

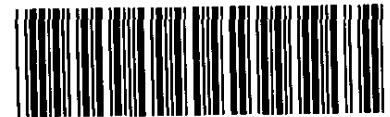
Martin & Co (UK) Ltd
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National footprint local expertise

Annual Report and Accounts 2019

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Company number 08721920

Introduction

The Property Franchise Group PLC is one of the largest franchised property businesses in the UK

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Overview of the year

Financial overview

Revenue

£11.4m

+1% (2018: £11.2m)

Management Service Fees

£9.7m

+3% (2018: £9.4m)

Adjusted EBITDA*

£5.3m

+5% (2018: £5.1m)

Profit before tax

£4.0m

-6% (2018: £4.3m)

Dividend

2.6p**

-69% (2018: 8.4p)

The vision

To achieve an increasing UK market share of lettings and estate agency transactions, using a proven franchise model and multiple, and clearly differentiated, property brands.

* Before exceptional items and share-based payment charges.

** Excludes a final dividend for FY19.

Operational overview

- Serving c.58,000 tenanted managed properties at the year end (2018: c.55,000)
- Assisted acquisitions programme supported 24 acquisitions by franchisees (2018: 28) and added 2,381 managed properties (2018: 3,115)
- Group remains heavily weighted toward lettings, which accounts for 69% of Management Service Fees (2018: 68%)
- Pay-per-click campaigns via the traditional high street brands' customer websites delivered an 56% increase in leads to 47,658 (2018: 30,474)
- Strong cash generation and balance sheet, with net cash at the year end of £4.0m (2018: £2.3m)

Discover more:
[propertyfranchise.co.uk/
 investor-relations](http://propertyfranchise.co.uk/investor-relations)

At a glance

We provide responsive local lettings and sales services nationally through recognised property brands

2019 in numbers

32,278

Properties let by franchise network
(2018: 31,750)

£93m

Franchise network turnover
(2018: £92m)

2,250

Franchise network employees
(2018: 2,300)

Where we focus

The Group has a strong presence in lettings and currently manages 58,000 properties on behalf of landlords which amounts to a city the size of Cambridge. It also has a growing presence in estate agency, completing on the sale of 10,800 homes in 2019.

What we do

Lettings and property management

We are one of the largest managing agents in the UK of residential properties with a deep understanding of lettings and a clear view of how to develop value in the long-term from a portfolio. Our franchisees are fully insured members of professional bodies, supported by specialist software, who know their local rental market and manage all properties locally.

Estate agency

We operate on a no sale no fee basis. We cater both for the majority of sellers who prefer to instruct an agent operating from high street premises and for those sellers who choose to use a more technologically enabled agent without a high street office. Two of our brands have been engaged in estate agency for more than 150 years.

How we do it

We rely on the motive power of local people who are committed to operating franchises under our brands to the highest levels of professionalism and service. Our brands are household names in their local communities, regions and nationally. Whilst the majority of franchisees operate through high street offices and have been with us for many years, a growing number of new franchisees choose to offer a 24/7 hybrid service through EweMove. To serve the increasingly complex requirements of our customers, scale on the high street is important and some consolidation has been under way for more than a year to achieve this.

Our success

We are a multi-award winning Group with recent successes including best national lettings agent for EweMove at the EA Masters awards in 2019 and EweMove again winning hybrid estate agency of the year at the 2019 Negotiator awards. CJ Hole and Parkers won Best Estate Agent Guide awards in 2019. Just as importantly we have grown the revenue of our network of franchises through joint effort and support year on year since 2005.

Acquisitions

The assisted acquisitions programme, whereby we provide the experts and expertise to our franchisees to assist with finding the sellers of managed property portfolios, negotiating the sales, funding the acquisitions and integrating those acquisitions, is a primary focus for us.

Franchisees buying managed portfolios of properties should improve their revenue stability and profitability. In times of economic uncertainty, with fewer lettings instructions to win from landlords and challenges to revenue from government legislation, franchisees that buy these portfolios improve their chances of successful future growth.

24

Acquisitions
-14% (2018: 28)

National and local brands

National brands

Lettings focus

Lettings and investor sales brand

The national network of independently owned property agents

Martin & Co was established in 1986 and has 162 high street offices serving England, Wales and Scotland with offices from Falmouth to Aberdeen. It is one of the major residential letting agents in the UK with over 40,000 properties under management, deriving 88% of its Management Service Fees from lettings services. A multi-award winning agency, it specialises in residential lettings, property management, property investment and sales.

1986
year established

162
offices

Sales focus

Hybrid estate agency brand

The UK's most trusted agent

Launched in late 2013, EweMove has grown to a network of 122 franchises at the year end. The EweMove franchise model combines the recruitment of local property experts ("LPEs"), typically serving micro territories of 20,000 households through a centralised 24/7 technology platform, with the traditional features of a full estate agency service and a consumer fee predicated on completed sales, rather than listings. It has been the UK's "No 1 Most Trusted Agent" on Trustpilot since 2015.

2013
year established

122
franchises

Regional brands

Balanced mix of sales and lettings

Unrivalled local knowledge, for all your property needs

Whitegates has been trading in the Midlands and North of England since 1978 and celebrated its 40-year anniversary last year. It was one of the first estate agents to advertise on TV. Today its activities are evenly split across sales and lettings.

1978
year established

39
offices

Taking the hassle out of property, for communities across southern England, since 1948

Parkers has 14 high street offices located along the M4 corridor West of Maidenhead with a strong presence around Reading. In 2019 it won a Best Estate Agent Guide award for both sales and lettings.

1948
year established

14
offices

Property experts providing service and value for London communities since 1850

Ellis & Co has 19 high street offices, 18 within London. It shares complementary branding with Martin & Co offices in London and the two brands, with a combined strength of 38 offices, work together to serve London.

1850
year established

19
offices

Providing expertise in sales and lettings to communities across the south west of England and Wales for over 150 years

CJ Hole was established in 1867. An award winning brand with strong local brand heritage operated through 16 high street offices in Avon, Somerset, Gloucestershire and Gwent. In 2019 it won a Best Estate Agent Guide award for lettings.

1867
year established

16
offices

Resilience of our franchise model in tough conditions

Richard Martin
Chairman

In 2019 we continued to make progress and demonstrated resilience in the face of new legislation and challenging UK property market conditions.

Our industry is currently facing unparalleled challenges due to the COVID-19 pandemic and the associated preventative measures. The health and safety of our colleagues and their end customers is paramount, and we are therefore responding with a significant change in how the business will operate until conditions normalise.

Whilst the uncertainty we face is very substantial we are in the thankful position of having nil debt, which means no bank covenants to consider at this time, as well as a strong balance sheet. Furthermore, franchisees and their teams well-equipped to continue working remotely. The business is also heavily weighted towards lettings and within that it is heavily weighted towards revenue from our portfolio of tenanted managed properties. These facts, together with the ingenuity and experience of Management, give us confidence that we will be both a going concern in 12 months' time (see note 2 in our financial statements for more information) and in a position to build momentum in the business again and seize commercial opportunities, including for financial services, when conditions become more predictable.

Below is a review of our progress in 2019.

Overview

Over 2019 we saw continued political uncertainty, the implementation of the tenant fee ban and downward pressure on estate agency fees arising from hybrid model estate agencies' attempts to capture market share. Notwithstanding these challenges, I am pleased to report that we increased our revenues and gross profit for the sixth successive year since our IPO in December 2013, with profit before tax, after removing the impact of a share-based premium charge, increasing 3% year on year. The Group's network revenue for the period increased to £93m (2018: £92m).

The industry in 2019

The uncertainty of the UK general election and the implication that Britain's exit from the European Union was still not a settled matter was seen to somewhat dampen the housing market in the period. The property market's value decreased by 0.8% in 2019* to £11.5 billion, and 31 January 2020 marked an upsurge in online searches for estate agents.

Political uncertainty for our industry also takes the form of a long-debated intention by politicians of all hues to properly regulate the lettings sector and impose minimum professional standards. We anticipate that such regulation being implemented would benefit groups such as ours, which already acts as a regulator of its franchisees, and which has an excellent track record for training and continuous professional development.

Strengths of the franchise business model

Our progress over the period was underpinned by the strength of the Group's franchise model and its motivated and resourceful franchisees. This was augmented by the foresight and discipline of the management team who run the franchisor business. For example, as the Board had anticipated that the Group's revenue would be put under some pressure in the year, we continued our focus on careful cost management. We had also foreseen that English & Welsh letting agents would be banned from charging tenant fees, following the political success derived from the same measure in Scotland in 2012, and therefore put in place a mitigation strategy which started with workshops with Martin & Co franchisees in the summer of 2017, in order to minimise the impact.

Another demonstration of the strength of our model during the period was the way that we were able to track shifts in consumer behaviour within our sector, and ensure our franchisees adapted their business models to mitigate risks and capitalise on opportunities. New entrants, and particularly hybrid agents, typically provide services 24/7 and charge fixed fees. We responded quickly to ensure our traditional brands were able to compete. We did this by enabling our traditional brand franchisees to extend their "effective" trading hours through devices such as "live chat" and online booking through the relevant brand's website.

Growth Strategy

During the year, we continued to evaluate the acquisition of master rights in other property franchise systems but none of our targets met our strict criteria. Over the longer term we remain committed to expanding our market share of UK property sales and lettings through acquisition at both the corporate and franchisee level, although as previously mentioned growth initiatives such as this are currently deferred.

* iProspect research commissioned by TPFPG.

During 2019 we also reviewed our financial services strategy. As previously communicated, management identified a number of suitable target businesses which could be acquired to enable TPFG to broker mortgage products sourced from lenders, life assurance and general insurance business off the volume of buyer leads being generated by our marketing. With this opportunity presented to us, we made the decision to launch a Financial Services division post-period end, appointed Mark Graves to lead its development and bought a controlling share in Auxilium Partnership Limited (see note 30 to the financial statements). The pursuit of acquisition targets in the division have currently been postponed in response to the increased macro-economic uncertainty associated with COVID-19.

Our People

Mark Graves, a highly experienced figure in financial services, is to be our new head of this division. Otherwise the headcount was kept flat year-on-year at 48 full time employees. We see this efficiency as a key benefit of a franchise business model.

Financial performance

Our performance was underpinned by growth in Management Services Fees from £9.4m to £9.7m, which we delivered notwithstanding the loss of tenant fees from 1 June 2019. This in turn helped generate cash from operations of £4.7m and drove cash up to £4.0m at the year-end after £2.2m of dividend payments.

Dividend

In line with the Company's current focus on cash management the Board has resolved to suspend the proposal of the final dividend, a decision to be kept under review. The Board is committed to the payment of dividends, and before recent developments took place had been considering the proposal of a dividend at the upper end of its policy, but recognises that at this time a strong balance sheet is critical.

Outlook

I would like to thank my co-Directors, the dedicated head office teams in both Bournemouth & Cleckheaton, and our many excellent franchisees and their staff for their efforts over the last year. I would also like to take this opportunity to give the Board's sincere thanks to Ian Wilson who has led TPFG since IPO for his hard work, ingenuity and the passion he has always shown for our Company.

Gareth Samples, our incoming CEO, joins us at a challenging time, however from his track record and the short period of time he has been with the Group, I am confident that he has the right experience, tenacity and strength of leadership to guide the Group through the period ahead.

Richard Martin

Chairman

The Property Franchise Group PLC

Investment case

Why invest?

Leading player in a consolidating market

Strong balance sheet
£4.0m

in net cash

Capital light franchise model

24%

ROCE

Experienced management team

+150

years in property

Progressive dividend policy

+19%

average previous 3 years

Dual income streams
69%/30%

lettings/sales

Our understanding of the macro-economic drivers

Residential property has established itself as an investment asset class and the economic need for residential agency remains strong.

Market drivers

- People will always need somewhere to live
- Population growth/increased life expectancy means more UK households in the future
- Social housing provision has declined significantly over the last 30 years
- The private rental sector has grown significantly to over 20% of total housing stock
- Residential property has become an investment asset class
- Demand continues to outstrip supply

Key macro-economic factors

Stored equity

There is an estimated £3.7 trillion of equity stored in UK housing stock, with the over 50s owning £2.8 trillion* of it. The majority of rental properties are bought wholly from cash resources. Cash buyers are forecast to account for 36% of all purchases over the next 5 years*.

Stored equity

£3.7tn

* Savills Research (Autumn 19, June 19 and Autumn 17).

Stored Equity (Etrillion)

Key market opportunities

Growing private rented sector

The private rented sector ("PRS") has grown from a low of 9% to over 20% of UK housing stock, that's 5.4m homes, overtaking the social housing sector. Renters aged 35–49 are now the largest group. They are expected to show the highest growth rate in the years ahead. By 2021 it's estimated that the PRS will account for 5.8m privately rented homes in the UK.

Privately rented homes

5.4m

Source: Knight Frank Research, 1980 to 1991: Labour Force Survey Housing Trailer; 1992 to 2008 ONS Labour Force Survey; 2008–09 onwards, English Housing Survey, full household sample
Source: Knight Frank Research / ONS.

Net migration remains high

Net migration for the year to September 2019 was 240,000* against a prior year of 244,000 (ONS refinements to measurement have revised down the prior year from 283,000). Whilst EU citizens have been leaving the UK since the referendum, non-EU citizens have been entering the UK in record numbers. The foreign-born UK population is almost 3 times as likely to be in the private rented sector.

Year to September 2019

240,000

* ONS Quarterly Report (27 Feb 2020).

Long-term international migration, UK

Brexit

As the uncertainty around Brexit diminishes, the market may release pent up demand. Fixed mortgage rates, for 3-, 5- and 10-year terms, are at record lows*. In December 2019 RICS members reported both an improvement in new buyer enquiries, highest level since January 2016, and new listing instructions, highest level since July 2014.

Annual house sales

1.2m

* Savills Research (Feb 2020).

** HMRC UK Property Transactions (Feb 2020).

Health of house sales market

Source: RICS (seasonally adjusted).

Increased regulation

The government is trying to professionalise the property rental sector. It's increasing regulation on both agents and landlords, simplifying the fees charged, and increasing tenants' rights. Only 25% of landlords in England have ever belonged to a recognised trade body*. These changes favour agents in fully supported networks. In England, landlords using agents for letting and management services were just 14%* in 2018.

* Ministry of Housing, Communities & Local Government, English Private Landlord Survey 2018 (Jan 19)

Online/hybrid

This element of agency has established a foothold. The established are growing. More entrants are still appearing. Its short-term challenge is to break through the 10% national market share barrier having already achieved that in some areas such as Yorkshire and for properties costing less than £200k. Online/hybrid agents accounted for 7.9%* of transactions in Q4 2019 (Q4 2018: 7.2%*), an increase of 10%.

Market share

7.9%

* Twenty CI.

Our efforts to mitigate the tenant fee ban were rewarded

Ian Wilson
Chief Executive Officer

£22m
Market cap

2003 Ian joins Martin & Co as Managing Director	2011 Martin & Co #1 lettings agent for instructions	2013 Listed on AIM
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2019 continued where 2018 left off, as a tough market for UK estate agents and letting agents. We had anticipated these conditions and drew up our plans accordingly. We kept a tight rein on costs and worked hard with our franchisees on measures to mitigate the financial impact of the tenant fee ban. Our investment in digital marketing continued to bear fruit and we grew our revenues against the trend.

2019 was a busy year for the Group, as we navigated a number of challenges and sought out new opportunities for growth. The key activities were conducting a review of our financial services strategy and advising and assisting our franchisees on the appropriate course of action to mitigate the effects of the Government's tenant fee ban.

We moved both revenue and gross profits forward, albeit modestly, and were also pleased to have strengthened our balance sheet, having paid down all debt at the end of 2019.

Reaping the benefits of increased digital marketing investment

Investment in the period by both franchisees and franchisors in a bespoke customer relationship management ('CRM') system and pay-per-click advertising campaigns substantially increased leads generated through digital marketing. In 2019 we generated 49,105 leads for our traditional brands from these channels compared to 30,769 in 2018, a 59.6% year-on-year increase. We also made progress with average pay-per-click cost per lead which fell from £11.20 to £8.29, a 26% year-on-year reduction. Tight management of the programme content to keep it relevant to the recipient has meant that open rates for our CRM delivered emails stood at between 66% to 72% depending on brand and click-through rates varied from 25% to 30%.

Building strong relationships with landlords

The private rented sector is still growing, albeit the pace has slowed. Currently only a minority of private landlords engage an agent to manage their property. In 2019 we surveyed our Martin & Co landlord base. Over 1,500 responses were received and pleasingly 92% of respondents stated that they would recommend Martin & Co to other landlords. The impact of the Government's preventative measures for COVID-19 will make life much more difficult for landlords who do not benefit from the professional assistance of an agent and we believe that there is scope to increase our managed portfolio significantly in future years.

Our tenanted managed portfolio

Our franchisees made 24 acquisitions in 2019, slightly down on 2018, with the market in letting agency businesses for sale quieter than we and the business brokers had expected. Pleasingly we also continued to grow our portfolio organically. By the year end we were serving 58,000 tenanted managed properties, up 3,000 on the previous year.

Tenant fee ban

The tenant fee ban represented a potential loss of £0.5m of revenue in the seven months from its introduction on 1 June 2019. In the event, partly because of the Government allowing some categories of fees to remain chargeable during the "transition period" extending until 31 May 2020, and partly as a result of workshops and training which the franchisors delivered to their franchisees, the impact was lessened and we achieved £0.2m growth in lettings MSF year-on-year.

We were particularly satisfied with this achievement considering that our franchisees banked total tenant fees in the three months to December 2018 of £2.2m, which fell to £0.37m in the same period of 2019. We were also encouraged that at the end of the year 68% of our franchisees in England & Wales had proven to us that they were at least 50% mitigated, 52% were at least 75% mitigated and 43% were 100% or more mitigated.

£50m+

Market cap

2014
Xperience
aquisition

2016
Acquired online
specialist

2017
Changed name
to The Property
Franchise Group

2019
Share price hits
200p

Hybrid agency model

2019 was a year of consolidation for our hybrid model EweMove. We made incremental progress on network footprint, moving from 118 to 122 occupied franchise territories over the year and despite a reduction in lead volume we increased our productivity per franchise from 2.5 sales and lettings completions per month in 2018 to 2.8 in 2019. This translated into additional revenues of £0.4m and an improvement in adjusted EBITDA to £0.8m in 2019.

