

Chief Executive's review



This has been an extraordinary year, with our entire financial year playing out under the shadow of the COVID pandemic. Throughout, we have remained focused on doing the right thing for our people and our customers, and this has paid dividends. It is great to report that we have grown our revenue by 15% and, notwithstanding the impact on the statutory result of exceptional charges (FY21 statutory PBT: £47.2m, FY20: £137.9m), adjusted PBT rose by 6%. This demonstrates the power of our business model and the dedication of our people: I am grateful to every single one of them. We have also made significant progress strategically this year, which sets us up well for continued strong growth.

One of the most difficult decisions we took this year was to halt the implementation of eServe, the UK CRM solution we procured in 2013. This drove an exceptional charge of £84.8m, which reduced statutory profit before tax to £47.2m (FY20: £137.9m). eServe was highly configured to our business and became costly and inflexible to implement, with further configuration issues emerging as implementation progressed. It will be replaced by a more flexible, cloud-based solution. Current planning suggests this will be a Salesforce solution, similar to those implemented successfully in France and planned for implementation in North America. As ever at HomeServe, we will look very carefully at what we can learn from this experience. We now have the opportunity to move forward and standardise on an industry leading solution.

"In the last year, we have all been working, learning, exercising and socialising from home, and our homes have become more important to us than ever. HomeServe's purpose is to make home repairs and improvements easy, whether it be fixing wear and tear or helping us transform our homes and gardens. We have seen more demand than ever for our services."

The right people in the right roles

As of March 2021 we have been operating in three divisions, each with different financial profiles: Membership & HVAC (Heating, Ventilation and Air Conditioning) – North America; Membership & HVAC – EMEA; and Home Experts. To ensure that each gets the focus it deserves, they are each run by one of our Executive Directors, with our fourth Executive Director, CFO David Bower, focusing on Group-wide considerations. The key areas of focus for each division are as follows.

Membership & HVAC – North America

Tom Rusin is focused on delivering our medium-term growth targets and developing our North American partnerships, product suite and service capability to keep growing beyond our \$230m adjusted operating profit milestone. Tom has global product line responsibility for Membership.

Membership & HVAC – EMEA

Ross Clemmow joined us in March 2021, and brings online retail, digital and private equity transformation experience to our executive team. He is focused on adding value to our established businesses in France, Spain and the UK, and on developing new routes to growth, including through expansion into adjacent markets in Europe. He also has responsibility for our joint venture in Japan. Ross has global product responsibility for HVAC, where we now have a global portfolio of 46 businesses and installation revenue of £101.6m. There are significant opportunities to develop HVAC as a new channel for policy sales and realise efficiencies as we build a global HVAC infrastructure.

Home Experts

I work directly with the leaders of our Home Experts businesses in the UK, North America and Spain to build a market-leading model to match consumers with trades online, and to share expertise across our businesses.

Membership & HVAC – North America

Our North American business had a great year, despite much reduced marketing volumes in the first few months of the pandemic. We achieved 7% predominantly organic customer growth to 4.7m, 85% retention (an increase of two percentage points), 22% revenue growth of which 9 percentage points were organic, 27% growth in adjusted operating profit to \$137.9m and a percentage point improvement in margin to 21%. We were delighted to sign new partner agreements which cover 6m new households, a 59% increase on gross new household adds in FY20, despite the interruption in utility partner conversations early in the pandemic. We made good decisions to withdraw from relationships where marketing returns had started to decline, and instead to market direct. We ended the year with access to 66m households (a net 2m increase), with our pipeline of potential new partners at its strongest ever. Our HVAC business had an outstanding year, with installations revenue growth of 43% to \$76.0m. We are making excellent progress towards our previously announced \$230m operating profit target, and are starting to look beyond our medium-term targets to the long-term continued growth potential of our business in North America.

Membership & HVAC – EMEA

All of our European businesses display attractive characteristics: loyal, recurring customers with high retention rates; strong and stable cash generation and several opportunities for growth through new partners, new channels and new markets.

The UK is HomeServe's most established market. The UK business continues to deliver attractive returns and provides a high quality service to a smaller number of loyal customers that value and use our products. Under the new leadership of John Kitzie, previously CEO of our North American business, we have developed plans to take the UK business forward and return it to a growth trajectory.

With this new transformation programme, we have started the process of reversing the long-term customer decline which drove a 10% fall in adjusted operating profit to £72.5m. John is one of our very best operational leaders, and brings with him significant experience of the operational processes and technology that have created a strong platform for growth in North America. John's initial focus will be to bring these operational best practices to the UK. As an example, we are making rapid progress in claims automation and in driving efficiency in our field-based service operations.

Alongside the implementation of operational best practices, our UK team is developing opportunities to return to top line growth through digitisation, improved marketing and new partnerships. We will also implement the successful HVAC buy-and-build strategy already in progress in North America, France and Spain.

In France, we added 0.2m gross new customers, our highest ever level and a 10% year-on-year increase, to end the year at 1.2m customers in total. Investment in growth opportunities including a renewed partnership with Veolia and accelerated customer acquisition via digital channels meant that adjusted operating profit grew relatively modestly, up 2% to €39.8m. Our French business is characterised by strong working relationships with long-term and newer affinity partners and excellent IT implementations, with our legacy customer management system now replaced with Salesforce. The HVAC buy-and-build strategy is performing well in France and marketing activity with Eneco Belgium will scale up as the COVID pandemic subsides. In its 20th anniversary year, it is great to see our French business continue to grow.

