02 August 2022

Purplebricks Group plc
("Purplebricks", the "Company" or the "Group")

Annual Results for the year ended 30 April 2022

Purplebricks Group plc (AIM: PURP), the UK's leading tech-led estate agency business, announces its results for the year ended 30 April 2022 ("FY22") and outlines its performance recovery plan following a year of transformation.

Summary performance	**FY22 £m**	FY21 £m	% change
Group			
Revenue	**70.0**	90.9	(23)%
Gross profit	**42.1**	57.7	(27)%
Gross profit margin %	**60.1%**	63.5%	(340)bps
Adjusted EBITDA[1]	**(8.8)**	12.0	-
Operating (loss)/profit	**(31.7)**	8.2	-
(Loss)/profit from total operations[2]	**(42.0)**	6.8	-
Cash and cash equivalents	**43.2**	74.0	(42)%
KPIs			
Total fee income[3]	**63.0**	87.1	(28)%
Instructions[4]	**40,141**	58,043	(31)%
Average revenue per instruction[5]	**£1,568**	£1,501	4%

Helena Marston, CEO, commented:
"Last year's financial performance was significantly impacted by the challenges resulting from the implementation of our new operating model and investment in marketing that did not deliver the expected results, alongside a housing market which played against us. Nevertheless, our performance was not good enough.

"I have today set out my plan to improve the performance of the business. Central to our plans are initiatives which we expect to drive higher instructions, grow revenues, reset our cost base and raise standards.

"We have already taken decisive action. We have completed a substantial cost-reduction programme, re-trained all our field agents to raise standards and improve conversion, increased our prices and removed the Money Back Guarantee, adopted a more targeted sales and marketing plan, and dramatically overhauled our processes and procedures. We are also assessing additional revenue streams including our new mortgage proposition which we expect to launch by the end of this financial year.

"I am convinced that the potential for Purplebricks is huge. We have a proposition which is more relevant and valuable for our customers, as well as a brand which is the best known in the industry. I'm confident that the actions we are taking this year will set us on a clear path towards a return to sustainable, profitable growth."

Summary points

- Instructions down 31% to 40,141 (FY21: 58,043), compounded by supply issues in the housing market, but average revenue per instruction ("ARPI") increased by 4% to £1,568, driven by higher average fees
- Revenue down 23% to £70.0m (FY21: £90.9m), reflecting lower instruction volumes and partially offset by a reduction in deferred income
- Gross profit margin of 60.1% (FY21: 63.5%) reflecting lower instruction volumes and increase in fixed cost base following transition to employed model
- Adjusted EBITDA loss of £8.8m (FY21: profit of £12.0m) driven by lower activity, reduced gross margin following transition to new operating model and increased marketing costs
- Provision of £3.6m relating to potential claims arising from previously announced lettings issues
- Loss from total operations of £42.0m[2] (FY21: profit of £6.8m)
- Cash and cash equivalents at 30 April 2022 of £43.2m (30 April 2021: £74.0m), reflecting the adjusted EBITDA loss, lower instruction volumes and a number of one-off and non-recurring items.

Focused recovery plan to drive positive cashflow and return to profitability and growth

- Cost reduction programme will deliver £13m in year cost savings, equivalent to a 16% reduction in the operating cost base
- New performance management programme and improved training has improved living room conversion by 11% compared with FY22
- New sales and marketing initiatives implemented to focus field on core customer segments, to be supported by highly targeted and effective marketing
- Pricing changes implemented on 11 July and the removal of the Money Back Guarantee, which failed to deliver the expected increase in instructions
- Exploring additional revenue opportunities to capitalise on our brand and provide protection in a downturn market - mortgage offer expected to launch by the end of the financial year.

Trading update and guidance

- Volumes and revenue in the first quarter of FY23 showed an improved trajectory compared with the second half of FY22, with c.11,000 net instructions and revenue of c.£16m. Given that we implemented changes throughout the first quarter, this improvement does not yet reflect the full run rate of the action already taken
- Supply dynamics in the UK housing market likely to remain challenging for remainder of the year and the macroeconomic environment is increasingly uncertain
- Recovery plan alongside sales and marketing actions expected to deliver FY23 revenue in the range of £67.5-£72.5m, driven by instruction growth in the second half of the year and further improvement in ARPI
- Positive cash generation expected in early FY24 and retain significant headroom in cash resources

Notes:
[1] The underlying performance of the Group is monitored internally using a number of alternative performance measures ("APMs"), which are not defined within IFRS. Such measures should be considered alongside the equivalent IFRS measures. For full definitions and reconciliations of APMs, please refer to note 4. Adjusted EBITDA is defined as operating profit, adding back depreciation, amortisation, share-based payment charges / credits, results of associates and exceptional items.
[2] Includes a provision of £3.6m relating to potential claims arising from process issues within our lettings business, a charge of £2.7m relating to impairment of goodwill and other intangible assets in the lettings business, a charge of £9.2m relating to impairment of investment in Homeday and a charge of £7.2m arising from derecognition of deferred tax assets in FY22.
[3] Total fee income is a KPI used by management to track income from current activity levels. Total fee income is a non-IFRS measure and represents fees receivable for instructions and mortgage referrals and conveyancing fees due in relation to completed transactions.
[4] Instructions represents instructions net of refunds.
[5] Average revenue per instruction (ARPI) equates to total fee income, divided by instructions.
[6] Source: Rightmove.

Results presentation and conference call

Helena Marston, Chief Executive Officer, and Steve Long, Chief Financial Officer are streaming a live video presentation of results via webcast at 9.00am today followed by a Q&A session for analysts and investors.

The video webcast link is via the webcast registration page and on the website. A replay will also be available on the Purplebricks website later today here.

A short interview with Helena Marston, CEO, discussing the results and plans to improve the performance of the business can be found here.

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Purplebricks

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Forward-looking statements

This announcement includes statements that are, or may be considered to be, "forward-looking statements". By their nature, such statements involve risk and uncertainty since they relate to future events and circumstances. Results may, and often do, differ materially from forward-looking statements previously made. Any forward-looking statements in this announcement reflect management's view with respect to future events as at the date of this announcement. Except as required by law or by the AIM Rules of the London Stock Exchange, the Company undertakes no obligation to publicly revise any forward-looking statements in this announcement following any change in its expectations to reflect subsequent events or circumstances.

About Purplebricks

Purplebricks is a leading technology-led estate agency business, based in the UK. Purplebricks combines highly experienced and professional Local Property Partners and innovative technology to help make the process of selling, buying or letting more convenient, transparent and cost effective. Purplebricks shares are traded on the London Stock Exchange AIM market.

Chairman's statement

While our operations have changed considerably over the course of the last eight years, that has also brought with it considerable challenges. The recent financial and performance challenges now require a swift and decisive response, which we are working through. To deliver for shareholders and other stakeholders, we need to improve performance and focus our strategy on where our model has most appeal.

Since the year end we have taken swift actions to reduce our cost base, improve our marketing disciplines, improve targeting of customer segments by our field teams and introduce better processes and controls. That's how we can ensure we continue to delight customers and build a dynamic platform for our future growth. Crucially, any improvements we make have to be delivered consistently wherever we work, making the best use of our great people and our industry-leading technology. That's why we have placed a huge focus on transforming our business model this year, with a simplified customer proposition and – most significantly – a redesigned employed operating model for our field sales force.

Financial performance

During this period of significant transformation for the Group, our results were impacted by underperformance in the field and the costs and disruption from changing our field workforce to employed, compounded by a shortage of supply in the market. Group revenue from continuing operations was down 23% to £70.0m (FY21: £90.9m), with an operating loss of £31.7m (FY21: profit of £8.2m). We made significant investments in a new marketing campaign and our new operating model, as we moved from a variable to fixed cost base, as well as a number of one-off items including the impairment of our Homeday investment. Lower trading activity in the first half of the year continued into the second half as our field sales force settled into their roles as employed team members and our investments in marketing did not deliver additional instructions, impacting our cash balance, which reduced to £43.2m at the year-end (£74.0m at year end FY21).

Fully employed model

While it caused disruption to our business and trading, has yet to deliver the expected improvement in performance, and incurred some unavoidable one-off costs, I strongly believe that our move to a fully employed model for our field sales force is the right strategy for Purplebricks. For many years, our self-employed field team has delivered great results for our customers, enabling us to grow quickly as a business and respond flexibly to the demands of a highly cyclical industry. However, as Purplebricks matures as an organisation, we need to manage our people, processes and customer experience more consistently, and the new employed model gives us that degree of control.

