M Winkworth Plc

Audited final results for the year to 31 December 2016

M Winkworth Plc ("Winkworth" or the "Company") is pleased to announce its results for the year ended 31 December 2016

Highlights for the period

- Revenues down 5.1% to £5.57 million (2015: £5.87 million)
- Profit before taxation 25.7% lower at £1.42 million (2015: £1.91 million)
- Net cashflow £(195,632) (2015: £662,217)
- Cash balance at 31st December remained strong at £2.97 million (2015: £3.17 million)
- Rental income increased to 44% of total revenues
- Six new franchisees with two new offices opened and four resold to new management
- Dividends of 7.1p declared and paid (2015: 6.5p plus a special dividend of 1.8p)

Dominic Agace, Chief Executive Officer of the Company, commented:

"The resilience of Winkworth's franchising model has been demonstrated in a difficult market, while the increasingly balanced exposure between sales and rentals has proved to be a considerable benefit. We are delighted by the progress that we have made outside of London, with these offices now making an important contribution. Our strong cash position provides us with opportunities to deliver growth both by supporting the expansion plans of existing franchisees and by helping the conversion of established businesses to the Winkworth brand."

Chairman's Statement

Last year was a testing one for the UK residential property market. In such a market, marked by uncertainty, a reduced number of transactions and shifting dynamics in rentals, motivating buyers and tenants to view properties becomes more than ever the prime differentiator for a successful agency.

To achieve a satisfactory sale or rental price, clients require maximum exposure for every property - without the power to generate and execute viewings, an agency is unable to service their needs adequately. The numerous investments that we have made since our admission to AIM in 2009 have contributed to strengthening both our business and our brand and, consequently, our ability to achieve the exposure that our clients require.

In terms of growing the franchise network, the board is confident that the market has to a large extent settled following the unease caused by political upheaval in the UK over the last couple of years and there are signs of reinvigorated interest in joining the Winkworth franchise. As we remain highly diligent throughout our selection process, however, always seeking winners and well-funded applicants, it does take time to sign up new franchisees. We remain of the belief that in most cases we can create greater long term value through organic growth than through acquisition.

We will continue to build services centrally to administer the Winkworth network, thus helping to reduce overheads at the same time as benefitting our franchisees. I welcome our new website which is aimed at offering buyers, sellers, tenants and landlords a digital solution backed by a full service experience.

I remain confident that Winkworth will not only grow but also increase its market share as it evolves its offering to meet the highest standards of today's marketplace.

Simon Agace
Non-Executive Chairman
30 March 2017

CEO’s Statement

The theme of macro events influencing market sentiment continued into 2016, a year which turned out to be an irregular one for sales. The early part of the year saw a boom in activity in the run up to stamp duty changes on second home properties, but this was followed by a lull surrounding uncertainty over Brexit and its likely implications. As a result, we experienced an unusually strong first half and a weaker second one.

Underlying these events, the sales market was driven by strong fundamentals, with interest rates remaining at record lows, employment high, and wage inflation showing an uptick. These fundamentals underpinned demand with the exception of the higher end of the market, where stamp duty changes announced in the November 2015 autumn statement continue to weigh on properties valued in excess of £1 million. Here, buyers are still adjusting to this increased cost, resulting in lower levels of activity. In prime markets, however, with sterling having devalued and prices fallen by some 15%, we are starting to see signs of the tax changes being absorbed and central London market activity picked up significantly in the last quarter of 2016, albeit from a low base.

Our rentals business continued to grow on the back of new initiatives such as the corporate relocation department and, in 2016, represented 44% of our income versus 38% in 2015. With an improved proposition for landlords, property management commissions grew by 16% to represent 15% of rental revenue compared to 12% in 2015.

Post Brexit, we saw a reduction in searches through our corporate relocation department. While we still received over 4,000 searches for companies looking to move staff to London over the course of the year, a 6% increase on 2015, we witnessed a change in the make-up of these companies, with an increasing bias towards the technology and creative sectors partly offsetting a reduction in financial services. The latter were not only less active but also reduced their relocation budgets, while the former were typically seeking less expensive space in areas outside of the traditional central London zones. This contributed to downward pressure on rents in central London, whereas outer London rental markets remained strong. As rents in central London soften and greater value becomes apparent in 2017, we expect to see demand pick up in this market.

