

**Bridgemarq Real Estate Services Inc.**

**Third Quarter 2022 Earnings Call**

Event Date/Time: November 8, 2022 — 10:00 a.m. E.T.

Length: 15 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 Justin, and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. 2022 Third Quarter Results Conference Call. I would now like to introduce you to Mr. Glen McMillan, Chief Financial Officer of Bridgemarq Real Estate Services Inc.

Mr. McMillan, you may begin your conference call.

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

Thank you, Justin, and good morning, everyone. We appreciate you joining us on the call this morning. Our President and CEO, Phil Soper, sends his regrets as he is unable to make the call today.

I want to remind everyone that some of the remarks expressed during this call may contain forward-looking statements. You should not place any 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 found in our news release and on all of our regulatory filings. These can be found on our website and on SEDAR.

The global economy continues to be impacted by the effects of more than two and a half years of the COVID-19 pandemic and the government's responses to it. In Canada, we have seen a prolonged period of ultra-low borrowing costs and increased savings. This, coupled with the effects of ongoing global geopolitical unrest, has contributed to high inflation and economic uncertainty, prompting strict monetary policy measures being implemented in an effort to contain the rapidly rising cost of goods around the world. For the real estate market and our business, these measures have acted as a cooling mechanism for home prices, and buyer demand over the last two quarters.

As with previous housing market slowdowns, the Company's business structure with a significant portion of distributable cash coming from fixed fee revenues showed considerable resilience during the quarter with revenues down a modest 1.6 percent compared to the third quarter last year. On a year-to-date basis, revenue is substantially unchanged compared to the same nine-month period in 2021. This fixed fee bias provides investors with exposure to the Canadian real estate market, but also mitigates the impact of market volatility on revenues and cash flows.

While the Company performed well during the pandemic and we remain optimistic, it is important to stay vigilant in the short term as the effects of world government response to inflation unfolds over the next several months. We continue to see positive agent growth in our network, a testament to the Company's highly respected brands and the value that we provide. We believe the Company's trusted brands will continue to differentiate us in today's marketplace. How this sector performs in the future will be impacted by Canada's economic performance, including employment levels and mortgage rates.

Following nearly two years of strong market activity and rapid price increases in Canada's real estate market, demand for housing has cooled significantly in the past six months. Since the Bank of Canada began raising interest rates in March, we've seen a decrease in both demand and supply as many Canadians remain on the sidelines. Buyers are assessing their financial situations and waiting for interest rates to plateau or decline, while sellers are waiting for prices to stop sliding or turn upwards.

With demand and supply falling in tandem, we anticipate limited downward pressure on prices in the coming months, as inflation decreases gradually and unemployment rates remain historically low. It is important to remember that home values remain well above pre-pandemic levels.

At its meeting yesterday, the Board of Directors approved a dividend payable on December 30 of \$0.1125 per share to shareholders of record on November 30. This indicates an annualized dividend of \$1.35 per share, which is consistent with 2021.

As for our financial results, revenue during the first nine months of the year was \$39.4 million, substantially unchanged from the \$39.5 million recorded in the same period last year. During the quarter, as I mentioned, revenue was down slightly from \$12.2 million to \$12.4 million. The Company's network of realtors sits at 2,761, which reflects net growth of 827 agents or a 4 percent increase compared to September of last year. Since the start of '21, we've grown our network by 9 percent.

The Company recorded a net loss for the quarter of \$1.1 million or \$0.12 per share compared to net earnings of \$3.9 million or \$0.28 per share during the third quarter of 2021. The results reflect a non-cash gain on the fair valuation of our outstanding exchangeable units of \$6.4 million in the third quarter compared to a loss of \$6.2 million last year.

Distributable cash flow amounted to \$4.8 million in the third quarter, down from \$5.2 million in Q3 of 2021, reflecting a decline in sales activity, partly offset by continued network growth. For the rolling 12-month period ending September 30, 2022, distributable cash flow amounted to \$20.5 million or \$1.60 per share compared to \$19.1 million or \$1.49 per share for the same period ending September 30, 2021. The improvement was driven by strong real estate markets in the last half of 2021 and the first quarter of 2022, partly offset by a slowdown in transactional dollar volume over the last two quarters.

As to the markets, during the third quarter, the Canadian residential real estate market closed down 33 percent driven by a 29 percent decrease in unit sales and a 7 percent decrease in average selling price. The Greater Toronto area saw a 43 percent decrease in market value, driven entirely by lower unit sales compared to Q3 of last year. Selling prices were virtually flat compared to September of 2021, but are 17 percent below the average transaction price in Q1 of this year when prices in the area peaked.