I believe this change is an important part of Purplebricks' journey, but it was never going to be an easy change to make. That's why the Board and I were impressed with the way it was handled by Helena Marston, in her capacity as Chief People Officer at the time. With a field force of more than 600 people, across a wide set of geographies in the UK, Helena and her team executed the change in a professional and sensitive way – with due regard to both the maintenance of our business operations during the period and the needs of our employees, who have now become colleagues in the truest sense of the word.

We recognise it is a competitive market out there, and that the most successful businesses in the medium to long term will be those that are most responsive and able to provide the best customer service. What's important is that we are now able to focus more clearly on how we build talented sales teams both centrally and in local locations, the training and processes we provide, and the consistency of the offer we make to customers wherever they interact with Purplebricks.

Board and senior management changes

The changes this year have also included notable ones at the top of the organisation, and I would like to thank our previous Chief Executive Officer, Vic Darvey, and Chief Financial Officer, Andy Botha, for guiding the business during a period of considerable change and challenge, and for their important work in strengthening the wider Senior Leadership Team at Purplebricks.

As part of that team, first as Chief People Officer, and then Chief Operating Officer, Helena Marston stepped up to the position of Chief Executive Officer in April 2022. I am delighted to welcome Helena to her new role and have every confidence that she is the right person to lead the Company, having already made such an important contribution in her time with Purplebricks.

Steve Long joined as Chief Financial Officer in February 2022, and brings strong commercial, financial and strategic experience to the role, as well as a strong track record in delivering growth in a customer-facing, technology-focused business. I was also delighted to welcome Paul Sexton-Chadwick to the position of Chief Commercial Officer in June 2022, a newly created role that further strengthens the excellent management team we already have in place.

I would also like to welcome Ait Voncke, who joined the Board in July as the Axel Springer representative and would like to thank Stephanie Caspar for her contributions during her tenure.

Board priorities and governance

The Board provides effective leadership in promoting the long-term sustainable success of the Group. It establishes the Group's purpose, values and strategy, ensuring that these are aligned to the culture of the business.

The Board continues to manage the Group's ambitions against risks, while ensuring we are running the business in a responsible way. We have a strong group of Non-Executive Directors who have been engaged in and supported the changes made across the organisation this year. The Board is constantly looking at how we run our business, and how we are pricing and structuring our fees, but it also recognises that our core model is a successful one, and that stability and transparency are essential to our long-term success.

The Board has overseen the appropriate and swift actions taken to address the process issues that became apparent within our lettings business in December 2021. I am confident that all issues are being addressed and that this part of the business has been stabilised. Our new processes are robust and effective, and I am satisfied with the progress made to date to rectify historical instances of non-compliance and the timeline for completion of this work. There is now much greater emphasis from the Board and management on governance. In shaping the Group's strategic direction, the Board has sought to ensure that good governance standards are embedded throughout the organisation. The Board remains committed to achieving high standards in our governance infrastructure, and we continue to adopt the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). We seek to comply with the QCA Code or provide a clear explanation of any areas where we do not. Information regarding the Company's compliance with the 10 principles of the QCA Code is set out on our investor website, https://www.purplebricksplc.com/about-us/governance/

Strengthening our culture

The Board is responsible for instilling throughout the Group a culture of integrity and openness that values diversity and is responsive to the views of its shareholders and wider stakeholders, including employees, agents, customers, regulators, strategic partners and the environment and communities in which we operate. This forms an integral part of the Board's discussions and decision making (see 'Our culture' in the Annual Report 2022).

During the year, an employee engagement survey was carried out, the results of which were shared with the Board. In addition, the discussions that the Board held through the year with members of the senior management team provided an insight into the Company's culture and enabled the Board to understand the views of employees on matters of significance to them (see 'Section 172 in action' in the Annual Report 2022).

Diversity

Our brand touches a diverse set of customers, and the Board recognises the importance of reflecting their diversity across our employees and agents. We have made a meaningful step forward in the year to define our approach to diversity and inclusion and to promote diversity of race and gender as well as diversity of thinking across the organisation.

Distribution policy

Our distribution policy is reviewed regularly by the Board, but at present our priority is to retain a capital cushion in the Company, giving us flexibility around our decision making and over our pricing model, and enabling us to commit working capital when required. Our focus is therefore on the organic growth opportunities available to the business, rather than new acquisitions, and the Board has agreed that it remains too early to return capital to investors in the form of a dividend.

The year ahead

While the outlook for the housing market is uncertain, our goal is to stabilise the business and recover performance, and to earn the respect of customers because they recognise we provide them with the best service available. We have a clear plan in place to drive positive cash flow and ultimately return the business to profitability.

I firmly believe we now have the right ingredients – the structure, team and technology – in place to achieve that. Over the next 12 months we need to apply ourselves to that task, and management will need to ensure that everyone has the opportunity and the motivation to perform at a high level.

Even our culture, which in the early days of Purplebricks was heavily male dominated, has changed, with a stronger focus on diversity and female representation at every level. We are also putting into practice some innovative thinking in relation to our people and the way we use data, which means that we will continue to have the best people and that they will be well trained and resourced.

For example, we have previously recruited heavily from an estate agency background, which is not too difficult, as we have a well-recognised brand and people from within the industry want to join us.

However, we are now focusing on also bringing in people from outside the industry – people who are good with people, people who look at things differently and people with a range of complementary skills. This will help us build further on our dynamic platform for growth.

I would like to take this opportunity to express my personal thanks to all of our colleagues in what has been another challenging year, and especially to those who have had to embrace a new relationship with the Company. We have ended the year with the right people, the right structure and great new leadership which gives me the confidence that we can deliver on our plans to return to growth. I look forward to working with everyone to deliver on our growth plans in the coming year – by doing what we do best and serving our customers brilliantly.

Paul Pindar
Chairman
1 August 2022

Chief Executive's statement

Last year was one of significant transformation and challenge for the business, in particular as we transitioned to an entirely new operating model, moving all our agents from self-employed to employed. Coupled with a constrained housing market, this had a significant impact on our instructions, which fell 31% last year.

The disruption from the changes to our operating model and the associated costs of moving to fully employed, combined with reduced instructions led to a deterioration of our financial performance compared with the prior year. Group Adjusted EBITDA[1] fell to a loss of £8.8m, down from a profit of £12.0m for FY21 and we made an operating loss of £31.7m (FY21: profit of £8.2m). The decline in our instructions also led to a fall in market share, ending the year at 3.4%[6] (FY21: 4.6%). More positively, Average Revenue Per Instruction (ARPI)[5] increased 4% from £1,501 to £1,568, driven by higher average fees.

While our financial performance was disappointing, the Company retains many strengths that I am determined to build on. Purplebricks is a powerful brand with prompted brand awareness at an impressive 93%. There is no doubt in my mind that we have a valuable and relevant offering which resonates strongly with the right customer base. Our low, fixed-price offering delivers exceptional value and our technology and data puts more control and transparency into the hands of our customers.

With such a great proposition, it has been incredibly frustrating to look back at a series of missteps that have meant we have so far failed to capitalise on the strength of this platform. In particular, our marketing campaigns in the year did not capture the benefits of our offer. It is an important goal of mine to ensure we help customers fully understand all the advantages of our proposition, something which we are urgently addressing this financial year.

With the control and visibility we have gained through the implementation of our new operating model, and the swift action we have taken to improve performance and service levels, I believe we will be in a much stronger position to convert brand awareness into instructions, grow our revenue streams and drive customer advocacy.

I am fully focused on steering the Company during the next phase of recovery, diversifying our revenue streams, growing instructions and fixing the operational and execution issues which have let us down in the past. I am confident that we will quickly begin to see the benefits of the actions we are taking.

Operational review

Field sales

Last year our sales execution was inconsistent, with variable levels of performance and insufficient thought given to targeting customers where our proposition would be most successful. We were also too slow to adjust our field force to align with the fall in instructions which saw us carry unnecessary costs in the year.

Transitioning our field operating model to a fully-employed model was a positive step to enable us to gain greater control of our field. It has enabled us to improve the consistency of our customer service and ultimately enhance our financial returns, as well as providing greater stability and benefits for our agents. I am also pleased that we are diversifying our workforce – bringing in people without estate agent experience, but with new perspectives and ideas derived from other relevant sales and customer-focused roles. We are already seeing promising results from the transition.

Marketing

Our marketing and advertising over the years has contributed greatly to the power of the Purplebricks brand. Although the budget for marketing grew significantly last year, its effectiveness was poor. We moved away from shouting about our low fixed fee and launched the 'SOLD' national advertising campaign. We missed the opportunity of communicating our key differentiator in a market that was seeing significant rises in house prices, and where our model could have saved consumers thousands in commission.