Financial services

As previously announced, post period end the Group launched a new financial services division of which further details exist in the note on events after the reporting date at the end of our Annual Report. We consider financial services to be a logical extension to our core franchise business and are well-placed to capitalise on the opportunity due to the high volume of buyer leads generated by our network, (circa 92,000 annually). Given the increasing level of macro-economic uncertainty we have seen post-period end, associated with COVID-19, the pursuit of acquisition targets within this new division has temporarily been paused. We are, however, continuing to develop the division with our first goal to ensure that all of our franchisees have access to either a local broker in their office, or to a call centre broker with a proven track record of converting leads through this channel.

Outlook

This is my last annual report as the CEO and I'm proud of our achievements and track record since the IPO, delivering what I and my partner on this voyage, CFO David Raggett, promised to investors: expansion, capital growth and (to date) a progressive dividend policy. My successor as CEO, Gareth Samples, has a challenging period ahead of him, but no CEO has experience of managing a business through a worldwide pandemic and Gareth brings fresh energy and insight to the role. His strong property background equips him with the market insight to guide our franchisees in their response to the economic ramifications of COVID-19 and to spot the opportunities as they arise post-pandemic. The business is on a strong footing and we are confident it is well positioned for further sustainable growth in the long-term.

Ian Wilson
Chief Executive Officer
The Property Franchise Group PLC

Clear strategy to deliver growth

Our Mission

The Property Franchise Group PLC intends to develop both the depth and breadth of its network and, by importing digital and marketing techniques, grow the local market share of its franchisees.

Our Vision

To achieve an increasing UK market share of lettings and estate agency transactions, using a proven franchise model and multiple, and clearly differentiated, property brands.

Strategy

① Buy & Build

The Group continues to investigate possible acquisitions either of property franchisors or complementary businesses whilst at the same time assisting franchisees with acquisitions of independent agents' businesses.

② Operational Efficiency

We have continued to develop relationships with key suppliers in our sector and are now looking beyond to other sectors and their suppliers. We continue to ensure that all our traditional brands are on common platforms and to invest in developing our digital marketing capabilities.

③ Income Diversification

We aim to increase our earnings from property sales and financial services by leveraging the estate agency credentials acquired with Xperience, the know-how acquired through the acquisition of EweMove and by recruiting experienced FS professionals. However, the Group's core focus will continue to be its lettings business.

④ Franchisee Recruitment/ Expansion

The recruitment of franchisees for new territories and for resales of existing territories is central to maintaining the health and vitality of the network as well as achieving our network aims. At the same time we are assisting franchisees to expand through acquisitions in existing territories and to grow into new territories, often by buying out neighbouring franchisees.

Progress to date

- In 2019 the Group continued to invest in EweMove, developing its existing franchises, recruiting 15 experienced estate agents as franchisees (2018: 15) and developing a sustainable profit path with an EBITDA of £0.8m (2018: £0.4m). This drove growth in revenue from Group acquisitions.
- EweMove had 122 franchise territories at the year end (2018: 118) and contributed £3.1m of turnover (2018: £2.7m).
- Assisted franchisees with 24 deals (2018: 28) resulting in the acquisition of 2,381 properties under management (2018: 3,115). Fewer opportunities came to market in 2019.

Key performance indicators

Revenue from Group acquisitions

£5.7m

+4% (2018: £5.4m)

Managed properties acquired by franchisees

2,381

-24% (2018: 3,115)

Principal risks

- Ability to compete for portfolios of managed properties.

- In the traditional brands we delivered 47,658 leads from pay per click campaigns (2018: 30,474). Open rates on emails sent from our new CRM system have been averaging 69% (2018: 68%) compared to an industry benchmark of 26%.

Adjusted EBITDA margin

47%

+4% (2018: 45%)

- EBITDA margin percentage before exceptional items and share-based payment charges was 47% (2018: 45%), driven by the growth in EweMove.
- Against a background of a smaller team in 2019 (average head count 48 (2018: 50)) and slightly lower employee costs year on year, turnover per head increased by 5%.

Turnover per head

£236k

+5% (2018: £225k)

- Legislative changes and government policy.

- The number of house sales' transactions completed across the Group increased by 1% from 10,763 to 10,823 in a flat market on the back of sales instructions falling by 6% due to improvements in selling houses.
- Revenue from financial services including MSF decreased by 15% partly as a result of terminating arrangements with London & Country but also because of reduced sales instructions.

Estate agency MSF as % of total MSF

30%

-3% (2018: 31%)

Financial services income

£121k

-15% (2018: £141k)

- No guarantee of growth.

- In 2019 EweMove recruited 25 franchisees for new territories of which 15 were experienced estate agents (2018: 23 franchisees, 15 experienced).
- The traditional brands did not recruit any new franchisees in 2019 for resales primarily because of a significant reduction in the number of franchises put up for resale (2018: 3).
- The tenant fee ban from 1 June 2019 has had some impact on our office numbers. The number of traditional brand offices has reduced from 259 to 250 over the year. Existing franchisees bought 8 resales.

Franchisee suitability meetings conducted

98

+72% (2018: 57)

Franchisees recruited

25

-4% (2018: 26)

- Ability to find, recruit, retain and scale up skilled franchisees.








See Principal risks on page 18 

Over the last 25 years we have built a robust and effective business model

Our business model and proposition

We pride ourselves on the comprehensive start-up training and support we offer. As the success of our franchise owners on an ongoing basis is very important to us we support them throughout their initial 5-year franchise agreement and beyond.

Our services

-  There is ongoing support through regional training, online training, the acquisitions team and our business development team.
-  All offices have unlimited access to our business systems, helpdesk and to specialist "market intelligence" tools.
-  Marketing campaigns and collaterals are developed in coordination with the brands' marketing committees and made available through a digital hub.
-  We build, update and optimise our 6 brand websites.
-  We support our franchisees with regular customer targeted mailings/messages, PR and monthly newsletters.
-  We use specialist operational software and work with our providers to ensure all franchisees and their staff are competent users.
-  We have an internal audit team and conduct regular checks on the financial practices of our franchisees.

Our key strengths

Expertise and scale

We have significant expertise in buying, letting and managing rental properties. In the last 6 years we have developed our expertise in selling houses such that today 30% of our business comes from this activity. In December 19 the Group was 8th in the EA league tables of properties available for sale. The franchise network employs over 2,250 people and a growing number of our franchise owners have +20 years of experience in this sector.

National footprint

We have representation stretching from Falmouth to Aberdeen. We are represented in most major towns and cities including 38 offices in London. What sets us apart is that we achieve this both through traditional high street offices and through virtual offices where the franchisee typically works from home or a serviced office.

Multi brand strategy

Whilst we have a national brand in Martin & Co, we saw the opportunity to increase our franchisee gene pool, add to our expertise through experienced estate agent franchise owners, meet the aspirations and ambitions of our franchise owners, increase our national footprint, stimulate further franchisee recruitment and derive value from long established brands.

How we add value

Established franchise model

At our core, all our brands operate exactly the same franchise model. It's a model that's been developed over the last 25 years, based around long-term commitment by franchisor and franchisee to the development of the franchisees' revenue streams. Franchisees sign a 5-year agreement and agree to put all their efforts into developing the franchise brand in their territory.

Central support

The support required by franchisees changes as their franchises mature and as the economic environment changes. We continue to evolve and invest in our central support through IT, marketing, assisted acquisitions and compliance. We have also benefited from maintaining a core team of experts in franchising and business development since IPO. Of course, we need and use external support – IT, marketing, funding, businesses for sale, lettings, sales, legal and training.

Harnessing technology

The use of technology has been slowly adopted and evolved in our sector. The acquisition of EweMove helped us understand how we might meet customers' expectations. Having improved lead generation through providing useful information and improved websites, we have built a customer relationship management ("CRM") platform to be able to engage at the right times with customers. Live chat has been implemented on a 24/7 basis.

Providing leadership

A franchisor's role is to research, gain insight into the future environment and determine those factors likely to impact franchisees' businesses in the future. We then implement strategies to help them navigate a good path. A leadership team of 6 does this (3 women, 3 men). We also recognise that experienced franchise owners have an important role to play and we achieve this through various franchise committees and regional business meetings.

Who benefits

Shareholders

- A stable earnings' stream due to the size of the managed portfolio of properties.
- A growing dividend through the success of acquisitions and diversifying income.

Basic adjusted earnings per share

16.2p

+5% (2018: 15.4p)

Franchisees

- At the forefront of technology and digital marketing in our sector.
- Central expertise to steer franchisees through challenging economic times.
- Opportunities to achieve scale and ambitions, some through assisted acquisitions and some through consolidation. Existing franchisees bought 8 resales in 2019.

Network revenue

£93m

+1% (2018: £92m)

Landlords

- One of the largest letting agents in the UK with a deep understanding of lettings.
- Franchisees supported by the best operational software available.
- High standards of compliance that exceeds legal requirements.

Number of managed properties

58,000

+5% (2018: 55,000)

Tenants

- Local service and extensive local knowledge to help find the right property.
- Long established and far reaching landlord relationships.
- A full redress scheme when needs arise.

Properties let in year

32,278

+2% (2018: 31,736)

Vendors

- A service more suited to customers, having the choice of traditional or hybrid.
- No sale no fee across all our brands.
- Deep understanding of local markets, some brands with +150 years of operation.

Properties sold in year

10,823

+1% (2018: 10,763)

We have a comprehensive digital marketing infrastructure to help franchise owners to develop and grow

Customer relationship management ("CRM")

Our bespoke CRM platform launched in Q4 2018. Data are held on over 2m customers within the GDPR compliant single customer view platform. A trigger based eCRM programme sends over 53,000 variants of emails to customers and prospects, delivering an open rate on average of 69% (2018: 68%) vs industry benchmark of 26% and over 25% click-through rate (2018: over 25%) vs industry benchmark of 13%.

Search engine optimisation ("SEO")

SEO is the process of affecting the online visibility and ranking of a website in a web search engine's unpaid organic results. Brand websites have been optimised to support SEO with over 70 recommended technical improvements and insight driven content optimisation. Social media and eCRM supports SEO by delivering relevant, high quality traffic to the brand websites.

Pay per click ("PPC")

PPC is a paid advertising format operating on the Google and Bing search engines online. PPC campaigns are optimised to generate high value, cost effective leads to offices through the brand websites. In 2019, PPC campaigns generated over 47,500 leads (2018: over 30,000) representing a 56% increase year on year.

- Drive online traffic
- Interactive support systems

Social media

Social media is a cost-effective channel to improve brand consideration and support SEO by driving quality traffic to the brand websites. Using insight from SEO and PPC keyword analysis, a regular organic and paid programme of relevant social media content attracts a high value target audience. It drove over 370,000 sessions to our website, an increase of 62% over 2018.

Local insight

Local market insight is a valuable tool to drive brand credibility and consideration as well as supporting SEO. Using real-time land registry data supplied by Dataloft, every high street office has a postcode specific local market insight page on their website. Various CRM emails and social media campaigns direct traffic to the relevant office local insight page.

Instant valuation

Over 13,000 (2018: over 12,000) instant valuation reports were downloaded through the brand websites in 2019. Provided by Hometrack, the reports include not only the customer's property valuation but local market insight and are used by many UK mortgage lenders. Offices have great success when responding to these leads immediately to secure valuation appraisal appointments.

Live chat

24/7 Live Chat support is available across the brand websites. Over 59,000 (2018: over 35,000) visitors to the websites used Live Chat services in 2019 with 51% (2018: 50%) of those chats taking place outside of office hours providing high quality 24/7 customer service.

Accelerated mitigation of the tenant fee ban and EweMove's improved earnings keeps growth on track

David Raggett
Chief Financial Officer

Focus on our managed properties' portfolio, operating margin and return on capital employed underpins our investment decisions and delivery of growth in shareholder value.

In a flat housing market environment (6th year at circa 1.2m** transactions) and, with the ban on tenants' fees commencing on 1 June 2019, we successfully took action to mitigate the impacts of the tenant fee ban on our traditional brands' franchisees, to continue the growth in our managed properties portfolio (up 5%), and to build EweMove's sustainable profit path.

** HMRC UK Property Transaction Statistics 21 February 2020.

Revenue

Group revenue for the financial year to 31 December 2019 was £11.4m (2018: £11.2m), an increase of £0.2m (1%) over the prior year. EweMove contributed £0.4m to the increase as its revenue increased 13% to £3.1m (2018: £2.7m).

Management Service Fees ("MSF"), our key underlying revenue stream, increased 3% from £9.4m to £9.7m and represented 85% (2018: 84%) of the Group's revenue with the remainder being from franchise sales of £0.2m (2018: £0.3m), and ancillary services to support MSF generation of £1.5m (2018: £1.6m).

Lettings contributed 69% of MSF (2018: 68%), sales contributed 30% of MSF (2018: 31%) and financial services contributed 1% of MSF (2018: 1%). Lettings MSF grew by 4% in the year excluding the amortisation of prepaid assisted acquisitions support, of which one-third was derived from assisted acquisitions in the year, and sales MSF grew by 2%.

Our franchise sales activity was predominantly focused on reselling existing franchises to experienced franchise owners in the traditional brands, and to encouraging new entrants into EweMove. Resale activity was subdued in 2019 resulting in 8 resales (2018: 22). Sales to new entrants into EweMove was buoyant with 25 in the year (2018: 23).

Operating profit

Although headline operating profit declined to £4.0m (2018: £4.3m), operating profit before exceptional items, amortisation of acquired intangibles and share-based payments charges ("Adjusted operating profit") increased from £4.9m to £5.0m (2%) and the resulting operating margin was 44% (2018: 43%).

Given challenging market conditions caused by the uncertainty around Brexit and the tenant fee ban, there was a heightened priority to maintain focused control on costs in 2019. Administrative expenses were unchanged year on year at £5.8m.

Share options are granted to almost all employees, once they have passed the qualifying conditions, to encourage their alignment with our strategy of growing earnings per share and, thereby, dividend per share. Underlying progress has been made towards the EPS growth target set for the 3 years ended 31 December 2020. An assessment of the share-based payment charge resulting from the options granted was made at 31 December 2019 resulting in £0.4m being charged to the profit and loss account. There was a full year's charge in 2019, whereas, in 2018, the charge was for 5 months from August 2018 (2018: £0.2m before netting with a prior year charge release). Further details can be found in notes 4, 5 and 28 to the consolidated financial statements.

	2019	2018
Revenue	£11.4m	£11.2m
Management Service Fees	£9.7m	£9.4m
Admin expenses	£5.8m	£5.8m
Adjusted operating profit*	£5.0m	£4.9m
Operating profit	£4.0m	£4.3m
Adjusted profit before tax*	£4.9m	£4.8m
Profit before tax	£4.0m	£4.3m
Adjusted EBITDA*	£5.3m	£5.1m
Dividend	2.6p**	8.4p

* Before exceptional costs, amortisation of acquired intangibles and share-based payment charges.

** Excludes a final dividend for 2019. None recommended by the Board at this time.

EBITDA

Adjusted EBITDA for 2019 was £5.3m (2018: £5.1m) an increase of £0.2m (5%) over the prior year. EweMove contributed £0.4m of this increase through additional gross margin whereas revenue from franchise sales and support services within the traditional brands decreased by £0.2m.

Profit before tax

The profit before tax was £4.0m for 2019 (2018: £4.3m) which includes the share-based payment charge of £0.4m. Excluding exceptional costs, amortisation arising on acquired intangibles and the share-based payments charges, the adjusted profit before tax increased from £4.8m to £4.9m (2%).

Taxation

The effective rate of corporation tax for the year was 19.1% (2018: 19.8%). The total tax charge for 2019 was £0.8m (2018: £0.8m).

Earnings per share

Basic earnings per share ("EPS") for the year was 12.5p (2018: 13.3p), a reduction of 6% based on the average number of shares in issue for the period of 25,822,750 (2018: 25,822,750).

Diluted EPS for the year was 12.1p (2018: 13.1p) a reduction of 8% based on the average number of shares in issue for the period plus an estimate for the dilutive effect of option grants vesting, being 26,692,929 (2018: 26,033,872).

The reduction in EPS for both measures results from the reduction in profit before tax year on year caused by the increased share-based payment charge in 2019 and, for diluted EPS, the additional shares. Adjusted basic EPS for the year was 16.2p (2018: 15.4p), an increase of 5% based on the average number of shares in issue for the period of 25,822,750 (2018: 25,822,750).

Adjusted diluted EPS for the year was 15.6p (2018 15.3p), an increase of 2% based on an estimate of shares in issue of 26,692,929 (2018: 26,033,872).

The adjustments to earnings to derive the adjusted EPS figures total £0.9m (2018: £0.5m) and result from the share-based payment charge and the amortisation of acquired intangibles.

The profit attributable to owners was £3.2m (2018: £3.4m) with the reduction of £0.2m due to the impact of the share-based payment charge being offset by the increase in revenue.

Dividends

The Board was looking forward to recommending an increased final dividend having considered the results for 2019 in February 2020. However, despite the strong financial position of the Group, given the rising level of uncertainty as to how the situation regarding COVID-19 will develop, alongside the other measures being taken to preserve the Group's cash position, the Board has decided not to recommend a final dividend for 2019. It will review this decision during the year as the outlook becomes clearer.

Cash flow

The Group is strongly operationally cash generative.

The net cash inflow from operating activities in 2019 was £4.7m (2018: £4.5m) as the Group continued to generate strong operating cash inflows.

The net cash outflow from investing activities was £0.7m (2018: outflow £0.3m). This consisted of £0.1m spent on our CRM system, £0.4m provided to franchisees to support their acquisitions of managed properties under the assisted acquisitions programme and £0.2m lent to Mark Graves to buyout Auxilium Partnership Limited from his partner (more details in note 30). In 2018, the majority of the net outflow was due to payments made to franchisees under the assisted acquisitions program.

Loan repayments totalling £1.6m (2018: £0.9m) plus interest payments of £0.05m (2018: £0.1m) were made on the Santander UK plc loans during 2019 fully repaying those loans. Dividend payments totalling £2.2m were made in the year (2018: £2.0m).

Liquidity

The Group had cash balances of £4.0m at 31 December 2019 (2018: £3.9m) and no bank debt (2018: £1.6m). It entered into negotiations with Barclays for a new revolving cash facility at the year end of £5m so as to be able to supplement its cash generated organically in the pursuance of its strategic objectives.

