

Bridgemarq Real Estate Services Inc.

First Quarter 2020 Results

Event Date/Time: May 14, 2020 — 10:00 a.m. E.T.

Length: 25 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

COORPORATE PARTICIPANTS

Philip Soper

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

Glen McMillan

Bridgemarq Real Estate Services Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Andrew Cusi

CIBC — Analyst

PRESENTATION

Operator

Good morning. My name is Christina, and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. 2020 First Quarter Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

I would like to introduce you to 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, Christina, and good morning everyone.

With me today is our Chief Financial Officer, Glen McMillan. We appreciate you joining the call.

I will begin with a brief overview of the Company's first quarter results and business updates. Afterwards, Glen will discuss our financial results in more detail, and I'll conclude by providing some remarks on the operational highlights, Company updates, and market developments. Following our remarks, both 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. I encourage everyone to review the cautionary language found in our news release and in our regulatory filings with respect to forward-looking statements. All of these documents can be found on our website and on SEDAR.

Also, on today's call, we will be making reference to the impact of the COVID-19 pandemic on the real estate market of the Company. This pandemic started to negatively impact our business near the end of the first quarter, and it's continuing to negatively impact us in the second quarter. It is important to note that due to the uncertainty in the duration and the magnitude of the medical and financial crisis, the Company cannot reasonably determine the impact to the Company's results on operations or financial position.

The Company had a strong first quarter, which was the result of a vibrant real estate market. The market did see a sharp decline in sales in the second half of March when social distancing and mandated shelter-at-home measures were introduced across Canada. However, the strength of the quarter leading up to those measures produced healthy financial results to begin the year.

Revenue in the first quarter was up 10 percent over the first quarter of the previous year, rising to \$11.1 million. The strong national market was the primary driver of the increase, as well as the

increase in franchise fees, which were announced last year and took effect on January 1. The Company's network grew marginally during the quarter to 19,120.

The Board of Directors has approved a dividend payable on June 30 of \$0.1125 per share to shareholders of record on May 29. This indicates an annualized dividend of \$1.35 per share, which is consistent with 2019. Today, the Company announced that it has taken supportive measures to protect business continuity and support distributions to shareholders. These measures include entering into an agreement with Brookfield Business Partners, LP, the Company's largest investor with a 28 percent stake in the Company, and Bridgemarq Real Estate Services Manager, Limited, the manager of the Company, to support the Company's liquidity at this time of uncertainty.

Under the terms of this agreement, the Company can defer Management fee payments and distributions on the exchangeable units held by Brookfield Business Partners from April to September. There is an option to extend this deal to December 2020, subject to mutual agreement. Amounts deferred under this agreement are non-interest bearing and are due five years from the date of the deferral.

At any point during that time, the Company can elect to pay the deferred balances in cash or by issuing additional exchangeable units (inaudible) option. These accommodations increase Bridgemarq's financial flexibility to manage through a period of uncertainty and expected market disruption, while protecting distributions to existing shareholders in the short-term.

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

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

Thank you, Phil, and good morning everyone.

As Phil mentioned, revenue in the first quarter was up 10 percent over last year, rising to \$11.1 million. Net earnings for the quarter were \$20.1 million or \$0.05 per fully diluted share, compared to a loss of \$8.4 million or \$0.88 per share for the same period in 2019. The primary driver of the significant improvement in net earnings is the determination of the fair value on the exchangeable units issued by the Company.

The spread of COVID-19 contributed to a substantial fall in equity markets, which saw the Company's share price drop to \$8.43 at the end of March. The valuation of the exchangeable units is a direct function of the market value of the Company's restricted voting shares. The drop in the share price drove a significant reduction in the liability associated with those exchangeable units, triggering a large gain in the Company's earnings.

Distributable cash flow during the first quarter rose 11.4 percent to \$3.9 million compared to \$3.5 million in the first quarter of 2019. The increase was driven by higher revenues, partly offset by higher Management fees.

As Phil mentioned earlier at the close of the second quarter, the network was comprised of 19,120 realtors, up nine compared to the end of last year. These realtors operated out of nearly 700 locations across Canada.

Phil also noted that our largest investor, Brookfield Business Partners, has provided us with a deferral on our Management fees, and our payment of distributions on the exchangeable units, on very favourable terms. This accommodation increases Bridgemarq's financial flexibility to manage through this period of near-term uncertainty and expected market disruption, while protecting dividends to existing shareholders in the short-term.