Our approach to marketing will be radically different this year, a change designed to deliver better results. We need to make our marketing investments work harder than ever before to reposition us as the preferred choice for our customers. We will go back to shouting about what makes us great and reminding customers that there is a better, more cost-effective way to sell their homes. We will remind them that the "cut price" doesn't mean a sub-optimal service, but rather the opposite. We will set clear expectations on what it looks like and feels like to be a Purplebricks customer, whether that's online, offline, or on the app, and create a consistent experience that customers want to shout about.

Pricing and proposition

The connections we make with customers are critical to our success. That is why it is so important that we listen to our customers and provide a service that they value. In 2021, we conducted significant pricing trials which led to the introduction of two new customer propositions, our Classic and Pro packages, as well as a Money Back Guarantee (MBG).

The Classic and Pro packages were well received by customers. Offering a two-tier proposition has optimised choice for customers around the services they can use from us, meaning that they feel more in control of the process and it also enables us to provide a more cost-effective way to sell their home. The take-up of our assisted viewing Pro package has been especially encouraging, with higher conversion in the living room. Pro package attachment rates have increased by 15ppts since being introduced in 2021.

The impact of MBG was far below what the early trials had indicated. When it was introduced, its objective was to inspire confidence among customers that we would deliver for them, and if we did not, they had the opportunity to get their money back. However, we have not seen the anticipated increase in instruction volumes and it has added complexity and cost to our operating model. As a result, in July 2022, we removed MBG from our customer offering.

Digital-led proposition
Our best-in-class digital proposition is a great asset to both our field agents and customers, and our tech-led customer offering and app sets us apart from the traditional high street agent. It remains the most transparent, efficient and effective method for customers buying and selling their homes. The efficiencies delivered through our technology continue to enable us to provide the most cost-effective, full-service way to sell your home. We invested in our technology again this year, to further enhance our digital capabilities. For example, our new Customer Relationship Management (CRM) system provides greater personalisation across the end-to-end customer journey. Meanwhile, virtual viewings and valuations which were especially useful in the Covid-19 period continue to be a valuable tool.

Lettings
We were disappointed to discover a process issue in our lettings business in December 2021 relating to how we had been communicating with tenants on behalf of landlords about deposit registrations and prescribed information. We acted quickly to assess the extent of any potential claims and made a provision of £3.6m accordingly. We are satisfied that this amount remains appropriate. The Board recognised that it was also important to learn from the issue and therefore sought independent third-party assurance in relation to the end-to-end process and controls in the lettings business. We have made significant changes in line with recommendations arising from this work, including the introduction of new processes and controls, and retraining our people. We believe that our structure now supports the delivery of our strategic goals whilst providing a better customer experience. We have now employed our lettings field team, which enables us to have more control over the customer experience, compliance and capability of our people. I am confident that we will soon have the platform to establish Purplebricks as the lettings agent of choice.

Recovery plan

Since my appointment in April 2022, I have looked closely at our proposition, the issues we faced, what was working, what was not, and what we need to do to turn things around.

I am in no doubt of the significant challenges that lie ahead of us. I believe that we now have the right plan in place: one which will change the direction of travel and deliver significant improvements, with a return to growth. We expect positive cash generation in early FY24 and retain significant headroom in our cash resources.

Our plan is centred on four key objectives:

1.Managing costs
Our cost base must reflect the reality of where the business is today while also recognising the opportunities for growth. We will remove £13 million from our cost base during FY23, equivalent to a 16% reduction in the operating cost base.

In marketing we will make smarter more targeted investments, using a range of channels throughout the year.

We have reduced the overall headcount, largely achieved through stronger performance management in the sales field which in turn is seeing an improvement in conversion. We have also reduced our office footprint from four to one.

We have left ourselves the flexibility to take further action on costs if required, whilst ensuring we maintain the capability to capture future growth opportunities quickly when the time is right.

2. Growing and diversifying revenues

Our low, fixed price is a core element of our offer. But as the high street's commission-based fees have benefited from huge house price inflation, our fees have not changed substantially for over two years. Therefore, we took the decision to raise fees by an average of 20% on 11 July 2022. We believe this level strikes the right balance, recognising the need to maintain a great value offer with the need to grow revenues and mitigate the cost inflation every business is experiencing.

With such a strong brand we need to capitalise on other revenue opportunities and move away from solely relying on instruction revenue, providing protection in a downturn market. As part of our plan to grow ARPI, we have made significant progress towards the launch of a new mortgage proposition. Pending the necessary approvals, we expect to become an Appointed Representative for mortgages and launch to customers by the end of the financial year. This not only moves us up the value chain and creates opportunities to generate significantly more revenue, it also enables us to control the end-to-end customer experience.

While our absolute priority today is to improve the financial performance of the business, I cannot ignore the opportunity to explore future revenue streams, whether that be through monetising our data, selling additional home moving products and services, or potential commercial partnerships. We will continue to evaluate these opportunities so that we can move quickly and confidently when the time is right.

3. Growing instructions

One of the major benefits from moving to a fully employed model is the greater control we have in managing the service our customers receive, which leads to improved conversion in the living room as a higher proportion of customers asking us to value their property go on to instruct us to list and sell their property. We have re-trained all of our field agents and implemented a more rigorous performance management system and the results are already clear to see. Conversion in the living room has increased by 11% compared with FY22. We will remain focused on sustaining these improvements as we continue to train and incentivise our field.

We are also adopting a more targeted approach to winning customers. Historically we have tried to be everything for everyone which is neither efficient nor effective. Moving forward, using our data we will focus on key customer segments where we are more likely to win an instruction. This work is ongoing but already we are building a map which tells us the vendors to target and where to find them. Using a data-driven approach to customer segmentation enables us to utilise our sales field more effectively. At the same time, our marketing will be aligned to reach these customer segments and will be much more focused on driving home what makes us better value for customers than the competition.

4. Raising standards

I am focused on creating a high-performance culture at Purplebricks that delivers amazing customer experiences whether online or off-line. We have learnt from our past mistakes and now regularly review our processes and procedures to ensure we are delivering on our obligations to our customers. We are strengthening our compliance capability and, where possible, we continue to automate our processes.

Our business is filled with talented people, and through our training interventions this year we are ensuring that all our employees live our values and work to the highest standards. We are creating an environment that inspires passion, pride and extraordinary commitment from our people.

I have added strength and depth to the senior leadership team in the business through a number of key appointments, including a new Chief Commercial Officer, Lettings Director, Director of Risk and Compliance and Head of Lettings Operations.

The Directors of our revenue streams each have 20 years+ of industry experience which I deeply value. This experience is vital alongside the other expertise in my team of growing customer and technology-focused businesses.

Summary and outlook

The path ahead is challenging but our clear recovery plan to improve business performance and cash generation is well under way. We have taken quick and decisive action in line with our plans to drive higher instructions, grow revenues, re-set our cost base and raise standards.

While we expect the supply dynamics in the housing market to remain challenging, and the macroeconomic environment is increasingly uncertain, I am confident that the actions we have taken alongside our sales and marketing plans will deliver revenue of £67.5 - 72.5 million in FY23, driven by instruction growth in the second half of the year, a further improvement in ARPI, and a return to positive cash generation in early FY24, with significant headroom in our cash resources.

Helena Marston
Chief Executive Officer
1 August 2022

Financial review

The business has underperformed in a challenging market. Significant investments in the change to an employed model, a new marketing creative and the Money Back Guarantee proposition have not delivered an increase in instruction volumes, at a time when new housing instructions in the market have reduced following the end of the stamp duty holiday. This, along with significant exceptional costs in the year, has impacted revenue, profitability and cash flow.

A clear plan is in place to return to profitability and growth. A number of actions have already been taken to address the cost base, improve ARPI and increase the number of instructions. The Group retains headroom in cash resources to deliver against our plans to turn the business around.