Key performance indicators

The Group uses a number of key financial and non-financial performance indicators to measure performance. The Group also adjusts certain well-known financial performance measures for share-based payment charges, amortisation on acquired intangibles and exceptional items so as to aid comparability between reporting periods.

The key financial measures are as follows:

- Management Service Fees
- Adjusted operating profit and margin
- Adjusted EBITDA
- Adjusted profit before tax
- Adjusted earnings per share

These have been discussed above in further detail.

The key non-financial measures focus on some long-standing drivers of financial performance as well as reflecting the Board's continued investment in its assisted acquisitions programme and digital marketing:

- Number of properties listed for sale
- Number of properties let
- Number of properties sold
- Number of leads generated through digital marketing
- Number of managed properties
- Number of managed properties acquired through assisted acquisitions

All bar 2 of these measures are detailed in my review and all are detailed throughout the Strategic Report. Digital marketing is a relatively new investment for the Group following the acquisition of EweMove in September 2016 and progress with this is detailed on page 14.

Financial position

The consolidated statement of financial position remains strong with total assets of £21.1m (2018: £20.8m) due mainly to an increase in prepaid assisted acquisition support of £0.2m. There was a reduction of £1.3m in liabilities during the year. This reduction in liabilities was due to repayments of bank debt totalling £1.6m, an increase in trade payables of £0.5m caused by the timing of invoices from suppliers of services to our national marketing initiatives and from the suppliers of our software licences for 2020 (£0.2m of which is recognised in prepayments) and a reduction in deferred tax of £0.2m.

The Group finished the year with the total equity attributable to owners of £17.3m, an increase of £1.5m or 10% over FY18.

The Group generated strong cash inflows again in 2019 underpinned by the fact that 49% of its Management Service Fees are derived from the management of tenanted properties. This meant it could fully repay its outstanding bank debt a year earlier than scheduled. Thus, it faces the uncertainty created by COVID-19 in a relatively strong position, enabling the Board to substantiate that it has a reasonable prospect of being a going concern beyond 31 March 2021 (see note 2 of the financial statements on page 45) and to take advantage of the opportunities that may present themselves at that time.

David Raggett
Chief Financial Officer
The Property Franchise Group PLC

Key performance indicators

Tenanted managed properties at year end

58,000 +5%
(2018: 55,000)

All properties let in year

32,278 +2%
(2018: 31,736)

Properties listed for sale in year

18,561 -6%
(2018: 19,667)

Properties sold in year

10,823 +1%
(2018: 10,763)

Principal risks and uncertainties

Effective management with regular reviews, evaluations and prioritising of risks

Risk area

Potential impact

No guarantee of growth

There is no certainty that the Group will continue to successfully execute its strategy for growth. Its main source of revenue is Management Service Fees ("MSF") derived from franchise network turnover. MSF is dependent on market conditions and the experience/expertise/commitment of the franchisees. We continue to expect our franchisees to outperform the underlying growth rates for their core services and to continue to diversify their offerings.

Reduced growth in MSF especially from sales which are more prone to economic uncertainty.
Reduced market share and representation.
Poor or no profit growth from the franchise model.
Less attractive to new franchisees for which a growth track record is an essential element.

Legislative changes and government policy

The residential property market is being continually influenced by changes in UK legislation (often UK specific and not EU driven), changes in government policy and Brexit. The outcomes of these influences on the housing market are uncertain. This can cause short-term changes in the behaviour of our clients and long-term changes in the way our sector develops.

Landlords have felt the impact of tax changes in interest relief on mortgages, additional stamp duty, and Homes (Fitness for Human Habitation) Act which came into force on 20 March 2019. No fault evictions will be abolished through a Renters Reform Bill announced in the Queens Speech in December 19. A redress scheme for private landlords, The Housing Complaints Resolutions Service, is promised. All these factors and the trends in policy may encourage private landlords to sell their properties.
Letting agents were banned from charging fees on new tenancies from 1 June 2019. This was a significant source of income for our franchisees (estimated at 16% of lettings turnover).
Brexit has weighed heavily on the sales market. Five-year forecasts currently show little growth in sales transactions.

Ability to compete for portfolios of managed properties

The Group needs to continue to find suitable portfolios of managed properties for its franchisees to buy and more of them to meet its targets. We are not the only franchisor in our sector pursuing this strategy and we also face competition from well-known estate agents. At the same time the tight lending criteria of major lenders and some evidence of tightening in the next tier may limit the external funding available to our franchisees.

With fewer opportunities to win letting instructions due to the increased length of tenancies and the loss of tenant fees, franchisees should buy turnover. Some of those that don't may end up running unprofitable businesses and, whilst most will be bought out by existing franchisees, some network representation may be lost.
Franchisees may be unable to complete on deals for lack of external funding.
Slowing growth in the portfolio of managed properties.

Ability to find, recruit, retain and scale up skilled franchisees

An inability of the Group to attract new franchisees with the necessary skills, expertise and resources to cold start or purchase resales of existing territories and/or an unwillingness for existing franchisees to take on further opportunities would impact on our growth.

There may be slower growth through an inability to increase market representation or achieve a timely exit for a franchisee.
The uplifts in revenue seen in the first year of a resale may be lower or fewer.
We may suffer a fall in franchise resale income.

Reputational risk to our brand

A strong brand is key to being successful in any sector and central to that is the reputation of the Group and its franchisees. Our combined ability to provide our service commitments and the way in which we do that is central to our reputation. Failures by us or our franchisees to meet the expectations of and commitments made to our customers can readily impact reputation in today's digital age and, thereby, turnover.

Failure by the franchisees to meet the expectations of landlords, and tenants or to fall short of the standards set by the Group may have a material impact on reputation. As a result, they may lose landlords and revenue. We may lose MSF and find it difficult to recruit franchisees.

The Board considers that the risks detailed below represent the key risks to achieving the Group's strategy. There could be additional risks and uncertainties which are not known to the Board and there are risks and uncertainties which are currently deemed to be less material, which may adversely impact on the achievement of the Group's strategy and objectives.

Mitigation	↗ Increase ↘ Decrease ➡ No change		
	Indicator	Strategy	
<p>The leadership team and Board continually monitor revenue from MSF and the underlying KPIs that determine future MSF. Variances are noted and explained to determine where future challenges may exist and to determine key focuses for the leadership team and network of franchisees. These are communicated through regular business meetings and briefings of our franchise network. The EweMove acquisition has given us access to a lower cost model of operating a franchise, a continuing significant entry of "new blood" and insight/experience into improving both our reach and our appeal to customers.</p> <p>The number of buyer leads we generate each year and our feedback from landlord clients has led us to decide that network revenue and, thereby MSF, can be grown through greater involvement in the delivery of financial services.</p>	↗	3	
<p>Professionalisation of the private rented sector is under way and we aim to win more instructions as a result. Our network of franchisees has complied with higher than legal standards for years and we intend to ensure that they continue to do so. We audit them every year to ensure that they do.</p> <p>Our focus is on exploiting digital marketing further to provide good quality leads to our network, encouraging further participation in our assisted acquisitions programme as a bedrock for stability, and persuading franchisees that when only 14% of private landlords use agents for management services there is still a significant opportunity available to them. In 2019 we relaunched our full suite of landlord services.</p>	↗	2	
<p>A process exists internally for finding and completing on acquisitions supported by very experienced external resource. The Group paid out £0.4m in 2019 in financial support to franchisees to help with expansion.</p> <p>There is estimated to be 25,000 agents and that there will be a 20% reduction in agents over the next 3 to 5 years. Fewer agency sellers existed in 2019 as they sought to mitigate the tenant fee ban. There should be a sufficient supply of acquisitions.</p> <p>The Group has expanded its relationships with non-high street lenders. It has further cash available which it can allocate to this programme if needs arise.</p>	↘	1	
<p>Experienced franchise recruitment department. EweMove has been one of the only and certainly the fastest growing "cold start" franchisee recruiters in our sector for the last 6 years.</p> <p>Strong demand for resales from existing franchisees.</p> <p>A strong offering and one of the lowest rates of Management Service Fees amongst our competitors with increased support in place since 2017 for experienced franchisees to grow their representation in existing and new territories.</p> <p>Supportive UK banks.</p>	↘	4	
<p>The Group strives to make sure that its franchisees achieve the service levels set down for them, remain compliant with the law and remain compliant with our own standards by providing support specialists (internally and externally), regular auditing and training.</p> <p>PR agencies are retained to monitor, assist with and advise on strategies to minimise these risks.</p> <p>The Brands have been positioned to make it clear where their expertise lies, what each brand stands for and the experience a customer can expect. EweMove has net promoter scores to identify high achievers and under performers who need assistance.</p>	↘	4	
		See Strategy on page 10 ➡	

Our stakeholders

The Board believes that to maximise value and success in the long term it must engage and consult with its stakeholders in order to develop effective and mutually beneficial relationships with them and, ultimately, to make improved business decisions.

S172 Statement

As required by s172 of the Companies Act 2006, a director of a company must act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In so doing, the director must have regards amongst other matters to the:

- Likely consequences of any decision in the long term
- Interests of the company's employees
- Need to foster the company's business relationships with suppliers, customers and others
- Impact of the company's actions on the community and environment
- Desirability of the company maintaining a reputation for high standards of business conduct
- Need to act fairly between members of the company

Our stakeholders

Employees

We have a very experienced, long-serving and committed team which we recognise is one of the reasons for our success. A headcount of 48 in a flat structure places responsibility on everyone's shoulders. Continuing to maintain and developing an environment in which they can thrive is very important to us.

Material topics

- Opportunities for development
- Determining the working environment
- Opportunities to share ideas
- Rollout of new initiatives to the franchise network
- Group's financial performance

Franchisees

We are bound in partnership with our franchisees to help develop their franchise territories, offerings and revenue. Most have been franchisees for more than 10 years and a growing number for more than 20 years.

- Marketing in the digital age
- Opportunities to share ideas
- Opportunities to help shape new initiatives
- Developing existing and future revenue streams
- Compliance with new regulations

Shareholders

As a business that listed, we recognise the important role that shareholders play in providing capital, insight into successful strategies, advice on risks to be avoided and in monitoring and safeguarding the governance of the Group.

- Financial and operational performance
- Business strategy and model
- Market conditions
- Capital allocation
- Dividend

Banks

Our banking partners play an important role in our business, helping us to take advantage of opportunities. We maintain close and supportive relationships through openness and mutual understanding.

- Financial and operational performance
- Strategy
- Market and opportunities
- Cash generation

Regulators

We recognise the continual push by consumers, society and government for protection through regulation. Regulators clearly have an important role to play in the development of the economy and the property sector. Compliance to high standards is at the core of our franchise model. We have to adapt and so do our franchisees.

- Compliance with the legislation
- Openness and transparency
- Lack of relationship between regulators and sector
- Capabilities of representative bodies

Community

We are mindful that our franchise owners live in the local communities that they serve and, thereby, have an interest in ensuring that their landlords provide suitable accommodation, that tenants meet acceptable standards and that their knowledge is put to good use in serving house buyers.

- Involvement in local organisations
- Providing valuable local insight to customers
- Sponsorship
- Compliance with regulations

How we engage

We have an open and collaborative style which ignores hierarchy. A small team gets to know everyone. So, there are a lot of opportunities to share ideas and to understand new initiatives informally. Our monthly head office meetings provide updates on financial performance and new initiatives plus a Q&A session. Offsite days allow us to explore such matters as our culture, what it is and opportunities for improvement.

We have long-standing arrangements that provide engagement with our franchisees through our annual conference, regional business meetings, one to one meetings and each brand's marketing committee meetings. Every week a newsletter highlights any changes in the law, processes, third party services, our services, training events and new offerings.

We are very conscious of the need to actively communicate with shareholders as they have more regulated contact with us. We achieve this through twice yearly results roadshows, our Non-Executive Directors meeting with them on governance matters, our AGM, our RNSs, our website and via contact through our advisors. Recently we have gone beyond video and tried a podcast.

We maintain regular contact with and host meetings to update our banking partners on our current performance after investor roadshows. Where loans exist we regularly supply financial information and commentary.

We have grown accustomed to reacting to change. We rarely engage directly with Regulators, seeking to rely on our trade bodies to represent us. However, once change is upon us, we seek out advice from Regulators to ensure that we are and remain compliant. We expect to pursue more direct engagement in the future.

Actively engaging in social media and using the digital marketing techniques at our disposal to provide useful information to local communities. Setting out clearly what we do, how we do it and how we support the local community.

Principal decisions in 2019

We have considered the decisions taken by the Board which will have an impact on the longer-term performance and prospects for our Group.

Significant decision

Towards the end of 2019 we took the decision to develop a financial services division.

Stakeholders affected and engagement

- Employees – set out our strategic objective and the opportunities this may present
- Franchisees – set out our strategic objective in regional meetings and in one to one discussions; to understand appetite and challenges
- Shareholders – frank assessment of our commitment made 3 years ago to grow MSF from financial services, the choices under discussion and an RNS announcing the launch of a new financial services division
- Banks – updated on our strategic decision, our intentions towards ownership structures and the potential funding required
- Regulators – advisors have detailed the approval process for owning an FCA regulated business and the key requirements

Reason for decision

Until now our financial services offering has involved us contracting with well-known and experienced third-party suppliers to provide financial services products and services via our franchisees to customers. Our MSF from such activities has remained at 1% for the last few years.

During that time, we have significantly improved our digital marketing capabilities and means of contact with customers and prospective customers, producing tens of thousands of leads per annum.

It's clearly an opportunity to improve our support to our customers, develop a more far-reaching relationship with them and enhance our franchisees' earnings and our earnings.

We have noted the implementations and developments made by our competitors over the last 5 years and these have been achieved by developing their own financial services capabilities.

Incumbent upon us as franchisors is the requirement to look ahead and develop further income streams to support improvements in franchisees' financial stability, to help grow their customer bases and, as importantly, enhance their relationships with existing customers.

Anticipated effects

Employees will find themselves with additional opportunities to develop and progress within the Group in the long term.

Financially stronger franchisees can choose between passing leads directly to us, having a local advisor or, indeed, buying a financial services franchise from us. Their customers will benefit from a more rounded service being provided which should help to improve long-term relationships and loyalty.

Local franchisees offering enhanced professional services to the local community of house buyers and sellers.

Shareholders will benefit from increased earnings and the long-term creation of another franchise model.

Banks may benefit from the requirement for additional short-term funds.

There are not anticipated to be any effects on the environment.

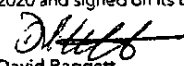
Progress

Recruited a very experienced and well-known CEO for the division.

Taken a controlling stake in Auxilium Partnership Limited which helps brokers achieve better commissions on protection sales and improve their sales of protection products.

Paused further activity due to the increasing level of uncertainty caused by COVID-19.

The Strategic Report is contained on pages 1 to 21. It was approved by the Board on 30 March 2020 and signed on its behalf by


David Raggett
Chief Financial Officer

The Board

Richard Martin

Christopher Varley

David Raggett

Richard Martin
Non-Independent Non-Executive Chairman

After leaving Bristol Technical School, Richard became an apprenticed stereotyper for the Bristol Evening Post in 1967. In 1975 he moved to The Western Gazette, another newspaper in the same group based in Yeovil. Ahead of the introduction of computerisation into the industry, Richard moved into the commercial side and in 1981, became trained in advertising design and sales. After a few years he gained promotion to advertising manager for the group's free press titles distributed throughout Somerset, Dorset, Devon and Wiltshire. Following the profitable sale of a retail business in early 1986, which Richard set up and was managed by his wife Kathy, he left the newspaper business to pursue his interest in property and forge a career in estate agency. Richard founded Martin & Co in 1986 in Yeovil. In 1995, Martin & Co became a franchise operation and the brand has since gone from strength to strength.

David Raggett
Chief Financial Officer

Since qualifying with PwC as a Chartered Accountant, David has spent his whole working life in franchising as franchisor and franchisee. Initially David held financial responsibility for several Ford franchises before, in the mid 1990s, moving to Porsche's UK headquarters. Here he held financial responsibility for its distribution, retail and financial services businesses at various times, as well as being their company secretary and, for several years, Head of Legal. In 2007 David took up the role of finance director for the Motability Scooter and Powered Wheelchair Scheme to restore its financial stability, to improve its offering and to expand its customer base. After successfully turning the scheme around and leading it into new ownership, David joined the Group in February 2013.

Christopher Varley
Company Secretary

After qualifying as a Chartered Accountant, Chris spent 4 years at BDH Limited, a subsidiary of Merck. He then worked for Beale PLC, a listed department store group, from 1987 to 2015 where he held senior positions in finance and was company secretary for over 18 years. Chris joined TPF as Company Secretary in April 2016 and was an invaluable member of the team. He decided to retire and resigned his position on 11 February 2020. We are very grateful to Chris for his work, support and frankness. We wish him a very happy retirement.

Phil Crooks

Paul Latham

Ian Wilson

Paul Latham
Independent Non-Executive Director

Paul is a Chartered Surveyor. Until 2014, he sat on the Residential Board for the Royal Institution of Chartered Surveyors, of which he was Chair until 2011. Paul served as Deputy Group CEO of LSL Property Services plc until 2010, having been part of the management buyout in 2004, which ultimately saw the business successfully list on the London Stock Exchange in 2006. During this period Paul was managing director of a number of the LSL Group's subsidiary businesses including e.surv Chartered Surveyors and also sat on a number of external company boards and trade bodies. Subsequently Paul served as a non-executive director of LSL until 2012. Paul was appointed as an Independent Non-Executive Director of The Property Franchise Group PLC's Board and Chair of its Remuneration Committee in December 2013.

Ian Wilson
Chief Executive Officer

Ian has worked in the property industry for over 35 years. After graduating from Bristol Polytechnic with a degree in Housing, Ian's first job was to manage one of the UK's most deprived housing estates in the North East of England. When the Conservative government introduced the Housing Act 1988 which set the legal framework for a resurgence of the private rented sector, Ian was working as a Fair Rent Officer and shortly after applied to Halifax Property Services in Newcastle-upon-Tyne to become its first Area Lettings Manager. Ian moved to General Accident Property Services as a Regional Lettings Manager and subsequently was promoted to National Lettings Manager. Ian moved to Connells as its first Lettings director and in the course of business met Richard Martin, who invited Ian to join Martin & Co as Managing Director in July 2003. Ian has given his notice to the Board that he will retire in 2020.

