HomeServe plc
Preliminary results for the year ended 31 March 2020

	2020	2019[1]	Change[2]
Revenue	**£1,132.3m**	£1,003.6m	+13%
Statutory operating profit	**£158.6m**	£152.6m	+4%
Statutory profit before tax	**£137.9m**	£139.5m	-1%
Basic earnings per share	**31.7p**	32.7p	-3%
Adjusted EBITDA[3]	**£275.3m**	£221.9m	+24%
Adjusted operating profit[3]	**£201.7m**	£174.8m	+15%
Adjusted profit before tax[3]	**£181.0m**	£161.7m	+12%
Adjusted earnings per share[3]	**41.3p**	37.5p	+10%
Ordinary dividend per share	**23.6p**	21.4p	+10%
Net debt	**£509.0m**	£304.7m	+67%
Total number of customers	**8.3m**	8.2m[4]	+1%

Another successful year, with business resilience keeping future prospects strong

- Double digit growth in revenue (up 13% to £1.1bn) and profits (adjusted profit before tax up 12% to £181.0m)
- Strong performance across **Membership & HVAC,** with 8.3m customers and retention strong at 82% (FY19: 82%)
  - North America customers rose to 4.4m (FY19: 4.0m) with adjusted operating profit up 23% and passing $100m to $108.6m
  - Efficiency gains drove strong growth in the UK, adjusted operating profit up 23% to £81.0m
  - Highest number of new customers ever in France (up 5% to 1.1m) and strong profit growth in Spain (up 16% to €23.1m)
  - First utility partnership signed in Japan with Chugoku Electric; successful first marketing campaign
  - HVAC revenue up 83% to £80.9m, driven by 15 acquisitions completed for c. £25m
- Good progress in **Home Experts**
  - Acquisition of eLocal in November 2019 for £98.8m created profitable entry to North America
  - At Checkatrade, 30% growth in revenue to £38.5m, 32% growth in web visitors to 23.6m and 9% growth in trades to 39,000
  - New leadership at Habitissimo following acquisition of remaining 30% of the business
- Statutory profit before tax of £137.9m (FY19: £139.5m) reflects strong operating performance partially offset by a net exceptional charge of £7.6m (FY19: net exceptional gain of £4.6m)
- Focus during the coronavirus crisis on keeping staff and customers safe and supporting trades
  - Continued to complete emergency repairs for customers in all territories
  - Decision not to furlough staff or make any redundancies in the course of the current lockdowns
  - Pro-active membership discounts to support trades at Checkatrade during April and May
  - Free repairs for NHS and social care workers in the UK: over 2,000 repairs completed to date
- Strong balance sheet and liquidity: leverage in line with guidance at 1.8x (FY19: 1.4x) and c. £330m headroom vs. total debt facilities of c. £780m

- Solid performance expected in FY21, with medium to long term growth targets for North America Membership and Checkatrade unchanged
- The Board proposes a final dividend of 17.8p, to take the total dividend for the year to 23.6p, up 10%.

Richard Harpin, Founder and Chief Executive, HomeServe plc, said: "I am really pleased with our performance in the last 12 months, in which we continued to provide excellent service to our customers, deliver on our financial objectives and invest for future growth. I am especially proud of how everyone at HomeServe responded to the unprecedented challenges of COVID-19, adapting quickly and efficiently to new ways of working and going beyond the call of duty to help our customers.

"We have all become acutely aware of the importance of our homes over the last few months, which means that HomeServe's purpose of making home repairs and improvements easy has never been more relevant. With our resilient business model and dedicated teams, we look forward to being able to help more and more customers as the world emerges from lockdown."

[1]These are the first results which HomeServe has presented under IFRS 16. HomeServe has adopted IFRS 16 using the modified retrospective 'Asset = Liability' approach with a date of initial application of 1 April 2019. Comparative information provided in this announcement has not been restated. As detailed further below, the adoption of IFRS 16 had an immaterial effect on adjusted profit before tax, whilst adjusted operating profit was £0.2m lower.

[2]Percentage movements throughout this announcement are based on full underlying results, not the rounded figures in the tables.

[3]HomeServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. APMs used in this announcement are non-GAAP measures which address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group. Definitions of APMs and the rationale for their usage are included in the Glossary at the end of this announcement with a reconciliation, where applicable, back to the equivalent statutory measure.

[4]Excludes 0.2m customers sold with the Italian joint venture in August 2019.

Results presentation

An audio webcast with accompanying slides will take place at 10am on Tuesday 19 May at:

https://www.investis-live.com/homeserveplc/5eb03ccb27577e1000d8df89/hnhn

Alternatively follow the link from the homepage on www.homeserveplc.com

The webcast will be available on replay shortly after the event.

Enquiries

HomeServe

Miriam McKay – Group Communications and IR Director
Miriam.McKay@homeserve.com
+44 7795 062564

Dami Tanimowo – Senior Investor Relations Manager
Dami.Tanimowo@homeserve.com
+44 7747 761155

Tulchan Group

Lisa Jarrett-Kerr
Martin Robinson

homeserve@tulchangroup.com
+44 207 353 4200

Forward Looking Statements

This report contains certain forward looking statements, which have been made in good faith, with respect to the financial condition, results of operations, and businesses of HomeServe plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions, the current regulatory environment and the current interpretations of IFRS applicable to past, current and future periods. Nothing in this announcement should be construed as a profit forecast.

About HomeServe

HomeServe is an international home repairs and improvements business which provides people with access to tradespeople and technology to run their homes more easily. HomeServe is listed on the London Stock Exchange, with a market capitalisation of c. £3.9 billion.

CHIEF EXECUTIVE'S REVIEW

I am writing my review of the year to March 2020 at a moment when the coronavirus pandemic is dominating our personal lives, our business decisions and the international agenda. To create a balanced review, I have started by describing the financial year as a whole, then addressed our response to coronavirus and current business performance, and finished with some thoughts on the future.

The current crisis has reinforced my belief in the importance of a clear sense of corporate purpose. HomeServe's purpose – to make home repairs and improvements easy for homeowners and trades (tradespeople) – drives everything we do. To achieve our ambition of being able to do every job in every home, we need to see growth across both of our business lines – Membership & HVAC (Heating, Ventilation and Air Conditioning) and Home Experts – and in our international development activities. We made good progress on all fronts this year.

FY20

FY20 was another successful year for HomeServe, in which we continued to serve our customers with passion and commitment, delivered double digit revenue and profit growth, and invested for the future.

Continued strong growth in Membership & HVAC

Our Membership and HVAC business line delivered revenue growth of 10%, together with 18% growth in adjusted operating profit. North America remains the outstanding growth driver, and we also saw efficiency gains in the UK, record new customers in France and a good performance in Spain, particularly in the Claims business.

Membership remains attractive, predictable and highly cash generative and has significant further potential. In North America, we now work with over 950 utilities (FY19: c. 700) and have access to 64m households (FY19: 60m). New partner signings continue, and after the year end we were particularly pleased to sign Alabama Power with 1.3m households and a large partner in Canada, the Municipality of Ottawa, with 0.4m households. The customer count grew to 4.4m (up 9%), and North America delivered revenue growth of 25% to $546.1m and topped $100m of adjusted operating profit for the first time, reaching $108.6m (FY19: $88.1m). The acquisition of ServLine opened an interesting new channel with rural water associations as well as new product potential, and we entered the Whole Home Warranty market with an initial product launch and two small acquisitions to give us expertise in the real estate channel.

Our Continental European Membership businesses also performed well. France added its most new customers ever, driven by strong relationships with the top three water utilities and new partners such as JeChange and Papernest. In Spain, strong performance in the Claims business drove revenue up 11%, and we continue to seek new partners in Membership to replace Endesa, which ended in May 2018.

UK Membership also had a good year, delivering efficiency gains which drove strong profit growth, and is at the forefront of innovations to revolutionise the way we serve customers in the future. *HomeServe Now* connects customers directly to an available, local engineer, and has the potential to attract new customers to HomeServe and further reduce our cost to serve.

In HVAC, we made 15 acquisitions across North America, France and Spain for a cash outflow in the year of c. £25m. Our buy and build strategy drove total HVAC revenue up 83% to £80.9m and HVAC installations are becoming a significant contributor to our customer value proposition in all four of our Membership businesses. With HVAC acquisitions adding c. 0.1m policies through cross-sell and existing policy books it is also a solid contributor to customer growth.

First utility partnership in Japan

Beyond our established businesses in the UK, North America, France and Spain, we achieved a significant milestone in Japan in January 2020, when we signed our first utility partner, Chugoku Electric. Our first marketing campaign yielded encouraging results, with take-up rates approaching those achieved in North America. Strong relationships between Japanese utilities and our joint venture partner, Mitsubishi Corporation, have driven rapid progress, and we look forward to seeing this partnership develop further in FY21 and beyond.

Productive investment in Home Experts

We estimate that our core Membership business in its current form appeals to about a third of homeowners – an older, insurance-minded demographic who want to avoid the financial shock and disruption of an unexpected home emergency. Home Experts gives us the opportunity to broaden our target audience and to make home repairs and improvements easy for homeowners whose instinct is to search for reputable trades online when something needs repairing or improving in their homes.

Total revenue in Home Experts grew by 78% to £71.8m (FY19: £40.4m) driven principally by a 30% increase at Checkatrade to £38.5m and four months of revenue following the acquisition of 79% of eLocal at the end of November 2019. The adjusted operating loss of £13.9m (FY19: £7.4m) reflects increased marketing and advertising to both homeowners and trades as we look to expand both sides of our Home Experts platform.

At our Investor Day in June 2019, we invited shareholders and analysts to visit Checkatrade's new offices in Portsmouth so that they could see our expansion plans first hand. During the year, we made excellent progress strengthening the management team at Checkatrade, and investing in technology and marketing. We saw good growth on the demand side of the website, with consumer visits up 32% to c. 24m, and made good progress on building supply, reaching 39,000 trades. Trades are an increasingly important stakeholder community for the Group, and we want to make home repairs and improvements easy for them too to help them grow their business.

Our purchase of the remaining 30% of Habitissimo and the appointment of Sarah Harmon to lead the business has brought fresh ambition and ideas to our Home Experts business plan in Spain and Latin America. Habitissimo has started working with HomeServe Spain to test the potential to sell a policy after a successful on demand repair. We are also applying sharper focus and have decided to exit Argentina, Columbia and Peru, our three smallest LATAM operations.

In November 2019, we acquired 79% of eLocal, which gave us a profitable entry into the Home Experts market in North America. Unique aspects of eLocal's business model, such as their use of affiliates to generate high volumes of lead calls and relationships with national accounts to satisfy these at scale, are already proving informative to our other Home Experts businesses.

In May 2020 in France, following a successful test of the Home Experts model in the Lyon area, we entered into a new structure to scale the business. The management team will own 80% with HomeServe taking a 20% stake with an option for us to increase this in the future, once the business has achieved national scale.

Discipline and focus

We maintain a disciplined approach to capital allocation and constantly review our investment priorities. In the course of this year, we sold our stake in our Italian associate. I constantly challenge my management team and myself to be bold in the pursuit of our highest potential opportunities, but also in testing, learning and exiting projects if necessary. As our business expands and opportunities multiply, this discipline will become more and more important.

Consumers and insurance partners have been slower than expected to adopt smart leak detection technology and we have consequently impaired our existing LeakBot assets. We will continue to run trials with insurers and our revised business plan frees up management resource and reduces investment as we preserve the intellectual property and look to use LeakBot as a cross sell opportunity to accelerate other initiatives e.g. HomeServe Now.

COVID-19 response

Responding to the developing coronavirus pandemic dominated the last three weeks of our financial year. Our top priority was to do the right thing for our staff, in the knowledge that they would look after our customers. Within two weeks, all of our c. 6,000 office-based staff, including contact centre agents, were working successfully from home, thanks to a monumental effort by operations staff and recent technology investments. In the field, we put additional social distancing procedures in place to safeguard our engineers, contractors and customers, and continued to respond to emergency repair requests in all the countries where we operate, in line with government guidance. We took the decision not to furlough or make redundant any staff as a result of the current crisis.

At Checkatrade, we acted fast to support our trades community – another vitally important stakeholder group. Trades were proactively offered a 50% membership discount for April and May if they wanted to continue to feature in consumer searches. If they wished to maintain their presence on the platform but, for now, not appear in searches, they were offered free-of-charge affiliate membership. This is also being offered to new trades that wish to join and start creating an online presence.

I have always known that HomeServe is full of dedicated, talented people. I could not have been more impressed by their response to the coronavirus crisis, which epitomised The HomeServe Way – our key leadership behaviours and skills. We adapted quickly and efficiently to new ways of working, and went beyond the call of duty to help our customers. The actions by our UK team merit a special mention, where the team launched a special offer of free emergency plumbing and heating repairs for NHS and social care workers, aiming to do around 10,000 free jobs for them during the lockdown period. The response has been phenomenal, with well over 2,000 jobs completed to date, and we were all delighted to be able to help the front line healthcare staff who continue to demonstrate such enormous bravery and dedication.

