opportunities for more of the actual broker ownership.

Spencer Enright — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Yeah, I can comment on some of that. I think, first of all, just as a normal course of business for all of our brands, we have a pipeline of growth activities, whether that's organically recruiting individual agents across the networks or in our brokerages or agent teams, but also franchises. And we've had success year to date with reflagging of a couple of franchises from competitor brands. And those are ongoing. I think those will continue as we would normally do. That I would say is probably the most of what we would see near term. Anything else beyond that is probably more opportunistic. And all of it would be clearly competitively sensitive, so I'm not probably at liberty to share all of that in advance of anything we do.

Jeff Fenwick — Analyst, Cormark Securities

Sure. I appreciate that for sure. And maybe any broad commentary just on the competitive environment you are seeing out there? I mean some of your peers are based out of the US and are active in Canada, been a lot of change in the industry, I guess, over the last couple of years. Anything material happening there in terms of being more or less aggressive or is this more sort of status quo?

Spencer Enright — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Well, I think, in general, the competitive landscape here is pretty stable versus what we saw, for example, at the beginning of the year or last year. The major players out there are still the same major players with similar structures. And so, you know, we compete market by market, individual community by community, and our realtors are competing for listings, competing for clients on a daily basis. None of

that's changed. None of the dynamics like that have changed. I think some of the things that we're doing to provide better tools and services, whether it's leveraging AI, leveraging other tools or properties or lead-gen, those things are all ongoing. I wouldn't say that there's a change in the landscape of competitive environment. We haven't really noticed anything different in competitor behaviour or strategies versus what we've probably observed before.

Jeff Fenwick — Analyst, Cormark Securities

Okay. Thank you for that colour. And then maybe just one last one, if I may, on maybe just the housing market in general. You did call out some of the data out of CREA this morning that looked pretty constructive. How do you think about the opportunity heading into next year? Some of the changes put forward by the government around things like insured mortgages and access to longer amortization on some mortgage products look like they could be pretty constructive and will come into play through the end of the year. Are you sort of expecting a nice uptick from changes like that alongside the lower rate environment?

Spencer Enright — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Yeah, Jeff, well, certainly, all those policy changes we expect to see be beneficial. On the insured mortgages, moving the cap up above \$1 million is widely expected, by anybody in the industry, to benefit the higher-income properties, especially in the GTA and Vancouver. That \$1 million mark is a median pricing on single-family homes in some markets, so this definitely helps us.

Looking at Canadian Real Estate Association's forecast for next year, they just published the latest, they do it quarterly, and actually they're looking at plus 5.2% in transaction activity, average selling price being a little bit higher, plus 0.9%. I wouldn't say that we have any predictions that are materially different than that, but we certainly expect that all of that is driven by better affordability in the market and better policy. I think what we've been encouraged to see, and not just in this year but in recent years, is that all levels of government, whether it's municipal, provincial, or federal, are focused on improving affordability, improving the housing supply for all Canadians across the entire country, and it's exciting to see the entire political spectrum working towards a common goal. How they achieve that is very different depending on the roles they play, but this, I think, is the first time in decades that we've had a common purpose across the country and that bodes well. I think that helps us a lot.

Jeff Fenwick — Analyst, Cormark Securities

Okay, great. Thanks for that. That's all I had.

Spencer Enright — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Great. Thanks, Jeff.

Operator

Again, a reminder to please press star one if you have any questions.

No more on the phone right now.

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

Thanks, Sylvie. We do have a couple of questions that came in through the webcast. First question: Looks like free cash flow per share dropped substantially. Could you address this? Thanks.

So, our free cash flow, which we define as being the cash that we generate that's available for us to distribute to shareholders and to exchangeable unitholders subject to investment opportunities, has actually increased in the quarter and increased on a year-over-year basis. For the quarter we generated \$5.3 million in free cash flow compared to \$5.1 million for the same quarter last year and on a year-to-date basis we generated \$15 million in free cash flow compared to \$14.5 million last year. I hope that answers that question.

And then the second question: Management previously stated that it expected the current dividend per share to remain the same. Is this management's belief still today?

So, the payment of dividends is at the discretion of the board and we have continued, since the acquisition, to pay dividends at the same rate that we paid prior to the acquisition. We can't really speculate as to whether we're going to continue to pay dividends in the future, because it's subject to many, many factors, but we do continue and plan to continue targeting to return a significant amount of the free cash flow that we generate to shareholders in the future.

And those are all the questions that we received from the website.

Operator

No further questions on the phone.

Spencer Enright — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

All right. Well thanks, everybody, for joining us, and thank you, operator, for helping us on the call. I'd like to thank everyone and look forward to speaking to you again once we release our full year results in the spring.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time, we ask that you please disconnect your lines. Have a good weekend.