

Business model and strategy

What we do

HomeServe’s purpose is to make home repairs and improvements easy, and our vision is to be the world’s largest and most trusted provider of home repairs and improvements.

We achieve this principally in three ways. To insurance-minded homeowners, we sell policies to cover a range of home emergencies via subscription-based Membership services. Our HVAC installation capabilities complete our service offering for homeowners who need replacement units. For people who prefer to deal with issues as they arise ('Home improvers'), or DIYers who need specialist help, we have online, on-demand Home Experts platforms that match homeowners with local trades.

INSURANCE MINDED




Membership

In Membership, our established route to market is via partnerships with utility companies, for whom we are an important source of added value. Our data-rich marketing approach and careful product design help us to grow our customer base. Our customers stay with us because of the excellence of our customer service and the dedication of our people: we do business responsibly. Our local networks of employed and subcontracted trades ensure consistently high service standards whenever we visit a customer’s home.

HOME IMPROVERS | DIYers




Home Experts

In Home Experts, trades (tradespeople) are our customers, and our job is to match them with consumers in their local area, who need their services. This provides our trades with an income stream and we also provide systems and processes to help them run their businesses more efficiently. We aim to support our trades at every stage of their career, from apprenticeships through building their career to maintaining their reputation.

ALL TYPES OF HOMEOWNER


HVAC (Heating, Ventilation and Air Conditioning)

The answers to three questions sum up our business model.

1. What are we deeply passionate about?

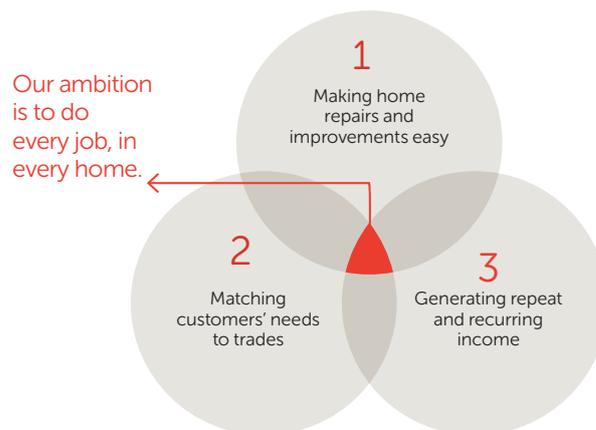
We are deeply passionate about making home repairs and improvements easy, for homeowners and trades (tradespeople). This passion comes alive through our customer-centric culture and our deep understanding of customer needs, which has been years in the making and keeps evolving.

2. What can we be best in the world at?

We have the potential to be best in the world at matching customer needs with trades, as we develop our product line; invest in partnerships, marketing, technology and innovation; and create the world’s largest trades network.

3. What drives our economic engine?

We understand the value of generating repeat and recurring income to create sustainable growth and resilience.



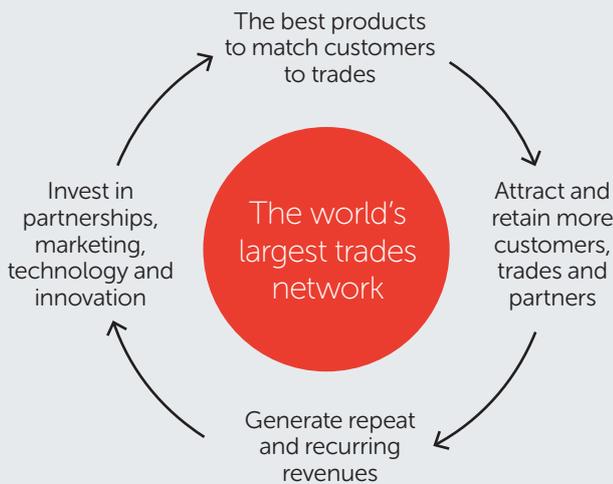
The strength of this business model **five key sources of value**, that are distinct to us.

1. **Partnerships:** we have strong affinity partners who provide us with our primary route to market.
2. **Marketing:** our marketing expertise enables us to reach our homeowners and trades with the right product at the right price.
3. **Customer service:** our culture puts the customer at the heart of everything we do.
4. **Local networks:** we work with trades (tradespeople) to deliver great service to homeowners.
5. **Financial resources and expertise:** we are disciplined in the way we deploy capital and have clear processes in place to decide where we will and will not invest.

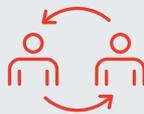
Executing well relies on deep knowledge of customer service and the commitment and expertise of our people. Our responsible business approach focuses above all on these two stakeholder groups.

 See page 20 for Responsible business.

Our growth strategy



The best products to match customer needs to trades



We design our products to match customer needs to trades. Our expertise is focused on adapting to the needs of individual markets to create products that customers value and use; responding efficiently to market or regulatory change; and creating, developing, testing, launching and assessing the performance of our products in a speedy, streamlined fashion. Recent innovations include in Membership, a new offer for the installation and maintenance of domestic electric vehicle charging points, being trialled in America, and in Home Experts, the development of Directory Extra model.