The Greater Vancouver market was down 42 percent in the third quarter, driven by a 44 percent decrease in unit sales, partly offset by a 3 percent increase in average selling price.

In Montreal, we saw a 21 percent reduction in market value, reflecting a 25 percent decrease in unit sales, partly offset by a 2 percent increase in average selling price.

Canada's real estate market has been contracting over the last 6 months as increased borrowing costs have caused buyers to take a pause. Prices have broadly declined on a quarter-over-quarter basis and year-over-year on a national basis; however, extensive gains made in the second half of 2020 and

throughout 2021, have not all been reversed. As I mentioned, average prices in Toronto were flat compared to Q3 of last year, while prices in Vancouver and Montreal are actually higher.

It's also worth noting that the average price of a home in Canada in the third quarter was 5 percent higher than it was in the third quarter of 2020 and is 29 percent higher than it was in Q3 of 2019 just before the start of the pandemic.

Fundamentally, there remains a severe shortage of available housing in Canada. It is encouraging, however, to see that governments at all levels are prioritizing a much-needed increase in the supply of homes. The Ontario government recently announced legislation that will allow for the construction of more multiunit residential properties on a single lot without the need for bylaw amendments, and would assign new housing targets to dozens of municipalities across the province in an effort to achieve the government's aggressive goal of building 1.5 million homes in the next decade.

If interest rates return to lower levels and the economic impacts on employment are moderate, we expect a healthy pipeline of demand to return from potential buyers, who have paused their search in the rising interest rate environment as well as those unable to transact over the last two years due to supply and affordability challenges. The federal government recently announced its commitment to immigration targeting 500,000 new Canadians each year by 2025. This is consistent with the numbers that we've seen for the 12 months ended June 30, 2022, and well above the 300,000 per year that we averaged from 2015 to 2019.

As we've noted many times on these calls, new Canadians have a very high propensity to own homes, which will add additional demand for our presently low housing stock.

Canada's consumer price index, a broadly used measure of domestic inflation, sits at 6.9 percent. While this is down from its peak of more than 8 percent in June, the Central Bank remains determined to restore interest rates to their target of 2 percent, while acknowledging that further rate increases will have a negative effect on economic growth. Like policymakers in the U.S. and around the world, the Bank of Canada has responded to the inflation threat with a series of interest rate hikes. The bank rate currently sits at 3.75 percent, its highest level since 2008, and the bank has signaled that further rate increases are likely.

As Canadians adjust to the changing economy, and specifically to higher borrowing costs, we do expect lower sales volumes through the balance of 2022 and into 2023, and a return of buyer demand when consumers are more confident that interest rates have stabilized.

In a cooling market, real estate professionals will put greater emphasis on the value their brand offers and will look for advantages that help set them apart from their competition. An innovative technology platform, superior coaching and training focused on how to adapt to changing client needs, and industry-leading market and brand awareness will be top of importance. The Company has excelled in these areas and continues to make significant investments in future growth.

During the third quarter, the Company launched its AI-driven automated property valuation software QuickQuote to consumers. This product provides Canadians with an instant current market home value estimate alongside helpful related neighborhood analytics while offering the network a new source of seller lead generation.



During the quarter, we also expanded our lead generation services by launching a pilot project with a national digital mortgage finance Company to provide qualified buyer leads to Royal LePage's network of realtors across the country. And we also added a mortgage referral partnership with the Royal Bank of Canada. The mortgage referral program is available to the Company's Via Capitale and Royal LePage agents in the province of Quebec and includes partnerships with Desjardin, Bank of Montreal, and Bank National de Canada.

While third quarter home sales volume is significantly weaker compared to last year's record performance, housing values remain higher than pre-pandemic levels, and 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 comparable to 2021. The continued growth of our network of realtors is a testament to the Company's strong investment in differentiating tools and services. Our brand's full-service offerings will likely increase in importance as agents seek for more support in this challenging market.

With that, I'll turn it back to the operator and open the call up for any questions you may have.

**Operator**

At this time, there are no phone questions. There are no phone questions at this time, sir.

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

Thanks very much, Justin. I want to thank everyone once again for joining the call today. I look forward to speaking to you again when we release our annual results for 2022 in March of next year.

**Operator**

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