In geographic terms, the best performing markets over the course of the year were in suburban areas and provincial towns, where higher stamp duty was less of an impediment. Winkworth’s sales income grew by 3% in the country markets, despite a pause in activity around the Brexit vote, and represented 27% of our total sales revenues, up from 22% in 2015. Rental income growth in the country was stronger still, rising by 21%, so that the total contribution to group turnover from offices outside of London increased from 19% in 2015 to 21%. This vindicates our strategy of expansion outside of London since 2008.

In 2016, gross revenues of the franchised office network fell by 6% to £46.12m (£49.01m) with sales 14% lower at £25.98m (£30.14m) and rentals up 7% to £20.05m (£18.78m). Winkworth's revenues fell by 5.1% to £5.57m (£5.86m) and profit before taxation was 26% lower at £1.42m (£1.91m). Partly as a result of the £229,000 special dividend declared in December 2015 and paid in 2016, there was a cash outflow in the year of £(195,632) (2015 inflow of £662,217). Year end cash balances remained strong at £2.97 million (£3.17 million) and the group remained debt free. Dividends of 7.1p were declared for the year (2015: 8.3p including a special dividend of 1.8p), representing a 9% increase in regular dividends.

In 2016, two new offices were opened in Colindale and Marlborough, while four existing offices were resold to new management, giving us a total number of offices at year end of 94. With a new office in Cheltenham and the conversion of an existing estate agency in Kingsbury, we have a further seven new offices in the pipeline and so anticipate 6-8 openings in 2017 as well as a further 1-2 resales. We anticipate seeing further opportunities to add or resell offices to talented individuals looking to take the step of owning their own business and so being able to share in the equity rewards that this can bring.

We continue to build central services to support our franchisees and help them to grow market share. The client services department, which refers searches across offices, met with further success, generating gross franchise office fees of £0.61 million, up from £0.36 million in 2015. The corporate relocation department continued to help franchisees let more properties to high quality tenants, generating £0.35 million in franchised offices fees against £0.25 million in 2015.

To add to these central facilities, we are launching a recruitment service in Q3 2017 to help franchisees lower costs while improving their ability to attract high quality employees. We are also excited about the new website that was launched in March 2017, providing a platform that will enable clients to deal with their properties and interact with us both on and offline. Our experienced local franchisees will be in a position to maintain the high standards of personal service that they provide while offering clients new digital options for communicating, transacting or managing their properties.

Outlook

We believe that low unemployment, wage inflation and record low interest rates will continue to underpin the domestic property market. While the increased cost of transactions above £1 million and the knock-on effect lower down the chain will continue to act as a brake on transactions in 2017, we are starting to see higher stamp duty absorbed in prime central London where prices are stabilising. We also anticipate that without the macro events of a referendum or an election and a positive outlook for UK growth there will be a gradual improvement in sentiment and so buyer interest this year. We expect the country markets to be at the forefront of this improvement, with good affordability ratios and cheap mortgages leading to price growth.

In the rentals market we expect that the over-supply from the buy-to-let boom will increasingly be absorbed and that demand from corporate tenants will stabilise. As interest in central London, the area most affected, recovers there may be some lowering of rents in greater London as a result. We anticipate that rental prices in the country markets will remain broadly flat while the increased supply from Q1 2016 is absorbed.

We expect a broadly flat market to continue to be favourable to the franchising model and provide new opportunities to grow the business. We are in regular conversation with existing agencies to explore how we can help them grow market share in a slow market, and with entrepreneurs looking to start-up businesses with the support of a strong brand. In particular, we see an opportunity to convert lettings and management businesses in provincial markets to Winkworth. By joining us we can not only support their existing business but also offer them a sales operation, more than offsetting the loss of tenancy administration fees in 2018, which in the case of some independent specialist lettings agencies we estimate could account for up to 30 % of their revenue. With an average Winkworth franchised office posting a 56/44 balance between sales and rental income, we can help talented operators to more than replace this revenue loss.