Phil Crooks
Independent Non-Executive Director

Phil is a Chartered Accountant. He has 40 years' experience in accounting, auditing and investigations and is currently Managing Director at Berkeley Research Group. He retired as a partner in Forensic and Investigations Services at Grant Thornton UK LLP in June 2019. He was previously UK Head of Audit for 6 years and a member of the International Assurance Advisory Board at Grant Thornton. Prior to that he spent 15 years at Price Waterhouse. Phil has extensive audit and advisory experience, addressing financial reporting and accounting issues and has worked with a wide range of listed and private international companies. Phil was appointed as an independent Non-Executive Director of The Property Franchise Group PLC's Board and Chair of its Audit and Risk Committee in May 2015.

High standards of corporate governance contribute to our success

Richard Martin
Chairman

My main function is to manage the Board, so the Company and Group are run in the best interests of stakeholders. As part of my role as Chairman I am responsible for overseeing the adoption, delivery and communication of the Company's corporate governance model. Corporate governance is an important element of the management of long-term shareholder value, mitigating the risks and helping to create sustainable growth.

Since our IPO in December 2013, we have stated that the Directors recognise the importance of applying sound corporate governance guidelines, to the extent appropriate for a Company of our nature and size, and we have observed and complied with the Corporate Governance Guidelines devised by the Quoted Companies Alliance ("QCA"). Following the London Stock Exchange's recent changes to the AIM rules requiring AIM-listed companies to state which recognised corporate governance code they have adopted, our Board continues to confirm its commitment by adopting the Quoted Companies Alliance Corporate Governance Code (Edition 2018) which contains 10 principles. We believe this code provides us with the most appropriate governance code to allow us to successfully develop our business. Our full statement of compliance with the Quoted Companies Alliance Corporate Governance Code is set out on our website at www.propertyfranchise.co.uk/investor-relations/governance-policy.

We continually review the framework within which we operate, reflecting upon the updated guidelines and research published by the QCA so as to ensure we have a framework reflecting the complexities of our business which is capable of adding value as we grow.

The Board sets the strategic direction, regularly reviews performance and ensures that there are sufficient and appropriate resources available to support its achievement. It is satisfied that there are the necessary controls and resources in place to discharge these responsibilities.

Our primary objective is to enhance shareholder value and to ensure that the Company and Group is managed for the long-term benefit of its shareholders. We do recognise our responsibilities to all stakeholders in our Group and the importance these relationships play in the delivery of our vision. The Board promotes a culture of good governance in dealing with all stakeholders.

Corporate governance regime

We confirm that our governance structures and practices continue to be in agreement with the Quoted Companies Alliance Corporate Governance Code (Edition 2018).

Richard Martin
Chairman

The Board

The Board comprises the non-independent Non-Executive Chairman, 2 independent Non-Executive Directors and 2 Executive Directors who are the Chief Executive Officer and the Chief Financial Officer of the Company. It has established an Audit and Risk Committee and a Remuneration Committee.

The Board is responsible for the overall performance of the Group, which includes the broad strategic direction, development and control of the Group. The policies and strategies of the Group are formulated by the Board and the detailed considerations about the day-to-day operations are delegated to a senior management team under the leadership of the Executive Directors.

The Board of Directors meets at least 9 times a year to review the implementation of strategy and policy decisions and to review the Group's progress to ensure that the operation of the Group is at all times in line with the Group's objectives.

The Board has regular contact with its advisers to keep up to date with corporate governance matters. The Group purchases appropriate insurance cover in respect of legal action against its Directors.

The Chairman's main function is to manage the Board so that the Group is run in the best interests of its stakeholders. It is also the Chairman's responsibility to ensure the Board's integrity and effectiveness.

The Chief Executive Officer is responsible for the running of the Group's businesses. There is a schedule of matters specifically reserved for the Board's decision to ensure that the management and direction of the Company are under its control. Each Executive Director has his own sphere of responsibility. Decisions relating to strategy, major contracts, acquisitions, internal controls, for example, are taken at Board level.

The Board has an appropriate balance of skills, capabilities and experience, including in areas of residential property sales and lettings, franchising, finance and marketing. Each Directors' biography is set out on pages 22 to 23 which demonstrates the experience mix.

The Board are supported by a strong senior management team which contains a managing director of the franchisors, a marketing director and several qualified accountants alongside the Chief Executive Officer and Chief Financial Officer.

During the years ended 2018 and 2019, the Remuneration Committee has sought advice from Deloitte LLP and Shoosmiths LLP in relation to share option schemes and other employee reward mechanisms.

All Directors are able to take independent professional advice in the furtherance of their duties and to attend seminars and training to assist them with the development of their own knowledge and expertise.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and the applicable rules and regulations are complied with.

Evaluation of Board performance

The Board reviews its effectiveness internally by discussion, members suggest improvements and where agreed upon, these are implemented. However, the Board does not consider it appropriate for a Company of its size to carry out regular formal evaluations of its performance as a unit.

Directors' time commitments

The Executive Directors are employed on a 8.30 am to 5.30 pm basis and such additional hours as may be required for proper performance of their duties and responsibilities. Non-Executive Directors are required to allocate sufficient time to properly carry out their duties and perform their roles as the circumstances will dictate. This includes attendance at monthly Board meetings, Committee meetings and the AGM. Non-Executive Directors are required to devote appropriate preparation time ahead of each meeting.

Non-Executive Directors/Board independence

The Company has two independent Non-Executive Directors, Paul Latham and Phil Crooks, who provide an important contribution to its strategic development. Paul Latham and Phil Crooks both meet the independence criteria which are set out in the UK Corporate Governance Code.

Board Committees

The Board has delegated specific responsibilities to the Audit & Risk and Remuneration Committees. The Board considers that all the members of each Committee have the appropriate experience. All Board Committees have their own terms of reference which are available on request.

Remuneration Committee

The Remuneration Committee is chaired by Paul Latham and its other member is Phil Crooks. It met twice in 2019 and will continue to meet at least twice a year.

The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and specific remuneration packages for Executive Directors including pension payments and compensation rights. It is also responsible for making recommendations for grants of options under the Share Option Plans.

The remuneration of Non-Executive Directors is a matter for the Board. No Director may be involved in any discussions as to their own remuneration.

Details of the level and composition of the Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 29 to 30.

Corporate governance statement continued

Audit and Risk Committee

Phil Crooks is the Chair of the Audit and Risk Committee. Paul Latham is its other member. It met 3 times in 2019 and will continue to meet at least twice a year.

The Audit and Risk Committee has the primary responsibility for ensuring that the financial performance of the Group is properly measured, reported on and monitored. These responsibilities extend to:

- the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon;
- the appropriateness of the Group's accounting policies;
- the potential impact on the Group's financial statements of certain events and risks;
- the external auditor's plan for the audit of the Group's accounts, which includes key areas of audit focus, key risks, the proposed audit fee and approving the terms of engagement for the audit;
- internal assurance reporting;
- non-audit services;
- the dividend policy;
- the processes for identifying the risks to the business and managing those risks; and
- its terms of reference.

For more information on the work of the Audit and Risk Committee during the year please refer to its report on pages 31 to 32.

Risk management

The Board carries out a risk review annually. Board Directors and senior management all contribute to the drawing up of the risk review. The Audit and Risk Committee review the document, examine the risks, decide on the actions to recommend and then pass it on to the Board for approval. The document sets out the name of the risk as well as describing it, considering the effect on the business, looking at the controls in place, looking for additional mitigating factors, and deciding its seriousness by considering the probability of it occurring and what damage it would cause if the event occurred. Once a risk has been determined as requiring action, the Board allocates the responsibility to the appropriate Board member.

During the course of the year the Board reviews progress against the risks set out in the risk review. The key risks are set out in the section principal risks and uncertainties on pages 18 to 19.

Directors attendance at meetings held during the financial year ended 31 December 2019

	Board	Audit Committee	Remuneration Committee
Number of meetings	11	3	2
Richard Martin	11	–	–
Ian Wilson	11	–	–
David Raggett	11	3	–
Paul Latham	11	3	2
Phil Crooks	11	3	2

Internal control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established clear operating procedures and responsibility structures. These procedures include:

- monthly financial reporting against budget and the prior year;
- day-to-day financial control of operations;
- annual budgeting and half-yearly forecasting;
- the monitoring and assessment of risk;
- performance monitoring and the taking of remedial action; and
- planning, reviewing, approving and monitoring major projects.

Relations with shareholders

The Board is committed to maintaining good communications with shareholders and the website propertyfranchise.co.uk provides up-to-date information on the Group.

The AGM is an important opportunity to meet and communicate with its investors and for them to raise with the Board any issues or concerns they may have. The Group dispatches the Notice of AGM at least 21 days before the meeting. Registered shareholders have direct access to the Group and receive a copy of the Annual Report, which contains the full financial statements of the Group.

Directors' report

Strategic report

Governance

Financial statements

The Directors present their Annual Report and audited financial statements for the financial year ended 31 December 2019. Information that would normally be presented in the Director's Report has been presented in the Group's Strategic Report in accordance with S414C(11) of the Companies Act 2006.

Principal activities

The principal activity of the Group during the year was the sale of franchises and the support of franchisees in supplying residential letting, sales and property management services within the UK.

Results for the financial year and business review

The Group achieved a profit before tax of £4.0m in the financial year as compared to £4.3m for the prior year and a profit after tax of £3.2m (2018: £3.4m). The results are shown in the Consolidated Statement of Comprehensive Income on page 36. A full review of the Group's business is included in the Strategic Report on pages 1 to 21.

The reason for the reduction in the Group's profit before tax is a share-based payment charge of £0.4m for the year (2018: £0.2m before netting with a prior year release) resulting from the schemes implemented to align all the employees to the strategic plan and targets. The scheme which is having a significant impact on the share-based payments charge was implemented in 2018 with a target to grow EPS by 44% over 3 years to 31 December 2020. More information on this can be found in note 5 and note 28 to the consolidated financial statements.

Financial risk management

The Group's objectives and policies with regards to financial risk management are set out in note 27 to the consolidated financial statements.

Future developments

The Group intends to further develop some key focuses for it over the last few years. These are summarised below:

- Improved use of digital marketing to win business for all our brands and to track attribution.
- Increased focus and support to aid franchisees in buying independent operators.
- Continued recruitment of experienced estate agents as franchisees in EweMove.
- Consolidation of the number of franchise owners.

More details on the progress made to date with these key areas of focus can be found in the Strategic Report on pages 1 to 21.

Having made a decision at the start of 2019 to re-evaluate the financial services offering, the Board took the decision, as the year ended, to cease to rely on third party providers of services to the franchised network. Instead, the Group will now build its own financial services division with the capabilities and capacity to service its franchisees and to develop stronger income streams for them. Actions arising from this decision have been paused due to the increasing level of uncertainty caused by COVID-19. More information on this can be found in the CEO's statement on page 8, stakeholder engagement on page 20 and in the post balance sheet note on page 65.

Dividends

The Group paid a final dividend for the financial year ended 31 December 2018 of 6.0p per share on 28 May 2019 and an interim dividend for the financial year ended 31 December 2019 of 2.6p per share on 1 October 2019.

The Board is not recommending a final dividend for the financial year ended 31 December 2019 at this time (2018: 6.0p per share).

Directors

The Directors shown below have held office throughout the year unless otherwise stated:

R W Martin
I Wilson
D A Raggett
P M Latham
P J Crooks

The Directors' remuneration and the Directors' interests in the Group are disclosed in the Directors' Remuneration Report on pages 29 to 30.

The Group maintains Directors and Officers liability insurance, which gives appropriate cover against any legal action that may be brought.

Going concern

The Group and Company's financial statements have been prepared on the going concern basis after due consideration of the potential impacts of COVID-19 on the financial position of both up until 31 March 2021. Further details of the work undertaken to reach the Board's conclusion can be found in note 2 of the financial statements on page 45.

During the year the Group fully repaid the borrowings from Santander UK plc and discontinued its discussions with Santander UK plc over a renewed facility. Instead, the Group engaged in discussions with Barclays Bank Plc and received an offer of a £5m rolling cash flow facility which it is pursuing.

Directors' report continued

Auditor

BDO LLP has expressed its willingness to continue in office. In accordance with section 439 of the Companies Act 2006, a resolution to reappoint BDO LLP will be proposed at the Annual General Meeting.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Group and Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

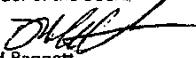
In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



David Reggett
Chief Financial Officer
30 March 2020

Directors' remuneration report

Remuneration Committee

The remuneration of each Executive Director is determined by the Remuneration Committee. It is chaired by Paul Latham and its other member is Phil Crooks.

Policy on remuneration of Directors

The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior management and specific remuneration packages for Executive Directors including pension payments and compensation rights. It is also responsible for making recommendations for grants of options under the Share Option Plan.

The remuneration of Non-Executive Directors is a matter for the Board. It consists of fees for their services in connection with Board and Committee meetings. No Director may be involved in any discussions as to their own remuneration.

The remuneration policy is designed to shape the Group's remuneration strategy for an anticipated 3 years, ensuring that the structure and levels of remuneration continue to remain appropriate for the Group. The policy aims to:

- Pay competitive salaries to aid recruitment, retention and motivation being reflective of the person's experience and importance to the Group.
- Pay annual bonuses to incentivise the delivery of stretching short-term business targets whilst maintaining an element of variability allowing flexible control of the cost base and being able to respond to market conditions.
- Provide long-term share incentive plans designed to incentivise long-term value creation, reward execution of strategy, align Directors' interests with the long-term interests of investors and promote retention.

The main remuneration components for Directors are:

Basic salary or fees

Basic salary or fees for each Director are determined taking into account the performance of the individual and information from independent sources on the rates of salary and fees for similar posts. The salaries and fees paid to Directors by the Group were £470k (2018: £470k).

Annual bonus

The Company has a formal bonus scheme which was effective for the Executive Directors from 18 December 2013. Bonuses were paid to the Executive Directors by the Group of £251k (2018: £237k).

Pension

Contributions made to Executive Directors' pensions in the year were £29k (2018: £11k).

Share options

On 9 June 2017 options over 1,000,000 and 500,000 new ordinary shares of the Company were granted to Ian Wilson and David Raggett, respectively, under a new share option scheme. The options have an exercise price of 1 pence per share. The awards were conditional on the achievement of an adjusted earnings per share target as measured at 31 December 2019 (adjusted earnings per share being basic earnings per share excluding exceptional income/costs and share-based payments). Adjusted EPS growth of 15% between inception and 31 December 2019 was required for threshold vesting of the awards, with adjusted EPS growth of 44% or higher required for all the awards to vest. The evaluation of that scheme results in 22% achievement of the adjusted EPS growth and, thereby, the possibility of 25% of the award for each individual vesting in April 2020.

However, on 1 August 2018 the Board agreed to roll the arrangements contained in the 2017 share options forward by 1 year, such that the performance period runs until 31 December 2020. The roll-forward has been structured as the grant to each individual of a new nil-cost option "in parallel" to, and over the same number of shares as, the option originally granted to him so that: (1) if the option originally granted is exercised, the new option will lapse; and (2) if the new option is to be exercised, the original option must either have lapsed or been released. Therefore, Ian Wilson and David Raggett will only be able to benefit from one of the options granted to them. The other terms and the EPS growth hurdles are the same as for the original options.

On 6 August 2019 the Board granted a new option to David Raggett over a maximum of 100,000 ordinary shares in the Company. It, like the other two grants stated above, uses the same growth in EPS metric. The measurement period is for the 3 years ended 31 December 2021.

During the year the Remuneration Committee sought advice from Deloitte LLP and Shoosmiths LLP on these share options' schemes.

Company policy on contracts of service

The Executive Directors of the Company do not have a notice period in excess of 12 months under the terms of their service contracts. Their service contracts contain no provisions for pre-determined compensation on termination, which exceeds 12 months' salary and benefits in kind. Non-Executive Directors do not have service contracts with the Company, but have letters of appointment which can be terminated on 3-months' notice.

Termination date

Richard Martin	3-months' notice
Ian Wilson	12-months' notice
David Raggett	12-months' notice
Paul Latham	3-months' notice
Phil Crooks	3-months' notice

Directors' remuneration report continued

Company policy on external appointments

The Company recognises that its Executive Directors are likely to be invited to become non-executive directors of other companies and that exposure to such non-executive duties can broaden their experience and knowledge, which will benefit the Group. Executive and Non-Executive Directors are therefore, subject to approval of the Company's Board, allowed to accept non-executive appointments, as long as these are not with competing companies and are not likely to lead to conflicts of interest. Executive and Non-Executive Directors are allowed to retain the fees paid.

Taxable benefits

The Executive Directors were not entitled to taxable benefits such as a company car, car allowance or private medical insurance during the year.

Directors' emoluments

The figures below represent emoluments earned by the Executive Directors and Non-Executive Directors from the Group during the financial year and relate to the period of each Director's membership of the Company's and Subsidiaries' Boards.

	Salary & fees £'000	Bonus £'000	Total 2019 £'000	Total 2018 £'000
Executive Directors:				
Ian Wilson	200	143	343	335
David Raggett	150	108	258	252
	350	251	601	587
Non-Executive Directors:				
Richard Martin	40	–	40	40
Paul Latham	40	–	40	40
Phil Crooks	40	–	40	40
	120	–	120	120
Total remuneration	470	251	721	707

Vesting of options

No options vested during the year ended 31 December 2019 or 31 December 2018.

Changes to Board members

No Director resigned from or joined the Board during the year.

On 31 July 2019, after 16 years with the business, Ian Wilson, Chief Executive Officer, informed the Board of his intention to retire at the end of calendar year 2020. The Board immediately commenced the recruitment of a suitably qualified successor so as to allow ample time for both this process and a smooth, orderly handover period. On 13 February 2020 the Board announced that Gareth Samples had been appointed Chief Executive Officer Designate with a view to Gareth taking up the role of Chief Executive Officer in the second half of 2020.

With 30 years' industry experience, Gareth brings a wealth of estate agency, financial services and digital marketing knowledge to the Group. In his 21-year career at LSL Gareth was appointed Managing Director of the Your Move brand, which was the largest single brand estate agency in the UK at the time. In this role he was responsible for Your Move's franchise operation as well as having overall control of financial services and lettings and the strategy of the brand.

Following his successful career at LSL, Gareth became Managing Director of Briefyourmarket.com where he gained significant digital marketing experience and knowledge and since 2014 he has served as Chairman of Legalforlandlords.

Directors' interests

The interests of the Executive Directors, Non-Executive Directors and their spouses in the shares of the Company were as follows:

The Property Franchise Group PLC ordinary 1 pence shares.