Current trading

In Membership, we expect our business model to remain resilient. Policy retention - the key top line driver – remained in line with historical trends through April and early May (FY20: 82%), there has been no noticeable increase in cancellation attempts and our internal measures for customer satisfaction returned some of their best ever scores in April. Response rates to marketing campaigns held up well through March and online new customer sign-ups continue. The Membership cost base is approximately one third variable, with marketing spend discretionary and affinity partner commissions linked directly to new sales and renewals. April to September is in any case a quieter period for marketing. We have decided to pause most large scale campaigns and will test regularly on a small scale to assess response rates. This action will affect new customer additions, but also reduce costs.

Checkatrade, Habitissimo and eLocal experienced falling demand from consumers from mid March in light of government directives to minimise unnecessary contact. At Checkatrade, 78% of trades have moved to the 50% discount offer, while 22% have moved to free affiliate membership. We have had an encouraging response from new trades joining up as they focus on how they will rebuild their business post-crisis. Around half of new trades signing up are choosing paid rather than free affiliate membership. Consumer marketing has been substantially reduced at Checkatrade, while in Habitissimo and eLocal, there is a natural offset between reduced traffic on the platforms and the expense involved in generating leads. The performance of these businesses is currently much less material to the Group's overall financial performance, accounting for less than 10% of revenue and are all still in their investment phase.

We are continuing to work on key innovations – notably *HomeServe Now* and at Checkatrade - in anticipation of substantial demand for home repairs and improvements when the period of lockdown ends. Some of the new ways of working we have learnt during the crisis – telefixes over the phone and video quotes at Checkatrade – will continue to play a valuable role when the crisis is over.

Mergers and acquisitions activity is largely on hold for the time being, but HomeServe is ready to act quickly as quality future opportunities arise.

To complete the viability statement in our 2020 Annual Report, the Directors assessed the viability of the Group over a three year period to 31 March 2023. We have modelled additional stress test scenarios linked to the COVID-19 pandemic. Stress tests indicated that no single scenario would impact the viability of the Group over the next three years and HomeServe's swift response to the crisis means it is well placed to face the ongoing challenges the crisis presents. Trading metrics have remained stable since the onset of the pandemic; the Group has demonstrated its ability to continue to provide a good level of service and its funding position remains healthy. As might be expected the impact increases if different risks were to materialise simultaneously or continue for longer. However, given the nature and relative diversification of the business in terms of both geography and the Group's global business lines, it is considered unlikely that such scenarios in sufficient number would occur. In such scenarios HomeServe would be able to take decisions to protect the profitability of its business.

Outlook

The situation with COVID-19 is unprecedented and continually evolving, and it has never been more difficult to predict the year ahead. In light of this we are taking action to preserve profitability and reduce discretionary spend and capital expenditure, while at the same time preparing to meet pent-up demand for home repairs and improvements as our customers come out of lockdown.

Our current working assumption is that the world will gradually come out of lockdown over the summer months of 2020. In this scenario, we will continue to work towards our stated medium to long term targets for growth in North American Membership & HVAC, and Checkatrade, with breakeven at Checkatrade likely to be delayed from FY22 until FY23. Adjusted operating profit at eLocal in FY21 is now expected to be in excess of $10m.

Given the resilience of our business model, we expect to deliver a solid performance in FY21, with our prospects for growth thereafter unchanged.

Dividend

Given our strong performance in FY20 and expectation of resilience in the year ahead, the Board proposes a final dividend of 17.8p, to take the total dividend for the year to 23.6p, up 10% and in line with earnings growth.

Conclusion

I expect the coronavirus pandemic to permanently change the way we think about our homes. Many of us have learnt that we can work successfully from home, and may be considering how to work from home more in the future. Our appreciation of a safe, agreeable home environment has never been greater. Which means that HomeServe's purpose of making home repairs and improvements easy has never been more relevant.

I would like to finish by expressing my heartfelt thanks to my colleagues for all they have done to support our business and our customers this year. I look forward with confidence to many more successful years ahead.

Richard Harpin
Founder and Chief Executive

OPERATING REVIEW

Financial performance for the year ended 31 March

£million	Revenue		Statutory operating profit/(loss)		Adjusted operating profit/(loss)	
	2020	2019	**2020**	2019	**2020**	2019
UK	**372.9**	391.7	**62.8**	68.4	**81.0**	66.0
North America	**429.5**	333.4	**67.6**	54.7	**85.4**	67.6
France	**111.8**	104.6	**26.9**	26.8	**33.8**	33.3
Spain	**154.1**	140.8	**19.6**	17.5	**20.1**	17.7
New Markets	**-**	-	**(0.9)**	(2.4)	**(4.7)**	(2.4)
Total Membership & HVAC	**1,068.3**	970.5	**176.0**	165.0	**215.6**	182.2
Home Experts	**71.8**	40.4	**(17.4)**	(12.4)	**(13.9)**	(7.4)
Inter-segment[1]	**(7.8)**	(7.3)	**-**	-	**-**	-
Group	**1,132.3**	1,003.6	**158.6**	152.6	**201.7**	174.8

[1]Inter-segment revenue includes transactions with other Group companies removed on consolidation and principally comprise royalty and other similar charges.

Membership KPIs

	Customer numbers (m)		Income per customer		Policy retention rate	
	2020	2019	**2020**	2019	**2020**	2019
UK	**1.8**	2.0	**£140**	£122	**78%**	79%
North America	**4.4**	4.0	**$102**	$96	**83%**	83%
France	**1.1**	1.1	**€108**	€109	**89%**	89%
Spain	**1.0**	1.1	**€61**	€57	**83%**	80%
New Markets	**-**	0.2	**-**	-	**-**	-
Group	**8.3**	8.4	**n/a**	n/a	**82%**	82%

Home Experts KPIs

	Trades (000)		Website visits (m)	
	2020	2019	**2020**	2019
Checkatrade	**39**	36	**23.6**	17.9
Habitissimo	**24**	28	**87.3**	83.2
eLocal*	**3**	n/a	n/a	n/a
Group	**66**	64	**110.9**	101.1

**Annual web visits not disclosed - eLocal acquired part way through the year on 26 November 2019.*

UK

£million	2020	2019	Change
Revenue			
Net policy income	**249.4**	244.0	2%
Repair network	**89.5**	108.9	(18%)
Membership	**338.9**	352.9	(4%)
HVAC	**21.2**	25.5	(16%)
Other	**12.8**	13.3	(4%)
Total revenue	**372.9**	391.7	(5%)
Adjusted operating costs	**(291.9)**	(325.7)	(10%)
Adjusted operating profit	**81.0**	66.0	23%
Adjusted operating margin	**22%**	17%	+5ppts

Performance metrics		2020	2019	Change
Affinity partner households	m	**26**	26	-
Customers	m	**1.8**	2.0	(11%)
Income per customer	£	**140**	122	15%
Policies	m	**4.9**	5.4	(9%)
Policy retention rate	%	**78**	79	-1ppt

Financial performance

Net policy income increased by 2% with lower customer numbers more than offset by a 15% increase in income per customer, as retained customers continued to deepen their product coverage.

Repair network revenue decreased by 18% as HomeServe completed 0.9m jobs (FY19: 1.2m) for its customers. Lower job volumes were driven principally by a lower customer count year on year and changes in policy mix as well as a small reduction resulting from the cessation of non-emergency work (e.g. maintenance and boiler servicing) in March owing to COVID-19.

HVAC revenue fell by 16%, driven by lower installation volumes. In FY20 the business increased its focus on providing installations for Membership customers and reduced the number of sales outside of this. Approximately 100,000 customers from the 1.8m UK customer base will require a new boiler installation each year. Accessing these should require less marketing, provide a profitable revenue stream and help strengthen relationships with existing customers.

Other revenue of £12.8m (FY19: £13.3m) principally included transactions with other Group companies and income for non-insured, on demand jobs.

Adjusted operating costs fell by 10% to £291.9m, due to reduced direct costs as a result of lower job volumes and customer acquisition as well as reduced overheads as a result of decisions taken 12 months ago on changes to the organisational design of the UK business.

As a consequence of these changes, adjusted operating profit rose by 23% to £81.0m, with adjusted operating margin up by five percentage points to 22%. The business will retain its focus on efficiency in FY21 with a margin of c. 20% seen as sustainable over the longer term.

On a statutory basis the UK segment recorded an exceptional charge of £15.0m in relation to an impairment of LeakBot reflecting slower uptake of the device from consumers and insurance partners. The financial impact of the exceptional charge is not shown in the adjusted results but is discussed in further detail in the financial review.

Operational performance

UK customers were 1.8m (FY19: 2.0m) with retention at 78% (FY19: 79%). The UK business continued its focus on serving its core customer base, for whom the HomeServe proposition of a reliable and easy way to deal with home repairs and emergencies remains as valued as ever. There continues to be less emphasis on attracting and retaining marginal customers through deep discounts. This approach, combined with lower customer acquisition year on year, drove a 15% rise in income per customer with the retention rate remaining broadly in line with the prior year.

The UK network of 800 directly employed engineers and 446 subcontractors completed 0.9m jobs (FY19: 1.2m). The directly employed network fulfilled in excess of 90% of water jobs and over half of gas jobs, with the remainder completed by the subcontract network.

Customer satisfaction remains high with an "Excellent" rating of 4.4 from 39k reviews on TrustPilot (FY19: 4.3) and a Reevoo score of 96% (FY19: 96%).

The UK business continues to pursue initiatives to transform both the customer experience and operational efficiency. *HomeServe Now,* HomeServe's app-based technology to swiftly identify a customer's need and connect them directly with an available engineer in close proximity to their home, was trialled in further UK regions during the second half. *HomeServe Now* has the potential to transform customer service and reduce costs to serve. By combining the App with a subscription-based consumer offer there is also an opportunity to access homeowners that typically would not consider the core Membership product but who frequently buy other products and services on mobile devices and via a subscription.

HomeServe has worked with the majority of UK water utilities for a number of years. In February 2020 the UK signed an agreement with one of the remaining providers, Portsmouth Water, which will see HomeServe initially offering plumbing and drainage products to Portsmouth's customer base of c. 0.3m households. The first customer policies have since been written, a pleasing result coming as it does against the backdrop of the COVID-19 restrictions.

The UK continued to integrate its HVAC business. Help-Link, the HVAC business acquired in 2017, was one of only a few national HVAC providers in the UK and HomeServe UK is now assessing larger regional providers in order to build a pipeline of buy-and-build opportunities as it looks to follow the wider Group's HVAC growth strategy. Acquiring well run, profitable HVAC companies with great local brands where there is existing high policy density also creates the opportunity to compete for the installations that the UK's 1.8m customers require each year but that they currently source elsewhere.

The Financial Conduct Authority's (FCA) market study into pricing practices across the General Insurance industry was due to be published in the first quarter of 2020 but has been delayed amidst the COVID-19 outbreak. HomeServe's focus remains, as ever, on providing products which customers value and use and providing a transparent and fair pricing journey. The business continues to provide all the information necessary to ensure customers are able to make well-informed decisions when choosing their products. HomeServe continues to monitor the situation and remains well positioned to address any recommendations the study makes to the insurance industry.

The FCA has also published additional guidance for insurance providers throughout the coronavirus pandemic stating their expectation that firms display increased awareness and respond flexibly to changing consumer circumstances. HomeServe is keeping its customers regularly informed via its many channels, including letters and telephony as well as online and continues to closely monitor the FCA's updates.

North America

USD million	2020	2019	Change
Revenue			
Net policy income	**451.2**	396.8	14%
Repair network	**39.5**	20.5	93%
Membership	**490.7**	417.3	18%
HVAC	**53.3**	17.6	203%
Other	**2.1**	1.3	58%
Total revenue	**546.1**	436.2	25%
Adjusted operating costs	**(437.5)**	(348.1)	26%
Adjusted operating profit	**108.6**	88.1	23%
Adjusted operating margin	**20%**	20%	-

£ million	2020	2019	Change
Revenue			
Net policy income	**354.9**	303.3	17%
Repair network	**30.6**	15.7	95%
Membership	**385.5**	319.0	21%
HVAC	**42.4**	13.4	217%
Other	**1.6**	1.0	60%
Total revenue	**429.5**	333.4	29%
Adjusted operating costs	**(344.1)**	(265.8)	29%
Adjusted operating profit	**85.4**	67.6	26%
Adjusted operating margin	**20%**	20%	-

Performance metrics		2020	2019	Change
Affinity partner households	m	**64**	60	6%
Customers	m	**4.4**	4.0	9%
Income per customer	$	**102**	96	6%
Policies	m	**7.5**	6.7	12%
Policy retention rate	%	**83**	83	-

Financial Performance

Total revenue increased by 25% to $546.1m and total adjusted operating profit increased by 23% to $108.6m as North America continued its strong growth trajectory. North America alone accounts for over a third of the Group's revenue and total adjusted operating profit.

Net policy income increased by 14% to over $450m as income per customer passed the $100 mark, increasing by 6% to $102 and as the business added 0.4m customers.

Repair network revenue includes jobs performed by HomeServe's growing number of directly employed engineers, including those employed by acquired HVAC companies completing jobs for Membership customers, and almost doubled to $39.5m (FY19: $20.5m).

HVAC revenue tripled to $53.3m (FY19: $17.6m) due to a full year run rate of prior year HVAC acquisitions such as Cropp Metcalfe and an additional three acquisitions in the period for total consideration of $20.7m, the largest of which was Crawford Services, HomeServe's first acquisition in Texas.