	Group			UK		
	FY22	FY21	Change	**FY22**	FY21	Change
Revenue	**70.0**	90.9	(23)%	**70.0**	90.9	(23)%
Cost of sales	**(27.9)**	(33.2)	(16)%	**(27.9)**	(33.2)	(16)%
Gross profit	**42.1**	57.7	(27)%	**42.1**	57.7	(27)%
Gross profit margin	**60.1%**	63.5%	(340)bps	**60.1%**	63.5%	(340)bps
Adjusted operating costs	**(25.7)**	(26.5)	(3)%	**(25.7)**	(26.5)	(3)%
Marketing costs	**(25.2)**	(18.9)	33%	**(25.2)**	(18.9)	33%
Net other income and expenditure	**—**	(0.3)	—	**—**	(0.3)	—
Adjusted EBITDA	**(8.8)**	12.0	—	**(8.8)**	12.0	—
Depreciation and amortisation	**(3.5)**	(3.0)	17%	**(3.4)**	(2.8)	21%
Share-based payment credit	**2.2**	2.3	—	**2.2**	2.3	—
Exceptional items	**(19.3)**	(2.1)	—	**(23.2)**	(2.1)	—
Share of results of associate	**(2.3)**	(1.0)	—	**—**	—	—
Operating (loss)/profit	**(31.7)**	8.2	—	**(33.2)**	9.4	—

Key Performance Indicators (KPIs)

KPI	Definition	**FY22**	FY21	Change
Instructions	Number of instructions won in the year, net of the number of instructions refunded in the year	**40,141**	58,043	(31)%
Total fee income	Fees receivable in respect of instructions (as defined above excluding Money Back Guarantee provision) and mortgage referrals, and conveyancing fees due in respect of completed transactions	**£63.0m**	£87.1m	(28)%
ARPI	Total fee income divided by the number of instructions in the year	**£1,568**	£1,501	4%
CPI	Marketing costs divided by the number of instructions in the year	**£629**	£326	93%

Revenue

FY22 saw a marked reduction in new listings to market following a period of heightened demand until the end of the stamp duty holiday. Our investment in marketing did not deliver the anticipated results, and performance of the sales function was disrupted while we implemented changes to our operating model. These factors resulted in a 31% decrease in the number of instructions to 40,141.

This was partially offset by a 4% increase in the average revenue per instruction (ARPI) to £1,568 (FY21: £1,501), driven by higher average fees following the introduction of Classic and Pro packages.

Total fee income (as defined above) was down 28% year on year at £63.0m (FY21: £87.1m). This measure does not include lettings revenue, which was down 18% year on year at £5.4m (FY21: £6.6m), following restructuring and refocusing of the lettings business.

Revenue was 23% down year on year at £70.0m (FY21: £90.9m), including a reduction in deferred income in line with lower instruction volumes.

The Group's Money Back Guarantee product was launched on a trial basis in May 2021 and nationwide in July 2021. Revenue is reported after deduction of the provision for potential future Money Back Guarantee refunds. As instructions only become eligible for refund a minimum of 10 months post instruction, no significant payments under the Money Back Guarantee have been made in FY22. The Money Back Guarantee has not had the desired impact on instructions and was withdrawn in July 2022.

Gross profit margin

Gross profit of £42.1m was down 27% (FY21: £57.7m), due to a reduction in revenue and a lower gross profit margin (FY22: 60.1%; FY21: 63.5%) following the change to an employed sales model.

The majority of our cost of sales is represented by amounts paid to our field sales. Up until August 2021, these amounts were commissions paid to self-employed Local Property Experts (LPEs). From September 2021, we moved to an employed field sales model. Therefore, for the majority of the year, cost of sales represented both salary and commission costs paid to employed agents. The largely fixed nature of these costs, along with reduced levels of activity, has led to a significant reduction year on year in the gross profit, despite an increase of £3.1m in prepaid cost of sales linked to deferred income, arising from lower margins in H2 22.

Adjusted operating costs

Adjusted operating costs (see definition in note 4) decreased by 3% to £25.7m (FY21: £26.5m), with additional investment in technology and the move to an employed model more than offset by the higher capitalisation rate year on year of our Digital teams.

Marketing

Marketing costs increased by 33% to £25.2m (FY21: £18.9m), reflecting investment in a new creative and above the line marketing. FY21 marketing costs benefited from lower activity in the pandemic-affected first half and reduced costs from the portals.

Marketing cost per instruction (CPI) was £629, significantly up from £326 in FY21, and marketing costs as a percentage of revenue rose from 21% in FY21 to 36% in FY22.

Adjusted EBITDA

Adjusted EBITDA (see definition in note 4) was a loss of £8.8m (FY21: profit of £12.0m), reflecting lower revenue, lower gross margin and an increase in marketing costs.

Depreciation and amortisation
Depreciation and amortisation was £3.5m, up from £3.0m in FY21, mainly reflecting digital investments across both years. In the prior year, amortisation arising on consolidation of £0.2m represented charges in respect of intangibles relating to the historical acquisition of the BFL lettings business, which have now been impaired in full as described below, along with associated goodwill.

Share-based payment credits
Share-based payment arrangements gave rise to a credit in the year of £2.2m, slightly lower than the credit of £2.3m in the prior year. FY22 saw significant credits arising on reversal of charges taken in previous years in respect of both options held by LPEs (which lapsed on termination of their self-employed contracts), and former employees leaving the business.

Exceptional items
Exceptional items include amounts that management believes are necessary to present separately in order to show a more comparable view of the performance of the business.

Exceptional costs in FY22 amounted to £19.3m (FY21: £2.1m). These include £3.5m in respect of the move to an employed field sales model, £3.6m for potential claims which could arise under the Housing Act 2004 within the lettings business, £2.7m from impairment of goodwill and other intangible assets relating to the lettings business, £9.2m from impairment of the Group's investment in its associate Homeday and £0.3m relating to the exit of the former CEO.

In the prior year, the exceptional amount reflected costs of supporting the network of independent LPEs in response to the Covid-19 pandemic of £0.9m and restructuring costs of £1.2m.

Operating loss and loss for the year
Overall, the Group made an operating loss of £31.7m (FY21: profit of £8.2m), including our share of losses of an associate of £2.3m (FY21: £1.0m). The Group's total loss for the year was £42.0m (FY21: profit of £6.8m, which included a profit of £2.9m reflecting the results of, and profit on disposal of, the Canadian business which was sold in July 2020, and which was presented within the discontinued operations line in the income statement).

Taxation
A tax charge of £7.2m for the year (FY21: credit of £0.3m) represents the decision to derecognise in full deferred tax assets, primarily in relation to brought forward losses, in light of current year losses.

Investment in Homeday
During the year, the Group recognised gains on step- down of our shareholding of £1.0m, relating to our joint venture partner's further investments in Homeday which we chose not to match. These gains partly offset our share of Homeday losses for FY22 of £3.3m. Overall our share of loss from associate was £2.3m (FY21: £1.0m, being £3.0m share of losses offset by £2.0m step-down gains).

The Group's investment in Homeday has been impaired in full at 30 April 2022, resulting in a charge of £9.2m at the Group level. This reflects continued losses following a significant slowdown in the German residential property market, in excess of those which had been forecast earlier in FY22, and a reassessment of the discount rate applied to Homeday's projected future cash flows in line with a more challenging macro-economic outlook.

No further investment in Homeday was made during the year and no further investment is currently anticipated.

Cash, working capital and statement of financial position
Non-current assets of £6.9m were lower than prior year (£26.8m), primarily due to the derecognition of £7.4m of deferred tax assets and impairment of £2.7m of goodwill and intangibles relating to the lettings business and £9.2m in respect of the investment in Homeday.

Current assets of £64.2m were lower than prior year (£90.0m), due to a reduction in cash of £30.8m, offset by increases in accrued income following introduction of the Money Back Guarantee product and in prepaid cost of sales due to a lower gross margin in FY22.

Current liabilities of £27.3m were broadly in line with prior year (£28.5m). Following the introduction of the Money Back Guarantee, in FY22 a loan from factor liability is now presented. This amount of £5.5m offsets a £5.8m reduction in deferred income from £14.8m to £9.0m. £3.1m of the reduction in deferred income relates to instruction volumes, with the remaining £2.7m representing presentational changes relating to Money Back Guarantee.

FY22 saw a total cash outflow of £30.8m (FY21: inflow of £43.0m). This reflected both the challenging trading conditions experienced in FY22 and a number of other individual factors, including £4.0m of exceptional costs and investments in tangible and intangible fixed assets of £5.3m, including £0.9m in relation to hardware provided to the employed field sales force, as well as £1.0m in respect of repayment of UK Coronavirus Job Retention Scheme (CJRS) receipts which were accrued for at 30 April 2021.

Steve Long
Chief Financial Officer
1 August 2022

Consolidated statement of comprehensive income

For the year ended 30 April 2022

	Note	2022 £m	2021 £m
Revenue	5	**70.0**	90.9
Cost of Sales		**(27.9)**	(33.2)
Gross profit		**42.1**	57.7
Net other income and expenditure		**—**	(0.3)
Administrative expenses		**(46.3)**	(29.3)
Marketing costs		**(25.2)**	(18.9)
Share of results of associate		**(2.3)**	(1.0)
Operating (loss)/profit		**(31.7)**	8.2
Finance income		**0.2**	0.1
Finance expense		**(3.3)**	(4.7)
(Loss)/profit before taxation		**(34.8)**	3.6
Taxation on (loss)/profit		**(7.2)**	0.3
(Loss)/profit from continuing operations		**(42.0)**	3.9
Profit from discontinued operations		**—**	2.9
(Loss)/profit for the year		**(42.0)**	6.8
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		**—**	0.9
Total other comprehensive income		**—**	0.9
Total comprehensive (expense)/income		**(42.0)**	7.7
(Loss)/earnings per share			
From continuing operations:			
Basic and diluted (loss)/profit per share	8	**(14)p**	1p
Total including discontinued operations:			
Basic and diluted (loss)/profit per share	8	**(14)p**	2p

The accompanying accounting policies and notes form an integral part of these financial statements.