In Spain, performance improved in the second half in Claims, after Claims turnover suffered early in the pandemic just as we boosted our resources in anticipation of higher volumes. The first half effect of this investment drove a 14% fall in full year adjusted operating profit to €19.8m. Mesos is proving to be a successful acquisition in the Claims space and gives us service capability in Portugal. HVAC is performing well and in Membership, discussions are ongoing with a range of energy companies to develop new Membership propositions.

Our joint venture with Mitsubishi Corporation in Japan continues to progress well, with two partnerships giving us access to c.7m households and the partner pipeline strong. We have over 17,000 customers, are seeing good take-up on marketing campaigns and early indications suggest a very strong retention rate. It is still early days, but prospects for the Japanese market look good and we are happy to continue to invest at current levels to realise this potential.

Home Experts

During the COVID pandemic, consumers spent more time and money than ever around their homes. British homeowners spent an average of £2,608 on home improvements in 2020, an increase of 15%, according to Checkatrade research. We continued to develop our Home Experts platforms at pace to match more homeowners with trades (tradespeople) online.

Checkatrade continued to strengthen its leadership position in the UK with the highly successful 'Julius Caesar' television advertising campaign. Consumer visits to the website grew a market-leading 23% to 29m and the number of contacts (telephone calls and quote requests) between consumers and trades grew strongly to 8.1m. On the supply side, the number of trades grew 11% to 44,000 paying trades. Our decision to support our trades with deep discounts in the first three months of the pandemic helped keep trades on the platform when they were not working or earning. A key area of focus at Checkatrade is to improve the distribution

Chief Executive's review

Continued

of contacts, so that as many trades as possible see value from their subscription. These systematic enhancements are expected to drive an acceleration in trades acquisition and retention in FY22, as Checkatrade's predominantly subscription-based model moves towards profitability in FY23 and substantial growth beyond.

eLocal had a very successful first full year as part of HomeServe, delivering a 32% increase in monetised calls on a like-for-like basis, to 3.6m, a first full year of revenue of \$119m and an adjusted operating profit contribution of c.\$18m. eLocal has a proven model and strong potential for growth in the under-penetrated US market.

At Habitissimo, the transition of the business model continues, with the launch of Directory Extra expected to stimulate more matches for Habitissimo's 89m website visits.

Doing business responsibly

For most of us, our home is a refuge. Because we work in people's homes, doing business responsibly is crucial to our continued success. The resilience of our business model depends above all on the dedication of our people and the service they provide to our customers.

I have always been impressed by the courage, persistence and integrity our people show every day in the service of our customers, and this year we matched this everyday reality with increased prominence for responsible business initiatives on our Board agenda. We created a Corporate Responsibility Committee in January 2021 and agreed four key areas of focus:

- Delivering for our customers
- Building the workforce of the future, treating our people responsibly and embracing diversity
- Using our skills to support the communities we touch
- Participating in the transition to a lower carbon future.

We are now committed to a carbon reduction pathway of 1.5 degrees by 2030 in respect of our Scope 1 & 2 emissions, a 42% reduction from our 2020 baseline. Opportunities are emerging to help homeowners participate in the green revolution and support decarbonisation, for example through alternative heat sources and the installation of electric vehicle charging points. I was particularly pleased with the launch of the HomeServe Foundation in the UK this year, to champion the recruitment and training of more apprentices for our industry. We see doing business responsibly as a differentiator and an opportunity, and I am looking forward to seeing it continue to deliver benefits.

A tribute to Barry Gibson, and welcome to Tommy Breen

Tommy Breen takes over as Chairman from Barry Gibson on 19 May 2021. Barry has been on the HomeServe Board since the demerger from South Staffs Water in 2004, and has chaired the Board with dedication and skill since 2010. He has always championed putting the customer at the heart of everything we do, and focuses above all else on people. Barry created the Board People Committee and championed talent recruitment and development, diversity and inclusion. I want to express my sincere thanks to Barry, who helped steer HomeServe from a market capitalisation of £300m to close to £4 billion. It was a fitting tribute to Barry's achievements that he was the 2021 FTSE All Share winner at this year's Non-Executive Director Awards.

In Tommy Breen, we have found a worthy successor to Barry. Tommy is an experienced non-executive director and until 2017 was Chief Executive of DCC plc, where he spent a highly successful 30 year career. A chartered accountant by training, Tommy brings to HomeServe an extensive track record of delivering sustainable growth in a diverse, international business, both organically and by acquisition. Tommy started adding value to our Board as soon as he joined in January 2021, and I am very much looking forward to working with him.

Conclusion

HomeServe makes home repairs and improvements easy by matching customers' needs with trades (tradespeople), to generate repeat and recurring income. Our continued progress towards our ambition of doing every job, in every home takes me back to where I started this review – to our people. Our March 2021 employee survey shows engagement ahead of pre-pandemic levels, with each of our businesses currently certified as a Great Place to Work. The dedication shown by our people to our customers and our business during the pandemic has been extraordinary. I am very proud of what we have all achieved in the last year, and we are now well placed to achieve significant growth in the coming year and beyond.

In FY22, we expect to see strong growth in our North American Membership & HVAC business and continued progress in Home Experts, particularly at Checkatrade. Our European Membership & HVAC businesses remain resilient and cash generative, each with routes to future growth. We are confident in the Group's prospects and expect to return to a trajectory of strong earnings growth in FY22.

Richard Harpin

Founder and Chief Executive
18 May 2021