Acquisitions in the year contributed just $15.9m of revenue and $1.6m profit, with North American progress still very much driven by organic growth.

The North America margin remained stable at 20% as total adjusted operating profit exceeded $100m for the first time, growing by 23% to $108.6m. HomeServe remains on track to achieve its previously stated medium to long-term profit milestone for its North America business of $230m.

Operational performance

Total customers increased by 9% to 4.4m driven principally by organic growth and the continued success of HomeServe's utility-branded marketing campaigns which added 1.2m (FY19: 1.2m) gross new customers in the year. Supporting this customer growth is a core base of renewing customers and the retention rate remained strong at 83% (FY19: 83%). Customers are also opting for more cover, with policies increasing by 12% to 7.5m and helping drive income per customer over $100 to $102 (FY19: $96).

HomeServe continues to deliver high levels of service when its customers need it most and in FY20 its network of 205 engineers and c.5k contractors completed 0.5m jobs (FY19:195 engineers and c. 5k contractors, 0.5m jobs). The business retains its A+ *Better Business Bureau* rating and in March 2020 was once again honoured at the annual *Stevie Awards for Sales and Customer Service* with 30 awards including a gold award for "Innovation in Customer Service". Recent investments in technology and innovation such as Smart IVR have proven invaluable in recent months, delivering additional scale and flexibility to serve customers throughout the challenges presented by COVID-19 in March and April.

Providing great customer service is one of the key reasons utilities trust HomeServe to provide products to their customer base and HomeServe now works with over 950 utility and municipal partners (FY19: c. 700) providing access to 64m North American households under a utility brand (FY19: 60m). Although the situation with COVID-19 inevitably paused some utility partner discussions, HomeServe continues to sign new partnerships and in April 2020 signed Alabama Power for an additional 1.3m households and the Municipality of Ottawa in Canada with 0.4m households. Both are great indications of the continuing appeal of HomeServe's services to utilities, even during the COVID-19 pandemic.

In December 2019 HomeServe acquired ServLine for total consideration of $24.1m. ServLine works with over 150 rural water utilities across 18 states through an exclusive partnership with the *National Rural Water Association* and 28 *State Rural Water Associations*. ServLine offers a unique leak adjustment product to participating utilities protecting both homeowner and utility from the cost of water lost from leaking pipes. The leak product increases the range of solutions HomeServe can offer homeowners and utilities, providing further opportunities to increase the customer and partner count as HomeServe looks to achieve its ambitions in North America.

Two further acquisitions in the year were made in the Whole Home Warranty space: American Home Guardian and Nations were added for total consideration of $8.0m. Both acquisitions contributed to HomeServe's launch of its *TotalHome Warranty* product, a cover-all approach to the main systems and appliances in the home. The launch has used TV and online channels to attract consumers who are typically younger and more digitally minded than HomeServe's current customer demographic. As a much broader product the *TotalHome* offer attracts a higher price point and over time should provide a further opportunity to increase income per customer.

The HVAC market in North America is highly fragmented with tens of thousands of providers in a market estimated to be worth $29bn annually. HomeServe is building a pipeline of high quality HVAC businesses that can generate synergies with Membership. HomeServe's 4.4m customer base generates hundreds of thousands of installation requests every year which would usually go to competitors but which marketing efforts can now direct to HomeServe's own HVAC businesses. By acquiring HVAC businesses in areas of high policy density HomeServe can also use the acquired workforces to complete repairs for the Membership business and over time reduce its underwriting cost and contribute to future margin growth.

France

€uro million	2020	2019	Change
Revenue			
Net policy income	**120.1**	115.6	4%
Repair network	**0.4**	0.5	(12%)
Membership	**120.5**	116.1	4%
HVAC	**7.8**	1.7	355%
Other	**0.1**	0.9	(90%)
Total revenue	**128.4**	118.7	8%
Adjusted operating costs	**(89.4)**	(80.9)	11%
Adjusted operating profit	**39.0**	37.8	3%
Adjusted operating margin	**30%**	32%	-2ppts

£ million	2020	2019	Change
Revenue			
Net policy income	**104.5**	101.9	3%
Repair network	**0.4**	0.4	(13%)
Membership	**104.9**	102.3	3%
HVAC	**6.8**	1.5	348%
Other	**0.1**	0.8	(89%)
Total revenue	**111.8**	104.6	7%
Adjusted operating costs	**(78.0)**	(71.3)	9%
Adjusted operating profit	**33.8**	33.3	1%
Adjusted operating margin	**30%**	32%	-2ppts

Performance metrics		2020	2019	Change
Affinity partner households	m	**18**	18	-
Customers	m	**1.1**	1.1	5%
Income per customer	€	**108**	109	(1%)
Policies	m	**2.4**	2.3	2%
Policy retention rate	%	**89**	89	-

Financial performance

2020 was another successful year for France, returning its highest ever revenue of €128.4m (FY19: €118.7m) and highest profit of €39.0m (FY19: €37.8m) whilst continuing to invest in Membership and HVAC growth initiatives.

Net policy income increased by 4% to €120.1m driven principally by a higher customer count and HVAC revenue rose significantly to €7.8m (FY19: €1.7m) due to the full year run rate of prior year HVAC acquisitions and five additional acquisitions made during the year.

At 30% the French margin was lower than the prior year, as expected, due to increased marketing to grow the customer book but it remains the highest in the Group and is sustainable in the long term.

Operational performance

A 5% increase in customers to 1.1m was the strongest percentage growth in France for five years and total gross new customers of 0.2m was the highest ever. The business prospered from a number of new relationships with non-utility partners, e.g. JeChange and Papernest, as an active business development team added six new energy retailers in total and continues to grow the prospects pipeline.

HomeServe continued to generate new customers from its existing water partnerships and Veolia, Suez and Saur all added more customers this year than last but new partners generated c. 20% of new customer joins. Veolia is offering HomeServe's products in its call centres via its Homefriend initiative, Suez has agreed to further direct mail campaigns and all 15 Saur regions are now transferring prospect sales calls to HomeServe.

The retention rate was strong at 89% (FY19: 89%) and remains a good indication of the high levels of customer satisfaction in French Membership. The business was awarded *Elu Service Client de l'Année* for the fourth year in succession and internally measured complaints statistics are close to all time lows.

In HVAC the buy-and-build strategy added a further five small acquisitions for total combined consideration of c. €3.3m. The HVAC team is focussed on successful integration of these businesses ensuring strong links are made to enable the best cross-selling opportunities for installations and Membership cover.

In November HomeServe France was awarded status as a *Great Place to Work*, and in March 2020 ranked 23rd amongst companies with 250 to 1,000 employees within *Best Place To Work 2020*.

Spain

€uro million	**2020**	2019	Change
Revenue			
Net policy income	**56.3**	62.7	(10%)
Repair network	**108.2**	92.0	18%
Membership	**164.5**	154.7	6%
HVAC	**12.1**	5.0	143%
Total revenue	**176.6**	159.7	11%
Adjusted operating costs	**(153.5)**	(139.9)	10%
Adjusted operating profit	**23.1**	19.8	16%
Adjusted operating margin	**13%**	12%	+1ppt

£ million	**2020**	2019	Change
Revenue			
Net policy income	**49.2**	55.3	(11%)
Repair network	**94.4**	81.1	16%
Membership	**143.6**	136.4	5%
HVAC	**10.5**	4.4	138%
Total revenue	**154.1**	140.8	9%
Adjusted operating costs	**(134.0)**	(123.1)	9%
Adjusted operating profit	**20.1**	17.7	13%
Adjusted operating margin	**13%**	13%	-

Performance metrics		**2020**	2019	Change
Affinity partner households	m	**-**	-	-
Customers	m	**1.0**	1.1	(13%)
Income per customer	€	**61**	57	8%
Policies	m	**1.1**	1.3	(16%)
Policy retention rate	%	**83**	80	+3ppts

Financial performance

Total revenue in Spain increased by 11% to €176.6m as new contracts drove an 18% increase in repair revenue in the Claims business, acquisitions contributed to a 143% uplift in HVAC revenue and Membership revenue was more resilient than anticipated as initiatives were implemented to preserve its back book of customers, and income per customer rose by 8% to €61.

Adjusted operating costs grew by 10% to €153.5m as a result of costs directly attributable to the increased repair revenue and growing HVAC business line. The adjusted operating margin rose slightly to 13% principally reflecting the benefit of additional scale in the Claims business.

Operational performance

The Membership business had a good year and total customers were 1.0m (FY19: 1.1m) as HomeServe continued to explore opportunities for new partnerships to replace the relationship with Endesa, which ended in May 2018. In the absence of a major new partner the customer book will continue to decline but the relationship with Endesa remains positive with an extended billing agreement and continued re-activation marketing. The retention rate increased to 83% (FY19: 80%) and income per customer increased to €61 (FY19: €57) reflecting the increasing maturity of the book.

The customer number was also boosted by the addition of a small policy book of c. 30k from Sareteknika, an HVAC provider, and a further 15k acquired with various smaller HVAC acquisitions in the year.

The Claims business had its most successful year ever, completing 1.0m jobs (FY19: 0.8m), a year on year increase of 17% despite a marked reduction in March due to the effects of COVID-19. The increase in job volumes was driven by successful business development activities and a number of new partnerships including Bansabadell Seguros Generales. The business is also working closely with Habitissimo to buy leads which can be deployed to its existing network of 266 franchisees and c. 2.2k subcontractors (FY19: 190 franchisees and c. 1.9k subcontractors).

HomeServe Spain made seven HVAC acquisitions in the year including three policy books and four business combinations (Somgas, Linacal, Tecno Arasat and Sate) for a total cash outflow of €9.4m. The business continues to build a pipeline of further potential acquisitions and in line with the wider Group's HVAC strategy, all acquisitions to date are being integrated in order to generate maximum synergies with the Membership business – cross-selling Membership cover following an installation and marketing installations of new HVAC appliances to the Membership customer base.

Home Experts

£million	2020	2019	Change
Revenue			
Checkatrade	**38.5**	29.8	30%
Habitissimo	**11.1**	10.6	4%
France	**0.1**	-	-
eLocal	**22.1**	-	-
Total revenue	**71.8**	40.4	78%
Adjusted operating costs	**(85.7)**	(47.8)	79%
Adjusted operating loss	**(13.9)**	(7.4)	86%

Performance metrics		2020	2019	Change
Checkatrade trades	k	**39**	36	9%
Habitissimo trades	k	**24**	28	(13%)
eLocal trades	k	**3**	-	-
Checkatrade website visits	m	**23.6**	17.9	32%
Habitissimo website visits	m	**87.3**	83.2	5%
eLocal website visits*	m	**n/a**	n/a	n/a

**Annual web visits not disclosed - eLocal acquired part way through the year on 26 November 2019.*

Financial performance

Total Home Experts revenue increased by 78% to £71.8m principally as a result of a 30% increase at Checkatrade to £38.5m and the addition of £22.1m revenue from eLocal, which was acquired in November 2019. Habitissimo revenue grew 4% to £11.1m despite a 4k reduction in trades as the business increased its focus on serving and growing its larger trades.

The total adjusted operating loss of £13.9m increased by 86% due to increased marketing activity at Checkatrade, structural changes at Habitissimo and the cost of an organic test of Home Experts in France. eLocal generated an adjusted operating profit for the four months post-acquisition of $2.5m, below the anticipated $5m, due to increased headcount to strengthen the team for its future growth plans and the effects of COVID-19 that significantly reduced demand in March.

On a statutory basis an exceptional gain of £3.6m was recorded in relation to the acquisition of the remaining 30% of Habitissimo. This is discussed in further detail in the Financial Review.

Checkatrade

Checkatrade is making good progress to grow both sides of its platform as it strives to achieve its milestone targets of 150k to 200k trades, average revenue per trade of £1,200 to £1,300 and an adjusted operating margin of 25% to 35%.

Visitors to Checkatrade's newly refreshed website grew by 32% and now benefit from additional functionality when selecting and contacting trades such as 'shortlist' and 'call back'. Average revenue per trade grew by 10% to £1,023, total trades grew by 9% to 39k and Checkatrade was on track for slightly higher growth until the impacts of COVID-19 caused numbers to fall in March.

Matching increased consumer web visits with high trades growth has been a key focus of the business throughout FY20. Gross trade acquisition of 16k was very successful but a higher level of cancellations amongst members within their first year slowed overall progress. Key to retaining these trades is ensuring a fair distribution of work generated by the increased visitor traffic amongst all trades. Initiatives to achieve this, such as inserting new trades higher up the search results pages for a period of time, had begun to take effect and showed encouraging improvements early in the final quarter.

Directory leaflets also play a crucial role in driving brand awareness amongst consumers and generating work that provides value for trades' membership. Calls to leaflet members in FY20 were up 42% year on year reflecting the roll out to new geographies and an increased frequency of leaflet 'drops' in some areas.

Back office changes to improve the platform and its supporting systems to ensure the business scales effectively and efficiently to meet its growth plans continue apace with projects to automate the vetting process and implement a new customer management system and billing engine well underway.

The impact of COVID-19 has been particularly pronounced in Checkatrade but proactive decisions taken to support trades and offer options to pause or alter Memberships have been well received and should serve to underline the value of the platform to its trades in the future.