All profits, losses and other comprehensive income are attributable to equity shareholders of the parent.

Consolidated statement of financial position

At 30 April 2022

	2022 £m	2021 £m
Non-current assets		
Goodwill	**—**	2.6
Intangible assets	**5.4**	4.0
Property, plant and equipment	**1.5**	1.3
Investment in associate	**—**	11.5
Deferred tax asset	**—**	7.4
	6.9	26.8
Current assets		
Trade and other receivables	**5.3**	3.9
Contract assets – accrued income	**7.7**	7.2
Contract assets – prepaid cost of sales	**8.0**	4.9
Cash and cash equivalents	**43.2**	74.0
	64.2	90.0
Total assets	**71.1**	116.8
Current liabilities		
Trade and other payables	**(9.2)**	(12.1)
Contract liabilities – deferred income	**(9.0)**	(14.8)
Borrowings – loan from factor	**(5.5)**	—
Lease liabilities	**(0.2)**	(0.4)
Refund liabilities	**(0.4)**	—
Provisions	**(3.0)**	(1.2)
	(27.3)	(28.5)
Net current assets	**36.9**	61.5
Total assets less current liabilities	**43.8**	88.3
Non-current liabilities		
Deferred tax liabilities	**—**	(0.2)
Lease liabilities	**(0.1)**	(0.3)
Provisions	**(0.1)**	—
	(0.2)	(0.5)
Net assets	**43.6**	87.8
Equity		
Share capital	**3.1**	3.1
Share premium	**177.4**	177.4
Share-based payments reserve	**1.8**	4.0
Retained earnings	**(138.7)**	(96.7)
Total equity	**43.6**	87.8

Consolidated statement of changes in equity

For the year ended 30 April 2022

	Share Capital £m	Share Premium £m	Share-based payment reserve £m	Retained Earnings £m	Total Equity £m
At 1 May 2021	3.1	177.4	4.0	(96.7)	87.8
Share-based payment credit	-	-	(2.2)	-	(2.2)
Transactions with owners	**-**	**-**	**(2.2)**	**-**	**(2.2)**
Loss for the year	-	-	-	(42.0)	(42.0)
Total comprehensive loss	-	-	-	(42.0)	(42.0)
At 30 April 2022	**3.1**	**177.4**	**1.8**	**(138.7)**	**43.6**

For the year ended 30 April 2021

	Share Capital £m	Share Premium £m	Share-based payment reserve £m	Foreign exchange reserve £m	Retained Earnings £m	Total Equity £m
At 1 May 2020	3.1	177.4	6.9	(1.8)	(103.5)	82.1
Share-based payment credit	-	-	(2.9)	-	-	(2.9)
Transactions with owners	-	-	(2.9)	-	-	(2.9)
Profit for the year (including exchange differences recycled on disposal of Canadian business)	-	-	-	0.9	6.8	7.7
Exchange differences on translation of foreign operations	-	-	-	0.9	-	0.9
Total comprehensive profit	-	-	-	1.8	6.8	8.6
At 30 April 2021	3.1	177.4	4.0	-	(96.7)	87.8

Consolidated statement of cash flows

For the year ended 30 April 2022

	2022 £m	2021 £m
(Loss)/profit for the year after taxation	**(42.0)**	6.8
Adjustments for:		
Amortisation of intangible assets	**2.6**	2.5
Depreciation of tangible fixed assets	**0.9**	0.8
Impairment of intangible assets	**0.1**	—
Impairment of goodwill	**2.6**	—
Gain on disposal of Canadian business	—	(2.3)
Share-based payment credit	**(2.2)**	(2.9)
Charge to loss provision	—	0.1
Increase in provisions	**3.7**	0.8
Increase in refund liabilities	**0.4**	—
Interest income	**(0.2)**	(0.1)
Interest expense	—	0.1
Share of result of associate	**2.3**	1.0
Impairment of associate	**9.2**	—
Taxation charge/(credit)	**7.2**	(0.3)
Operating cash (outflow)/inflow before changes in working capital	**(15.4)**	6.5
Movement in trade and other receivables	**(4.9)**	0.2
Movement in trade and other payables	**(4.7)**	4.9
Movement in deferred income	**(5.8)**	1.4
Net cash (outflow)/inflow from operating activities	**(30.8)**	13.0
Investing activities		
Purchase of property, plant and equipment	**(1.2)**	(0.3)
Development expenditure capitalised	**(3.1)**	(2.1)
Purchase of intangible assets	**(1.0)**	(0.2)
Interest income	**0.2**	0.1
Proceeds from disposal of Canadian business	—	36.4
Cash disposed of with Canadian business	—	(3.5)
Net cash (outflow)/inflow from investing activities	**(5.1)**	30.4
Financing activities		
Advances from factor	**5.5**	—
Lease interest payments	—	(0.1)
Payments against lease liabilities	**(0.4)**	(0.3)
Net cash inflow/(outflow) from financing activities	**5.1**	(0.4)
Net (decrease)/increase in cash and cash equivalents	**(30.8)**	43.0
Cash and cash equivalents at the beginning of the year	**74.0**	31.0
Cash and cash equivalents at the end of the year	**43.2**	74.0

The accompanying accounting policies and notes form an integral part of these financial statements.

Cash flows relating to discontinued operations are presented within note 6.

1. General information

Purplebricks Group plc (the "Company") is a public company limited by shares which is listed on the Alternative Investment Market of the London Stock Exchange. The Company is incorporated in the United Kingdom and registered in England and Wales. The address of the Company's registered office is Suite 7, First Floor, Cranmore Place, Cranmore Drive, Shirley, Solihull, West Midlands B90 4RZ. The Company is primarily involved in the estate agency business.

These condensed financial statements are presented in British Pounds, which is the currency of the primary economic environment in which the Company operates and are presented in £ million.

2. Summary of significant accounting policies

2.1 Basis of preparation and consolidation

These condensed financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value.

The financial information set out in this announcement does not constitute the Company's statutory accounts, within the meaning of section 430 of the Companies Act 2006, for the years ended 30 April 2022 or 2021, but is derived from those accounts. While the financial information included within this announcement has been prepared in accordance with the recognition and measurement criteria of IFRS as adopted by the United Kingdom, it does not comply with the disclosure requirements of IFRS. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006. The auditors have consented to the publication of the Preliminary Announcement.

2.2 Going concern

In adopting a going concern basis for the preparation of the financial statements, the Directors have made appropriate enquiries and have considered the Group's business activities, cash flows and liquidity position and the Group's principal risks and uncertainties.

The Directors have taken into account reasonably possible future economic factors in preparing and reviewing trading and cash flow forecasts covering the period to 31 August 2023, being over 12 months from the date of these financial statements. This assessment has recognised the significant loss and cash outflow in FY22, and the actions management has taken and has planned in FY23 to address both the fall in instruction volume and increase in cost base which have led to this result. Management is of the view that the plans in place are realistic and achievable.

This assessment has taken into consideration sensitivity analysis with regard to the forecast volume of instructions and the steps which could be taken to further mitigate costs if required. Mitigations available are consistent with cost control and cash preservation actions taken in FY21 in response to Covid-19 and include a reduction in marketing expenditure and reductions in expenditure on the Group's contact centre and support functions to match demand levels. Since the Group has not made commitments to carbon emission reductions which have a significant cost implication, the impact of climate change has not had a significant effect on the forecasts considered.

In satisfying themselves that the going concern basis is appropriate, the Directors have considered three sensitivities:

i) a scenario of a downside sensitised fall in revenues of 15% resulting from a decrease in instruction volumes which is in excess of the Directors' realistic expectations;
ii) an outflow at the higher bound of the range that is considered reasonably possible in respect of the provision for Housing Act 2004 compliance issues as set out in note 3.1; and
iii) a reverse stress test to identify a scenario which would bring the Group's cash position to zero at the end of the assessment period to 31 August 2023. The reverse stress test indicates that a 30% reduction in activity versus forecast, with no mitigating actions taken whatsoever would be required to reduce cash to zero within the assessment period.

Given the Group's cash position of £43.2m at 30 April 2022, the Group expects to maintain a position of sufficient liquidity throughout the forecast period to at least 31 August 2023, in the base and in the sensitised scenarios. The level of liquidity available means that the Group has the flexibility to address any reasonably possible change in costs, and the Group does not anticipate the need to seek further sources of finance in the foreseeable future. The Directors consider that, given the levers available to the business to control cash outflow, a scenario in which the Group runs out of liquidity within the assessment period is not reasonably possible.