In the first quarter, the Canadian real estate market closed up 30 percent compared to Q1 of 2019. The increase was driven by a 15 percent increase in unit sales and a 13 percent increase in average selling price. The total transactional dollar volume during the first quarter was just under \$58 billion.

The Greater Toronto Area saw significant year-over-year improvement during the first quarter, rising 41 percent to \$17.7 billion. The primary driver was a 23 percent increase in unit sales compared to Q1 last year, while the average selling price increased 15 percent. Just as a point of reference, the Greater Toronto Area represents approximately 30 percent of the national housing market.

The Greater Vancouver market closed up 54 percent at \$6.5 billion in the first quarter compared to last year, driven by a 45 percent increase in units sold, and a 6 percent increase in average selling price.

In the Greater Montreal Area, the market closed up 25 percent at \$6 billion compared to the same period last year, driven by a 13 percent increase in units sold and a 12 percent increase in average selling price.

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.

Since mid-March, unit sales have significantly declined as governments from coast to coast enacted emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, self-imposed quarantine and social distancing have had an immediate and negative impact on the Canadian economy, and of course, the real estate services industry. Recent information released from real estate boards, servicing some of Canada's largest markets, indicate activity in April to be as much as 70 percent lower than April 2019.

All provinces have deemed real estate services an essential service, with the initial exception of Quebec. However, on April 20, Quebec revised its list of essential services to include real estate services. During this time, since the beginning of the pandemic, our network has been able to serve buyers and sellers who have urgent need to transact and urgent need to buy or sell real estate. This includes those who have found themselves in financial hardship or buyers who have sold before purchasing their next home.

Recently, provinces have begun to unveil plans for more relaxed measures and additional business activity, as long as this can be conducted in a safe manner. At this time, the Company cannot forecast when buyers may return to the market in significant numbers, but we have already begun to see an uptick in volumes, particularly in our secondary markets. Many of Canada's largest urban centres have been facing inventory shortages, which contributed to the 13 percent year-over-year average price gain in Canada during the quarter. Low inventory remains a challenge throughout the pandemic.

However, once the market reopens for all consumers, demand is expected to be lower than it was in pre-COVID-19 levels as Canadians become concerned with the economy and their own job security.

On previous calls, I have commented on Canada's employment numbers as a leading indicator of the real estate market. While the impact of COVID-19 on the labour market has been profoundly negative, supportive measures from the Federal government and provincial government, including support for furloughed workers and small businesses, have absolutely mitigated some of the damage. The Company moved quickly to ensure we would maintain adequate liquidity through these uncertain times, and maintain our dividends in the short-term with significant support from Brookfield Business Partners.

To support and preserve the Company's network of realtors, the Company and the manager took immediate action. On March 27, 2020, the Company announced a temporary fee relief program in an effort to minimize the potential deterioration of the network at a time when realtors are expected to see an unprecedented drop in their transaction volumes. The Company was pleased that the pandemic fee relief program was very well-received. We expect that the plan positions the Company to maintain the strength of its network in the short-term and beyond.

The leadership of the Company's brand immediately recognized the network's new and evolving needs to navigate a challenging and unprecedented business environment. The Company enhanced its communication platform to (inaudible) network engagement and to provide training to support the network to be productive and successful when the impact of the pandemic subsides.

While the need for these new tools became an immediate priority for the Company, we also recognized the need and growing demand for highly anticipated and scheduled program of game-changing technology, training, and marketing communication initiatives. On previous calls, I have mentioned our development and planned deployment of RLP Sphere, the industry's most advanced, next generation digital real estate platform. We felt that, more than ever, a cloud-based AI-driven real estate operational platform that increased the productivity of our frontline practitioners, no matter where they were working, office or field, was absolutely necessary.

With that, we decided to forge ahead. I am pleased that RLP Sphere has passed its final stage of testing and the phased rollout across Canada has begun. The need for this digital ecosystem has been heightened by the pandemic as this product can reduce costs to the franchisee as well as increase the ability of the frontline realtor to service their clients, as opposed to dealing with administrative processes. RLP Sphere is designed to seamlessly bring together all the tools and systems that a national firm and franchisor, like us, provides the frontline agent, so that they can more easily run and grow their business. It is a market differentiator that is expected to attract, and of course retain, top performers in the industry.

Historically, during down markets, we do see what we call a flight to quality, as realtors realize the need to invest in their tools and services to remain competitive among a shrinking pool of customers. As a result of our brand's enhanced offering during this pandemic, as well as our reputation of delivering superior tools and services through best in class technology and training, the Company is expecting more interest from realtors and brokerages outside of our network.