Habitissimo

In June 2019 HomeServe acquired the remaining 30% of Habitissimo and appointed Sarah Harmon, previously Country Manager of LinkedIn Spain and Portugal, as its new CEO. Sarah spent the second half of the year building a new commercial plan for the business and determining its future priorities.

Learnings from other successful lead generation businesses, including eLocal, show the benefit of offering a solution for national accounts and larger trades companies. These companies want a greater volume of leads and have the support functions to enable them to maximise lead conversion. HomeServe Spain's Claims operation is a good example of such a business and Habitissimo has been working closely with them to develop its offer.

By focussing its efforts on increasing the volume and quality of leads it generates, Habitissimo intends to grow its lead generation business whilst also launching the directory model under the HomeServe brand in Spain later in 2020. To provide additional bandwidth and oversight, the decision has also been taken to exit Argentina, Columbia and Peru, Habitissimo's three smallest LATAM territories.

eLocal

On 26 November 2019 HomeServe acquired 79% of eLocal for £98.8m. eLocal is a fast growing Home Experts business based in Philadelphia, in North America, with annualised revenue of c. $90m, a network of 3k paying trades and a directory of c. 8.5m free listings. The key management team has been retained with Bruce Aronow, one of the founders, continuing as CEO.

eLocal's business model most closely resembles lead generation with a number of unique aspects that can be applied in HomeServe's other Home Experts businesses. As well as using its own SEO and SEM (Search Engine Optimisation and paid Search Engine Marketing), eLocal utilises a wide network of affiliates to generate leads principally via calls from consumers. These are then monetised by matching to a network of trades, many of whom are larger national accounts buying hundreds or even thousands of leads a year. The focus on calls and larger national accounts means that today eLocal generates fewer web visits and has fewer paying trades than both Checkatrade and Habitissimo so all businesses are already working closely together to share best practice and initiatives to drive future growth. eLocal is also looking at ways to work more closely with the North America Membership business.

Financial performance for FY20 was lower than originally anticipated with additional costs incurred to integrate the business into a Plc environment and to introduce headcount to prepare the business for its future growth plans. The business was also impacted by COVID-19 with significantly reduced demand in March. HomeServe now expects eLocal to add in excess of $10m of adjusted operating profit in FY21 vs. previous guidance of $16m.

France

During the year Home Experts in France launched a test with free basic website listings, upselling trades to enriched, fuller profiles. Following the successful test, in May 2020 HomeServe entered into a new structure to scale the business. The management team will now own 80% with HomeServe taking a 20% stake with an option to increase this in the future, once the business has achieved national scale.

New Markets

£ million	2020	2019	Change
Adjusted operating loss	**(4.7)**	(2.4)	91%

In January 2020 HomeServe announced that its Japanese joint venture with Mitsubishi Corporation had signed its first utility partnership, with Chugoku Electric a utility in Western Japan serving 2.9m households. Responses to initial marketing campaigns launched in January were very encouraging with take-up rates approaching those seen in North America. Marketing was paused as a result of COVID-19 but the business continues to run tests and is building a pipeline of other utility partnerships as it attempts to grow its access to Japan's 53m households.

The £4.7m loss also includes the cost of the international business development team, which continues to prospect and hold discussions in a number of other countries.

HomeServe saw limited opportunities for Membership growth in Italy, so in line with its discipline of focusing resources on the Group's largest opportunities, the decision was taken to exit the Italian operations. HomeServe sold its 49% share in its Italian associate and 0.2m customers to its partner and existing 51% shareholder Edison Energia for cash consideration of £8.4m, giving rise to a £3.8m exceptional gain.

FINANCIAL REVIEW

These financial results have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the European Union.

Group statutory results
The headline statutory financial results for the Group are presented below.

£million	**2020**	2019
Total revenue	**1,132.3**	1,003.6
Operating profit	**158.6**	152.6
Net finance costs	**(20.7)**	(13.1)
Adjusted profit before tax	**181.0**	161.7
Amortisation of acquisition intangibles	**(35.5)**	(26.8)
Exceptional items	**(7.6)**	4.6
Statutory profit before tax	**137.9**	139.5
Tax	**(32.1)**	(31.2)
Profit for the year	**105.8**	108.3
Attributable to:		
Equity holders of the parent	**106.0**	108.5
Non-controlling interests	**(0.2)**	(0.2)
	105.8	108.3

Profit before tax
A strong operational performance driven by profit growth in all Membership businesses resulted in a 12% growth in adjusted profit before tax to £181.0m.

Statutory profit before tax is reported after the amortisation of acquisition intangibles and exceptional items as detailed below. On this basis profit before tax was £137.9m (FY19: £139.5m) as underlying profit growth was offset by net exceptional charges of £7.6m recorded principally in the UK in relation to the Group's LeakBot asset (see below).

Net finance costs
Net finance costs rose to £20.7m (FY19: £13.1m) due to the unwinding of interest on deferred consideration in relation to previous M&A activity, the impact of IFRS 16 and the higher average net debt balance year on year combined with a higher weighted interest rate as a result of US Private Placements agreed in the prior year.

Exceptional items
The Group incurred the following exceptional items in the year, amounting to a net charge of £7.6m (FY19: net gain of £4.6m).

Consumers and insurance partners have been slower than expected to adopt smart leak detection technology. Following the Group's annual budgeting process and subsequent updates in light of COVID-19 HomeServe completed an impairment review of the Group's LeakBot assets, concluding that the net assets of the business are impaired, and incurring £15.0m of exceptional charges. This conclusion has been reached based on a number of factors affecting expected future cash flows including commercial traction, access to investment and the pace of technology change. Of the £15.0m, £12.9m related to the impairment of development assets for the LeakBot device, £1.4m of inventory and a £0.7m restructuring provision.

An exceptional gain of £3.8m was recorded in relation to the sale of HomeServe's Italian associate, Assistenza Casa, principally representing the excess of the total £8.4m sale proceeds over the carrying value of the investment in the Group's balance sheet.

A further exceptional gain of £3.6m was recorded in relation to the purchase of the remaining 30% stake in Habitissimo, principally representing the lower consideration paid of £7.7m compared to the carrying value of the option liability in the Group's balance sheet.

The prior year exceptional item of £4.6m included an exceptional cost of £5.5m, mostly related to redundancies and other associated charges incurred in respect of changes to the organisational design of the UK business. Offsetting this charge was an exceptional gain of £10.1m relating to a fair value movement on contingent consideration payable to the previous owners of Help-Link upon hitting certain stretch target volumes of boiler installations. At 31 March 2019 the Group determined that the likelihood of hitting these targets was remote and that the fair value of the outstanding liabilities was £nil.

Amortisation of acquisition intangibles
Acquisition amortisation relates to customer and other contracts held by businesses, which were acquired by HomeServe as part of business combinations and asset purchases.

The amortisation of acquisition intangibles of £35.5m (FY19: £26.8m) increased principally due to charges relating to prior year M&A activity.

Amortisation of acquisition intangibles is excluded from the adjusted performance measures reported by the Group in each specific reporting period, ensuring that these measures only reflect the revenue attributable to, and costs incurred by, the Group in managing and operating its businesses and assets at that time in each reporting period. A reconciliation between adjusted and statutory amounts is included with the Glossary at the end of this announcement along with further commentary on HomeServe's use of adjusted items as an Alternative Performance measure.

Tax strategy
The Group has continued to operate within the tax strategy approved by the Board in May 2019. The tax strategy is subject to annual review and reflects HomeServe's status as a plc, and the regulated nature of its business which requires strong governance and consideration of reputation as well as compliance with local laws, regulations and guidance. The UK elements of the tax strategy document are publicly available on the Homeserve plc website as required by UK legislation.

The Group tax strategy covers how HomeServe:

(i) applies tax governance on an ongoing basis and maintains strong internal controls in order to substantially reduce tax risk;
(ii) will not engage in artificial transactions the sole purpose of which is to reduce tax;
(iii) holds a strategic aim to retain its low tax risk rating as determined by the UK Tax Authority's Business Risk Review process; and
(iv) works with all tax authorities in an open, honest and transparent manner.

Tax charge and effective tax rate
The Group's tax charge in the financial year was £32.1m (FY19: £31.2m), representing an effective tax rate of 23% (FY19: 22%). The corporate income tax rates in the overseas countries in which the Group operates continue to be higher than the UK corporate income tax rate of 19% (FY19: 19%), which results in a Group effective rate higher than the headline UK rate. As the proportion of the Group's profits earned overseas continues to grow, the effective tax rate is expected to increase slightly.

Other comprehensive income
At 31 March 2020 the fair value of the Group's investment held in a manufacturer of smart thermostat connected home technology has been reassessed. In light of the current market conditions and uncertainty associated with the COVID-19 pandemic the Group has reduced the fair value of its investment by £3.7m. This movement, net of a £0.8m reduction in the associated deferred tax liability, has been recorded in the investment revaluation reserve.

Cash flow and financing
HomeServe's business model continues to be highly cash generative with free cash flow in FY20 of £93.4m (FY19: £44.3m).

£million	**2020**	2019
Adjusted operating profit	**201.7**	174.8
Exceptional items	**(7.6)**	4.6
Amortisation of acquisition intangibles	**(35.5)**	(26.8)
Operating profit	**158.6**	152.6
Impact of exceptional items	**7.6**	(4.6)
Depreciation and amortisation	**109.1**	73.9
Non-cash items	**9.2**	10.7
Increase in working capital	**(44.1)**	(30.4)
Cash generated by operations	**240.4**	202.2
Net interest and associated borrowing costs	**(18.5)**	(9.9)
Repayment of lease principal	**(12.4)**	(0.6)
Taxation	**(30.2)**	(31.7)
Capital expenditure - ordinary	**(79.0)**	(66.9)
Capital expenditure - acquisitions of policy books	**(6.9)**	(48.8)
Free cash flow	**93.4**	44.3
Acquisition of subsidiaries	**(140.6)**	(37.5)
Acquisition of non-controlling interest	**(7.7)**	-
Acquisition of investments	**-**	(5.4)
Proceeds on disposal of equity accounted investments	**8.4**	-
Equity dividends paid	**(73.5)**	(65.0)
Purchase of own shares	**(3.0)**	-
Issue of shares (net of associated issue costs)	**0.1**	2.2
Net movement in cash and bank borrowings	**(122.9)**	(61.4)
Impact of foreign exchange and other non-cash items	**(11.5)**	(5.4)
Net debt acquired	**(11.8)**	(0.1)
IFRS 16 lease liabilities acquired	**(3.4)**	-
Lease liabilities – adoption of IFRS 16	**(52.6)**	-
Movement in IFRS 16 lease liabilities	**(2.1)**	-
Opening net debt	**(304.7)**	(237.8)
Closing net debt	**(509.0)**	(304.7)

Working capital
Working capital absorption was £44.1m in FY20 (FY19: £30.4m) slightly higher than guided, reflecting the expected growth in all businesses, in particular in North America and the adverse timing of underwriting payments in the UK.

Capital expenditure
Total capital expenditure of £85.9m (FY19: £115.7m) included £6.9m (FY19: £48.8m) for the acquisition of five small policy books across France, Spain and North America. Bolt-on policy books continue to be a proven, comparatively low-risk approach for acquiring additional customers. In FY19 the cash outflow of £48.8m related principally to the second tranche of the Dominion Products and Services policy book.

Ordinary capital expenditure of £79.0m included £21.0m (FY19: £15.0m) of payments made to partners who undertake marketing activity to acquire customers on HomeServe's behalf with the largest increase in France due to higher sales completed by Veolia which helped drive France's highest ever new customers acquired.

The balance of £58.0m (FY19: £51.9m) principally comprised technology investments in customer and network management systems in Membership and platform developments at Checkatrade. With major capex programmes such as the UK Customer Relationship Management system coming to an end, capital expenditure is expected to fall.

Acquisitions
M&A activity continued to support HomeServe's growth ambitions, incurring a cash outflow in the year of £140.6m. There were three material acquisitions in the year, all in North America;

- 79% of eLocal Holdings LLC for a net cash outflow of £93.4m, bringing Home Experts to North America

- a group of assets constituting a business under IFRS 3 from Sunbelt Group LLC, "ServLine", for an outflow of £13.7m, expanding the product and partnership opportunities of the North American Membership business

- Crawford Services Inc., a HVAC service provider, enhancing the scale and scope of HomeServe's HVAC capabilities, for a net outflow of £10.5m

The acquisition of 79% of eLocal also provided HomeServe with options to acquire the remaining 21% by FY26. Further detail on the structure and operation of the different 'put' and 'call' options is disclosed in note 12. At 31 March 2020 the carrying value of obligations under these put options was £31.3m.

An additional 14 businesses were acquired for an outflow of £16.6m as the Group continued the pursuit of its HVAC buy-and-build strategy in North America, France and Spain and Membership added two whole home warranty providers, enabling the North America business to gain experience and a foothold in this growing market to support the launch of its own *TotalHome* Warranty product.

In addition to the total net cash outflow on the acquisitions above of £134.2m, deferred and contingent consideration was paid relating to previous business combinations of £6.4m (FY19: £10.4m).

HomeServe continues to identify and assess M&A opportunities in all of its businesses, including further HVAC investment as it expands its buy-and-build initiative. Policy book M&A remains a low risk approach to accelerating growth and HomeServe continues to attempt to unlock opportunities in all countries, particularly North America.