In light of the Group's current liquidity and the results of the sensitivity testing conducted, the Directors are satisfied that the Company, and the Group as a whole, has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

2.3 Revenue recognition

Under IFRS 15, revenue is recognised when control of the services provided passes to the customer. The Group is required to use judgement in determining the timing of the transfer of control, at a point in time or over time, for each service type.

The Group has identified the following significant categories of contracts with customers:
- instructions to list property for sale;
- conveyancing;
- lettings – landlord setup services; and
- lettings – monthly management services.

Following the launch of the Group's Money Back Guarantee product on a trial basis in May 2021 and nationwide on every sale from 19 July 2021, the Group's policy in respect of instruction revenue has been updated.

Instructions

The Group is entitled to an instruction fee at the point at which a property is listed for sale. The Group offers a number of additional services to customers who list their properties for sale, including accompanied viewings and premium portal listings, which are typically charged for at the same time as the instruction. Some services (for example advice on property sales strategy) are provided before the listing of the property advertisement. Certain other services (for example post-sales support) are only provided to those customers who accept an offer for their property.

The Group has taken the judgement that all of the services which are provided in exchange for the instruction fee and, where relevant, fees for additional services represent a single Performance Obligation which is the provision of estate agency services. The reason for this is that the service of listing for sale and these additional services are highly interrelated, are dependent on each other and cannot be purchased separately by customers, or purchased at all unless those customers have instructed the Group to list their property for sale.

The Money Back Guarantee product was launched in May 2021 in respect of instruction fees. Under the Money Back Guarantee, customers may be entitled to claim a refund of the instruction fee, if an offer within 90% of the listing price recommended by Purplebricks has not been achieved within 10 months of instruction, subject also to listing the property for a continuous 10-month period, and accepting viewings of the property.

The Group recognises revenue only to the extent that future reversals of revenue are expected to be unlikely. Therefore, since the launch of the Money Back Guarantee product, the value of revenue to be recognised over the Performance Obligation has been constrained by expected future refunds under the Money Back Guarantee offering, to the extent that it is highly probable a significant reversal amount of cumulative revenue recognised will not occur. Management estimates the constraint using cohort analysis of eligibility over the instruction service period. The balance of cash received upfront from Pay Now customers is held as a refund liability. The refund liability is in the nature of variable consideration and is estimated using historical data and information about the Group's own performance and current market conditions.

Although the services are priced separately, the overall revenue for each contract of this type is attributable to this single Performance Obligation and is recognised as the services as a whole are provided. Revenue is recognised on an output basis over time, as the estate agency services are performed, which results in straight-line recognition.

This method reflects the fact that the customer receives benefit from the Group's performance as the service is provided to the customer. The Group has assessed that the starting point for provision of the service is the customer's instruction to the Group, and the ending point is either the completion of sale or the customer's decision to withdraw from sale.

The nature of the Group's instruction service does not lend itself to observable outputs such as units produced, or milestones signed off by the customer. In view of the large number of customers from whom instruction revenue arises, the Group has taken the view that, on a portfolio basis, a straight-line basis over the time elapsed as services are provided represents the most appropriate method on which to measure the output of the instruction service provided.

Since the introduction of the Money Back Guarantee product, the Group's receivable from the customer does not arise until consideration is due, i.e. once eligibility for refund under the Money Back Guarantee criteria has fallen away. Since it is possible to reliably estimate the rate at which eligibility will fall away, income is accrued up to the disqualification point. Following the disqualification point, the receivable is recognised and income deferred over the remaining service period.

A key estimate within the Group's accounting policy for revenue from instructions is the length of the period over which estate agency services are performed. The Group uses historical and current market data to estimate the length of this period, which covers both a marketing period and a post-sales support period.

Contract assets and liabilities
The approach described above gives rise to contract assets in the form of accrued income and contract liabilities in the form of deferred income.

The period of service is less than one year and therefore no accrued or deferred income held on the consolidated statement of financial position will be recognised after more than one year.

Costs associated with instructions revenue include commissions and, since the move to an employed field sales force in September 2021, salaries paid to the Group's LPPs. These costs are prepaid and amortised over the same service period over which the instruction revenue is recognised. There is limited judgement associated with prepaid cost of sales since the amounts involved are known with a high degree of certainty at the point of prepayment.

Unamortised costs at each period end are reported as contract assets within prepayments.

2.4 Factored receivables

Receivables arising from customers who choose to pay later in the UK are sold at a discount to face value on non-recourse terms, with the discount representing the costs charged by the factor. The factor settles the debt to the Group on a net basis, after deducting fees. This gives rise to a loss on derecognition of receivables, which is presented within finance expenses.

Since the launch of the Money Back Guarantee product in 2021, the loss on derecognition is amortised over the expected life of the loan, which is driven by the period that customers' properties must remain listed for sale before becoming eligible for a refund.

3. Critical accounting estimates and judgements

In the application of the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised in the financial statements and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

In the view of the Directors, the areas of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed below:

3.1 Provision for legal claims in relation to registration of tenancy deposits

During an internal review, the Company became aware of process issues in how it had been communicating with tenants on behalf of landlords in relation to the registration of tenancy deposits. In response, the Board sought independent third party assurance and advice in relation to the end-to-end process and controls in the lettings business, including compliance with applicable laws and regulations. This included forensic analysis of the processes to identify current risks, errors or failings in the end-to-end processes and recommended areas for improvement.

The Board then agreed a number of process and control enhancements, including in the processes around timely registration of deposits, and provision of prescribed information and other information to tenants appropriately in light of their individual circumstances. The processes going forward were corrected quickly after the issues were identified. The Company is now in the process of ensuring that customers are contacted with appropriate information, with this exercise expected to conclude in H1 23.

A provision of £3.6m for potential future claims which could arise under the Housing Act 2004, and for associated professional fees, has been made in these financial statements, of which £2.8m remains at 30 April 2022 after utilisation against professional fees in respect of third party advice and assurance and claims settled. The amount reflects estimates in respect of the rate at which current and former tenants will make claims, and the average level of payment made in respect of successful claims, including legal support costs.

To date, a low volume of claims has been experienced. However, the process of communicating with those affected is ongoing, and we would also note the significant period in which those affected are able to bring a claim. Partly due to the low number of claims received to date, the average legal costs per claim have been higher than anticipated when the provision was made at H1 22. The Board has challenged and debated the process, key judgements and assumptions associated with the provision and is satisfied that it is appropriate, recognising the significant uncertainty and degree of estimation involved in calculating this provision.

The ultimate level of financial exposure is dependent on the claim rate, the level of penalty applied in respect of successful claims and the future legal fees incurred to support claims management. The provision is especially sensitive to the claim rates, which have been assessed at 9.9% for current tenants and 2.0% for former tenants. Alternative scenarios have been assessed with lower claim rates and higher claim values as part of the Board's consideration of the amount of provision required. A 10% change in the claim rates would increase or decrease the provision by £0.3m. The Directors assess that a reasonably possible range around claim rate and level of financial penalty applied in respect of successful claimants could result in the financial liability being in the range of £0.2m to £5.1m. Claims experience to date would indicate an outcome towards the lower end of the range. While the Board feel it is highly unlikely, a very high claim rate causing an outcome higher than £5.1m remains possible.

Other sources of estimation uncertainty

Other areas of estimation uncertainty are detailed below:

3.2 Measurement of deferred tax assets

The Group has potential deferred tax assets, principally in the form of tax losses and also in respect of possible tax deductions relating to the exercise of share-based payments and fixed asset timing differences. Deferred tax assets are only recognised to the extent it is probable that sufficient future taxable income will be available against which the losses and deductions can be utilised.

The recognition of deferred tax assets is dependent upon the estimation of future taxable profits. The decision to recognise deferred tax assets is made after taking into account forecasts of future taxable profits, sensitised for downside risk. Due to taxable losses generated in FY22, the Directors have taken the decision to derecognise in full the brought forward deferred tax assets in respect of taxable losses and timing differences. The charge arising amounts to £7.2m. Future recognition of deferred tax assets will depend on a history of taxable profits and expectations of future taxable profits. Unrecognised deferred tax assets at 30 April 2022 amount to £14.2m.

3.3 Measurement of intangible assets

The Group recognises an intangible asset in respect of software developed in house. This software is a key part of the Group's operating model and value proposition. Management is required to estimate the proportion of the total costs of the Group's Digital team which relates to the creation of intangible assets which meet the criteria for capitalisation in IAS 38.

The overall cost of this team is material and a significant change in this estimate could have a significant effect on the value of costs capitalised. The impact of a change to this estimate could result, at the most extreme, i.e. in a scenario where either no development team costs are capitalised, or where they are capitalised in full, in a decrease of £1.5m or increase of £3.1m in administrative expenses in the current year.