We remain debt-free, and the strength of our cash position provides us with opportunities in the current market to deliver growth both by supporting the expansion plans of existing franchisees and by helping the conversion of established businesses to the Winkworth brand.

Dominic Agace
Chief Executive Officer
30 March 2017

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Robert Finlay/Ed Thomas

About Winkworth

Established in Mayfair in 1835, Winkworth is a leading franchisor of residential real estate agencies with a pre-eminent position in the mid to upper segments of the sales and lettings markets. The franchise model allows entrepreneurial real estate professionals to provide the highest standards of service under the banner of a well-respected brand name and to benefit from the support and promotion that Winkworth offers.

Winkworth is admitted to trading on the AIM Market of the London Stock Exchange.
For further information please visit: www.winkworthplc.com

M WINKWORTH PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the Year Ended 31 December 2016

	Notes	2016 £	2015 £
CONTINUING OPERATIONS			
Revenue		5,566,389	5,865,182
Cost of sales		(1,477,542)	(1,551,281)
GROSS PROFIT		4,088,847	4,313,901
Administrative expenses		(2,743,291)	(2,496,711)
OPERATING PROFIT		1,345,556	1,817,190
Finance income		71,383	89,839
PROFIT BEFORE TAXATION		1,416,939	1,907,029
Taxation	1	(290,919)	(391,578)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,126,020	1,515,451
Total comprehensive income attributable to:			
Owners of the parent		1,126,020	1,515,451
Earnings per share expressed in pence per share:	3		
Basic		8.84	11.95
Diluted		8.84	11.91

M WINKWORTH PLC (REGISTERED NUMBER: 01189557)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2016

	Notes	2016 £	2015 £
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		776,819	976,001
Property, plant and equipment		115,357	34,650
Investments		7,200	7,200
Trade and other receivables		715,654	800,189
Deferred tax		-	2,222
		1,615,030	1,820,262
CURRENT ASSETS			
Trade and other receivables		1,347,693	1,166,173
Tax receivable		69,167	-
Cash and cash equivalents		2,972,072	3,167,704
		4,388,932	4,333,877
TOTAL ASSETS		6,003,962	6,154,139
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	5	63,666	63,666
Share premium		1,792,906	1,792,906
Other reserves		51,295	51,295
Retained earnings		3,556,228	3,334,268
TOTAL EQUITY		5,464,095	5,242,135
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax		16,164	-
CURRENT LIABILITIES			
Trade and other payables		523,703	800,536
Tax payable		-	111,468
		523,703	912,004
TOTAL LIABILITIES		539,867	912,004
TOTAL EQUITY AND LIABILITIES		6,003,962	6,154,139

M WINKWORTH PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2016

	Notes	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity
Balance at 1 January 2015		63,381	1,718,469	47,488	2,871,971	4,701,309
Changes in equity						
Total comprehensive income		-	-	-	1,515,451	1,515,451
Transactions with owners in their capacity as owners						
Issue of share capital		285	62,415	-	-	62,700
Share options exercised		-	12,022	(12,022)	-	-
Dividends	2	-	-	-	(1,053,154)	(1,053,154)
Share-based payment		-	-	15,829	-	15,829
Balance at 31 December 2015		63,666	1,792,906	51,295	3,334,268	5,242,135
Changes in equity						
Total comprehensive income		-	-	-	1,126,020	1,126,020
Transactions with owners in their capacity as owners						
Dividends	2	-	-	-	(904,060)	(904,060)
Balance at 31 December 2016		63,666	1,792,906	51,295	3,556,228	5,464,095

M WINKWORTH PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the Year Ended 31 December 2016