Purchase of own shares
During the year 249,975 (FY19: nil) shares were repurchased at a cost of £3.0m (FY19: £nil) to fulfil awards made under share incentive schemes. No shares were transferred to individuals to satisfy awards (FY19: nil).

Earnings per share
Basic earnings per share for the year decreased by 3% to 31.7p from 32.7p due principally to the impact of the exceptional items discussed above. On an adjusted basis, earnings per share increased 10% from 37.5p to 41.3p. The weighted average number of shares increased from 331.7m to 334.2m principally due to new shares issued in fulfilment of share schemes that vested in the year.

Dividends
Given the Group's good performance, the Board's confidence in HomeServe's continued short-term resilience and its future prospects, the Board is proposing to increase the final dividend to 17.8p per share (FY19: 16.2p) to be paid on 3 August 2020 to shareholders on the register on 3 July 2020.

Together with the interim dividend declared in November 2019 of 5.8p (November 2018: 5.2p), this represents a 10% increase in the total ordinary dividend payment for the year of 23.6p (FY19: 21.4p), which is 1.75x covered by the FY20 adjusted earnings per share (FY19: 1.75x).

Financing
In FY20 the Group continued to target net debt in the range of 1.0-2.0x adjusted EBITDA, measured at 31 March each year. With adjusted EBITDA of £275.3m and net debt of £509.0m, including c. £60m of lease liabilities at 31 March 2020 following the adoption of IFRS 16 in this financial year, the Group was inside its target range at 1.8x. Due to the ordinary seasonality of the business, net debt is expected to increase at the next half year before declining, absent any future M&A.

Excluding lease liabilities, gross debt was c. £580m and cash was c. £131m, giving the Group over £330m of headroom against total available facilities of £780m. Included within the facilities is a new £50m revolving credit facility added on 30 March. With this headroom and with only £36m of the facilities due within the next 12 months the Group is well positioned to address the challenges posed by COVID-19.

Net interest and borrowing costs paid increased to £18.5m (FY19: £9.9m) principally due to the higher net debt figure year on year and a full year's fixed interest charge on the c. £175m US Private Placement agreed in October 2018.

At a Company only level HomeServe has replaced intercompany receivables with an injection of capital into its intermediary holding companies to better match their funding requirements. There is no impact from this to the consolidated Group financing position.

Foreign exchange impact

The impact of changes in the Euro and USD exchange rates between FY19 and FY20 resulted in a £9.1m increase in the reported revenue and a £1.3m increase in adjusted operating profit of the international businesses as summarised in the table below, largely as a result of a beneficial movement in the US dollar. The impact of foreign exchange on statutory operating profit was in line with this.

					Effect on (£m)	
		Average exchange rate			**Revenue**	**Adj. operating profit**
		2020	2019	Change	**2020**	**2020**
North America	$	**1.27**	1.31	(3)%	12.1	2.2
France	€	**1.15**	1.13	1%	(1.4)	(0.7)
Spain	€	**1.15**	1.13	1%	(1.5)	(0.2)
Home Experts[1]	€	**1.15**	1.13	1%	(0.1)	-
Total International					**9.1**	**1.3**

[1]Home Experts is reported in GBP due to the different currencies used by the operating businesses within the segment. This table shows the impact of foreign exchange movements in the Euro for the results of Habitissimo

With an increasing proportion of HomeServe's profits generated overseas, the potential translation impact of foreign exchange movements on reported profits may have a larger impact. A ten cent movement in the FY20 average USD rate of 1.27 and the Euro rate of 1.15 would have had approximately a £7.0m and £5.0m impact respectively on full year adjusted operating profit.

The impact of future movements in the Yen in FY21 following HomeServe's new joint venture in Japan is not expected to be material.

IFRS 16

HomeServe has adopted IFRS 16 using the modified retrospective 'Asset = Liability' approach with a date of initial application of 1 April 2019. Comparative information provided in this announcement has not been restated. The effect of IFRS 16 on the income statement is to remove operating lease charges previously shown within 'operating costs', replacing them with depreciation and interest charges that now result from the capitalisation of "Right of Use Assets" and the recording of "Lease Liabilities" in the consolidated balance sheet (see note 2).

There is no material impact on FY20 PBTA as a result of adopting IFRS 16. The effect on adjusted operating profit at a Group level is a reduction of £0.2m with the segmental breakdown shown in the Glossary, at the end of this announcement.

Customers

HomeServe Membership's growth strategy aims for the business to provide its products to more homeowners. It does this by successfully marketing its products to end consumers and by delivering high standards of service. HomeServe's customer KPI measures its success in achieving this aim.

Under IFRS 15 a customer is defined as 'a party that has contracted with an entity to obtain goods or services'. In the Membership businesses where the Group acts as an intermediary selling contracts and insurance policies to end consumers, the 'IFRS 15 customer' is considered to be the underwriter with which the Group has contracted to sell policies. The Glossary at the end of this announcement provides further detail on customer definitions and the associated effect this has on revenue recognition.

Principal Risks and Uncertainties

HomeServe has a robust risk management framework which encompasses the Group's risk policy and overall risk appetite. The framework utilises the three lines of defence model which is recognised as best practice across the industry. It provides a disciplined and consistent approach across all of HomeServe, ensuring a structured response at all levels throughout the Group and across all businesses and geographies.

This structured approach is aimed not only at monitoring and mitigating identified risks but also aims to capture and escalate emerging risks and opportunities and is best illustrated by HomeServe's response to COVID-19, the rapid move to home working for all office based staff and initiatives in the field to ensure a safe continuity of service for HomeServe's customers.

Plc Board

Audit & Risk Committee

Executive Committee

Three scheduled risk discussions p.a.

- Risk discussion chaired by the CFO
- Composed of Executive Directors and representatives from each Group business
- Discussions are reported on at the Audit & Risk Committee

Line 3. Independent

Internal Audit & Assurance

- Review 1st and 2nd lines
- Independent testing & challenge & oversight of Lines 1 & 2

Line 2. Risk, Control & Compliance Functions

Including Financial Control, Information Security, Risk Management, Legal and Compliance

- Oversee & challenge risk management
- Monitor and test risk systems & controls in the 1st line
- Review & challenge incident management in the 1st line & develop Risk Management Framework
- Provide risk MI to governance committees

Line 1. Business Unit Operations

All front line and support functions

- Lead day-to-day risk management
- Maintain local Risk Registers
- Own and operate processes and mitigating controls
- Undertake quality assurance activities and provide appropriate training

Other External bodies e.g. External Audit, Regulators

Strategic Risks
Operational Risks
Financial Risks

Changes in FY20

Group Enterprise Risks are considered to represent the most significant threats to HomeServe's ongoing strategy and operations. Risk registers continue to be maintained at a local level in every business and are formally reviewed by the Audit & Risk Committee at each of its meetings together with Group Enterprise Risks.

In previous years all businesses had separately considered the effects of climate change within the context of other risks. With increasing interest in this area amongst our staff, as well as other stakeholder Groups, all businesses commenced a more coherent approach this year to implement actions which improve HomeServe's environmental impact. With discussions also occurring at Board and Exec level, the potential impacts of climate change and other environmental considerations on HomeServe's business model have been considered more formally and Sustainability is now reported separately as a Group Enterprise Risk.

Whilst climate change affects all of our business lines, Membership continues to dominate the rest of our Principal Risks - understandably so, given its current size relative to other business lines. However as Home Experts continues to grow and with the acquisition of eLocal, there have been movements in certain other risks and new emerging risks in Home Experts may become elevated to Group Enterprise Risks in the future.

The following table sets out what the Board believes to be the principal risks and uncertainties facing the Group, the mitigating actions for each, and where applicable, updates on any change in the profile of each risk during the past year. All risks carry equal importance and weighting for the Board, however additional focus and priority may be given to specific risks for a period of time in certain circumstances e.g. following a material acquisition or to implement plans to reduce any risk which exceeds the appetite threshold.

Some additional, presentational, changes have been made this year to align risk labels to those reviewed internally by HomeServe's Committees and Board. Where there has been an update, the previous name is denoted below the risk label in the principal risks table.

The principal risks and uncertainties should be read in conjunction with the Operating Review and the Financial Review. Additional risks and uncertainties of which HomeServe is not currently aware or which are believed not to be significant may also adversely affect strategy, business performance or financial condition in the future.

Risk Appetite

In accordance with the Group's Risk Management policy, the Group's risk appetite is subject to an annual review of its definition, content and criteria for assessment scores.

The Board's assessment of risk appetite is guided by our vision to become the world's most trusted provider of home repairs and improvements and by our purpose to make home repairs and improvements easy. HomeServe's values reflect our commitment to our customers, our people, to innovation and integrity and being the best at what we do. HomeServe's risk appetite is comparatively low, recognising; firstly our status as a plc which requires strong governance and reputation, together with delivering returns for our shareholders and; secondly our regulated status which requires compliance with local laws, rules and guidance.

Risks are assessed at a local level on a gross basis using a matrix approach, to score likelihood and impact, and on a net basis after considering any mitigations which have been applied.

Brexit

Brexit has never featured as one of HomeServe's enterprise risks but it continues to be monitored at a local and a Group level following the UK's formal exit on 31 January 2020. Brexit retains the potential to be one of the most significant economic events for the UK and the full range, scale and timing of potential outcomes and impacts are not yet certain. However, HomeServe continues to believe the impact on the underlying performance of the Group will be limited.

HomeServe's businesses trade exclusively within their own borders and HomeServe is not exposed to any cross border transactional currency risk. The Group remains subject to translation risk on the presentation of results in Sterling however this is within the ordinary course of business.

COVID-19

The COVID-19 crisis is still an evolving situation which all businesses are actively tackling in a number of different respects. For example ensuring technology is available to support staff working from home, ensuring that engineers on the front line can complete repairs whilst protecting themselves and our customers and ensuring that supplier relationships are maintained safely and appropriately to deliver the necessary protective equipment and parts and materials.

As a risk which has crystallised, COVID-19 is categorised neither as an enterprise level risk nor as an emerging risk. However consideration is being given to a wider emerging risk of the potential for other pandemics in the future. The work undertaken to switch to home working and maintain emergency repairs is being reviewed as is the impact on sales volumes, claims volumes, cancellation rates and a number of other KPIs and metrics. The results of this analysis will inform not only short-term return to work plans but also longer term risk monitoring approaches and mitigations.

Having demonstrated in the short term that we were able to respond quickly and effectively to keep operations functioning and maintain good levels of service in all businesses, key to the longer term prospects of the Group will be the resilience of the model and consumer behaviour. In previous periods of consumer uncertainty and economic downturn, for example during the financial crisis in c. 2008 to 2009, little negative impact on business performance was observed and the model remained resilient.

Impacts have so far been more pronounced on the Home Experts businesses but the portfolio effect of different business lines, and four main Membership businesses situated in different countries affords a good degree of protection for the Group as a whole and the longer term prospects for Home Experts, including Checkatrade’s milestone targets remain unchanged. Underpinning the resilience of the Membership model is the type of customer it attracts; policy buyers like to protect themselves from unforeseen expenses and the difficulty of getting a good tradesman out quickly. The additional requirement to find a provider who can perform repairs whilst adhering to strict health and hygiene guidance is an extra factor customers now need to consider.

The Group has a strong balance sheet and retains a range of financing facilities with medium to long term maturities, which provide access to additional resources across a range of currencies. With over £330m of headroom against its debt facilities, liquidity is healthy and the Group is well positioned to face the ongoing challenges of COVID-19.

For further detailed actions and initiatives being taken as a result of COVID-19, please see the Chief Executive’s Review.

Enterprise risks

Movements in risks shown below are largely ‘business as usual’ but all risks are now in sharper focus as a result of the circumstances concerning COVID-19 and wider economic uncertainty. However some risks have increased as a direct consequence of COVID-19 e.g. Cyber, as a result of 6,000 new homeworkers.

The COVID-19 situation is unprecedented and will likely have a number of other unforeseen outcomes on the risks below potentially both positive and negative e.g. M&A activity was paused as the Group exercised additional caution due to the widespread uncertainty but there is every possibility that more M&A opportunities may now arise and at more favourable multiples. For example a utility could revisit its current stance and opt to sell its policy book in order to fully focus on its core operations. Additionally there may be further upside opportunities as HomeServe advances its current product initiatives e.g. *HomeServe Now* and looks to meet the possibility of increased demand when situations ease across the countries in which HomeServe operates.