	2019		2018	
	Shares	Options	Shares	Options
Directors:				
Richard Martin	8,889,950	–	10,189,950	–
Ian Wilson	1,479,200	1,000,000	1,479,200	1,000,000
David Raggett	227,400	600,000	217,400	500,000
Paul Latham	50,000	–	25,000	–

The dividends paid to the Executive Directors, Non-Executive Directors and their spouses during the year are disclosed in note 29 to the Financial Statements.

By order of the Board

Paul Latham
Non-Executive Director
30 March 2020

Audit and Risk Committee Report

Phil Crooks
Chairman of the Audit and Risk Committee

I am delighted to present our Audit and Risk Committee ("ARC") report which summarises the work we have undertaken during the year and how we have fulfilled our responsibilities.

As part of my role as Chair of the ARC, I very much welcome the opportunity to meet franchisees at the annual conferences so as to gain a greater understanding of the opportunities and challenges that they face. As you might expect I keep in regular contact with David Raggett, CFO, to understand current financial performance, to discuss the controls and processes in place, to aid an understanding of how technical requirements can be implemented, to discuss areas where judgement needs to be applied and to ensure that mitigation plans formulated as a result of our risk identification processes are being implemented.

The ARC is formed of Paul Latham and myself. Whilst I possess 40 years of experience in accounting, audit and forensic investigation, Paul possesses tremendous industry knowledge. Both of us are independent Non-Executive Directors with extensive general business and management experience. We have worked together on this Committee for the last 4.5 years.

Regular meeting attendees include Paul and myself as well as our CFO, Company Secretary and representatives of our external auditor, BDO LLP.

We undertake to meet at least twice a year but have invariably met more than this. Indeed, in the last year we met 3 times to continue our rolling process of reviewing matters during the year. We aim to ensure that actions are both being undertaken in a timely manner and, as importantly, supported with necessary expertise. Details of attendance at meetings can be found on page 26.

Role

The ARC assists the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the Group's systems of internal control and risk management, the internal and external audit process and the process for compliance with relevant laws and regulations.

The Committee has written terms of reference including its role and the authorities delegated by the Board to it.

Activity

The ARC has taken a leading role in ensuring, on behalf of the Board that the Annual Report when taken as a whole remains fair, balanced, understandable and provides the information required by shareholders to assess the Group's performance, business model and strategy.

During the year we have reviewed the Interim Results and Trading Updates to ensure the integrity of the financial information being presented.

We asked BDO to undertake a benchmarking process primarily of the finance function and its processes to highlight any weaknesses, to identify areas that could be improved and to see how we compared with similar sized organisations. We were reassured with the report's findings which showed our finance function to be performing well against its peers. There were suggested improvements in just a few areas which have been addressed.

We have reviewed the impact of the implementation of IFRS 16 "Leases". Given our modest premises' requirements and lack of other leases, the impact is minimal.

Members

Phil Crooks (Chairman)
Paul Latham

Objectives

- Maintain vigilance over our business
- Pay appropriate attention to the general and specific risks that our business faces

Achievements in 2019

- BDO's benchmarking of our finance function. Performing well against its peers. Further improvements made

Audit and risk committee report continued

The impairment of intangible assets is considered by the ARC on an annual basis. A review for impairment triggers is performed at each reporting date by questioning if changes in circumstances suggest the recoverable value of certain intangible assets may be less than their carrying value. The ARC reviewed management's assessment of recoverable values and relevant judgements made. No impairment triggers were identified during the year.

The Company operates a share option scheme for the benefit of the Group's employees to further align their interests with those of the Group. The valuation of the share-based payments charge is considered by the ARC on a regular basis. Currently we have unexercised options issued in 2017, 2018 and 2019 as well as an unexercised option over 64,800 shares relating to the share option scheme implemented in 2013. The Committee reviewed management's assessment at 31 December 2019 that no charge was likely to arise for the options issued in 2017 because the "parallel options" issued in 2018 were likely to be more beneficial. The amounts estimated to arise as share-based payments charges under both schemes were also reviewed. The assessments were agreed by the ARC.

We started to monitor the work being undertaken to overcome some of the growth pains being experienced by the operating platform in EweMove. It is written in a low code environment which has given significant flexibility over its expansion and ability to incorporate proven third-party software quite quickly. However, given the plans to grow EweMove a lot further, we are monitoring for risks to operating performance and, as importantly, the recommendations being received from third party suppliers.

We have received reports on the adverse results of our audits of franchisees by our internal audit function and made recommendations, where appropriate, on the actions to take.

As a result of the increasing level of uncertainty as to how the situation regarding COVID-19 will develop, the ARC has been reviewing the Group's cash flow modelling through to 31 March 2021. We start with a strong financial position and, with the agreed actions to safeguard our cash, we are satisfied that the Group will have adequate resources to continue in operation past 31 March 2021. Thus, the going concern basis has been adopted in preparing the financial statements for 2019. Further details of the work done to satisfy the Committee can be found in note 2 of the financial statements on page 45.

External audit

The effectiveness of the external audit process is dependent on the appropriate audit risk identification at the start of the audit cycle. A detailed audit plan was received from BDO which set out the key risks identified. The ARC approved this plan and the auditor's remuneration.

At various meetings during the year the ARC considered reports prepared by the auditors in relation to the interim audit and planning for the year-end audit.

The independence and objectivity of the external audit function is a fundamental safeguard to the Company's shareholders. In order to ensure audit independence, the ARC restricts the engagements of BDO in relation to non-audit work. It recognises that for some non-audit work a detailed understanding of the Group's business is a distinct advantage but that, before appointing the external auditor, it should satisfy itself that it's the most suitable supplier of the service required.

The effectiveness of the external audit process is currently assessed by the ARC based on discussions with those involved in the process. The ARC has made a recommendation to the Board to reappoint BDO as the Company's auditors for the 2020 financial year. In making that recommendation the ARC has also considered the independence and objectivity of the auditors as well as the cost effectiveness of the external audit. Accordingly, a resolution proposing the reappointment of BDO will be tabled at the AGM in 2020.

Risk management and internal control

On an annual basis the Group draws up an updated risk review. This risk review is drawn up with contributions from Directors and senior management. Once the ARC has approved the risk review documentation it is then presented to our Board for their approval.

The Committee review the auditor's report on controls within the business. The Committee ensures that Company responds appropriately.

COVID-19 has generated a lot of uncertainty and, with that, risk. The ARC is carefully monitoring the impacts on the Group and the actions taken, where necessary, to combat those impacts.

And finally

In the year ahead the ARC will continue to focus on key risks, operations and accounting matters. These will include COVID-19 regulations and government policy impacting our sector, information security, the results of our internal audits of franchisees, the developments regarding EweMove's operating platform, the calculation of the share-based payment charge relating to our share option schemes and our year-end audit.

I would like to thank the attendees of our ARC meetings for their time and valuable contributions during the year.

Phil Crooks
Chairman of the Audit and Risk Committee
30 March 2020

Independent auditor's report to the members of The Property Franchise Group PLC

Opinion

We have audited the financial statements of The Property Franchise Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill and intangible asset impairment risk

As detailed in the accounting policies and critical accounting estimates and judgements and key sources of uncertainty and also note 15 to the financial statements, goodwill and other intangible assets are tested for impairment at least annually through comparing the recoverable amount of the cash generating unit, based on a value-in-use calculation, to the carrying value. Furthermore, other intangible assets are tested for impairment where an indicator of impairment arises. Management's review found no evidence of impairment in the Etemmove or other cash-generating units; no indicators of impairment in relation to other intangible assets. The risk that goodwill and intangible assets may be impaired is considered significant due to the level of judgement involved in the impairment review and the opportunity for management bias within the impairment model assumptions.

How We Addressed the Key Audit Matter in the Audit

We performed a review of the Group's goodwill and intangible assets and examined for indicators of impairment such as considering whether there was any evidence of a decline in the value of the assets due to events during the year and comparing net assets to market capitalisation. We also reviewed impairment reviews prepared by management, specifically reviewing the integrity of management's value-in-use model and, with the assistance of our valuation specialists, we challenged the key inputs, being forecast growth rates, operating cash flows and the discount rate. Our audit procedures for the review of operating cash flows and forecast growth rates included, amongst others, comparing the forecast to recent financial performance and budgets approved by the Board. We used market data to independently calculate a discount rate for comparison and also performed our own sensitivity analysis upon the key valuation inputs.

Key observations

We found management's judgements in this area to be reasonable and found no evidence of management bias in the assumptions used

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Independent auditor's report to the members of The Property Franchise Group PLC continued

Revenue recognition

As detailed in the accounting policies and also note 7 to the financial statements, the Group earns revenue principally in the form of Managed Service Fees ("MSF"), which are derived as a percentage of the franchisees' income. The Managed Service Fees are recorded in separate sales systems based on information uploaded by the franchisees and imported into the accounting system on a monthly basis.

Due to the need to transfer data across the systems, we consider there to be a significant risk that revenue may not be fully recognised or recorded in the wrong period due to error or manipulation. Through the need to reconcile data between the two systems and ensure that revenues had been fully recorded in the nominal ledger, the procedures on revenue recognition also represented a significant part of our audit strategy in terms of the level of direction and supervision and allocation of resources and so, consequently, revenue recognition is considered a key audit matter.

How We Addressed the Key Audit Matter in the Audit

We considered the appropriateness of the group's accounting policies for revenue in the light of the revenue recognition principles of the financial reporting framework

We obtained and tested management's reconciliation between the underlying sales systems to which franchisees upload their lettings/sales data and the MSF recorded in the nominal ledger. We witnessed the data extraction from the underlying systems and engaged our technology and systems experts to *reperform a full reconciliation of the two data sets and investigated and corroborated any reconciling items* such as manual journals to revenue.

We tested the integrity of the data in the underlying sales systems by tracing a sample from franchisee submission, ensuring that the correct MSF rate had been applied in accordance with the franchise agreement, through to invoice issued and ultimately cash collection.

In considering the completeness of the data in the underlying sales systems, we selected a sample of franchise agreements and ensured that the MSF had been appropriately included in the sales system and at the appropriate rate.

Key observations

Based on the procedures performed, we consider that revenue has been appropriately recognised.

Our application of materiality

Group materiality: £190,000 (2018: £215,000); Parent Company materiality: £185,000 (2018: £140,000).

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken based on the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

Our group materiality for the financial statements, for the current year was based on 5% of profit before tax, which we consider to be a key performance measure for the Group and the members of the parent company in assessing financial performance. The basis of materiality is unchanged from the prior year.

On the basis of our risk assessment, together with our assessment of the Group's control environment, our judgement we set performance materiality for the Group at 75% of group materiality, namely £143,000 (2018: £150,000). Performance materiality for the Parent Company was also set at 75% of parent company materiality at £139,000 (2018: £98,000).

Materiality levels used for each key component ranged from £20,000 to £185,000.

We agreed with the audit committee that we would report to the committee all audit differences in excess of £7,600 (2018: £5,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group's operations are based solely in Bournemouth, United Kingdom. The scope of our group audit was established by obtaining an understanding of the group, including its control environment, and assessing the risks of material misstatement.

We identified five components, all of which were considered significant and subject to a full-scope audits by BDO LLP.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Malcolm Thixton (Senior Statutory Auditor)
 For and on behalf of BDO LLP, Statutory Auditor
 Southampton, United Kingdom
 30 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income
For the year ended 31 December 2019

	Notes	2019 £	2018 £
Revenue	7	11,350,327	11,245,613
Cost of sales		(1,066,849)	(1,080,271)
Gross profit		10,283,478	10,165,342
Administrative expenses	8	(5,820,277)	(5,783,482)
Share-based payments charge	9, 28	(441,709)	(49,857)
Operating profit	10	4,021,492	4,332,003
Finance income	11	11,012	8,968
Finance costs	11	(38,310)	(71,494)
Profit before income tax expense		3,994,194	4,269,477
Income tax expense	12	(761,788)	(847,041)
Profit and total comprehensive income for the year attributable to owners		3,232,406	3,422,436
Earnings per share			
Statutory			
Earnings per share attributable to owners	13	12.5p	13.3p
Diluted Earnings per share attributable to owners	13	12.1p	13.1p
Adjusted			
Earnings per share attributable to owners	13	16.2p	15.4p
Diluted Earnings per share attributable to owners	13	15.6p	15.3p

Consolidated statement of financial position
31 December 2019

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Intangible assets	15	14,786,402	15,324,755
Property, plant and equipment	16	77,555	103,584
Right-of-use assets	17	74,580	–
Prepaid assisted acquisitions support	18	657,948	453,836
		15,596,485	15,882,175
Current assets			
Trade and other receivables	20	1,483,009	1,096,274
Cash and cash equivalents		4,011,463	3,857,988
		5,494,472	4,954,262
Total assets		21,090,957	20,836,437
Equity			
Shareholders' equity			
Called up share capital	21	258,228	258,228
Share premium	22	4,039,800	4,039,800
Other reserves	23	3,506,892	2,983,861
Retained earnings		9,449,675	8,442,960
Total equity attributable to owners		17,254,595	15,724,849
Liabilities			
Non-current liabilities			
Borrowings	24	–	700,000
Lease liabilities	17	25,089	–
Deferred tax	26	1,140,227	1,372,196
		1,165,316	2,072,196
Current liabilities			
Borrowings	24	–	900,000
Trade and other payables	25	2,000,175	1,476,819
Lease liabilities	17	52,660	–
Tax payable		618,211	662,573
		2,671,046	3,039,392
Total liabilities		3,836,362	5,111,588
Total equity and liabilities		21,090,957	20,836,437

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2020 and were signed on its behalf by:


David Raggett
Chief Financial Officer

Company statement of financial position

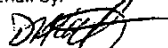
31 December 2019

(Company No: 08721920)

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Investments	19	33,899,664	33,803,886
Deferred tax asset	26	215,293	30,101
		34,114,957	33,833,987
Current assets			
Trade and other receivables	20	421,903	361,520
Cash and cash equivalents		1,073,774	1,278,026
		1,495,677	1,639,546
Total assets		35,610,634	35,473,533
Equity			
Shareholders' equity			
Called up share capital	21	258,228	258,228
Share premium	22	4,039,800	4,039,800
Other reserves	23	21,496,792	20,973,761
Retained earnings		9,640,327	8,537,181
Total equity		35,435,147	33,808,970
Liabilities			
Non-current liabilities			
Borrowings	24	-	700,000
		-	700,000
Current liabilities			
Borrowings	24	-	900,000
Trade and other payables	25	175,487	64,563
		175,487	964,563
Total liabilities		175,487	1,664,563
Total equity and liabilities		35,610,634	35,473,533

As permitted by Section 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial year was £3,323,903 (2018: £3,420,015).

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2020 and were signed on its behalf by:


David Raggett
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Attributable to owners				
	Called up share capital £	Retained earnings £	Share premium £	Other reserves £	Total equity £
Balance at 1 January 2018	258,228	7,034,699	4,039,800	2,934,004	14,266,731
Profit and total comprehensive income	–	3,422,436	–	–	3,422,436
Dividends	–	(2,014,175)	–	–	(2,014,175)
Share-based payments charge	–	–	–	49,857	49,857
Total transactions with owners	–	(2,014,175)	–	49,857	(1,964,318)
Balance at 31 December 2018	258,228	8,442,960	4,039,800	2,983,861	15,724,849
Effect of adoption of IFRS 16 (net of tax) (note 17)	–	(4,933)	–	–	(4,933)
1 January 2019 as restated	258,228	8,438,027	4,039,800	2,983,861	15,719,916
Profit and total comprehensive income	–	3,232,405	–	–	3,232,405
Dividends	–	(2,220,757)	–	–	(2,220,757)
Deferred tax on share-based payments	–	–	–	81,322	81,322
Share-based payments charge	–	–	–	441,709	441,709
Total transactions with owners	–	(2,220,757)	–	523,031	(1,697,726)
Balance at 31 December 2019	258,228	9,449,675	4,039,800	3,506,892	17,254,595

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Company statement of changes in equity

For the year ended 31 December 2019

	Called up, share capital £	Retained earnings £	Share- premium £	Other reserves £	Total equity £
Balance as at 1 January 2018	258,228	7,131,341	4,039,800	20,923,904	32,353,273
Profit and total comprehensive income	–	3,420,015	–	–	3,420,015
Dividends	–	(2,014,175)	–	–	(2,014,175)
Share-based payments charge	–	–	–	49,857	49,857
Total transactions with owners	–	(2,014,175)	–	49,857	(1,964,318)
Balance as at 31 December 2018	258,228	8,537,181	4,039,800	20,973,761	33,808,970
Profit and total comprehensive income	–	3,323,903	–	–	3,323,903
Dividends	–	(2,220,757)	–	–	(2,220,757)
Deferred tax on share-based payments	–	–	–	81,322	81,322
Share-based payments charge	–	–	–	441,709	441,709
Total transactions with owners	–	(2,220,757)	–	523,031	(1,697,726)
Balance as at 31 December 2019	258,228	9,640,327	4,039,800	21,496,792	35,435,147

Consolidated statement of cash flows
For the year ended 31 December 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	A	5,705,243	5,314,349
Interest paid		(41,380)	(75,346)
Tax paid		(973,361)	(771,779)
Net cash from operating activities		4,690,502	4,467,224
Cash flows from investing activities			
Purchase of intangible assets		(73,467)	(20,000)
Purchase of tangible assets		(7,960)	(30,505)
Assisted acquisitions support		(386,332)	(248,050)
Loan	30	(200,000)	–
Interest received		11,012	8,968
Net cash used in investing activities		(656,747)	(289,587)
Cash flows from financing activities			
Repayment of bank loan		(1,600,000)	(900,000)
Equity dividends paid		(2,220,757)	(2,014,175)
Principal paid on lease liabilities		(56,533)	–
Interest paid on lease liabilities		(2,990)	–
Net cash used in financing activities		(3,880,280)	(2,914,175)
Increase in cash and cash equivalents		153,475	1,263,462
Cash and cash equivalents at beginning of year		3,857,988	2,594,526
Cash and cash equivalents at end of year		4,011,463	3,857,988

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Notes to the consolidated statement of cash flows

For the year ended 31 December 2019

A. Reconciliation of profit before income tax to cash generated from operations

	2019 £	2018 £
Cash flows from operating activities		
Profit before income tax	3,994,194	4,269,477
Depreciation of property, plant and equipment	33,989	33,416
Amortisation of intangibles	611,820	592,323
Amortisation of prepaid assisted acquisitions support	174,149	88,701
Amortisation of right-of-use assets	54,769	-
Share-based payments charge	441,709	49,857
Loss on disposal of intangible assets	-	17,989
Finance costs	38,310	71,494
Finance income	(11,012)	(8,968)
Operating cash flow before changes in working capital	5,337,928	5,114,289
(Increase)/decrease in trade and other receivables	(186,734)	21,062
Increase in trade and other payables	554,049	178,998
Cash generated from operations	5,705,243	5,314,349

Company statement of cash flows
for the year ended 31 December 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	C	(812,137)	(179,425)
Interest paid		(41,380)	(75,346)
Net cash used in operating activities		(853,517)	(254,771)
Cash flows from investing activities			
Interest received		22	12
Loan	30	(200,000)	-
Equity dividends received		4,670,000	4,100,000
Net cash generated from investing activities		4,470,022	4,100,012
Cash flows from financing activities			
Repayment of bank loan		(1,600,000)	(900,000)
Equity dividend paid		(2,220,757)	(2,014,175)
Net cash used in financing activities		(3,820,757)	(2,914,175)
(Decrease)/increase in cash and cash equivalents		(204,252)	931,066
Cash and cash equivalents at beginning of year		1,278,026	346,960
Cash and cash equivalents at end of year		1,073,774	1,278,026

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Notes to the Company statement of cash flows
For the year ended 31 December 2019

C. Reconciliation of profit before income tax to cash generated from operations

	2019 £	2018 £
Cash flows from operating activities:		
Profit before income tax	3,390,952	3,257,306
Share-based payments charge	345,931	22,046
Finance costs	35,320	71,494
Finance income	(22)	(12)
Equity dividend received	(4,670,000)	(4,100,000)
Operating cash flow before changes in working capital	(897,819)	(749,166)
(Increase)/decrease in trade and other receivables	(25,241)	568,037
Increase in trade and other payables	110,923	1,704
Cash used in operations:	(812,137)	(179,425)

Notes to the consolidated and Company financial statements

For the year ended 31 December 2019

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1. General information

The principal activity of The Property Franchise Group PLC and its Subsidiaries is that of a UK residential property franchise business. The Group operates in the UK. The Company is a public limited company incorporated and domiciled in the UK and listed on AIM. The address of its head office and registered office is 2 St Stephen's Court, St Stephen's Road, Bournemouth, Dorset, UK.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The presentational currency of the financial statements is in British pounds and amounts are rounded to the nearest pound.