	Notes	2016 £	2015 £
Cash flows from operating activities			
Cash generated from operations	4	1,569,185	1,913,669
Tax paid		(453,167)	(471,919)
Net cash from operating activities		1,116,018	1,441,750
Cash flows from investing activities			
Purchase of intangible fixed assets		(121,758)	(107,477)
Purchase of tangible fixed assets		(128,017)	(639)
Interest received		71,383	89,839
Net cash from investing activities		(178,392)	(18,277)
Cash flows from financing activities			
Share issue		-	62,700
Equity dividends paid		(1,133,258)	(823,956)
Net cash from financing activities		(1,133,258)	(761,256)
(Decrease)/increase in cash and cash equivalents		(195,632)	662,217
Cash and cash equivalents at beginning of year		3,167,704	2,505,487
Cash and cash equivalents at end of year		2,972,072	3,167,704

NOTES TO THE STATEMENTS OF CASH FLOWS
for the Year Ended 31 December 2016

1. TAXATION

Analysis of tax expense

	2016	2015
	£	£
Current tax:		
Taxation	274,450	405,389
Adjustment re previous years	(1,918)	(4,740)
Total current tax	272,532	400,649
Deferred tax	18,387	(9,071)
Total tax expense in consolidated statement of profit or loss and other comprehensive income	290,919	391,578

Factors affecting the tax expense
The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2016	2015
	£	£
Profit before tax	1,416,939	1,907,029
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20 % (2015 - 20.250 %)	283,388	386,173
Effects of:		
Expenses not deductible for tax purposes	8,781	11,176
Adjustment in respect of prior periods taxable	(1,918)	(4,740)
Different tax rates	149	(340)
Depreciation in excess of capital allowances	519	(691)
Tax expense	290,919	391,578

2. DIVIDENDS

	2016	2015
	£	£
Ordinary shares of 0.5p each		
Final 2015 and interim 2016 paid – 7.1p per share (2015 – 8.3p per share)	904,060	1,053,154

3. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	Earnings £	2016 Weighted average number of shares	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,126,020	12,733,238	8.84
Effect of dilutive securities			
Options	-	-	-
Diluted EPS			
Adjusted earnings	1,126,020	12,733,238	8.84

The share options are underwater as at 31 December 2016.

	Earnings £	2016 Weighted average number of shares	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,515,451	12,681,548	11.95
Effect of dilutive securities			
Options	-	41,298	-
Diluted EPS			
Adjusted earnings	1,515,451	12,722,846	11.91

4. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2016 £	2015 £
Group		
Profit before tax	1,416,939	1,907,029
Depreciation amortisation and impairment	368,249	275,466
Share based payments	-	15,829
Finance income	(71,383)	(89,839)
	1,713,805	2,108,485
Increase in trade and other receivables	(96,985)	(276,100)
(Decrease)/increase in trade and other payables	(47,635)	81,284
Cash generated from operations	1,569,185	1,913,669

	2016 £	2015 £
Company		
Profit before tax	906,131	1,055,102
Dividend income	(906,139)	(1,055,233)
	(8)	(131)
Decrease/(increase) in trade and other receivables	229,198	(229,198)
Cash generated from operations	229,190	(229,329)

5. CALLED UP SHARE CAPITAL

		2016 £	2015 £
Authorised:			
20,000,000	Ordinary shares of 0.5p	100,000	100,000

		2016 £	2015 £
Issued and fully paid:			
12,733,238	Ordinary shares of 0.5p	63,666	63,666

6. FINANCIAL INFORMATION

The financial information contained within this preliminary announcement for the year ended 31 December 2016 is derived from but does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies and those for the year ended 31 December 2016 will be filed following the Company's annual general meeting. The auditors' reports on the statutory accounts for the years ended 31 December 2016 and 31 December 2015 are unqualified, do not draw attention to any matters by way of emphasis, and do not contain any statements under section 498 of the Companies Act 2006.

7. ANNUAL REPORT AND ACCOUNTS

Copies of the annual report and accounts for the year ended 31 December 2016 together with the notice of the Annual General Meeting to be held at the offices of M Winkworth Plc on 28 April 2017, will be posted to shareholders shortly and will be available to view and download from the Company's website at www.winkworthplc.com

The annual report and accounts will be filed at Companies House in due course.