In conclusion, the strong first quarter leading up to the COVID-19 pandemic has resulted in a 10 percent year-over-year increase in revenue and an 11.4 percent increase in distributable cash flow. The Company has taken supportive measures to protect business continuity and support distributions to shareholders, including entering into an agreement with Brookfield Business Partners LP, and Bridgemarq Real Estate Services Manager Limited, to defer the payment of a portion of the Management fees and distributions on exchangeable units. The Company's brands have enhanced their tools and services to help the network navigate business challenges brought on by COVID-19. In addition, the Company is committed to delivering RLP Sphere across Canada in 2020 to increase productivity and reduce costs to our brokerages and realtors.

Lastly, before opening this call up to any questions, I want to take this opportunity to thank our staff, our brokers, and of course, our frontline realtor (inaudible). Their collective and collaborative efforts have made it possible to continue to deliver best in class real estate services to our highly valued clients, transacting in a very difficult and stressful time. It is an honour to work closely with such professional and hard-working individuals who ultimately have helped the Company manage our business effectively and safely through this challenging time.

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

Q & A

Operator

At this time, I would like to remind everyone, in order to ask a question, simply press star, then the number one on your telephone keypad. We'll pause for a moment to compile the Q&A roster.

Again, if you would like to ask a question, simply press star, then the number one on your telephone keypad.

We do have a question, from Andrew Cusi (phon) from CIBC. Your line is open.

Andrew Cusi — Analyst, CIBC World Markets

Hey guys. You were emphasizing quite a bit that the dividend will be sustained in the short-term. Can you describe a potential scenario where you may have to relook at the dividend payment rate? I know you've pushed out cash needs through the agreements with Brookfield and BBU. Can you describe the potential scenario where you have to relook at that dividend?

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

Yes. The uncertainty caused by the pandemic has caused us to take this action with BBU's support, which we are very grateful for. It should get us through to a period of more normal real estate market activity.

Coming into the pandemic, household formation and the demand for real estate services was consistently strong across the country. We were even seeing positive changes in some of our energy-producing regions, which have had a difficult time for some five years. The fundamentals of that demand haven't changed. The high degree of household formations with the millennial generation leaving parents' homes, are moving in from rental to ownership status, and the new Canadians that have arrived over the last seven years, rapidly moving into home ownership.

The other issue fundamental driving factor was the, essentially, a structural housing shortage in many of our markets across the country. We have a demand that has exceeded supply for some time, which does support housing prices. We believe the combination of the mortgage deferral program, the bridging program on people's income, the support for businesses to rehire employees, landlord and tenant support programs, all of these together should provide a path to a return to more normal housing markets and get us through this crisis. But of course, if things are different in the future, if we've underestimated the severity of the economic decline, we'll have to look at everything associated with our finances, from top to bottom. That includes our expenses and our dividends and everything.

Glen, do you have anything else to add in that regard?

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

No, Phil, I think you summed it up pretty well. Andrew, I think, as everybody can appreciate, there is a very high degree of uncertainty going forward, so it's difficult for us to speculate as to what possible scenarios could happen or what possible scenarios could impact our policy and practices with respect to dividends. But, I think the deal that Brookfield's decided to support allows us to defer the payments on the exchangeable units, as well as payments of Management fees from April until September, and that that deferral is for a period of up to five years at no interest. Very generous terms that we think is sufficient over that timeline to allow us to continue to support the dividends to shareholders in the short-term.

Andrew Cusi — Analyst, CIBC World Markets

That's great, thanks.

We're sort of looking at—when you talk about short-term, you've got an agreement until, basically, September, for a potential rebound in activity, and then, depending on what the world looks like, September onward, you'd sort of have to go from there.

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

Yes. There is a provision in the agreement that allows for extension to December, by mutual consent, but right now, they're only committed until September.

Andrew Cusi — Analyst, CIBC World Markets

Great.

Operator

There are no further questions at this time.

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

Thank you very much, Operator.

As previously announced, the Company's Annual Meeting of Shareholders, which was originally scheduled for May 2020 has been delayed until a later date. This was permitted in connection with the Government of Ontario's cessation of non-essential business activities, and the Company's commitment

to combating the potential spread of COVID-19 through minimal human contact and social distancing. We will issue a press release once the new meeting date has been confirmed.

With that, I'd like to thank everyone once again for participating in today's call. I look forward to updating you again in the next quarter. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.