Going concern

Due to the uncertainty created by COVID-19, the decision was taken to create a working capital model focused on the potential impacts of COVID-19 and the actions that the Board can take to mitigate those impacts. This uses as its basis the budget for 2020, the management accounts for the first two months of trading in 2020 and the actual results for 2019. The time period reviewed is from 1 March 2020 to 31 March 2021.

Our focus on operating margin, return on capital employed and free cash flow generation means we started the period under review with no debt and cash of £4.0m.

Last year the Group spent £6.1m on cost of sales and administrative expenses (excluding depreciation, amortisation and share-based payment charges).

We have looked at these costs in detail and identified savings in payments to contractors and general administrative expenses. In addition, with the support of our employees and reshaping ourselves to focus solely on supporting our franchise network during this period we estimate that significant savings can be achieved.

Our suppliers have already started to announce financial support mainly by discounting their services. We will feed these discounts through to our franchise network. Hence, no account is taken off them in this assessment.

The model assumes that all discretionary expenditure is suspended for the period under review. It was £2.7m in 2019 and included dividend payments of £2.2m. Any such expenditure will only be made if it is clear it can be afforded.

During the period under review it is estimated that there will be a release from working capital of £0.3m.

At the start of the period, the Group owed £1.0m to HMRC. Of this, the next VAT payment will be automatically deferred. Support exists to help with time to pay and we will maximise the benefit of this and other Government support as it becomes available.

The Board has concluded, after reviewing the work performed and detailed above that, even without taking into account the cash from revenues that will still flow into the Group, there is a reasonable expectation that the Group has adequate resources to continue in operation until at least 31 March 2021. Accordingly, they have adopted the going concern basis in preparing these financial statements.

Changes in accounting policies

a) New standards, amendments and interpretations effective from 1 January 2019

The following new or amended standards are mandatory for the first time for the period beginning 1 January 2019 and have been adopted in the annual financial statements for the year ended 31 December 2019:

Standard	Key requirements
IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments

The Group adopted IFRS 16 and IFRIC 23 with a transition date of 1 January 2019. The Group has chosen not to restate comparatives on adoption of both standards, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in the opening equity balances. Details of the impact these two standards have had are given below. Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

Notes to the consolidated and Company financial statements continued
For the year ended 31 December 2019

2. Basis of preparation continued

Changes in accounting policies continued

IFRS 16 "Leases"

IFRS 16 requires that almost all leases are brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. IFRS 16 has been adopted for the first time in these Group consolidated financial statements.

Transition Method and Practical Expedients Utilised

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures.

The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019. IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- (a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date; and
- (c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Currently, the Group holds some non-cancellable operating leases but no finance leases. All operating leases relate to office premises. The Group has recognised a right-of-use asset and a corresponding liability in respect of all these leases. The right-of-use asset was recognised at the carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 4%.

See note 17 for details of the accounting entries recognised in these financial statements and the effect of the change in accounting policy.

IFRIC 23 "Uncertainty over income tax treatments"

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

b) New standards, amendments and interpretations not yet effective

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2019, and endorsed by the European Union, and have not been early adopted:

Standard	Key requirements	Effective date as adopted by the EU
IAS 1	Presentation of Financial Statements (Amendment – Definition of Material)	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)	1 January 2020
IFRS 3	Business Combinations (Amendment – Definition of Business)	1 January 2020
	Revised Conceptual Framework for Financial Reporting	1 January 2020

The Group is currently assessing the impact of these new accounting standards and amendments.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3. Basis of consolidation

The Group financial statements include those of the Parent Company and its Subsidiaries, drawn up to 31 December 2019. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred; the liabilities incurred to the former owners of the acquired business and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by Subsidiaries have been adjusted to conform to the Group's accounting policies.

4. Significant accounting policies

Revenue recognition

Performance obligations and the timing of revenue recognition

Revenue represents income, net of VAT, from the sale of franchise agreements, resale fees and Management Service Fees levied to franchisees monthly based on their turnover, and other income being the provision of ad hoc services and ongoing support to franchisees.

Traditional brands:

Fees from the sale of franchise agreements are not refundable. These fees are for the use of the brand along with initial training and support and promotion during the opening phase of the new office. As such the Group has some initial obligations that extend beyond the receipt of funds and signing of the franchise agreement so an element of the fee is deferred and released as the obligations are discharged, usually between 1 to 4 months after receipt of funds, which is the typical period of on-boarding for new franchisees.

Resale fees are recognised in the month that a contract for the resale of a franchise is signed. Upon signing of the contract all obligations have been completed.

Management Service Fees are recognised on a monthly basis and other income is recognised when the services and support is provided to the franchisee. There are no performance obligations associated with levying the Management Service Fees. For ad hoc services and support all performance obligations have been fulfilled at the time of revenue recognition.

EweMove:

Fees from the sale of franchise agreements for the EweMove brand are not refundable. Some new franchisees pay a higher fee to include the first 12 months' licence fee, in this scenario the licence fee element of the initial fee is deferred and released over the first 12 months of trading of the franchise where no monthly licence fees are payable. The franchise fee is for the use of the brand along with initial support and promotion during the opening phase of the new franchise. As such the Group has some initial obligations that extend beyond the receipt of funds and signing of the franchise agreement so an element of the fee is deferred and released as the obligations are discharged, usually between 1 to 4 months after receipt of funds, which is the typical period of on-boarding for new franchisees.

Management Service Fees consist of monthly licence fees and completion fees. Licence fees are recognised on a monthly basis, completion fees are recognised when sales or lettings transactions complete and other income is recognised when the services and support are provided to the franchisee. There are no additional performance obligations associated with levying the licence fee and completion fees beyond providing access to the systems, brand and marketing support. For ad hoc services and support all performance obligations have been fulfilled at the time of revenue recognition.

Operating profit

Profit from operations is stated before finance income, finance costs and tax expense.

Business combinations

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably in which case the value is subsumed into goodwill. Where the fair values of acquired contingent liabilities cannot be measured reliably, the assumed contingent liability is not recognised but is disclosed in the same manner as other contingent liabilities.

Goodwill is the difference between the fair value of the consideration and the fair value of identifiable assets acquired. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there is an indication that the carrying value may not be recoverable.

Notes to the consolidated and Company financial statements continued

For the year ended 31 December 2019

4. Significant accounting policies continued

Intangible assets

Intangible assets with a finite life are carried at cost less amortisation and any impairment losses. Intangible assets represent items which meet the recognition criteria of IAS 38, in that it is probable that future economic benefits attributable to the assets will flow to the entity and the cost can be measured reliably.

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Amortisation charges are included in administrative expenses in the Statement of Comprehensive Income. Amortisation begins when the intangible asset is first available for use and is provided at rates calculated to write-off the cost of each intangible asset over its expected useful life, on a straight-line basis, as follows:

Brands – CJ Hole, Parkers, Ellis & Co	Indefinite life
Brands – EweMove	21 years
Customer lists	5 years
Master franchise agreements – Whitegates, CJ Hole, Parkers, Ellis & Co	25 years
Master franchise agreements – EweMove	15 years
Technology – Ewereka	5 years
Technology – Websites and CRM system	3 years

Acquired trade names are identified as separate intangible assets where they can be reliably measured by valuation of future cash flows. The trade names CJ Hole, Parkers and Ellis & Co are assessed as having indefinite lives due to their long trading histories.

Acquired customer lists are identified as a separate intangible asset as they are separable and can be reliably measured by valuation of future cash flows. This valuation also assesses the life of the particular relationship. The life of the relationship is assessed annually.

Customer lists are being written off over a remaining life of 5 years.

Acquired master franchise agreements are identified as a separate intangible asset as they are separable and can be reliably measured by valuation of future cash flows. The life of the relationship is assessed annually. Master franchise agreements are being written off over a remaining life of 15-25 years as historical analyses shows that, on average, 4% – 10% of franchises will change ownership per annum.

The cost of the new brand websites launched in 2017 have been capitalised and are being amortised over 3 years from launch date, being the expected period over which the websites are expected to generate economic benefit.

The cost of the CRM system was capitalised in 2019 and is being amortised over 3 years from launch date, being the expected period over which the CRM system is expected to generate economic benefit.

Subsequent to initial recognition, intangible assets are stated at deemed cost less accumulated amortisation and impairment charges, with the exception of indefinite life intangibles.

Impairment of non-financial assets

In respect of goodwill and intangible assets that have an indefinite useful lives, management are required to assess whether the recoverable amount of each exceeds their respective carrying values at the end of each accounting period.

In respect of intangible assets with definite lives, management are required to assess whether the recoverable amount exceeds the carrying value where an indicator of impairment exists at the end of each accounting period.

The recoverable amount is the higher of fair value less costs to sell and value in use.

Impairment losses represent the amount by which the carrying value exceeds the recoverable amount; they are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. Where an indicator of impairment exists against a definite life asset and a subsequent valuation determines there to be impairment, the intangible asset to which it relates is impaired by the amount determined.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The master franchise agreement is assessed separately for impairment as an independent asset that generates cash inflows that are largely independent of those from other assets.

Investment in subsidiaries

Investments in subsidiaries are stated in the Parent Company's balance sheet at cost less any provisions for impairments.

Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is charged so as to write-off the cost of assets over their estimated useful lives on the following bases:

Fixtures, fittings and office equipment	15% reducing balance
Computer equipment	over 3 years
Short leasehold improvements	over the lease term

Right-of-use assets

Right of use assets relate to operating leases that have been brought onto the balance sheet under IFRS 16 (see note 2a). They are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Lease liabilities

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Prepaid assisted acquisitions support

Prepaid assisted acquisitions support represents amounts payable to franchisees in relation to their acquisition of qualifying managed property portfolios and amounts payable to brokers for assisting with the acquisition of those portfolios. The payments are recognised as an asset and amortised to the profit and loss account over 5 years. The amounts payable to franchisees are amortised as a reduction in revenue, whereas amounts payable to brokers are amortised through cost of sales.

Income taxes

Income tax currently payable is calculated using the tax rates in force or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time pattern that they are taxable or deductible differs between tax law and their accounting treatment.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity.

Deferred tax

Deferred income taxes are calculated using the liability method on temporary differences, at the tax rate that is substantively enacted at the balance sheet date. Deferred tax is generally provided on the difference between the carrying amount of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. For share-based payments the deferred tax credit is recognised in the income statement to the extent that it offsets the share-based charge, with any remaining element after offset being shown in the statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents are defined as cash balances in hand and in the bank (including short-term cash deposits).

Notes to the consolidated and Company financial statements continued

For the year ended 31 December 2019

4. Significant accounting policies continued

Financial assets

The Group and Company only have financial assets comprising trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

These assets arise principally from the provision of goods and services to customers (eg. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment of financial assets

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12 month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Financial liabilities

Financial liabilities are comprised of trade and other payables, borrowings and other short-term monetary liabilities, which are recognised at amortised cost.

Trade payables, other payables and other short-term monetary liabilities, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Share-based payments

The Company issues equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments are amortised through the Consolidated Statement of Comprehensive Income over the vesting period of the options, together with a corresponding increase in equity, based upon the Company's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes option pricing model taking into account the following inputs:

- the exercise price of the option;
- the life of the option;
- the market price on the date of the grant of the option;
- the expected volatility of the share price;
- the dividends expected on the shares; and
- the risk free interest rate for the life of the option.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market conditions and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

5. Critical accounting estimates and judgements and key sources of estimation uncertainty

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangible assets

The Group is required to test, where indicators of impairment exist or there are intangible assets with indefinite lives, whether intangible assets have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Key assumptions for the value in use calculation are described in note 15.

Share-based payment charge ("SBPC")

The aggregate fair value expense of each grant is determined through using the Black-Scholes model detailed above and an estimate for the attainment of the non-market based performance conditions in FY20 and FY21. The estimate of earnings per share ("EPS"), the non-market based performance measure, in FY20 relies on the assumptions made regarding the achievement of the current year's budget and, in FY21, relies on a projection of earnings taking into account available market data and performance trends.

At this juncture it's estimated that 48% of the non-market based performance condition will be met for the share option scheme with an FY20 EPS target. This is the main component of the SBPC. However, that percentage attainment is highly sensitive to the earnings and, therefore, profit actually achieved in FY20 and, as Ian Wilson holds an option over a maximum of 1m shares, the assessment made about his entitlement on his retirement.

A £0.1m increase in profit before taxation for FY20 equates to achievement of an estimated 10% increase in attainment to 58%. This causes the estimated fair value of the SBPC from inception until 31 December 19 to increase by £0.1m and the estimated fair value of the lifetime SBPC to increase by £0.24m at 31 December 2019.

Similarly, a £0.1m decrease in profit before taxation in FY20 equates to achievement of an estimated 10% decrease in attainment to 38%. This causes the estimated fair value of the SBPC to reduce from inception until 31 December 2019 by £0.1m and the estimated fair value of the lifetime SBPC to decrease by £0.24m at 31 December 2019.

For every month that Ian retires before 31 December 2020, assuming no other leavers, the standard time pro-rata assumption and an attainment of 48%, the estimated fair value of the lifetime SBPC reduces by £0.02m.

6. Segmental reporting

The Board of Directors, as the chief operating decision-making body, review financial information for and make decisions about the Group's overall franchising business and have identified a single operating segment, that of property franchising.

7. Revenue

The Directors believe there to be 3 material income streams relevant to property franchising which are split as follows:

	2019 £	2018 £
Management Service Fees	9,661,737	9,402,896
Franchise sales	194,702	289,808
Other	1,493,888	1,552,909
	11,350,327	11,245,613

All revenue is earned in the UK and no customer represents greater than 10% of total revenue in either of the years reported.

Other revenue relates to ad hoc services and ongoing support to franchisees.

See note 20 for details of accrued income and note 25 for details of deferred income.

See note 18 for the value of prepaid assisted acquisitions support amortised as a deduction from Management Service Fees.

Notes to the consolidated and Company financial statements continued
For the year ended 31 December 2019

8. Administrative expenses

Administrative expenses relate to those expenses that are not directly attributable to any specific sales activity.

Administrative expenses for the year were as follows:

	2019 £	2018 £
Employee costs (see note 9)	3,097,124	3,110,452
Marketing and digital costs	571,931	617,274
Property costs	129,882	129,626
General administrative costs	1,355,551	1,333,807
Amortisation	666,589	592,323
	5,820,277	5,783,482

9. Employees and Directors

Average numbers of employees (including Directors), employed during the year:

	Group		Company	
	2019	2018	2019	2018
Administration	39	41	–	–
Management	9	9	2	2
	48	50	2	2

Employee costs (including Directors) during the year amounted to:

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Wages and salaries	2,711,683	2,737,019	554,213	502,118
Social security costs	328,693	331,577	62,245	59,381
Pension costs	56,748	41,856	10,544	10,044
	3,097,124	3,110,452	627,002	571,543
Share-based payments charge	441,709	49,857	345,931	22,046

Key management personnel are defined as Directors and executives of the Group. Details of the remuneration of the key management personnel are shown below:

	2019 £	2018 £
Wages and salaries	1,497,467	1,452,880
Social security costs	193,729	187,711
Pension costs	30,513	25,736
	1,721,709	1,666,327
Share-based payments charge	402,498	46,847

Details of the Directors' emoluments are disclosed in the Directors' remuneration report on pages 29 to 30. The share-based payments charge for the current year has been charged to the Statement of Comprehensive Income, of this £340,697 (2018: £21,772) relates to Directors.

