

Chief Executive's review

Richard Harpin



"We made good progress on all three of our strategic priorities: to continue to drive growth in North America; to broaden and transform our UK business; and in Home Experts, to perfect a market leading platform to match consumers with high quality trades. I am delighted to report that we made good progress on all three."

HomeServe had another successful year, financially and strategically. In line with our expectations, we delivered an acceleration in our financial performance, with our key profit measure, adjusted profit before tax up 15% at £220.3m. Statutory profit before tax rose by 271% to £175.1m, driven by the absence of any exceptional charges, as seen in the prior year, as well as good underlying growth. Our growth was well balanced between organic revenue growth and a successful acquisition strategy, particularly in HVAC buy and build and with the acquisition of CET to create a market-leading Claims Assistance business in the UK. Organic revenue rose by 7.0% (FY21: 1.6%) and we spent a total of £146m on M&A, of which £112m was in respect of FY22 acquisitions. ROIC for the year was 15% (FY21: 14%). We made good progress on all three of our strategic priorities: to continue to drive growth in North America; to broaden and transform our UK business; and in Home Experts, to perfect a market leading platform to match consumers with high quality trades.

People first

Having the right people in the right roles is fundamental to the success of any business. This year, we achieved a smooth transition to our new Chairman, Tommy Breen, and with the arrival of Ross Clemmow in the new role of CEO, EMEA, all three of our business divisions are directly represented at Board level. This gives us a good balance between operational insight and Group-level strategic direction. Throughout our business, teams continue to perform with the courage, persistence and integrity

we expect of our people, and we are delighted to report that employee engagement remained above its pre Covid-19 level, at 75% (FY21: 78%).

Business model resilience

Over the course of the year, our people have continued to manage and adapt as the status of Covid-19 transitioned from pandemic to endemic. Hybrid working has become the norm for office-based roles across our business, and this universal trend has driven a shift in customer behaviour. As we spend more time in our homes, our customers are using and valuing our repair and maintenance products even more which means that in our Membership businesses, claims frequencies have increased and policy retention has risen to 84%. In Home Experts, consumer demand for home repairs and improvements remains high. The April 2022 Checkatrade Home Improvement Price Index shows a 23.3% increase in searches for tradespeople in the period January to March 2022, with early signs of a shift of emphasis from changes such as kitchen and bathroom replacements to projects focused on alternative energy sources and cost savings (insulation, for example).

The effects of economic headwinds such as inflation, labour shortages and supply chain disruption have so far proved manageable, demonstrating the resilience of our business model. We are managing to balance cost inflation with price rises and in our Membership businesses, the strength of our repair networks means that we can continue to deliver excellent

service to our customers. We know from experience that our Membership customers worry about the cost of an unexpected repair to their home, and are reluctant to lose the protection we provide them when the cost of living is rising.

North American Membership & HVAC – strong financial performance and continued growth potential

North American Membership & HVAC delivered a strong financial performance, with adjusted operating profit up 15% to \$159.1m (FY21: \$137.9m). Business development and networking activities regained momentum and delivered access to an additional net 7m new households (FY21: 2m). We now have access to 73m households (FY21: 66m), almost 50% of the total. The market remains under-penetrated and the pipeline for new partner signings remains very encouraging. Marketing launches with new partners were delayed in H2 due to Covid-19 related staff shortages in their call centres, which temporarily limited customer growth from these new relationships. The key driver of revenue and profit growth in the period was strong growth in policies (up 6% to 8.7m), as existing customers upgraded their coverage in response to successful cross-sell marketing and continued high levels of customer service.

HomeServe's HVAC buy and build strategy is most advanced in North America, with a portfolio of 19 locally branded companies acquired over the last four

years. In the period, HVAC installation revenue saw good organic growth of 19%, which, together with the five acquisitions completed in the period, drove growth of 60% to \$121.6m (FY21: \$76.0m). HVAC as a whole (installations and servicing) contributed \$17.8m (FY21: \$9.8m) in adjusted operating profit for the year, and is a fundamentally important component of our major initiatives to drive future growth in North America.

We have a key role to play in helping homeowners participate in the green homes revolution, and in helping our utility partners achieve their decarbonisation and energy conservation ambitions. After a successful trial with a large utility in New York State, HVAC as a Service (HaaS) is now launched, and provides homeowners with worry-free upgrades to new, more efficient heating and air conditioning equipment, together with an annual tune-up and breakdown cover, for a fixed monthly payment. HomeServe's installation and maintenance proposition for domestic electric vehicle charging is now available to 9m households, and is opening doors to new utility relationships. Furthermore, there is excellent growth in HomeServe's water loss cover product, up 27% to 0.8m customers (FY21: 0.6m), offered on bill via municipal water utilities to insure their customers against unexpectedly high costs from domestic water leakage. We have marketing rights to cross sell our Membership products to over 30% of these customers, and see significant potential to build this new channel.

Continued strong performance across Membership & HVAC, early success with innovative new products and excellent management, mean that North America is ahead of its original plan to achieve its Milestone 2 target of \$230m of adjusted operating profit, and will continue to grow strongly beyond this point.

EMEA Membership & HVAC

HomeServe's strategy in EMEA Membership & HVAC is to grow broad-based businesses covering Membership, HVAC and Claims Assistance in the UK, France and Spain, and to expand into adjacent territories. We are also building a new business in Japan in a joint venture with Mitsubishi Corporation, and have recently established a new presence in Germany.