See page 32 PRINCIPAL RISKS: ① ⑤ ⑥ ⑦ ⑧ ⑨

Attract and retain more customers, trades and partners



We reach our customers through data-rich marketing, optimised in Membership across a range of channels including direct mail, contact centres and online and in Home Experts direct and online, with sophisticated monitoring of campaign paybacks.

We retain our customers by putting them at the heart of everything we do. This shines through in the way our Membership contact centres operate to handle customer claims and enquiries, and also in the way our engineers behave in customers' homes. In Home Experts, we constantly adapt our model to help trades build their businesses and reputations. We engage the best people right across our business and provide them with the tools and technology they need to do a great job. We have internal measures for customer satisfaction in each of our businesses and we are proud of the external awards we win across the world.

We deploy our brands to best advantage. While the HomeServe brand is becoming increasingly well known, we also recognise the power of acquired brands such as Checkatrade and Cropp Metcalfe in their home marketplaces.

See page 32 PRINCIPAL RISKS: ② ⑥ ⑦ ⑩

Generate repeat and recurring revenues



Our business is predictable, sustainable and cash generative. Our revenue streams are largely subscription based and we invest in our people, our network, our brand, our partnerships and our technology systems and processes to generate growth. We have opportunities to grow organically and through acquisition in all of our markets and have a strong track record of successful acquisition and integration. We have stringent investment criteria which we apply to organic and acquisition opportunities.

See page 32 PRINCIPAL RISKS: ③ ⑬

Invest in partnerships, marketing, technology and innovation



We have a strong track record of developing productive partnerships with firms whose skills and assets complement ours.

In Membership, our most established route to market is through long-term, exclusive partnerships with utilities, insurance companies and specialist service providers. We have a substantial network of over 1,000 utility partners, and considerable expertise in managing these partnerships for mutual benefit. Our utility partners earn commission on every policy we secure through them and benefit from our long-term approach to delivering value. HomeServe acts as an insurance intermediary, and does not take any material insurance risk. Our Membership products are underwritten by independent third party underwriters. We are investing in technology to automate and digitise our customer experience, and are working with our partners to build products for the green homes revolution.

In Home Experts, we work in partnership with trades – single traders, small and large firms – as well as specialists such as web developers.

See page 32 PRINCIPAL RISKS: ④ ⑤ ⑥ ⑨ ⑩

Develop the world's largest trades network



We rely on our local networks to deliver consistently high service in our customers' homes and we have many years of experience and expertise in managing these networks. We devote considerable time to recruiting and maintaining our networks and providing the infrastructure and technology required for them to operate efficiently. In our Membership business we optimise our mix of directly employed engineers and sub-contractors and in our Home Experts business we are focused on delivering rapid growth in the number of trades we work with to deliver on-demand repairs and improvements

See page 32 PRINCIPAL RISKS: ① ⑥ ⑦ ⑩

Our principal risks, and in particular our Group Enterprise risks, each impact elements of our business model, and thereby our growth strategy and future profitability. The impact of some but not all risks could lead to upside potential as well as downside threat. For example, market disruption in the digital world may also accelerate customer take-up; or in respect of partnerships, we may conceivably sign more partners than we expect in North America.

See page 20 for Responsible business.

PRINCIPAL RISKS:

- ① Competition
- ② Information security and cyber resilience
- ③ M&A strategy
- ④ Underwriting capacity and concentration
- ⑤ Regulation
- ⑥ Digital transformation
- ⑦ Technology investment
- ⑧ HVAC integration
- ⑨ Partner loss
- ⑩ People
- ⑪ International
- ⑫ Failure to deliver strategic growth
- ⑬ Financial



MEMBERSHIP & HVAC – NORTH AMERICA

Our Membership product line appeals to insurance-minded homeowners who are minded to buy policies to remove the hassle and cover the cost of household repairs.

We drive growth in our Membership businesses by:

- developing new partnerships to give us access to more homeowners
- marketing effectively to turn homeowners into customers
- adding value to our products to increase net income per customer, and
- providing excellent customer service to encourage our customers to stay with us.

We have significant opportunities to deploy new technology, systems and processes to provide state of the art customer service and increase the efficiency of our operations.

Developing the capability to install and replace heating, ventilation and air conditioning (HVAC) units completes the circle of service we provide for our Membership customers. It also gives us new opportunities to sell Membership policies and participate in the green revolution to promote new sources of domestic energy. Our strategy is to acquire and integrate high quality local businesses, work with their management teams and apply our marketing expertise to help them grow.