10. Operating profit

	2019 £	2018 £
The operating profit is stated after charging:		
Depreciation	33,989	33,416
Amortisation – intangibles	611,820	592,323
Amortisation – prepaid assisted acquisitions support	174,149	88,701
Amortisation – leases	54,769	–
Share-based payments charge	441,709	49,857
Auditor's remuneration (see below)	50,000	45,000
Staff costs (note 9)	3,097,124	3,110,452
Operating lease expenditure	–	67,333
Audit services		
– Audit of the Company and consolidated accounts	50,000	45,000
– Audit related assurance services	–	–
Other non-audit services		
– Corporate finance services	–	–
– Tax advisory services	–	–
– IT consultancy services	–	–
	50,000	45,000
Comprising:		
Audit services	50,000	45,000
Non-audit services	–	–
	50,000	45,000

11. Finance income and costs

	2019 £	2018 £
Finance income:		
Bank interest	5,696	6,464
Other similar income	5,316	2,504
	11,012	8,968
Finance costs:		
Bank interest	35,320	71,494
Interest expense on lease liabilities	2,990	–
	38,310	71,494

12. Taxation

	2019 £	2018 £
Current tax	943,765	925,702
Adjustments in respect of previous periods	(31,329)	16,740
Current tax total	912,436	942,442
Deferred tax credit on acquired business combinations	(75,557)	(88,618)
Deferred tax credit on share-based payments	(75,091)	(6,783)
Deferred tax total	(150,648)	(95,401)
Total tax charge in statement of comprehensive income	761,788	847,041

Notes to the consolidated and Company financial statements continued
For the year ended 31 December 2019

12. Taxation continued

The tax assessed for the period is higher (2018: higher) than the standard rate of corporation tax in the UK. The difference is explained below.

	2019 £	2018 £
Profit on ordinary activities before tax	3,994,194	4,269,477
Profit on ordinary activities multiplied by the effective standard rate of corporation tax in the UK of 19%	758,897	811,200
Effects of:		
Expenses not deductible for tax purposes	10,344	9,412
Depreciation in excess of capital allowances	23,876	9,689
Adjustments in respect of previous periods	(31,329)	16,740
Total tax charge in respect of continuing activities	761,788	847,041

13. Earnings per share

Earnings per share is calculated by dividing the profit for the financial year by the weighted average number of shares during the year.

	2019 £	2018 £
Profit for the financial year attributable to owners	3,232,406	3,422,436
Amortisation on acquired intangibles	498,441	498,441
Share-based payments charge	441,709	49,857
Adjusted profit for the financial year	4,172,556	3,970,734
Weighted average number of shares		
Number used in basic earnings per share	25,822,750	25,822,750
Dilutive effect of share options on ordinary shares	870,179	211,122
Number used in diluted earnings per share	26,692,929	26,033,872
Basic earnings per share	12.5p	13.3p
Diluted earnings per share	12.1p	13.1p
Adjusted basic earnings per share	16.2p	15.4p
Adjusted diluted earnings per share	15.6p	15.3p

There were options over 2,209,800 ordinary shares outstanding at 31 December 2019; 2,145,000 had not yet vested and have performance conditions which will determine whether they vest or not in the future. The remaining option over 64,800 ordinary shares was exercisable at 31 December 2019 and the average share price during the year ended 31 December 2019 was above exercise price. For these reasons in 2019 there is a dilutive effect of share options on the earnings per share calculation.

In 2018 there were options over 2,184,800 ordinary shares outstanding at 31 December 2018; 2,120,000 had not yet vested and had performance conditions which would determine whether they vest or not in the future. The remaining option over 64,800 ordinary shares was exercisable at 31 December 2018 but the average share price during the year ended 31 December 2018 was below the exercise price. For these reasons in 2018 there is no dilutive effect of share options on the earnings per share calculation.

The charge relating to share-based payments that have a dilutive effect is immaterial and therefore the earnings used in the diluted earnings per ordinary share calculation are the earnings per ordinary share calculation before dilution.

14. Dividends

	2019 £	2018 £
Final dividend for 2018		
6.0p per share paid 28 May 2019 (2018: 5.4p per share paid 21 May 2018)	1,549,365	1,394,429
Interim dividend for 2019		
2.6p per share paid 1 October 2019 (2018: 2.4p per share paid 3 October 2018)	671,392	619,746
Total dividend paid	2,220,757	2,014,175

15. Intangible assets

	Master Franchise Agreement £	Brands £	Technology £	Customer lists £	Goodwill £	Total £
Cost						
Brought forward 1 January 2018	7,803,436	1,972,239	274,210	301,712	7,226,160	17,577,757
Additions	–	–	–	20,000	–	20,000
Disposals	–	–	–	(106,772)	–	(106,772)
Carried forward 31 December 2018	7,803,436	1,972,239	274,210	214,940	7,226,160	17,490,985
Additions	–	–	63,467	10,000	–	73,467
Carried forward 31 December 2019	7,803,436	1,972,239	337,677	224,940	7,226,160	17,564,452
Amortisation & Impairment						
Brought forward at 1 January 2018	1,325,528	88,968	49,118	201,846	–	1,665,460
Charge for year	413,174	66,726	79,037	33,386	–	592,323
Eliminated on disposals	–	–	–	(91,553)	–	(91,553)
Carried forward 31 December 2018	1,738,702	155,694	128,155	143,679	–	2,166,230
Charge for year	413,174	66,726	109,642	22,278	–	611,820
Carried forward 31 December 2019	2,151,876	222,420	237,797	165,957	–	2,778,050
Net book value						
At 31 December 2019	5,651,560	1,749,819	99,880	58,983	7,226,160	14,786,402
At 31 December 2018	6,064,734	1,816,545	146,055	71,261	7,226,160	15,324,755

The carrying amount of goodwill relates to 4 (2018: 4) cash generating units, and reflects the difference between the fair value of consideration transferred and the fair value of assets and liabilities purchased.

Business combinations completed in October 2014

Goodwill is assessed for impairment by comparing the carrying value to the value in use calculations. The value in use of the goodwill arising on the acquisitions of Xperience Franchising Limited ("XFL") and Whitegates Estate Agency Limited ("WEAL") is based on the cash flows derived from the actual revenues and operating margins for 2019 and projections through to 31 December 2021. Thereafter projected revenue growth was assumed to decline linearly to a long-term growth rate of 2.2%.

The cash flows arising were discounted by the weighted average cost of capital which included a small companies' risk premium to allow for factors such as illiquidity in the shares. These discount rates were 13.5% for XFL and 15.0% for WEAL, the latter higher rate reflecting WEAL's smaller size and more volatile earnings. This resulted in a total value for each company of the identifiable intangible assets that exceeded the carrying values of the respective companies' goodwill.

The Directors do not consider goodwill to be impaired. The Directors believe that no reasonably possible change in assumptions at the year end will cause the value in use to fall below the carrying value and hence impair the goodwill.

The master franchise agreements are being amortised over 25 years. The period of amortisation remaining at 31 December 2019 was 19 years 10 months.

The brand names under which XFL trades of C J Hole, Parkers and Ellis & Co have been in existence for between 71 years and 169 years. Management see them as strong brands with significant future value and has deemed them to have indefinite useful lives as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. As a consequence, management annually assess whether the carrying value of these brands have been impaired.

The Relief-from-Royalty-Method was used to value the brand names. Looking at independent research of royalty rates, management selected pre-tax royalty rates of between 3% and 5% for the above brand names.

The after tax royalty rates were then applied to the projected cash flows of each brand. The projected cash flows being the forecast growth in current revenues using market data through to 31 December 2021. Thereafter projected revenue growth was assumed to decline linearly to a long-term growth rate of 2.2%. The after tax cash flows determined through this process were then discounted at 13.5% to determine a value for each brand name. This discount rate approximated the Company's WACC as the risk profile of the brand names was seen as commensurate with that of the overall Company. The values derived exceeded their carrying values.

The Directors believe that no reasonably possible change in assumptions at the year end will cause the value in use of the brands names C J Hole, Parkers and Ellis & Co to fall below their carrying values and hence impair their intangible values.

The Whitegates brand was valued in a similar manner and deemed to have an immaterial value when the acquisition was made principally due to its lack of profitability over preceding years. It is therefore not recognised separately.

Notes to the consolidated and Company financial statements continued
For the year ended 31 December 2019

15. Intangible assets continued

Business combination completed in September 2016

Goodwill is assessed for impairment by comparing the carrying value to the value in use calculations. The value in use of the goodwill arising on the acquisition of EweMove Sales & Lettings Ltd ("ESL") is based on the cash flows derived from the actual revenues and operating margins for 2019 and projections through to 31 December 2024. Thereafter projected revenue growth was assumed to be 2.2% per annum.

A period of projected cash flows exceeding 5 years was deemed appropriate because the business has only been operating for 6 years, is continuing to recruit relatively high levels of new franchisees, each new franchisee should grow significantly in the first 5 years of operation and it has yet to develop the operational efficiencies of a mature franchisor.

The revenue growth rates used in the valuation range from 14% in FY20 to 4% in FY24.

The cash flows arising were discounted by the weighted average cost of capital being 13.77% which included a small companies' risk premium to allow for factors such as illiquidity in the shares. This resulted in the value in use exceeding the carrying value of the goodwill and separately identifiable intangible assets. The enterprise's overall value exceeds the cash generating unit's carrying value.

The useful life of the master franchise agreement was assessed as 15 years and remains unchanged. The period of amortisation remaining at 31 December 2019 was 11 years 8 months.

The remaining useful life of the brand name was also reviewed. It continues to attract and recruit the same level of franchisees as in previous years and to attract higher numbers of customers. Given these 2 factors the remaining useful life of the brand was considered to be unaltered at 21 years. The period of amortisation remaining at 31 December 2019 was 17 years and 8 months.

The carrying value of EweMove, the identified cash generating unit, was £9.6m at 31 December 2019 whereas the recoverable amount was assessed to be £12.2m at the same date. Headroom of £2.6m, therefore, existed at the year end.

The following table reflects the level of movements required in revenue or costs which could result in a potential impairment per the value in use calculation of goodwill. A further percentage (fall)/increase, of the magnitude indicated in the table below, in any one of the key assumptions set out above would result in a removal of the headroom in the value in use calculation for goodwill in 2019. Thus, if the discount rate increased by 31% to 18%, an impairment change would result against goodwill, all other assumptions remaining unchanged.

Assumption	Judgement	Sensitivity
Discount rate	As indicated above the rate used is 13.77%	31%
Revenue – FY20 to FY25	The range of growth rates for FY20 to FY25 are stated above	(27%)
Direct costs – all years	Assumed to be 24% of revenue for all years	42%
Indirect costs – all years	Assumed to be 48% of revenue in FY20 and then decline linearly to 38% of revenue in FY23 onwards	31%
Direct and indirect costs – all years	As indicated above for direct and indirect costs	18%

Goodwill and indefinite life intangible assets have been allocated for impairment testing purposes to the following cash generating units.

The carrying values are as follows:

	Goodwill		Brands	
	2019 £	2018 £	2019 £	2018 £
Xperience Franchising Limited	912,716	912,716	571,000	571,000
Whitegates Estate Agency Limited	400,501	400,501	–	–
Martin & Co (UK) Limited	75,000	75,000	–	–
EweMove Sales & Lettings Ltd	5,837,943	5,837,943	–	–
	7,226,160	7,226,160	571,000	571,000

Website costs included in technology

In 2017 new websites were launched for each of the 5 traditional brands. The costs associated with these websites have been capitalised as intangible assets as the purpose of the websites is to generate leads and revenue for the network.

Company

No goodwill or customer lists exist in the Parent Company.

16. Property, plant and equipment Group

	Short leasehold improvements £	Office equipment £	Fixtures & fittings £	Total £
Cost				
Brought forward 1 January 2018	37,034	107,885	157,124	302,043
Additions	–	26,522	3,983	30,505
Disposals	–	(4,067)	–	(4,067)
Carried forward 31 December 2018	37,034	130,340	161,107	328,481
Additions	–	7,380	580	7,960
Carried forward 31 December 2019	37,034	137,720	161,687	336,441
Depreciation				
Brought forward 1 January 2018	21,872	53,125	117,780	192,777
Charge for year	3,703	19,554	10,159	33,416
Disposals	–	(1,296)	–	(1,296)
Carried forward 31 December 2018	25,575	71,383	127,939	224,897
Charge for year	3,703	20,688	9,598	33,989
Carried forward 31 December 2019	29,278	92,071	137,537	258,886
Net book value				
At 31 December 2019	7,756	45,649	24,150	77,555
At 31 December 2018	11,459	58,957	33,168	103,584

17. Leases

The Group has operating leases for its office premises in Bournemouth and Cleckheaton. Under IFRS16, which was adopted on 1 January 2019 these operating leases are accounted for by recognising a right-of-use asset and a lease liability, there has been no restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019 see note 2a.

Right-of-use assets

	Land and Buildings £	Total £
At 1 January 2019	74,523	74,523
Additions	54,826	54,826
Amortisation	(54,769)	(54,769)
Carried forward 31 December 2019	74,580	74,580

Lease liabilities

	Land and Buildings £	Total £
At 1 January 2019	79,456	79,456
Additions	54,133	54,133
Interest expenses	2,990	2,990
Lease payments	(58,830)	(58,830)
Carried forward 31 December 2019	77,749	77,749

Maturity analysis of lease liabilities as at 31 December 2019:

	Up to 3 months £	Between 3 and 12 months £	Between 1 and 2 years £	Between 2 and 5 years £
Lease liabilities	16,050	36,610	18,755	6,334

Notes to the consolidated and Company financial statements continued
For the year ended 31 December 2019

17. Leases continued

Lease liabilities continued

The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	1 January 2019 £
Minimum lease commitments at 31 December 2018	81,200
Effect of discounting using incremental borrowing rate at date of initial application	(1,744)
Lease liability at 1 January 2019	79,456

18. Prepaid assisted acquisitions support

Group

	Total £
Cost	
Brought forward 1 January 2018	325,792
Additions	250,085
Disposals	–
Carried forward 31 December 2018	575,877
Additions	386,332
Disposals	(8,071)
Carried forward 31 December 2019	954,138
Amortisation	
Brought forward 1 January 2018	33,340
Charge for year – to revenue	61,492
Charge for year – to cost of sales	27,209
Carried forward 31 December 2018	122,041
Charge for year – to revenue	119,457
Charge for year – to cost of sales	54,692
Carried forward 31 December 2019	296,190
Net book value	
At 31 December 2019	657,948
At 31 December 2018	453,836

Cashback and broker's commission is presented as prepaid assisted acquisitions support

The additions represent sums provided to franchisees that have made qualifying acquisitions to grow their lettings' portfolios. The cashback sum provided is based on a calculation of the estimated increase in MSF as a result of the acquisition and the sum provided for broker's commission is based on the charge payable to the broker. In providing these sums the Group ensures that franchisees are contractually bound to the relevant franchisor for a period in excess of that required for the economic benefits to exceed the sums provided.

Company

No prepaid assisted acquisitions support exists in the Parent Company.

19. Investments

Company

	Shares in Group undertakings £
Cost	
At 1 January 2018	33,776,075
Capital contribution to subsidiaries – share options	27,811
At 31 December 2018	33,803,886
Capital contribution to subsidiaries – share options	95,778
At 31 December 2019	33,899,664
Net book value	
At 31 December 2019	33,899,664
At 31 December 2018	33,803,886

The Property Franchise Group PLC was incorporated on 7 October 2013. On the 10 December 2013 a share for share exchange acquisition took place with Martin & Co (UK) Limited; 17,990,000 ordinary shares in The Property Franchise Group PLC were exchanged for 100% of the issued share capital in Martin & Co (UK) Limited.

On 31 October 2014 the Company acquired the entire issued share capital of Xperience Franchising Limited and Whitegates Estate Agency Limited for a consideration of £6,110,284.

On 5 September 2016 the Company acquired the entire issued share capital of EweMove Sales & Lettings Ltd, and its dormant subsidiary Ewesheep Ltd, for an initial consideration of £8m. Of the total consideration, £2.1m represented contingent consideration, of which £0.5m was paid out on 30 July 2017 and £0.5m was paid out on 31 December 2017. No further sums are due.

Martin & Co (UK) Limited, Xperience Franchising Limited, Whitegates Estate Agency Limited, EweMove Sales & Lettings Ltd and Ewesheep Ltd are exempt from the requirements of the Companies Act 2006 relating to the audit of accounts under section 479A of the Companies Act 2006.

At the year-end The Property Franchise Group PLC has guaranteed all liabilities of Martin & Co (UK) Limited, Xperience Franchising Limited, Whitegates Estate Agency Limited and EweMove Sales & Lettings Ltd. The value of the contingent liability resulting from this guarantee is unknown at the year-end.

The carrying value of the investment in EweMove has been considered for impairment through value in use calculations and it was determined that no impairment was required in the year ended 31 December 2019.

The carrying values of the other investments (all companies except for EweMove) have been considered for impairment and it has been determined that the value of the discounted future cash inflows exceeds the carrying value. Thus, there is no impairment charge.

The Company's investments at the balance sheet date in the share capital of companies include the following, which all have their registered offices at the same address as the Company:

Subsidiaries

	Share class	% ownership and voting rights	Country of incorporation
Martin & Co (UK) Limited	Ordinary	100	England
Xperience Franchising Limited	Ordinary	100	England
Whitegates Estate Agency Limited	Ordinary	100	England
EweMove Sales & Lettings Ltd	Ordinary	100	England
Ewesheep Ltd*	Ordinary	100	England
MartinCo Limited	Ordinary	100	England

* indirectly owned

20. Trade and other receivables

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Trade receivables	233,601	217,040	2,172	3,191
Less: provision for impairment of trade receivables	(153,814)	(103,574)	–	–
Trade receivables – net of impairment provisions	79,787	113,466	2,172	3,191
Loans to franchisees	78,411	36,523	–	–
Other receivables	202,607	8,539	200,137	5,556
Amounts due from Group undertakings	–	–	–	160,782
Prepayments and accrued income	1,122,204	937,746	29,609	23,011
Tax receivable	–	–	189,985	168,980
	1,483,009	1,096,274	421,903	361,520

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. The expected loss rates are based on the Group's historical credit losses experienced over the previous year. Forward looking factors are considered to the extent that they are deemed material.

The Group is entitled to the revenue by virtue of the terms in the franchise agreements and can force the sale of a franchise to recover a debt if necessary.

Notes to the consolidated and Company financial statements continued
For the year ended 31 December 2019

20. Trade and other receivables continued

Ageing of trade receivables

The following is an analysis of trade receivables that are past due date but not impaired. These relate to a number of customers for whom there is no recent history of defaults. The ageing analysis of these trade receivables is as follows:

	2019 £	2018 £
Group		
Not more than 3 months	33,634	70,149
More than 3 months but not more than 6 months	–	18,080
More than 6 months but not more than 1 year	–	4,585
	33,634	92,814

The Directors consider that the carrying value of trade and other receivables represents their fair value.

