

**Bridgemarq Real Estate Services, Inc.**

**Fourth Quarter 2022 Earnings Call**

Event Date/Time: March 9, 2023 — 10:00 a.m. E.T.

Length: 18 minutes

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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 Anna and I would like to welcome everyone to the Bridgemarq Real Estate Services, Inc. 2022 Fourth Quarter Results Conference Call.

Today's conference is being recorded.

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

Mr. Soper, you may begin your conference call.

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

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

I will begin with a brief overview of the Company's fourth quarter and annual results and some high-level business updates. 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 talk today, 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 to differ materially from anticipated future results. Please see our cautionary language found in our news release, on our website, and on SEDAR.

Canada's housing market closed out 2022 much as expected: high inflation, the increased cost of living, and certain monetary policy measures contributed to weaker buyer demand, lower home valuations, and a decline in overall sales activity compared to the record highs experienced during the pandemic real estate boom.

While home prices have come down from their peak in February of last year, home values remain significantly higher than pre-pandemic levels, protecting homeowners' investments. In addition, the chronic shortage of inventory, along with a fundamental need for more homes in our country due to increased household formation and a slower building process than necessary, has helped to slow the recent slide in home prices.

In the face of such a significant reduction in transactional volumes in the Canadian real estate market over the last three quarters of 2022, we are pleased with our performance over the last year and the Company's ability to weather all kinds of market cycles.

Revenue for 2022 was \$49.9 million compared to \$50.2 million in 2021, basically flat, a modest 0.7 percent, a less than 1 percent decrease. This is due to our fixed fee revenue, which provides investors with exposure to the Canadian real estate market while also mitigating the impact of market volatility on revenues and cash flows.

I'm pleased to report that we continue to see positive agent growth in our network. In 2022, the Company's network count rose to 20,686, an increase of 3 percent over 2021. Despite a softening in the Canadian real estate market, industry professionals continue to choose our highly respected brands, a testament to the value they provide.

While demand has slowed due to rising interest rates and affordability and supply challenges, we believe that there are many Canadians waiting on the sidelines who have the capacity to buy and have chosen not to at this time. They are waiting for conditions to stabilize. We anticipate these buyers will return to the market in the coming months, and sellers who have been waiting for prices to stop their decline and flatten or turn upwards will begin to return, and, of course, yesterday's announcement by the Bank of Canada that interest rates will remain (inaudible) for the very first time in a year and since monetary policy began to tighten will be supportive of our industry overall.

At its meeting yesterday, the Board of Directors approved a dividend payable on April 28 of \$11.25 per share to shareholders of record on March 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 fourth quarter and full year financial performance.

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

Thank you, Phil and good morning everyone.

As Phil mentioned, revenue for 2022 was \$49.9 million, which is a slight decrease from the \$50.2 million we recorded in 2021. During the fourth quarter, revenues were \$10.4 million, down slightly from \$10.7 million in the same period last year.

At the end of 2022, the Company's network of realtors sat at 20,686, which reflects net growth of 527 agents year-over-year.

The Company recorded net earnings of \$21 million compared to \$4.8 million last year. The improved result was due to an \$11.5 million gain on the valuation of the exchangeable units issued by the Company. That compares to a loss of \$5 million on those exchangeable units last year. The fair valuation adjustment on exchangeable units is directly related to changes in the market price of the Company's restricted voting shares.

Distributable cash flow for the year amounted to \$20.2 million or \$1.59 per fully diluted share, down from \$21.3 million or \$1.66 per share. This is due to lower revenues and higher administration expenses, partly offset by lower management fees. In the fourth quarter, distributable cash flow amounted to \$3.8 million compared to \$4.1 million in the fourth quarter of 2021.

The Canadian residential real estate market contracted in 2022, closing at \$350.7 billion, a decline of 24 percent compared to 2021. Volumes for the year were lower by 25 percent, while average selling price was actually up 2 percent year-over-year despite price declines in the final three quarters of 2022.

In the fourth quarter, the Canadian market was down 45 percent compared to the final quarter of 2021, driven by a 38 percent decrease in unit sales and a 12 percent decrease in average selling price. However, as Phil mentioned, prices remain significantly higher than pre-pandemic levels, as average selling prices in the fourth quarter of 2022 were 26 percent higher than the same period in 2019.

In 2022, the Greater Toronto area real estate market saw a year-over-year decrease of 33 percent, closing at \$89.4 billion, driven by a 38 percent drop in unit sales compared to 2021. Average selling price in the region, however, was up 9 percent compared to last year. The Greater Vancouver real estate market was down 30 percent compared to 2021, driven by a 35 percent decrease in unit sales, partly offset by a 7 percent increase in average selling price, and the Greater Montreal market decreased 16 percent, reflecting a 23 percent drop in unit sales, partly offset by an 8 percent increase in average selling price.