Targets

North America Membership & HVAC represents our biggest short to medium term growth opportunity.

| | FY21 | Medium to long-term target |
|---------------------------|--------|----------------------------|
| Customers | 4.7m | 6m - 7m |
| Income per customer | \$108 | \$120 - \$125 |
| Margin (policies) | 25% | 24% - 26% |
| HVAC profit | \$10m | \$30m - \$45m |
| Adjusted operating profit | \$138m | \$230m |

KEY PERFORMANCE INDICATORS:

Affinity partner households
Customers
Policies

Retention rate
Income per customer

PRINCIPAL RISKS:

- ① Competition
- ③ M&A strategy
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- ⑧ HVAC integration
- ⑨ Partner loss
- ⑩ People
- ⑬ Financial



FY21 UPDATE

North American Membership and HVAC 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 profits 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 customer adds in FY20, despite the interruption in utility partner conversations early in the pandemic. We made a good decision to withdraw from relationships where marketing returns had peaked, and market direct instead. We ended the year with access to 66m households (a net 2m increase), with our pipeline of potential new partners is 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

HomeServe’s European Membership businesses are more established than our North American business.

All of our European businesses display the attractive characteristics of good visibility and strong cash generation, and have routes to future growth.

We entered the Japanese market in a joint venture with Mitsubishi Corporation in February 2019. Mitsubishi Corporation is very successfully facilitating introductions to Japanese utility companies.

KEY PERFORMANCE INDICATORS:

| | |
|-----------------------------|---------------------|
| Affinity partner households | Retention rate |
| Customers | Income per customer |
| Policies | |

PRINCIPAL RISKS:

- ① Competition ③ M&A strategy
- ④ Underwriting capacity and concentration ⑤ Regulation
- ⑥ Digital transformation ⑦ Technology investment
- ⑧ HVAC integration ⑨ Partner loss ⑩ People
- ⑪ International ⑬ Financial

FY21 UPDATE

For the UK, this has been a transition year in which we started the process of reversing the long-term customer decline which drove a 10% fall in operating profits to £72.5m. John Kitzie, previously CEO of our North American business, transferred to become CEO of HomeServe UK in September 2020. John is looking at opportunities to return our UK business to top line growth through digitisation, direct marketing and developing our partnerships, and he will implement the successful buy-and-build HVAC strategy we are following in North America, France and Spain. John is also making rapid progress on claims automation and driving efficiency in our service operations. He has taken the decision to revert the minority of customers on this platform back to the existing Ensura CRM system, which is the proven system of record in North America. Following a period of decommissioning, eServe will be replaced by a flexible, cloud-based solution. Current planning suggests this will be a Salesforce solution, similar to those implemented successfully in France and planned for North America.

In France, we added 200k gross new customers, our highest ever level and a 10% year-on-year increase, to end the year at 1.2m. Investment in growth opportunities including a renewed partnership with Veolia and accelerated customer acquisition via digital channels meant that 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 and HVAC, after Claims turnover suffered early in the pandemic just as we boosted our cost base in anticipation of higher volumes. This first half effect drove a 14% fall in full year operating profit to €19.8m. Looking forward, 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 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

Home Experts enables HomeServe to serve the home improvers customer segment: homeowners who go online to find a local trade to help them with home repairs and improvements.

We have three online platforms:

Checkatrade the UK's leading online directory of checked and vetted trades

habitissimo the market leader in Spain

eLocal.com in the US, where we acquired a 79% stake in November 2019.



Each platform is currently pursuing its own growth path, and we are learning from each opportunity. Over time, we expect to move towards a single winning model – Directory Extra. Homeowners will be able to choose from a directory of checked and vetted trades for substantial home improvement projects such as fitting a new kitchen, or be automatically matched with a qualified trade, for example for smaller, time critical jobs such as mending a dishwasher.

We have a multi-year investment project under way to build out our network of trades and generate consumer demand through effective marketing, to help trades grow and manage their businesses.

The most advanced investment plan is at Checkatrade.

Targets for Checkatrade

| | FY21 | Medium to long-term target |
|---------------------------|---------------|----------------------------|
| Trades | 44,000 | 150,000 - 200,000 |
| Average revenue per trade | £939 | £1,200 - £1,300 |
| Margin | — | 25% - 35% |
| Adjusted operating profit | (£16m) | £45m - £90m |

KEY PERFORMANCE INDICATORS:

Trades
Web visits

PRINCIPAL RISKS:

- ② Information security and cyber resilience
- ⑥ Digital transformation
- ⑦ Technology investment
- ⑩ People
- ⑬ Financial

FY21 UPDATE

During the COVID pandemic, consumers spent more time and money than ever around their homes. 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 almost doubled to 8.1m. On the supply side, the number of trades grew 11% to 44,000 paying trades. A key area of focus at Checkatrade is to improve the distribution 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 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, to 3.6m, a first full year of revenue of £91.3m (\$119.0m) and a profitable 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 amongst Habitissimo's 89m website visits.

The Home Experts division is expected to achieve profitability in FY22.