Overview	*Mitigations*	*Update in year*
Competition *(FY19: Market Disruption)* In all of our business lines a successful new entrant or an existing competitor adapting more quickly to changing customer demands and needs could adversely impact our business and our financial results with lower customers, retention rates, revenue and profitability. Competitors with active M&A programmes could also show interest in HomeServe's targets, leading to missed opportunities or over-paying. Competitive threats today include, but are not limited to; • Utilities running Membership programmes in-house • Adjacent products e.g. Whole Home Warranty • Existing competitors moving into other geographies • New entrants e.g. Amazon or Google investing heavily to enter the home services space with new products or technologies • Incumbent competitors to Home Experts in the UK e.g. Rated People, MyBuilder	We demonstrate to utilities that they can benefit more by partnering with HomeServe due to our long term investment horizon. Regular market reviews in each business identify new entrants and increases in competitor activity e.g. aggressive pricing initiatives. Agile product development responds to changing consumer needs. Shared learning between our markets, analysing consumer trends and developing leading products and services. Home Experts businesses all currently employ different models; we are adapting and learning from each of them and liaising more frequently with our Membership businesses to develop the range of services that customers want and the best means of accessing them.	↑ No material change in existing businesses but acquisition of eLocal in November 2019 provided an entry for Home Experts in North America, a market where the current number one provider, ANGI Home Services is located. eLocal management team retained as part of the deal to provide local market knowledge. eLocal is already sharing best practice with our other Home Experts teams.
Information security & cyber resilience *(FY19: Cyber security)* In line with other businesses, HomeServe is subject to the increased prevalence and sophistication of cyber-attacks, which could result in unauthorised access to customer and other data or cause business disruption to services. A successful cyber attack might have a significant impact on reputation, reducing the trust that customers place in HomeServe and could lead to legal liability, regulatory action and increased costs to rectify. A lapse in internal controls and a subsequent data breach or loss would have a similar impact. Total customer numbers and policy retention rates may reduce and partners may terminate affinity relationships if they perceive customer data to be at risk.	HomeServe has a number of defensive and proactive practices across the Group to mitigate this risk. There is a detailed information security policy, which is communicated across the Group and training is provided as required. Regular penetration testing is in place to assess defences and HomeServe continues to invest in IT security, ensuring a secure configuration, access controls, data centre security and effective communication of policies and procedures to all employees.	↑ Cyber continues to be a key area of focus for the Group with emphasis on both maintaining and increasing the maturity and capabilities of our controls and countermeasures. A single team has been created bringing together those people with a primary cyber security responsibility, who until recently operated with a degree of independence within individual Group businesses. The change will further enhance consistency and maturity of risk management and mitigation, as well as improve efficiency in the delivery of our strategic roadmap. A comprehensive suite of Policies and Standards remains in force. Cyber audits were completed as part of the annual assurance plan in FY20, with more visits scheduled for FY21.
M&A Strategy HomeServe has an active M&A strategy focused on two primary areas; Membership policy books and a buy-and-build strategy to grow the HVAC business line. There is a risk HomeServe could overpay for transactions or underestimate the time and resource required to integrate new businesses, potentially leading to lower than anticipated cash inflows and revenue, increased costs,	Strict criteria when building a prospects pipeline. Independent advisers engaged in due diligence processes. Strong track record and experience of acquiring and growing policy books.	↔ There has been increased M&A expenditure this year (see note 12) but no change to the underlying risk, with all acquisitions appropriately appraised by dedicated M&A teams and transactions approved by local and / or Group Board.

reduced profitability and an increased likelihood of impairment. By contrast, a successful M&A strategy should diversify risk by, for example, introducing new partners and channels, increasing profitability and should lead to increases in KPIs such as customers and policies.	Local management expertise with oversight from central plc function Clear investment hurdles and completion of post-investment reviews. All investments require local and, where applicable, plc Board approval.	M&A was paused post year end as a result of COVID-19. When it restarts there will be a requirement for an even sharper focus to ensure we do not overpay.
Underwriting capacity & concentration The Membership business line markets and administers policies that are underwritten by independent third party underwriters. HomeServe acts as an insurance intermediary and does not take on any material insurance risk. These arrangements are a core part of the Membership model and help protect HomeServe from short term risk e.g. of rising claims costs or frequencies. Seeking new underwriters and obtaining relevant regulatory approvals may take time, leading to business disruption. Lack of suitable underwriters could force HomeServe to underwrite policies in-house, exposing it to material insurance risk. A material change in the operating model would also drive a change in accounting policy that could affect short term profitability. Customer numbers and retention rates may fall if customers experience reduced service levels or are not covered throughout any period of disruption.	With the exception of the UK, at least two underwriters share the policy books in each country. In the UK, HomeServe maintains relationships with a number of other underwriters who are willing and able to underwrite the business. Regular (at least 6 months) reviews with all underwriters to ensure that current product performance and trends are understood.	HomeServe's agreement with Aviva in the UK was renewed for a further five years and all other relationships remain strong with regular meetings conducted over the course of FY20. We have remained in regular contact with our underwriters to discuss the potential impacts of COVID-19. Our two biggest underwriters across the Group (Aviva and Amtrust) are in a strong financial position and we do not anticipate any issues with regards to our underwriting relationships as a result of the current crisis.
Regulation *(FY19: Regulation & customer focus)* HomeServe is subject to regulatory requirements relating to e.g. product design, marketing materials, sales processes and data protection. HomeServe believes that regulation has a positive impact and encourages a culture that promotes customers' interests and will improve HomeServe's prospects over both the short and long term. Like many companies HomeServe is also subject to wider regulation concerning e.g. anticorruption, anti-fraud and bribery, modern slavery etc. Specific policies can be found at http://www.homeserveplc.com/about-us/corporate-governance/policies.aspx Failure to comply with regulatory requirements in any of its countries could result in the suspension, either temporarily or permanently, of certain activities. Much regulation is intended to protect customers and failure to adhere to the high expectations customers have for HomeServe could lead to reduced retention and higher customer losses. In addition, legislative changes relating to partners may change their obligations with regard to the infrastructure they currently manage and hence the products and services HomeServe can offer to customers. It is possible such legislative changes could reduce, or even remove, the need for some of HomeServe's products and services	Compliance with local regulation as a minimum to ensure products are designed, marketed and sold in accordance with all relevant legal and regulatory requirements and that the terms and conditions are appropriate and meet the needs of customers. Best practice shared across the Group. Regulatory specialists, compliance teams and Non-Executive Directors in each business. HomeServe maintains regular dialogue with the FCA in the UK. In North America, there is regular contact with the Attorneys General.	In 2019 the FCA released its Interim Review of Pricing Practices in General Insurance in which it stated a number of possible intervention measures it may consider with regards to pricing journeys, payment methods and disclosure requirements for all insurance providers. The scrutiny of the wider UK insurance industry is seemingly increasing, but HomeServe maintains a robust approach to regulatory matters and we continue to monitor and await the publication of the FCA's full report. The FCA has also published additional guidance for insurance providers throughout the coronavirus pandemic stating their expectation that firms display increased awareness and respond flexibly to changing consumer circumstances. HomeServe is keeping its customers regularly informed via its many channels, including letters and telephony as well as online and continues to closely monitor the FCA's updates.

		There has been no change in the regulatory environments in which our other businesses operate.
Digital transformation *(FY19: Digital & innovation)* As distinct from Technology Investment (below) Digital Transformation relates principally to interactions with customers (be they homeowners or trades), ensuring we offer a multi-channel, multi-media approach to interact with them and that we do so in an efficient and cost effective manner. If HomeServe is not flexible enough to respond to changing needs, customers may explore competitor products and choose not to renew. There is also a reputational risk as complaints logged via social media can quickly escalate if not dealt with in an appropriate and timely manner.	HomeServe continues to review and respond to customer comments and needs and customers are offered a number of channels through which they can engage with HomeServe: telephone, website, Digital Live Chat, paper, email and social media. Recruitment is increased in areas short on the required expertise.	↔ The importance of providing a flexible approach became very clear in March 2020 as restrictions on movement came into force, limiting the 'normal' day to day operations. The ability for customers to claim online or use a Smart IVR made the transition to c. 6,000 employees working from home a much smoother process. We continue to make investment in the development of *HomeServe Now*, a new way for customers to gain a fast response from an available engineer.
Technology Investment *(FY19: Investment in technology)* As distinct from Digital Transformation (above), this risk principally relates to investment in the key systems the Group relies on to manage its daily operations. Appropriate and timely maintenance and investment is required to ensure systems continue to meet the changing needs of the business and its customers. Home Experts, particularly Checkatrade, is embarking on a programme of transformation to ready the business for its ambitious growth plans. Failure in back office systems may lead to business interruption and lack of investment to provide timely and appropriate data could jeopardise the ability to analyse performance indicators and react to any trends. Over investment in any new initiatives could see investment outweigh future benefits and lead to impairment.	All decisions are subject to the Group's strict investment criteria and hurdles. Major IT programmes are allocated specific governance structures and oversight with members of senior management sitting on the Programme Board. HomeServe engages a number of external advisers on large software projects to provide appropriate breadth and depth of experience and expertise to ensure there is no over-reliance on any one supplier and to support management in project delivery.	↔ The UK's new core customer management system went live in 2019. c. 75% of all new customer acquisition activity is now managed through this system and migration of existing customers from the legacy system has commenced. Completing the migration in an efficient and cost effective way is a critical next step to the full deployment of the new system. France and Spain are also conducting CRM implementations, Checkatrade is introducing a new billing engine and the Group continues to appraise the systems and processes in place at each business to ensure it is efficiently using the functionality and processes available from leading software providers. Technology investments in recent years helped facilitate the mobilisation of 6,000 office based employees to working from home in support of the restrictions on movement during COVID-19.
HVAC Integration The higher volume of HVAC acquisitions requires disciplined and often standardised processes to ensure successful integration into HomeServe, creating strong links to the Membership business and achieving synergies with e.g. the engineer network. Failure to integrate acquisitions quickly and effectively could result in failure to deliver synergies, and increase costs, resulting in failure to achieve predicted revenues and potentially lead to impairment.	Integration plans form part of all business case approvals. Post-investment reviews provide learning for future acquisitions. Dedicated teams and resources and retention of key management personnel in the acquired businesses. HVAC managed locally but with a central global team to coordinate and ensure consistent application of best practice.	↑ A total of 15 HVAC acquisitions were made in FY20 across the US, France and Spain.

Partner loss *(FY19: Partnerships)* Underpinning HomeServe's success in its chosen markets are close commercial relationships (affinity partner relationships) principally with utility companies, and municipal utility providers. The loss of one of these relationships could impact HomeServe's future customer and policy growth plans and retention rates. Growth plans, particularly in North America, focus on signing new partners to extend reach and provide new marketing opportunities to grow the business. HomeServe has benefitted from government policy changes in certain regions to form new partnerships e.g. liberalisation of energy markets in Spain. Any reversal e.g. to renationalise utilities could have an adverse impact albeit HomeServe does have strong experience working with public sector municipals in North America. With c. 1,000 partners across the Group it is inevitable that a few partners each year may choose not to renew a contract as priorities or commercial pressures change. In the UK and North America where partner bases are more diversified the impact is considered small. In France the loss of e.g. Veolia would have a bigger impact similar to that of Endesa in Spain where the back book is now in run-off. Any partner loss or failure to sign new partners could impact households, customers and also retention rates, without use of the partner brand.	A portfolio of partners in each business diversifies risk. Partners signed on long term contracts with beneficial financial terms for each party. HomeServe seeks to renew contracts early, ahead of any expiration date. Regular dialogue with all partners, particularly in markets with more concentrated partner relationships e.g. France.	↔ We are signing partners at a rate of over two a week in North America and continue to renew partnerships in our other businesses. In January 2020 we announced our first partnership – with Chugoku Electric – for our Japanese joint venture.
People HomeServe's ability to meet growth expectations and compete effectively is, in part, dependent on the skills, experience and performance of its personnel. Retention of people in established businesses is key as is recruitment of talented people in growth businesses e.g. Home Experts. The inability to attract, motivate or retain key talent could impact overall business performance. HomeServe has a lot of growth opportunities and ensuring appropriate bandwidth at the top of the organisation is key to maintaining effective control and oversight. Gender Pay disclosures in the UK and reviews such as Hampton Alexander also play an increasing role informing HomeServe's People agenda and ensuring we have the appropriate diversity of people, experience and ideas to move the business forward.	Employment policies, remuneration and benefits packages and long-term incentives are regularly reviewed and designed to be competitive with other companies. Employee surveys, performance reviews and regular communication of business activities are used to understand and respond to employee views and needs. Processes exist to identify high performing individuals and ensure that they have fulfilling careers, and HomeServe is managing succession planning effectively.	↔ HomeServe now employs over 6,000 people globally. 86% of those people completed our Global People Survey, returning an engagement score which remained in line with the prior year at 71%. In 2019, our businesses in North America, France and the UK were all accredited as a 'Best Workplace' within their marketplace. We expect additional markets and business units to receive this local accreditation in the next 12 months. Over time we aspire to be recognised as a 'World's Best' workplace at HomeServe Group level. Annual and long-term performance plans have been reviewed and changes are being implemented to achieve clearer alignment between our KPIs and our reward strategy. Our performance management processes and The HomeServe Way, our leadership 'DNA' have also been reviewed to ensure they align fully with our growth strategy and to ensure that consideration is given not only to *what* is achieved but also *how* it is achieved through the right behaviours and collaboration across the Group.