3.4 Revenue recognition

Service period

Instruction revenue is recognised over the estimated period between instruction and completion or withdrawal of the property from sale, or, in future, to the point at which a customer requests a refund under the Group's Money Back Guarantee product. This period is the "service period" and the Directors are therefore required to estimate the average total service period, taking into account historical experience in addition to current and possible future economic conditions and factors. At each reporting date, this estimation includes an assessment of the future service period in respect of instructions on hand at the year end.

As at 30 April 2022, the key factors which the Directors have taken account of in developing their view of the likely future service period has been the level of demand from potential purchasers on the housing market in the UK and the length of time property transactions are taking to complete.
The high level of demand from potential purchasers, which is not matched by availability of properties listed by sellers, has led to an average shortening of the time between instruction and sale agreed in FY22.

The Directors assess that the delays within the process between sale agreed and completion, which were experienced in the latter part of 2021 due to high levels of transactions, particularly in advance of the expiry of the stamp duty land tax holidays, have now passed and the process has returned to normal as transaction levels have reduced. As a result, the Directors assess that time between sale agreed and completion is likely to reflect normal levels.

On balance, at 30 April 2022, the Directors have assessed that the period used in calculating contract liabilities in respect of deferred income is in line with that used at 30 April 2021. Therefore, the service period estimate has had no significant effect on the amount of revenue recognised in the year.
In estimating the future service period, the Directors have adopted a best estimate approach, taking into account available evidence. An increase of 4% or decrease of 6% in the service period has been assessed as reasonably possible boundaries for this assumption. Such changes in the assumption would have resulted in an increase of £0.5m or decrease in deferred income of approximately £0.3m respectively. A 12% change in service period would be required to result in a material adjustment to deferred income of £1.0m.

3.5 Carrying value of the Group's investment in Homeday

The Group's investment in Homeday, after accounting for the Group's share of post-investment losses, gave rise at 30 April 2022 to a carrying value of associate of £9.2m at the Group level and £15.8m at the Company level.

In FY22 Homeday has underperformed against forecast, partly as a result of the challenging macro-economic environment and residential property market in Germany, which has seen a significant market downturn in recent months. In light of Homeday's continued losses, which have been higher than forecast by local management earlier in FY22, the carrying value of the investment was assessed for impairment at 30 April 2022, on a value-in-use basis.

Purplebricks management prepared a discounted cash flow forecast, based on Homeday management's forecasts overlaid for judgemental risk adjustments by Purplebricks management. The forecast covered the period to 31 December 2026, assuming a terminal growth rate of 2.5% thereafter, and was discounted at a discount rate of 23.1%. The discount rate reflected the recent increase in risk-free rate and a risk premium given the market conditions in which Homeday is currently operating.
The discounted forecast indicated that the Group's investment in Homeday is not recoverable. Therefore, the investment in associate has been impaired in full at 30 April 2022, resulting in a charge of £9.2m at the Group level and £15.8m at the Company level.

Judgements

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.6 Revenue recognition

The Group provides services for instruction fees, including fees receivable upfront and fees receivable at completion of sale. The Group has taken a judgement that under IFRS 15 the Performance Obligation relating to these fees is discharged over time (between instruction and completion) rather than at a point in time. An alternative judgement that fees should be recognised at a point in time would have a material impact on both deferred income and revenue for the current year. The impact of this alternative judgement would be to either accelerate in full or delay in full recognition of the deferred income amounts. Further detail is set out in the revenue recognition policy above.

4. Alternative performance measures

The Group makes use of a number of alternative performance measures in assessing the performance of the business. The definition and relevance of each of these is set out below. The Group believes that these measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with helpful additional information on the performance of the Group.

Adjusted EBITDA

Definition

Profit or loss from operating activities, adding back depreciation, amortisation, share-based payment charges and exceptional items. At a Group level this measure also excludes results of associates.

Relevance to strategy

The adjusted measure is considered relevant to assessing the performance of the Group against its strategy and plans. The rationale for excluding certain items is as follows:

- Depreciation: a non-cash item which fluctuates depending on the timing of capital investment. We believe that a measure which removes this volatility improves comparability of the Group's results period on period.
- Amortisation: a non-cash item which varies depending on the timing of and nature of acquisitions, and on the timing of and extent of investment in internally generated intangibles such as software. We believe that a measure which removes this volatility improves comparability of the Group's results period on period. Where applicable, impairment of intangible assets is also excluded as an exceptional item.
- Share-based payment charges: a non-cash item which varies significantly depending on the share price at the date of grants under the Group's share option schemes, and depending on the assumptions used in valuing these awards as they are granted. We believe that a measure which removes this volatility improves comparability of the Group's results period on period and also improves comparability with other companies which typically do not operate similar share-based payment schemes.
- Exceptional items: these items represent amounts which result from unusual transactions or circumstances and of a significance which warrants individual disclosure. We believe that adjusting for such exceptional items improves comparability period on period. See note 7 for further detail of amounts disclosed as exceptional in the year.
- Results of associates: while the Group exercises some influence over these results, it is unable to fully control them. The Group monitors the performance of its associate Homeday separately from the UK segment.

Reconciliation

See segmental reporting in note 6.

Adjusted operating costs

Definition

Adjusted operating costs are administrative expenses, adjusted by adding back depreciation, amortisation and share-based payment charges and exceptional items.

Relevance to strategy
The adjusted measure is considered relevant to assessing the performance of the Group against its strategy and plans. The rationale for excluding depreciation, amortisation, share-based payment charges and exceptional costs from this measure is consistent with that set out above in the Adjusted EBITDA section.

Reconciliation
See segmental reporting in note 6.

Adjusted operating profit/loss
Since adjusted EBITDA is the key profit measure used by the Board, being the Chief Operational Decision Maker (CODM), in making strategic decisions, adjusted operating profit is no longer presented as an alternative profit measure in FY22.

5. Revenue

Revenue by contract type:

	2022 £m	2021 £m
Continuing operations		
Instructions	**45.3**	60.1
Conveyancing	**14.1**	17.9
Lettings	**5.4**	6.6
Other	**5.2**	6.3
	70.0	90.9
Discontinued operations		
Instructions	—	3.6
Other	—	2.9
	—	6.5
Total revenue	**70.0**	97.4

6. Segmental reporting

The Group's trade is managed as a single division, providing services relating to the sale and letting of properties; however, management reports to the Board (the Board being the Chief Operating Decision Maker (CODM)) using geographical segments. The financial information reviewed by the Board is materially the same as that reported under IFRS and in FY22 falls under one geographic location: the UK. The Canadian business is a former segment, which was sold in FY21. The results of the former Canadian business are presented within the discontinued operations FY21 comparatives. The operating losses of discontinued segments are reconciled to the net loss relating to discontinued activities within this note.

The Group's share of the results of its associate Homeday, which is based in Germany, is presented within the arising on consolidation column, along with amortisation of intangibles arising on consolidation.

Adjusted EBITDA is a key profit measure used by the CODM in making strategic decisions.

During the year, no customer contributed 10% or more of the Group's revenues (2021: none). The following is an analysis of the Group's revenue and results by reporting segment:

Year ended 30 April 2022	UK £m	Arising on consolidation £m	Total £m
Revenue	70.0	—	70.0
Cost of sales	(27.9)	—	(27.9)
Gross profit	42.1	—	42.1
Gross profit margin (%)	60.1%	—	60.1%
Administrative expenses	(50.1)	3.8	(46.3)
Marketing expenses	(25.2)	—	(25.2)
Share of results of associate	—	(2.3)	(2.3)
Operating loss	(33.2)	1.5	(31.7)
Reconciliation to adjusted EBITDA			
Operating loss	(33.2)	1.5	(31.7)
Depreciation and amortisation	3.4	0.1	3.5
Share-based payments credit	(2.2)	—	(2.2)
Share of results of associate	—	2.3	2.3
Exceptional items	23.2	(3.9)	19.3
Adjusted EBITDA	(8.8)	—	(8.8)
Reconciliation of administrative expenses to adjusted operating costs			
Administrative expenses	(50.1)	3.8	(46.3)
Depreciation and amortisation	3.4	0.1	3.5
Share-based payments credit	(2.2)	—	(2.2)
Exceptional items	23.2	(3.9)	19.3
Adjusted operating costs	(25.7)	—	(25.7)

