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FINAL TRANSCRIPT

Bridgemarq Real Estate Services, Inc.

2023 Second Quarter Results Conference Call

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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 Vanessa and I would like to welcome everyone to the Bridgemarq Real Estate Services Incorporated, 2023 Second Quarter Results Conference Call.

This call is being recorded.

(Operator Instructions)

I would now like to introduce Mr. Philip Soper, President and CEO of Bridgemarq Real Estate Services Incorporated. Mr. Soper, you may begin.

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

Thank you, Vanessa, and good morning, everybody.

With me today is our Chief Financial Officer, Glen McMillan. We appreciate you joining us on this call this morning. I'll be with a brief overview of the Company's second quarter results and updates. Glen will then discuss our financial results to more (audio interference), and I'll conclude by providing some remarks on operational highlights of market development. Following the remarks, as Vanessa mentioned, Glen and I would be happy to take your questions.

I'd like 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 or 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 the news release and on all of our regulatory filings. These can also be found on the Bridgemarq website and on SEDAR.

Over the last quarter, Canada's housing market has been trending upward again, following a significant market correction that began in the spring of 2022. The correction followed two years of record breaking growth fueled by the pandemic.

Total transactional dollar volume has risen since the first quarter, driven by an increase in both sales volumes and home prices. In some regions, home prices have not yet returned to the levels reached at the market's peak in February of last year, yet property values are significantly higher than pre pandemic levels - we're talking about early 2020 or 2019 - because of the continued strong demand, a strong economy and a chronic shortage of housing inventory.

Results for the second quarter, were in line with our expectations softer than the same period last year. The tail end of the pandemic boom, but improved over the last quarter. The Company's business structure showed considerable resilience during the quarter with revenues down just 6.9% compared to the second quarter last year. A substantial portion of our revenue is driven by fixed fees. This allows investors to participate in the growth of the Canadian real estate market, while also mitigating the impact of market volatility on cash flows.

I'm pleased to report that despite this significant market correction, we have continued to see positive agent growth in our network. The end of the second quarter, the Company's network count sat at 20,752 practitioners, an increase of 1 percent over last year. Glen will discuss this in more detail in a moment.

At its Board meeting yesterday, directors approved a dividend payable on September 29 of $0.1125 per share to shareholders of record on August 31. This in (audio interference) $1.35 per share, which is consistent with 2022.

With that, I'll turn the call over to Glen for a look at our second quarter financial performance.

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

Thank you, Phil, and good morning, everyone.

As Phil mentioned, revenue during the first six months of the year was $24.8 million, down from $27.2 million recorded in the same period last year. During the second quarter, revenue was $12.8 million, down slightly from $13.8 million last year. The Company's network of realtors sits at 20,752, which reflects the net growth of 214 agents for just over 1 percent compared to June of last year. Since the start of 2021, however, we have grown our network by 9 percent.

In the second quarter, the Company generated net earnings of $1.1 million or $0.12 per share compared to net earnings of $11.3 million or $0.36 per share last year. The results reflect the loss on the fair valuation of our exchangeable units of $500,000 in the second quarter compared to a gain of $8.1 million last year.

Distributable cash flow amounted to $4.5 million in the second quarter, down from $5.8 million in Q2 of last year, reflecting a decline in sales activity and an increase in administration costs partly offset by continued network growth. For the rolling 12-month period ended June 30, 2023, distributable cash flow amounted to $17.9 million or $1.39 per share compared to $20.9 million or $1.63 per share for the same period ending June 30, 2022. s

During the quarter, the Canadian residential real estate market closed down 4 percent at $107 billion compared to Q2 of last year, driven by a 5 percent decrease in unit sales, partly offset by a modest increase in the average selling price of 1 percent.

The Greater Toronto area real estate market saw a year-over-year increase of 8 percent at $28 billion in the second quarter, driven by an 8 percent increase in unit sales. While we did see a modest price decline in the average selling price of homes in Toronto compared to last year, average selling prices in Toronto were up 8 percent compared to Q1 and up by 10 percent compared to Q4 of 2022.

The Greater Vancouver market was up 6 percent at $11.8 billion in the second quarter compared to 2022, driven by a 5 percent increase in unit sales and a 1 percent increase in the average selling price.