International HomeServe has enjoyed success with its Membership model in markets outside of the UK and intends to expand to other regions. HomeServe has enjoyed success in France, Spain and North America but has been unsuccessful in past attempts to enter Australia, Belgium and Germany. Failure to succeed could divert investment and management time incurring not only losses in the new country but also reduced performance (including, for example, loss of customers, lower profitability) in the core markets.	Strict criteria to identify attractive markets. Joint venture structure such as that employed with Japan diversifies risk and minimises investment. JV partner brings local market knowledge and contacts. HomeServe brings membership model systems and process expertise.	↔ Signed first utility partnership in Japan and initial marketing results are encouraging. International development team continues to prospect other markets.
Sustainability Disruption in operations within our Membership and Home Experts businesses as a direct result of increased frequency and intensity of extreme weather events could impact on both customers and the network due to a potential change in demand e.g. as temperatures rise, demand for heating will decline potentially impacting our core business model and unpredictable weather patterns make running the network less cost effective Reputational impact as all stakeholders become less accepting of businesses that do not work proactively to reduce their environmental impact. Increased costs to the business such as insurance, regulatory restrictions on goods linked to climate change, Health & Safety costs due to potentially harsher working conditions etc, disruption to supply chains creating a bigger challenge for the business with regard to materials and resources.	Environmental issues discussed at Exec and Board level. In FY21, the business will focus on pragmatic, achievable actions to reduce its environmental impact, such as improved recycling and reduced business travel. A carbon offset scheme will be put in place. Going forward, the Group will look for opportunities to lead on environmental issues close to the core of our business and the Board will turn its discussions towards agreeing a formal Environmental Policy.	New for FY20. We started a programme of pragmatic actions across our global business and will continue to focus on these activities next year. These activities are enabled through a global group of employee green champions and driven through a programme of ongoing internal communication and education. First steps have focussed on further improvements to our offices and operations ensuring recycling, reduction in single-use plastic, energy efficient lighting and going 'paperlesss' are embedded as the norm. UK Membership is testing a customer proposition to install domestic electric vehicle charger points.

Financial ↔

Key financial risks include the availability of short-term and long-term funding to meet business needs and take advantage of strategic priorities such as M&A opportunities, the risk of policyholders not paying monies owed, and fluctuations in interest rates and exchange rates.

Interest rate risk
HomeServe's policy is to manage interest cost using a mix of fixed and variable rate borrowings. Where necessary, this is achieved by entering into interest rate swaps for certain periods, in which HomeServe agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional principal amount. These swaps are designated to economically hedge underlying debt obligations.

Credit risk
The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions. The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid.

Liquidity risk
HomeServe manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.

Foreign exchange risk
Short-term foreign exchange risk is mitigated with the natural hedging provided by the geographical spread of the businesses. While this will protect against some of the transaction exposure, HomeServe's reported results would still be impacted by the translation of non-UK operations.

Update in year
A treasury management system implemented to improve global cash visibility, bank connectivity and process efficiency went live this year.

On 30 March 2020, HomeServe arranged an additional £50m of RCF funding. At the year end HomeServe had over £330m of headroom against its total debt facilities and only £36m of the c. £780m of facilities is due within the next 12 months.

Group Income Statement
Year ended 31 March 2020

	Notes	2020 £m	2019[1] £m
Continuing operations			
Revenue	3	**1,132.3**	1,003.6
Operating costs		**(971.6)**	(850.7)
Share of results of equity accounted investments		**(2.1)**	(0.3)
Operating profit		**158.6**	152.6
Investment income		**0.5**	0.2
Finance costs		**(21.2)**	(13.3)
Adjusted profit before tax		**181.0**	161.7
Amortisation of acquisition intangibles		**(35.5)**	(26.8)
Exceptional items	4	**(7.6)**	4.6
Profit before tax		**137.9**	139.5
Tax	5	**(32.1)**	(31.2)
Profit for the year		**105.8**	108.3
Attributable to:			
Equity holders of the parent		**106.0**	108.5
Non-controlling interests		**(0.2)**	(0.2)
		105.8	108.3
Dividends per share, paid and proposed	6	**23.6p**	21.4p
Earnings per share			
Basic	7	**31.7p**	32.7p
Diluted	7	**31.5p**	32.3p

[1] The Group's results are being reported under IFRS 16 for the first time in 2020 following the mandatory adoption of the standard from 1 April 2019. In accordance with the transitional provisions of IFRS 16, comparatives have not been restated. See note 2.

Group Statement of Comprehensive Income
Year ended 31 March 2020

	2020 £m	2019 £m
Profit for the year	**105.8**	108.3
Items that will not be reclassified subsequently to profit and loss:		
Actuarial gain/(loss) on defined benefit pension scheme	**1.6**	(0.4)
Deferred tax (charge)/credit relating to actuarial re-measurements	**(0.3)**	0.1
Fair value (loss)/gain on "fair value through other comprehensive income" (FVTOCI) investment in equity instruments	**(3.7)**	0.7
Deferred tax credit/(charge) relating to fair value gain on FVTOCI investment in equity instruments	**0.8**	(0.2)
	(1.6)	0.2
Items that may be reclassified subsequently to profit and loss:		
Exchange movements on translation of foreign operations	**14.1**	6.8
	14.1	6.8
Total other comprehensive income	**12.5**	7.0
Total comprehensive income for the year	**118.3**	115.3
Attributable to:		
Equity holders of the parent	**118.5**	115.5
Non-controlling interests	**(0.2)**	(0.2)
	118.3	115.3

Group Balance Sheet
31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Goodwill		**509.9**	407.9
Other intangible assets	8	**497.1**	418.6
Contract costs		**16.8**	27.5
Right-of-use assets		**56.8**	-
Property, plant and equipment		**42.0**	42.8
Equity accounted investments		**4.0**	10.6
Other investments		**5.6**	9.2
Deferred tax assets		**6.0**	7.4
Retirement benefit assets		**10.3**	6.4
		1,148.5	930.4
Current assets			
Inventories		**7.9**	7.0
Trade and other receivables		**495.4**	424.6
Cash and cash equivalents		**131.2**	72.6
		634.5	504.2
Total assets		**1,783.0**	1,434.6
Current liabilities			
Trade and other payables		**(410.6)**	(382.3)
Bank and other loans		**(40.3)**	(39.7)
Current tax liabilities		**(5.4)**	(6.0)
Lease liabilities		**(14.1)**	(0.5)
Provisions		**(2.0)**	(5.7)
		(472.4)	(434.2)
Net current assets		**162.1**	70.0
Non-current liabilities			
Bank and other loans		**(540.6)**	(336.4)
Other financial liabilities		**(52.3)**	(23.3)
Deferred tax liabilities		**(26.2)**	(26.4)
Lease liabilities		**(45.2)**	(0.7)
		(664.3)	(386.8)
Total liabilities		**(1,136.7)**	(821.0)
Net assets		**646.3**	613.6
Equity			
Share capital	9	**9.0**	9.0
Share premium account		**189.3**	180.7
Share incentive reserve		**21.9**	23.3
Currency translation reserve		**37.0**	22.9
Investment revaluation reserve		**(0.6)**	2.3
Other reserves		**79.2**	82.2
Retained earnings		**299.9**	293.0
Attributable to equity holders of the parent		**635.7**	613.4
Non-controlling interests		**10.6**	0.2
Total equity		**646.3**	613.6

Group Statement of Changes in Equity

Year ended 31 March 2020

	Share capital £m	Share premium account £m	Share incentive reserve £m	Currency translation reserve £m	Investment revaluation reserve £m	Other reserves[1] £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 April 2019	9.0	180.7	23.3	22.9	2.3	82.2	293.0	**613.4**	0.2	**613.6**
Profit for the year	-	-	-	-	-	-	106.0	**106.0**	(0.2)	**105.8**
Other comprehensive income for the year	-	-	-	14.1	(2.9)	-	1.3	**12.5**	-	**12.5**
Total comprehensive income	**-**	**-**	**-**	**14.1**	**(2.9)**	**-**	**107.3**	**118.5**	**(0.2)**	**118.3**
Dividends paid (note 6)	-	-	-	-	-	-	(73.5)	**(73.5)**	-	**(73.5)**
Issue of share capital	-	8.6	-	-	-	-	-	**8.6**	-	**8.6**
Purchase of own shares	-	-	-	-	-	(3.0)	-	**(3.0)**	-	**(3.0)**
Share-based payments	-	-	7.2	-	-	-	-	**7.2**	-	**7.2**
Share options exercised	-	-	(8.6)	-	-	-	0.1	**(8.5)**	-	**(8.5)**
Tax on exercised share options (note 5)	-	-	-	-	-	-	3.0	**3.0**	-	**3.0**
Deferred tax on share options (note 5)	-	-	-	-	-	-	(1.2)	**(1.2)**	-	**(1.2)**
Changes in non-controlling interests	-	-	-	-	-	-	-	**-**	10.6	**10.6**
Obligations under put options (note 12)	-	-	-	-	-	-	(28.8)	**(28.8)**	-	**(28.8)**
Balance at 31 March 2020	**9.0**	**189.3**	**21.9**	**37.0**	**(0.6)**	**79.2**	**299.9**	**635.7**	**10.6**	**646.3**

Year ended 31 March 2019

	Share capital £m	Share premium account £m	Share incentive reserve £m	Currency translation reserve £m	Investment revaluation reserve £m	Other reserves[1] £m	Retained earnings £m	Attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2018	8.9	171.8	22.1	16.1	1.8	82.2	248.1	551.0	0.4	551.4
Opening adjustment for the impact of IFRS 15	-	-	-	-	-	-	(2.1)	(2.1)	-	(2.1)
Opening balance under IFRS 15	8.9	171.8	22.1	16.1	1.8	82.2	246.0	548.9	0.4	549.3
Profit for the year	-	-	-	-	-	-	108.5	108.5	(0.2)	108.3
Other comprehensive income for the year	-	-	-	6.8	0.5	-	(0.3)	7.0	-	7.0
Total comprehensive income	-	-	-	6.8	0.5	-	108.2	115.5	(0.2)	115.3
Dividends paid (note 6)	-	-	-	-	-	-	(65.0)	(65.0)	-	(65.0)
Issue of share capital	0.1	8.9	-	-	-	-	-	9.0	-	9.0
Share-based payments	-	-	8.8	-	-	-	-	8.8	-	8.8
Share options exercised	-	-	(7.6)	-	-	-	0.8	(6.8)	-	(6.8)
Tax on exercised share options (note 5)	-	-	-	-	-	-	2.7	2.7	-	2.7
Deferred tax on share options (note 5)	-	-	-	-	-	-	0.3	0.3	-	0.3
Balance at 31 March 2019	9.0	180.7	23.3	22.9	2.3	82.2	293.0	613.4	0.2	613.6

[1] Other reserves comprise the Merger, Own shares and Capital redemption reserves.

Group Cash Flow Statement
Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Net cash inflow from operating activities	**10**	**192.0**	162.0
Investing activities			
Interest received		**0.5**	0.2
Proceeds on disposal of fixed assets		**0.5**	0.3
Purchases of intangible assets		**(74.3)**	(99.1)
Contract costs		**(3.9)**	(7.9)
Purchases of property, plant and equipment		**(8.2)**	(9.0)
Disposal of equity accounted investments		**8.4**	-
Acquisition of equity accounted investments		**-**	(5.4)
Acquisition of subsidiaries	12	**(140.6)**	(37.5)
Net cash used in investing activities		**(217.6)**	(158.4)
Financing activities			
Dividends paid	6	**(73.5)**	(65.0)
Repayment of lease principal		**(12.4)**	(0.6)
Acquisition of non-controlling interests	4	**(7.7)**	-
Purchase of own shares		**(3.0)**	-
Proceeds on issue of share capital		**0.1**	2.2
New bank and other loans raised		**-**	174.2
Costs associated with new bank and other loans raised		**(0.8)**	(1.6)
Movement in bank and other loans		**182.6**	(98.9)
Net cash generated by financing activities		**85.3**	10.3
Net increase in cash and cash equivalents		**59.7**	13.9
Cash and cash equivalents at beginning of year		**72.6**	57.8
Impact of foreign exchange rate changes		**(1.1)**	0.9
Cash and cash equivalents at end of year		**131.2**	72.6

Notes to the condensed set of financial statements

1. Basis of preparation

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) adopted for use by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs. The Company will publish full financial statements that comply with IFRSs in June 2020.

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 March 2020 or 31 March 2019, but is derived from those financial statements. Statutory financial statements for FY19 prepared under IFRSs have been delivered to the Registrar of Companies and those for FY20 will be delivered following the Company's Annual General Meeting. The auditor, Deloitte LLP, has reported on those financial statements; its reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) Companies Act 2006. These financial statements were approved by the Board of Directors on 19 May 2020.

2. Significant accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's 31 March 2019 audited financial statements, except as described below.

Adoption of new or revised standards

The following accounting standards, interpretations and amendments have been adopted in the year:

IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features and Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs	2015-2017 Cycle

None of the items listed above have had any material impact on the amounts reported in this condensed set of financial statements. The impact of IFRS 16 *Leases,* is discussed under 'Changes in accounting policies' and 'Financial impact of adoption of IFRS 16' below:

Changes in accounting policy

The Group has adopted IFRS 16 with effect from 1 April 2019. In accordance with the transitional provisions of the standard, comparatives have not been restated. The impacted accounting policies for the years ended 31 March 2020 and 31 March 2019 are outlined below.

2. Significant accounting policies (continued)

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. The Group has adopted IFRS 16 using the modified retrospective approach with a date of initial application of 1 April 2019. Comparative information has not been restated.

Impact on lessee accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17. With the exception of low value assets (below £4k) and short term leases (with a term of 12 months or less), the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments. The depreciation of the right-of-use asset and interest charges on the outstanding lease liability replace the IAS 17 straight-line rental expense previously booked to operating costs. Any lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16 the Group presents repayments of lease principal within financing activities and interest payments on lease liabilities within operating activities in the consolidated cash flow statement for leases that are on balance sheet. Under IAS 17 all operating lease payments were presented as operating cash outflows.