Year ended 30 April 2021	UK £m	Arising on consolidation £m	Continuing operations £m	Discontinued operations (Canada only) £m	Total £m
Revenue	90.9	—	90.9	6.5	97.4
Cost of sales	(33.2)	—	(33.2)	(1.8)	(35.0)
Gross profit	57.7	—	57.7	4.7	62.4
Gross profit margin (%)	63.5%	—	63.5%	72.3%	64.1%
Net other income and expenditure	(0.3)	—	(0.3)	1.4	1.1
Administrative expenses	(29.1)	(0.2)	(29.3)	(4.0)	(33.3)
Marketing expenses	(18.9)	—	(18.9)	(0.6)	(19.5)
Share of results of associate	—	(1.0)	(1.0)	—	(1.0)
Operating profit	9.4	(1.2)	8.2	1.5	9.7
Reconciliation to adjusted EBITDA					
Operating profit	9.4	(1.2)	8.2	1.5	9.7
Depreciation and amortisation	2.8	0.2	3.0	0.3	3.3
Share-based payments	(2.3)	—	(2.3)	(0.6)	(2.9)
Share of results of associate	—	1.0	1.0	—	1.0
Exceptional items	2.1	—	2.1	—	2.1
Adjusted EBITDA	12.0	—	12.0	1.2	13.2
Reconciliation to adjusted operating profit					
Operating profit	9.4	(1.2)	8.2	1.5	9.7
Share-based payments	(2.3)	—	(2.3)	(0.6)	(2.9)
Share of results of associate	—	1.0	1.0	—	1.0
Exceptional items	2.1	—	2.1	—	2.1
Adjusted operating profit	9.2	(0.2)	9.0	0.9	9.9
Reconciliation of administrative expenses to adjusted operating costs					
Administrative expenses	(29.1)	(0.2)	(29.3)	(4.0)	(33.3)
Depreciation and amortisation	2.8	0.2	3.0	0.3	3.3
Share-based payments	(2.3)	—	(2.3)	(0.6)	(2.9)
Exceptional items	2.1	—	2.1	—	2.1
Adjusted operating costs	(26.5)	—	(26.5)	(4.3)	(30.8)

All assets and liabilities relate to the UK in both the current and preceding financial year.

Cash flows relating to discontinued operations were as follows:

	2022 **£m**	2021 £m
Operating cash (outflow)/inflow before changes in working capital		
Continuing operations	**(15.4)**	5.2
Discontinued operations	**—**	1.3
	(15.4)	6.5
Operating cash (outflow)/inflow after changes in working capital, interest and taxation paid		
Continuing operations	**(30.8)**	12.0
Discontinued operations	**—**	1.0
Net cash (outflow)/inflow from operating activities	**(30.8)**	13.0
Cash (outflow)/inflow from investing activities		
Continuing operations	**(5.1)**	(2.5)
Discontinued operations	**—**	32.9
	(5.1)	30.4
Cash (outflow)/inflow from financing activities		
Continuing operations	**5.1**	(0.4)
Discontinued operations	**—**	—
	5.1	(0.4)

7. Exceptional items

Exceptional items in FY22 comprise costs of moving to an employed field sales force, a provision for potential claims in relation to the Housing Act 2004, impairment charges, and post-employment benefits in respect of the former CEO, Vic Darvey.

	2022 **£m**	2021 £m
Restructuring costs	**3.5**	1.2
Provision for claims	**3.6**	—
Impairment	**11.9**	—
Post-employment benefits of former CEO	**0.3**	—
LPE support	**—**	0.9
Exceptional items	**19.3**	2.1

The main components of costs of moving to an employed field sales force were:

- consultancy costs for support in the design of the employed model, including of the commission structure (£0.9m);
- retention payments to individuals becoming employed (£1.6m);
- costs of contractors and project-specific employees working within the project team (£0.3m); and
- creation of learning and development materials and onboarding materials, and costs of training meetings and roadshows (£0.7m).

£0.2m of further costs are expected in FY23, being further bonuses due to staff for continued employment. No further costs of moving to an employed field sales force are expected beyond FY23.

A provision of £3.6m for potential future claims which could arise under the Housing Act 2004 has been made in FY22 as described in note 3.1.

The acquisition of BFL Property Management Limited (BFL) in March 2017 gave rise to a goodwill amount in the consolidated balance sheet of £2.6m, together with other intangible assets with carrying value at 30 April 2022 of £0.1m prior to the impairment described below.

In light of the process issues identified in the lettings business, the carrying value of the goodwill and other intangible assets has been assessed for impairment at 30 April 2022.

A discounted cash flow forecast has been prepared including the potential significant cash outflow in respect of claims, and indicates that the carrying value of goodwill and other intangible assets was not recoverable. Therefore, they have been impaired in full, resulting in an impairment charge of £2.7m.

In FY22 Homeday has underperformed against forecast, partly as a result of the challenging macro-economic environment and residential property market in Germany, which has seen a significant market downturn in recent months. In light of Homeday's continued losses, which were in excess of those forecast by local management earlier in FY22, the carrying value of the investment was assessed for impairment at 30 April 2022. Management assessed that the carrying value of the investment was not recoverable. Therefore, the investment in associate has been impaired in full at 30 April 2022, resulting in a charge of £9.2m at the Group level.

In March 2022, our former CEO, Vic Darvey, left the business. His post-employment benefits amounted to £0.3m and are presented within exceptional items.

In FY21, exceptional items comprised:

- costs of a fundamental restructuring programme which focused on employed head office functions of £1.2m; and
- costs of supporting the network of independent LPEs in response to the Covid-19 pandemic of £0.9m.

These items have been identified in the current period and prior year as exceptional because they are of such significance that it is necessary to show them separately in order to give a complete view of the performance of the Group in the period.

The aggregate amounts accrued but not yet paid in respect of exceptional charges totalled £3.5m at 30 April 2022 (2021: £nil). All amounts are expected to be paid in cash within 12 months.

All exceptional items are presented within administration expenses in the consolidated income statement.

8. Earnings per share

	Basic and diluted	
	2022	2021
Total including discontinued operations		
(Loss)/profit (£m)	**(42.0)**	6.8
Weighted average number of shares ('000)	**306,806**	306,806
Basic (loss)/profit per share (£)	**(0.14)**	0.02
Potentially dilutive shares unissued at year end ('000)	**4,218**	3,016
Total potentially dilutive shares at reporting date ('000)	**—**	309,822
(Loss)/profit per share (£) – diluted	**(0.14)**	0.02

	Basic and diluted	
	2022	2021
Continuing operations		
(Loss)/profit (£m)	**(42.0)**	3.9
Weighted average number of shares ('000)	**306,806**	306,806
Basic (loss)/profit per share (£)	**(0.14)**	0.01
Potentially dilutive shares unissued at year end ('000)	**4,218**	3,016
Total potentially dilutive shares at reporting date ('000)	**—**	309,822
(Loss)/profit per share (£) – diluted	**(0.14)**	0.01

Where applicable, diluted loss per share from continuing operations is presented as equal to the basic loss per share as a loss cannot be diluted.

The number of shares in issue at both 30 April 2022 and 30 April 2021 was 306,806,039.

9. Related party transactions

On 19 July 2021, 148,500 awards were granted to Helena Marston, CEO, 735,437 awards were granted to Vic Darvey, former CEO, and 307,500 awards were granted to Andy Botha, former CFO, under the Purplebricks Performance Share Plan. The awards have an exercise price of 1p per share and become exercisable subject to continued employment and performance based on the Company's relative total shareholder return and EBITDA over a three-year performance period. Following the resignation of both Andy and Vic during the year, the awards granted in July 2021 and those previously granted lapsed upon their leaving.

On 29 March 2022, 1,600,000 awards were granted to Helena Marston, CEO, and 1,500,000 awards were granted to Steve Long, CFO, under the Purplebricks Performance Share Plan. The awards have an exercise price of 1p per share and become exercisable subject to continued employment and performance based on the Company's relative and absolute total shareholder return over a three-year performance period.

On 11 March 2022, Simon Downing, Senior Independent Non-Executive Director, purchased 1,000,000 shares in the Company at £0.16.

On 11 March 2022, Sharon Pindar, a Person Closely Associated to Paul Pindar, Chairman, purchased 112,500 shares in the Company at £0.16 and 587,549 shares at £0.18. A further 53,780 were purchased on 17 March 2022 at £0.19.

On 11 March 2022, Elona Mortimer-Zhika, Non-Executive Director, purchased 37,500 shares in the Company at £0.16. A further 205,650 shares were purchased on 15 March 2022 at £0.18 and another 20,690 shares purchased at £0.19 on 17 March 2022.

During the year, the Group entered into a contract for payroll services with IRIS Software Group, of which the Group's Non-Executive Director Elona Mortimer-Zhika is Chief Executive Officer. Costs of £68,000 have been incurred in the year, and no amounts remain unpaid at the year end. The agreement with IRIS was made following a selection process including unconnected alternatives. Amounts charged are on an arm's length basis.