I'll turn it over to Phil now to 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, Glen.

As we mentioned, Canada's real estate market contracted in 2022 as increased borrowing has caused buyers to pause their search and consequently caused many sellers to hold off in listing their homes.

Nationally, home prices were consistent with 2021. Overall in 2022, average prices in the greater regions of Toronto, Vancouver, and Montreal had changed, as Glen outlined in his comments.

Canada's Consumer Price Index, a broadly used measure of domestic inflation, continues to fall, which is encouraging. In January, the inflation rate sat at 5.9 percent, down from its peak of more than 8 percent, close to 9 percent at the peak in the middle of last year.

The Bank of Canada remains determined to restore inflation to its target rate of 2 percent, and yesterday confirmed that they believed inflation would reach 3 percent by mid-year, which is again very encouraging.

As we look at the pace that inflation is coming down, it's necessary to compare what's happening from a monetary standpoint to what's happening with the country's employment market, which has remained remarkably strong, and it's important to realize that improvements in employment, and particularly full-time employment, directly relate to the capacity of people to obtain a mortgage and purchase a home, which again is encouraging.

Following eight consecutive rate hikes, yesterday was the first pause in interest rate increases since March of 2022. The bank rate currently sits at 4.5 percent, the highest level in 15 years. The announcement is expected to boost confidence among Canadian consumers. As I've put it in recent talks, interest rates will move from front page news on a daily basis to no news, and that will be supportive of the overall housing market.



As borrowing rates stabilize, activity in the market could return to levels consistent with historical trends. We expect a healthy pipeline of buyer demand to return to activity as early as the spring market, and our hope is that sellers will follow close behind so that we don't have this restrictive inventory issue that we've suffered with through the pandemic.

As we've always said, real estate professionals trying to navigate a down market will put greater emphasis on the value a brand offers and will look for advantages that will help set them apart from the competition. This is why the Company has been able to increase its agent network even amid softening market conditions. Providing innovative technology solutions, superior coaching and training focused on how to adapt to changing client needs, and industry-leading marketing and brand awareness tools have continued to set us apart and make our brands more attractive in a competitive market, a market in which we all compete for talent, and I will say, our operating platform truly is different than that of our competitors, and more advanced.

In 2022, the Company launched a pilot project with a national digital mortgage finance company to provide qualified buyer leads to our Company and realtors, and a climate risk data tool on the national website to provide consumers with information on heat and storm risks associated with their neighbourhood.

The manager also launched an app designed for Royal LePage Realtors to help them complete and submit the regulatory forms we're required to be filed with Financial Transactions and Reports Analysis Centre of Canada, better known as FINTRAC. This should reduce the amount of administrative time that our people spend on these regulatory requirements, and increase their productivity.

In 2022, both Royal LePage and Via Capitale launched market value assessment tools on their consumer portals, allowing consumers to receive free estimates of the value of their home, or even homes in their chosen neighbourhood that aren't for sale yet, and providing strong seller leads to our network of realtors. This is the first time that a national company has been able to offer this kind of service in Canada. The Company also announced a mortgage referral partnership between Royal LePage and the Royal Bank of Canada available to the Company's realtors and the Province of Québec.

We know publicity and access to marketing tools are an important component of the benefits provided to franchisees and realtors. As such, Royal LePage launched the marketing campaign, It's That Simple, last year that included broadly available social media assets and marketing collateral for agents to use across the country. It has been tremendously successful and well-liked by consumers and our people in the field alike.

Royal LePage received three prestigious awards for excellence in media and government relations last year, including a campaign calling for decision makers, for policy makers at all levels of government to focus on increasing our housing supply ahead of the last federal election.

In conclusion, while sales volume were significantly lower in '22 compared to the previous year's all-time highs, average home values remain significantly higher than pre-pandemic levels, protecting the value of Canadians' most important asset, and modest average annual price increases nationally in the country's largest urban centres were recorded.

The Company's success in attracting new agents, coupled with a business model designed to mitigate the impact of weaker real estate markets, has maintained our revenue at levels compared to 2021, which is a victory with a correction as large as one we saw in the latter part of last year.

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

## Q & A

### Operator

Thank you.

As it appears there are no telephone questions, I'd like to turn the conference back over to Mr. Soper for closing comments.

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

Thanks very much.

I'd like to thank everybody for signing in today and for those of you that listen to the call on a recorded basis as well, and encourage you to sign on to our Virtual Annual General Meeting, the details of which can be found on our website, Brookdale Real Estate Services, Inc. Thank you again, and talk to you at that time.

### Operator

Once again, that does conclude today's conference. We thank you all for your participation. You may now disconnect.