In the UK, there was good early progress on the business's transformation plan. Adjusted operating profit ended the year at £72.9m (FY21: £72.5m); customer numbers were in line with our expectations at 1.5m (FY21: 1.6m); and policy retention was up for the first time in seven years to 79% (FY21: 78%) thanks to continued strong customer service. There was good progress on strengthening and deepening our partnerships with water utilities; HVAC business acquisitions are bringing HomeServe's successful buy and build strategy into the UK; and CET, acquired in October 2021 to give HomeServe a strong position in the UK Claims Assistance market, delivered a good in-year contribution to adjusted operating profit. We continue to see the energy sector as a good source of medium-term growth, but our energy partners are currently focused on conserving existing customer business in the face of market turmoil and severe price pressure, with little opportunity to market additional services. Nevertheless, our relationships with E.On and Shell Energy remain strong and the number of households they serve has grown from 5.7m in May 2021 to 6.2m in March 2022, so we are well placed to scale up these relationships when market conditions stabilise. Following last year's decision to de-commission eServe, all customers have now been successfully migrated back to Ensura, simplifying the operation of the business.

In our French business, we continue to make good progress, with adjusted operating profit up 8% to €43.0m (FY21: €39.8m). Gross new Membership customer additions were at record levels, growing by 12% in the period, thanks to strong partnerships with water utilities and innovative digital relationships with home moving aggregators and price comparison websites. Our French HVAC businesses are leading the way in the promotion of low carbon forms of heating and cooling, which accounted for 60% of installations in the period. We made progress in Belgium, servicing our first Membership customers through our partnership with Eneco and adding an HVAC business.

In our Spanish business, adjusted operating profit growth of 24% to €24.6m (FY21: €19.8m) was driven by good progress in Claims Assistance in Spain and Portugal, and in HVAC, where our Iberian businesses have a strong policy component and therefore attractive recurring revenue characteristics. The team's deep expertise in Claims Assistance has helped develop a new proposition – the service customer model – which enables large utilities to purchase an à la carte set of services from HomeServe (for example marketing, campaign execution, network management), while retaining ownership of the end customer. The first partnerships for this model have been formed in Spain and Portugal, and there is a strong pipeline of opportunities for FY23.



Chief Executive's review continued



Our Japanese joint venture completed its third full financial year. It continues to sign new partnerships, and now has access to 25% of Japanese households through four electric utility relationships. Customer numbers are building steadily, and policy retention is very high at 91%. We signed our first municipal water partner in the second half of the year, giving confidence that our proposition will work for the municipalities who dominate domestic water supply.

Home Experts – significant progress at Checktrade

As expected, Home Experts achieved the key milestone of overall profitability this financial year, generating £4.3m of adjusted operating profit (FY21: loss of £10.2m). The principal driver of this improvement was a much lower adjusted operating loss at Checktrade.

Checktrade continued to strengthen its position as the UK's leading online platform for matching homeowners with quality trades, with nearly a fifth of consumers who used a trade (tradesperson) in the 12 months to February 2022 having done so via Checktrade. The number of paying trades on the platform grew by 7% to 47k (FY21: 44k), and average revenue per trade exceeded our Milestone 1 target at £1,229 (FY21: £939), an increase of 31%. We are continuing to develop our offer to trades, to ensure that we deliver value and stay relevant whether their order books are full or not, and the introduction of the £1,000 Checktrade Guarantee resonates well

with consumers and trades alike. I am delighted with the way that Checktrade is building its position as a recognised, differentiated market leader, helped by the next instalment of our proven Julius Caesar TV advertising campaign, which promotes the Checktrade Guarantee. The business remains on track to be profitable in FY23, and continues to make progress towards its Milestone 1 operating profit target of £45-90m.

Elsewhere in Home Experts, in North America eLocal's adjusted operating profit declined by 15% to \$14.5m (FY21: \$17.1m) as consumer demand fell from last year's Covid-19 driven peak levels. Nevertheless, eLocal's sophisticated pay-for-performance model delivered good momentum in monetisation, with revenue per monetised call growing by 5%, and the signing of a new strategic agreement with a key affiliate reinforced eLocal's strong position in search engine management for lead generation. In Iberia and Italy, Habitissimo continues to improve its operating model and halved its operating losses.

Conclusion

HomeServe has emerged from the Covid-19 pandemic with all three of our business divisions performing strongly. Our Membership-based business model continues to be resilient, predictable and highly cash generative, and we are well positioned for continued growth. The strong growth we are seeing in North American Membership & HVAC is sustainable, thanks to disciplined management and innovation focused on the green homes revolution. In EMEA Membership & HVAC, we are building multiple new opportunities and managing a productive transformation of our UK business. In Home Experts, we have built a market-leading platform to match homeowners with quality trades, which works better than word of mouth.

Brookfield has made an offer for HomeServe which recognises the high quality of our businesses and our people as well as our future growth potential, and allows shareholders to realise their investment at an attractive valuation. Brookfield is committed to providing long-term capital and global expertise, which I am confident will accelerate progress towards our vision to be the world's largest, most trusted provider of home repairs and improvements, delivering for customers and tradespeople.

Richard Harpin

Founder and Chief Executive
24 May 2022