The Group does not hold any collateral as security for its trade and other receivables.

In the year ended 31 December 2019 the Group made two new loans to franchisees. Loan 1 was for £50k and is secured by way of a fixed and floating charge over their assets. At the 31 December 2019 £50k was outstanding in relation to this loan. Capital repayments will commence 12 months from issue. Loan 2 for £14k which is secured by a personal guarantee. At the 31 December 2019 £13k was outstanding in relation to this loan.

In a prior year a loan was made to another franchisee for £30k and as at 31 December 2019 £16k (2018: £23k) was outstanding in relation to this loan.

Included within "Prepayments and accrued income" is accrued income of £704k (2018: £663k) in relation to Management Service Fees for some of our brands that are invoiced at the beginning of the month following the month to which they relate.

21. Called up share capital

	2019		2018	
	Number	£	Number	£
Group				
Authorised, allotted issued and fully paid ordinary shares of 1p each	25,822,750	258,228	25,822,750	258,228
Company				
Authorised, allotted issued and fully paid ordinary shares of 1p each	25,822,750	258,228	25,822,750	258,228

22. Share premium

	Number of shares	Share capital £	Share premium £
At 31 December 2018 and 31 December 2019	25,822,750	258,228	4,039,800

23. Other reserves

	Merger reserve £	Share-based payment reserve £	Other reserve £	Total £
Group				
1 January 2018	2,796,984	137,020	–	2,934,004
Share-based payment charge	–	49,857	–	49,857
1 January 2019	2,796,984	186,877	–	2,983,861
Share-based payment charge	–	441,709	–	441,709
Deferred tax on share-based payments	–	–	81,322	81,322
31 December 2019	2,796,984	628,586	81,322	3,506,892
Company				
1 January 2018	20,786,884	137,020	–	20,923,904
Share-based payment charge	–	49,857	–	49,857
1 January 2019	20,786,884	186,877	–	20,973,761
Share-based payment charge	–	441,709	–	441,709
Deferred tax on share-based payments	–	–	81,322	81,322
31 December 2019	20,786,884	628,586	81,322	21,496,792

Merger reserve**Acquisition of Martin & Co (UK) Limited**

The acquisition of Martin & Co (UK) Limited by The Property Franchise Group PLC did not meet the definition of a business combination and therefore, falls outside of the scope of IFRS 3. This transaction was in 2013 and accounted for in accordance with the principles of merger accounting.

The consideration paid to the shareholders of the subsidiary was £17,990,000 (the value of the investment). As these shares had a nominal value of £179,900, the merger reserve in the Company is £17,810,000.

On consolidation the investment value of £17,990,000 is eliminated so that the nominal value of the shares remaining is £179,900 and, as there is a difference between the Company value of the investment and the nominal value of the shares purchased in the subsidiary of £100, this is also eliminated, to generate a merger reserve in the Group of £179,800.

Acquisition of EweMove Sales & Lettings Ltd

The consideration for the acquisition of EweMove Sales & Lettings Ltd included the issue of 2,321,550 shares to the vendors at market price. A merger reserve of £2,796,984 is recognised in the Group and the Company being the difference between the value of the consideration and the nominal value of the shares issued as consideration.

Share-based payment reserve

The share-based payments reserve comprises charges made to the income statement in respect of share-based payments and related deferred tax impacts under the Group's equity compensation scheme.

24. Borrowings

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Repayable within 1 year:				
Bank loan (term loan)	–	900,000	–	900,000
Repayable in more than 1 year:				
Bank loan (term loan)	–	700,000	–	700,000
Bank loans due after more than 1 year are repayable as follows:				
Between 1 and 2 years	–	700,000	–	700,000

As at 31 December 2019 the Company had no loans outstanding. During the year all outstanding loans were repaid.

In 2018 the Company had a loan facility of £5m, and had drawn down 2 term loans under this facility, referred to below as 'Loan 1' and 'Loan 2'. The loans were secured with a fixed and floating charge over the Group's assets and a cross guarantee across all companies in the Group.

Loan 1 – £2.5m drawn down on 30 October 2014 and was repayable over 5 years in equal instalments. Interest was charged quarterly on the outstanding amount and the rate is fixed during the term at 4.08%. The loan was repaid in full on 30 October 2019.

Loan 2 – £2m drawn down on 5 September 2016 and was repayable over 5 years in equal instalments. Interest was charged quarterly on the outstanding amount, the rate is variable during the term at 2.5% above LIBOR. The loan was repaid in full on 24 October 2019.

The cash outflow for borrowings arising from financing activities during the year was £1.6m (2018: £0.9m).

25. Trade and other payables

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Trade payables	741,576	164,181	38,659	15,596
Other taxes and social security	575,600	619,119	–	–
Other payables	118,546	28,113	–	–
Accruals and deferred income	564,453	665,406	22,839	48,967
Amounts owed to Group undertakings	–	–	113,989	–
	2,000,175	1,476,819	175,487	64,563

The Directors consider that the carrying value of trade and other payables approximates their fair value.

Included in "Accruals and deferred income" is deferred income of £7k (2018: £36k) in relation to charges levied on franchisees in advance and EweMove licence fees.

No trade payables at 31 December 2019 were overdue for payment. One supplier invoiced a full year's worth of costs at the end of the year amounting to £356k and one supplier invoiced its software licence costs of £200k early (this is matched by a prepayment of £200k).

Notes to the consolidated and Company financial statements continued
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26. Deferred tax

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Balance at beginning of year	(1,372,196)	(1,467,598)	30,101	23,318
Movement during the year:				
Statement of changes in equity	81,322	–	81,322	–
Statement of comprehensive income	150,647	95,402	75,091	6,783
Other	–	–	28,779	–
Balance at end of year	(1,140,227)	(1,372,196)	215,293	30,101

Deferred taxation has been provided as follows:

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Accelerated capital allowances	(18,956)	(5,895)	28,779	–
Share-based payments	186,514	30,101	186,514	30,101
Acquired business combinations	(1,307,785)	(1,396,402)	–	–
	(1,140,227)	(1,372,196)	215,293	30,101

27. Financial instruments

Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

- Receivables
- Loans to franchisees
- Cash at bank
- Trade and other payables
- Borrowings

Financial assets

Financial assets measured at amortised cost:

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Loans and receivables:				
Trade receivables	79,787	113,466	2,172	3,191
Loans to franchisees	78,411	36,523	–	–
Other receivables	202,607	8,539	200,137	–
Cash and cash equivalents	4,011,463	3,857,988	1,073,774	1,278,026
Accrued income	703,774	663,089	–	–
Amount owed by Group undertakings	–	–	–	70,428
	5,076,042	4,679,605	1,276,083	1,351,645

Financial liabilities

Financial liabilities measured at amortised cost:

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Other financial liabilities:				
Bank loan	–	1,600,000	–	1,600,000
Trade payables	741,576	164,181	38,659	15,596
Other payables	118,546	28,112	–	–
Accruals	557,951	629,200	22,839	48,969
Amounts owed to Group undertakings	–	–	113,989	–
	1,418,073	2,421,493	175,487	1,664,565

Maturity analysis of financial liabilities

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
In less than one year:				
Bank loan	–	940,519	–	940,519
Trade payables	741,576	164,181	38,659	15,596
Other payables	118,546	28,112	–	–
Accruals	557,951	629,200	22,839	48,969
Amount owed to Group undertakings	–	–	113,989	–
	1,418,073	1,762,012	175,487	1,005,084
In more than one year:				
Bank loan	–	722,715	–	722,715
	–	722,715	–	722,715

All of the financial assets and liabilities above are recorded in the statement of financial position at amortised cost. The above maturity analysis amounts reflect the contractual undiscounted cash flows, including future interest charges, which may differ from carrying values of the liabilities at the reporting date.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the finance function. The Board receives monthly reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Capital management policy

The Board considers capital to be the carrying amount of equity and debt. Its capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide progressive returns for shareholders and safeguard the Group's status as a going concern. The principal financial risks faced by the Group are liquidity risk and interest rate risk. The Directors review and agree policies for managing each of these risks. These policies remain unchanged from previous years.

The Board monitors a broad range of financial metrics including growth in MSF, operating margin, EBITDA, return on capital employed, and balance sheet gearing.

It manages the capital structure and makes changes in light of changes in economic conditions. In order to maintain or adjust the capital structure, it may adjust the amount of dividends paid to shareholders.

Credit risk

Credit risk is the risk of financial loss to the Group if a franchisee or counterparty to a financial instrument fails to meet its contractual obligations. It is Group policy to assess the credit risk of new franchisees before entering contracts and to obtain credit information during the franchise agreement to highlight potential credit risks.

The highest risk exposure is in relation to loans to franchisees and their ability to service their debt. The Directors have established a credit policy under which franchisees are analysed for creditworthiness before a loan is offered. The Group's review includes external ratings, when available, and in some cases bank references. The Group does not consider that it currently has significant concentration of credit risk with loans extended to franchisees of £78k.

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27. Financial instruments continued

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future development, the Group monitors forecast cash inflows and outflows on a monthly basis.

Interest rate risk

The Group's exposure to changes in interest rate risk relates solely to interest earning financial assets as the Group has repaid all its borrowings in the year.

Fair values of financial instruments

The fair value of financial assets and liabilities is considered the same as the carrying values.

28. Share-based payments

Enterprise Management Incentive ("EMI") Share Option Scheme 2017

During the year ended 31 December 2017 the Company implemented an Enterprise Management Incentive scheme as part of the remuneration for all staff and granted options over 2,290,000 ordinary shares at an exercise price of £0.01 each.

The options over 2,290,000 ordinary shares were granted to different classes of employees at different times as follows:

1. Executive Directors were granted options over 1,500,000 ordinary shares on 9 June 2017
2. Staff were granted options over 185,000 ordinary shares on 20 July 2017
3. Leadership team recruits in FY17 were granted options over 605,000 ordinary shares on 14 September 2017

During the year ended 31 December 2017 an option was forfeited over 150,000 shares following the departure of an employee. At 31 December 2017 options over 2,140,000 ordinary shares existed.

During the year ended 31 December 2018 options over 175,000 shares were forfeited following the departure of employees. At 31 December 2018 options over 1,965,000 ordinary shares existed.

These options have a vesting condition based on EPS targets for the year ended 31 December 2019. The share-based payment charge recognised in the year ended 31 December 2017 in respect of these options was reversed in the year ended 31 December 2018 because none of these options were expected to vest.

Enterprise Management Incentive ("EMI") Share Option Scheme 2018

On 1 August 2018 employees with options in the EMI Share Option Scheme 2017 were granted options in a parallel scheme, over the same number of shares, and with the same EPS target, but these are exercisable 1 year later, after the approval of the financial statements for the year ending 2020. Participants will only be able to exercise one of their options. The total number of parallel options granted was 1,965,000.

On 1 August 2018 new employees who did not have options in the EMI Share Option Scheme 2017 were granted options over 155,000 shares at an exercise price of £0.01 each.

During the year ended 31 December 2019 options over 95,000 were granted and options over 170,000 were forfeited.

At 31 December 2019 options over 2,045,000 (2018: 2,120,000) ordinary shares existed.

These options have a vesting condition based on an EPS target for the year ended 31 December 2020.

The following principal assumptions were used in the valuation of each of the grants made in the year ended 31 December 2019 using the Black-Scholes option pricing model:

Assumptions			
Date of grant	31/01/2019	22/05/2019	06/08/2019
Date of vesting	30/04/2021	30/04/2021	30/04/2021
Share price at grant	£1.215	£1.775	£1.735
Exercise price	£0.01	£0.01	£0.01
Risk free rate	0.57%	0.57%	0.45%
Dividend yield	5.70%	5.70%	4.90%
Expected life	2.25 years	1.92 years	1.73 years
Share price volatility	31.00%	31.00%	31.00%

The weighted average contractual life remaining of these options is 1 year and 4 months.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. The assumptions used in valuing each grant are based on the daily historical volatility of the share price over a period commensurate with the expected term assumption.

The risk free rate of return is the implied yield at the date of grant for a zero coupon UK government bond with a remaining term equal to the expected term of the options.

It's expected that with an exercise price of £0.01, should the EPS condition be met, all holders will exercise as soon as the options vest. The Group announces its results usually within the first 10 days of April. So, it has been assumed that all options will be exercised on 30 April 2021.

EPS is measured as the basic earnings per share excluding any exceptional income/costs and any share-based payments charges. Further details can be found in the Directors' remuneration report on pages 29 and 30.

Management has used the budget for FY20 and the market outlook to determine, at 31 December 2019, the achievement of the EPS condition.

The estimated fair value of the options over 2,045,000 ordinary shares at 31 December 2019 was £1,189,467. This fair value, moderated for the extent to which the options are expected to vest, is spread as a charge between grant and the assumed vesting date. Accordingly, a share-based payments charge of £418,495 has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2019, which is the cumulative share-based payments charge at 31 December 2019 less the cumulative share-based payments charge recognised at 31 December 2018 of £186,877.

Enterprise Management Incentive ("EMI") Share Option Scheme 2019

On 6 August 2019 a new EMI Share Option Scheme 2019 was introduced and an option over 100,000 ordinary shares at an exercise price of £0.01 each was granted to a director under this scheme.

This option has a vesting condition based on an EPS target for the year ended 31 December 2021.

The following principal assumptions were used in the valuation of the grant made in the year ended 31 December 2019 using the Black-Scholes option pricing model:

Assumptions	
Date of vesting	30/04/2022
Share price at grant	£1.735
Exercise price	£0.01
Risk free rate	0.45%
Dividend yield	4.90%
Expected life	2.73 years
Share price volatility	31.00%

The weighted average contractual life remaining of this option is 2 year and 4 months.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. The assumptions used in valuing each grant are based on the daily historical volatility of the share price over a period commensurate with the expected term assumption.

The risk free rate of return is the implied yield at the date of grant for a zero coupon UK government bond with a remaining term equal to the expected term of the options.

It's expected that with an exercise price of £0.01, should the EPS condition be met, the holder will exercise as soon as the option vests. The Group announces its results usually within the first 10 days of April. So, it has been assumed that the options will be exercised on 30 April 2022.

EPS is measured as the basic earnings per share excluding any exceptional income/costs and any share-based payments charges. Further details can be found in the Directors' remuneration report on pages 29 and 30.

Management has used the budget for FY20, the market outlook and projections for FY21 to determine, at 31 December 2019, the achievement of the EPS condition.

The estimated fair value of the option over 100,000 ordinary shares at 31 December 2019 was £149,600. This fair value, moderated for the extent to which the option is expected to vest, is spread as a charge between grant and the assumed vesting date. Accordingly, a share-based payments charge of £23,214 has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2019.

Notes to the consolidated and Company financial statements continued
For the year ended 31 December 2019

28. Share-based payments continued

Enterprise Management Incentive ("EMI") Share Option Scheme 2013

At 31 December 2019 all the conditions for the scheme had been fulfilled.

The maximum term of the vested but unexercised option granted is 10 years from the grant date. The option allows the holder to purchase 64,800 ordinary shares at an exercise price stated of £1.385.

Movement in the number of ordinary shares under options for all schemes was as follows:

	2019 £		2018 £	
	Number of Ordinary Shares	Weighted average exercise price	Number of Ordinary Shares	Weighted average exercise price
Number of shares under option:				
Outstanding at the beginning of the year	2,184,800	£0.0508	2,204,800	£0.0504
Forfeited	(170,000)	£0.01	(175,000)	£0.01
Granted	195,000	£0.01	155,000	£0.01
Outstanding at the end of the year	2,209,800	£0.0503	2,184,800	£0.0508

The outstanding options at 31 December 2019 comprised 2,145,000 options with an exercise price of £0.01 and 64,800 options with an exercise price of £1.385. The 64,800 options were exercisable at 31 December 2019 and the remaining options were not yet exercisable.

The outstanding options at 31 December 2018 comprised 2,120,000 options with an exercise price of £0.01 and 64,800 options with an exercise price of £1.385. The 64,800 options were exercisable at 31 December 2018 and the remaining options were not yet exercisable.

The weighted average remaining contractual life of options is 1.5 years (2018: 2.5 years).

29. Related party disclosures

Transactions with Directors

Dividends

During the year the total interim and final dividends paid to the Directors and their spouses were as follows:

	2019 £	2018 £
Interim and final dividend (ordinary shares of £0.01 each)		
Richard Martin	842,536	838,556
Ian Wilson	127,221	115,378
Paul Latham	4,300	1,950
David Raggett	19,556	16,957
	993,613	972,841

Directors' emoluments

Included within the remuneration of key management and personnel detailed in note 9, the following amounts were paid to the Directors:

	2019 £	2018 £
Wages and salaries	729,624	715,502
Social security costs	92,363	90,224
Pension contribution	20,000	10,703
	841,987	816,429

Details of Directors' interests in share options are disclosed in the Directors' remuneration report on pages 29 and 30.

30. Events after the reporting date

In December 2019 we decided to offer Mark Graves the role of CEO of our financial services division after an introduction in the Spring of 2019. Mark has 30 years of experience in financial services provision to the residential property sector. He has held roles as Managing Director of Sesame Bankhall Group, Head of Network at Pink Network and Managing Director of Linear Financial Services. Mark was in the process of buying Auxilium Partnership Limited from his partner and we offered to lend him £0.2m repayable by 31 March 2020 at the latest. This loan was made in December 2019 and settled through equity in the acquired business in January 2020. The outflow is shown in the Consolidated Statement of Cash Flows under investing activities on page 41.

On 1 January 2020 Mark took up his role with us and we began negotiations to effect the sale of Auxilium Partnership Limited to our Group. We decided to create a financial services holding company to hold all our investments into financial services. On 7 January 2020 that new company, Aux Group Limited (registered in England and Wales under company number 12389325) was incorporated. The Property Franchise Group Plc took an 85% holding in its share capital. The remaining 15% was acquired by Mark Graves. On 7 January 2020 Aux Group Limited acquired 85% of the share capital of Auxilium Partnership Limited (registered in England and Wales under company number 11703495) from Mark Graves for £0.2m, which is anticipated to be presented as goodwill in the financial statements for the year ending 31 December 2020. Thus, the loan was repaid in full. Aux Group Limited has an option to buy Mark's remaining 15% shareholding in Auxilium Partnership Limited.

Shareholder information

Financial calendar

Announcement of Preliminary results – 31 March 2020

Annual General Meeting – 25 June 2020

Half year results – 30 September 2020

Interim dividend – October 2019

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