The Greater Montreal area market decreased 19 percent to $6.8 billion in the second quarter, driven by a 16 percent decrease in unit sales and a 4 percent decline in average selling price. The market correction in the Montreal region began later than in the other two major urban centers, and as a result, the rebound there is lagging.

Phil will now provide additional insights into the markets and an update on our operations.

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

Thank you, Glen.

While Canada's real estate market has not entirely reversed the declines recorded in the final nine months of 2022, as Glen mentioned, it has been growing. The market has been expanding in 2023. Compared to the second quarter last year, which marked the tail end of the pandemic fueled real estate boom, total transactional volumes are down slightly. However, since they started 2023, sales volumes and average home prices have been steadily climbing nationally and in the country's three largest urban centers. We are close to that pivotal point where most people who purchased at the peak of the market in February or March of 2022 would break even if they sold their homes today.

The Bank of Canada's extended interest rate hike campaign aimed at curbing inflation pushed many buyers to the sideline. This had caused activity to slow and average on places to decline in 2022, following a pause in interest increases that meetings in March and April which triggered many buyers return to the market. The Central Bank restarted its monetary tightening campaign.

While pleased that inflation was down significantly from the peak, the Governor of the Bank of Canada indicated that he was concerned that inflation would settle in stubbornly above the target range of 2 percent to 3 percent. Thus, interest rates were increased in June and July.

Many would be sellers who do not have a critical need to move, have put their plans to list their homes on hold. This is putting additional pressure on Canada's critical housing shortage by reducing the volume of homes available to trade hands. These homeowners who are sitting on the sidelines may hold well below market mortgages and are spooked by the sharp increase in the cost of borrowing and have decided to sit still for now. Yet every month, these below market mortgages are renewing at market rates, which is steadily thawing this freeze in activity. They're also waiting for a sign of stability in interest rate policy before moving. All of this is putting further pressure on our critically low supply of housing, which began well before the pandemic, and is putting upward pressure on home prices and this won't end any time soon.

Canada's consumer price index currently sits at 2.8 percent. The Bank of Canada acknowledged that while inflation has reduced significantly from a high of more than 8 percent last summer, downward momentum is coming from lower energy prices while core inflation remains elevated. This is due in part to immigration, adding both supply and demand to the economy. Newcomers Canada are filling labor shortages while simultaneously adding to general consumer and overall real estate demand.

The Central Bank's key lending rate currently sets sits at 5 percent. The highest it's been in 20 years. In July, Canada's unemployment rate increased marginally, but remains very high. Yet this could be a signal to the bank that the increases implemented thus far are starting to slow the economy. It remains to be seen whether the bank will raise rates again this year.

I'm pleased to say that our companies, reputable brands have continued to attract and retain high producing agents from coast to coast. Thanks to our ongoing commitment to investing and history leading technology platforms, including lead generating and lead nurturing tools are best in class training programs. The Company has excelled in areas that continue to attract the best and brightest in the industry to our brands, and we intend to continue to make significant investments in these areas for future growth.

During the second quarter, the Company launched its spring series of in-person training sessions, aimed at helping realtors reach their lead generation and conversion goals. This was done through the rlpSPHERE platform. Our Royal LePage brands, exclusive, fully customized and Canadianized cloud-based AI driven customer relationship management ecosystem, quite the mouthful. It is a digital platform that allows our people a competitive advantage in the marketplace.

In addition, the Company rebrand and relaunched the portal, the website that supports our commercial practice, our national commercial real estate business. This new platform includes the integration of external listings and the addition of new lead sources for the Royal LePage commercial practitioners through a program called Smart Leads.

The Company also continued to improve its corporate offering of training and marketing support available to members of our luxury Johnston & Daniel brand and in Quebec through Via Capitale where we continue to improve new online video platform, providing realtors with access to important news training and events information.

To recap the Company's revenue for the second quarter and year-to-date are in line with historic results and surpass pre-pandemic levels reached in 2019. We have seen sustained network growth over the last 12 months, despite the market correction and slowdown in activity which bodes well for the future.

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

Q & A

Operator

Thank you.

(Operator Instructions)

I do not see any questions at this time.

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

All right. Well, thank you very much. Then, thank you all for participating in today's call. We look forward to speaking to you again when we release our third quarter results in November.

Operator

Thank you. Ladies and gentlemen, this concludes your conference. Please disconnect your lines.