Right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The Group is not party to any material leases where it acts as a lessor, but does contract as lessee for a significant number of property and vehicle leases, which aggregate to a material commitment.

Approach to transition and practical expedients adopted

In respect of those leases the Group previously treated as operating leases, the Group has elected to measure right-of-use assets using the approach set out in IFRS 16.C8(b)(ii). Under this approach right-of-use assets are calculated at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments relating to the lease that were recognised in the consolidated balance sheet at 31 March 2019.

At 1 April 2019 right-of-use assets of £52.8m and lease liabilities of £53.8m, inclusive of grandfathered finance lease assets and liabilities of £1.7m and £1.2m respectively, were recognised on the balance sheet. The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 April 2019 was 2.5%.

The table below presents a reconciliation from IAS 17 operating lease commitments disclosed at 31 March 2019 to IFRS 16 lease liabilities recognised at 1 April 2019.

	£m
Operating lease commitments disclosed under IAS 17 at 31 March 2019	56.0
Finance lease liabilities recognised under IAS 17 at 31 March 2019	1.2
Discounting	(4.4)
Impact of lease term reassessments under IFRS 16 vs. IAS 17	2.0
Short-term and low value lease commitments expensed through operating costs under IFRS 16	(0.6)
Other movements	(0.4)
IFRS 16 lease liabilities recognised at 1 April 2019	53.8

The complete impact on the consolidated income statement during the year ended 31 March 2020 is presented under '*Financial impact of adoption of IFRS 16*' below.

2. Significant accounting policies (continued)

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 April 2019.

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- The Group has not made any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs B3 – B8 of IFRS 16);

- The Group has adjusted the carrying amount of right-of-use assets at 1 April 2019 by the carrying amount of onerous lease provisions at 31 March 2019 instead of performing impairment reviews under IAS 36.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a presentation of the financial impact of adopting IFRS 16. Judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

Accounting policy for leases (effective 1 April 2019)

The Group assesses whether a contract is, or contains, a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (where the value of the asset is below £4k). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses a lease specific incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives;
- fixed service costs associated with the Group's property and vehicle lease portfolios (as the Group has elected to apply the expedient available under paragraph 15 of IFRS 16 not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement);
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease liabilities are subsequently measured at amortised cost using the effective interest method by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;

2. Significant accounting policies (continued)

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the change in lease payments is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

Right-of-use assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at, or before, the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. Depreciation begins at the commencement date of the lease.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

Variable rents

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other operating expenses" in the income statement.

Financial impact of adoption of IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-of-use assets and lease liabilities. The following abridged statements summarise the impact of adopting IFRS 16 on the Group's Consolidated Income Statement, Balance Sheet and Cashflow Statement for the year ended 31 March 2020.

Impact on the consolidated income statement

	Ref	**As reported 31 March 2020 £m**	IFRS 16 adjustments £m	Amounts without adoption £m
Continuing operations				
Revenue		**1,132.3**	-	1,132.3
Operating costs	i)	**(971.6)**	(0.2)	(971.4)
Others		**(2.1)**	-	(2.1)
Operating profit		**158.6**	(0.2)	158.8
Investment income		**0.5**	-	0.5
Finance costs	i)	**(21.2)**	(1.5)	(19.7)
Adjusted profit before tax		**181.0**	(1.7)	182.7
Others		**(43.1)**	-	(43.1)
Profit before tax		**137.9**	(1.7)	139.6
Tax	ii)	**(32.1)**	0.4	(32.5)
Profit for the year		**105.8**	(1.3)	107.1
Earnings per share				
Basic		**31.7p**	(0.4)p	32.1p
Diluted		**31.5p**	(0.4)p	31.9p

2. Significant accounting policies (continued)

Impact on the consolidated balance sheet

	Ref	As reported 31 March 2020 £m	IFRS 16 adjustments £m	Amounts without adoption £m
Non-current assets				
Right-of-use assets	iii)	**56.8**	56.8	-
Others	iv)	**1,091.7**	(1.7)	1,093.4
		1,148.5	55.1	1,093.4
Current assets	ii), iv)	**634.5**	0.1	634.4
Total assets		**1,783.0**	55.2	1,727.8
Current liabilities				
Lease liabilities	iii)	**(14.1)**	(13.7)	(0.4)
Others	iv)	**(458.3)**	1.7	(460.0)
		(472.4)	(12.0)	(460.4)
Net current assets		**162.1**	(11.9)	174.0
Non-current liabilities				
Lease liabilities	iii)	**(45.2)**	(44.5)	(0.7)
Others	ii)	**(619.1)**	-	(619.1)
		(664.3)	(44.5)	(619.8)
Total liabilities		**(1,136.7)**	(56.5)	(1,080.2)
Net assets		**646.3**	(1.3)	647.6
Equity				
Retained earnings		**299.9**	(1.3)	301.2
Others		**346.4**	-	346.4
		646.3	(1.3)	647.6

Impact on the consolidated cash flow statement

	Ref	As reported 31 March 2020 £m	IFRS 16 adjustments £m	Amounts without adoption £m
Operating profit		**158.6**	(0.2)	158.8
Adjustments for:				
Depreciation of property, plant and equipment	iv)	**9.3**	(0.5)	9.8
Depreciation of right-of-use assets	v)	**14.2**	14.2	-
Others		**58.3**	-	58.3
Cash generated by operations		**240.4**	13.5	226.9
Income taxes paid		**(30.2)**	-	(30.2)
Interest paid (inclusive of payments on lease liabilities)	v)	**(18.2)**	(1.5)	(16.7)
Net cash inflow from operating activities		**192.0**	12.0	180.0
Net cash used in investing activities		**(217.6)**	-	(217.6)
Financing activities				
Repayment of lease principal	v)	**(12.4)**	(12.0)	(0.4)
Others		**97.7**	-	97.7
Net cash generated by financing activities		**85.3**	(12.0)	97.3
Net movement in cash and cash equivalents		**59.7**	-	59.7

References

i) Historically all rental charges were booked to operating costs on a straight-line basis. Under IFRS 16 rental costs for all leases, other than those with an initial term of below 12 months and those of assets of approximately below £4k in value, as new, are recorded in the income statement as depreciation of right-of-use assets, in operating costs, and interest charges on lease liabilities, in financing costs. The impact of this change in accounting treatment during the period was to increase operating costs by £0.2m and increase finance costs by £1.5m.

ii) Current tax impacts of changes detailed under i) above as well as deferred tax impacts in jurisdictions where the available deductions for tax do not align with the accounting charge in the income statement for the period.

iii) Under IAS 17 lessees did not record assets and commitments associated with operating lease contracts on the balance sheet. IFRS 16 removes the distinction between operating and finance leases for lessees and requires that they recognise right-of-use assets and lease liabilities for all lease contracts. At 31 March 2020 this resulted in the recognition of right-of-use assets of £56.8m and lease liabilities of £59.3m.

iv) Rent prepayments, deferred rent and IAS 17 finance lease assets of £0.3m, £1.3m and £1.7m respectively were set against opening right-of-use assets on transition. Additionally onerous lease balances of £0.4m were transferred into the opening value of right-of-use assets at 1 April 2019.

v) Historically all cash flows associated with operating leases were presented as operating cash flows. Under IFRS 16 repayments of lease principal are classified as financing cash flows. IAS 7 provides entities with an accounting policy choice as to whether they classify interest paid as an operating or financing cash flow. HomeServe's policy is to classify all interest paid within operating cash flows and consequently interest paid on lease liabilities recorded under IFRS 16 will be classified as such.

Depreciation of right-of-use assets is added back to operating profit as a non-cash movement in the consolidated cash flow statement, in a similar manner to depreciation on property, plant and equipment or amortisation on intangible assets.

Standards in issue but not yet effective

At the date of authorisation of this condensed set of financial statements the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (not all of which have been endorsed by the EU):

IFRS 17	Insurance Contracts
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1 and IAS 8	Definition of Material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The Directors do not expect that the adoption of the Standards in issue not yet effective above will have a material impact on the financial statements of the Group in future years.

3. Segmental analysis

Business segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, who is considered to be the Chief Executive, to allocate resources to the segments and to assess their performance. During FY19 the Group's 'Home Experts' businesses met the definition of an operating segment under IFRS 8 and since 31 March 2019 have been presented separately from 'New Markets'. The 'Home Experts' segment contains the results of Checkatrade, eLocal, Habitissimo and Home Experts France. New Markets includes the Group's international development initiatives, including its Japanese joint venture and its former Italian associate which was disposed of on 1 August 2019 (see note 4).

Segment operating profit/(loss) represents the result of each segment including allocating costs associated with head office and shared functions, but without allocating investment income, finance costs and tax. This is the measure reported to the Chief Executive for the purposes of resource allocation and assessment of segment performance.

The accounting policies of the operating segments are the same as those described in Significant Accounting Policies in the Group's latest audited financial statements, except as set out in note 2. Group cost allocations are deducted in arriving at segmental operating profit. Inter-segment revenue relates to transactions with other Group companies, removed on consolidation, and principally comprises royalty and other similar charges charged at prevailing market prices.

2020	UK £m	North America £m	France £m	Spain £m	New Markets £m	Home Experts £m	Total £m
Revenue							
Net policy income	249.4	354.9	104.5	49.2	-	-	758.0
Repair income	89.5	30.6	0.4	94.4	-	-	214.9
HVAC	21.2	42.4	6.8	10.5	-	-	80.9
Home Experts	-	-	-	-	-	71.8	71.8
Other	12.8	1.6	0.1	-	-	-	14.5
Total revenue	372.9	429.5	111.8	154.1	-	71.8	1,140.1
Inter-segment	(7.8)	-	-	-	-	-	(7.8)
External revenue	**365.1**	**429.5**	**111.8**	**154.1**	-	**71.8**	**1,132.3**
Result							
Adjusted operating profit/(loss)[1]	81.0	85.4	33.8	20.1	(4.7)	(13.9)	201.7
Exceptional items	(15.0)	-	-	-	3.8	3.6	(7.6)
Amortisation of acquisition intangibles	(3.2)	(17.8)	(6.9)	(0.5)	-	(7.1)	(35.5)
Operating profit/(loss)	62.8	67.6	26.9	19.6	(0.9)	(17.4)	158.6
Investment income							0.5
Finance costs							(21.2)
Profit before tax							137.9
Tax							(32.1)
Profit for the year							**105.8**

3. Segmental analysis (continued)

2019	UK £m	North America £m	France £m	Spain £m	New Markets £m	Home Experts £m	Total £m
Revenue							
Net policy income	244.0	303.3	101.9	55.3	-	-	704.5
Repair income	108.9	15.7	0.4	81.1	-	-	206.1
HVAC	25.5	13.4	1.5	4.4	-	-	44.8
Home Experts	-	-	-	-	-	40.4	40.4
Other	13.3	1.0	0.8	-	-	-	15.1
Total revenue	391.7	333.4	104.6	140.8	-	40.4	1,010.9
Inter-segment	(7.3)	-	-	-	-	-	(7.3)
External revenue	384.4	333.4	104.6	140.8	-	40.4	1,003.6
Result							
Adjusted operating profit/(loss)[1]	66.0	67.6	33.3	17.7	(2.4)	(7.4)	174.8
Exceptional items	4.6	-	-	-	-	-	4.6
Amortisation of acquisition intangibles	(2.2)	(12.9)	(6.5)	(0.2)	-	(5.0)	(26.8)
Operating profit/(loss)	68.4	54.7	26.8	17.5	(2.4)	(12.4)	152.6
Investment income							0.2
Finance costs							(13.3)
Profit before tax							139.5
Tax							(31.2)
Profit for the year							108.3

[1] Adjusted operating profit is defined in the Glossary to the Preliminary Results.

Segment information

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
UK	**1,183.3**	953.8	**653.2**	468.0	**21.1**	27.6	**47.5**	16.9
North America	**557.1**	436.6	**683.6**	441.3	**27.7**	64.2	**35.3**	23.8
France	**247.3**	225.4	**163.3**	152.1	**14.2**	9.8	**13.6**	10.0
Spain	**143.8**	113.3	**105.5**	78.6	**8.9**	8.7	**17.4**	16.6
New Markets	**0.6**	6.9	**31.9**	28.8	**-**	-	**-**	-
Home Experts	**210.1**	77.5	**58.4**	31.1	**10.5**	4.7	**10.8**	6.6
Inter-segment	**(559.2)**	(378.9)	**(559.2)**	(378.9)	**-**	-	**-**	-
Total	**1,783.0**	1,434.6	**1,136.7**	821.0	**82.4**	115.0	**124.6**	73.9

All assets and liabilities including inter-segment loans and trading balances are allocated to reportable segments.

Figures for depreciation, amortisation and impairment are shown inclusive of depreciation of IFRS 16 right-of-use assets in FY20. In FY20 these figures also include £14.3m (FY19: £nil) of impairment charges booked in the UK segment in relation to HomeServe Labs (see note 4) and £1.2m (FY19: £nil) of impairment charges booked in the Spain segment in relation to the acquisition of Somgas Hogar S.L. (see notes 8 and 13).

3. Segmental analysis (continued)

Information about major customers

During the periods presented three underwriters were customers of the Group that individually accounted for over 10% of the Group's revenues:

	2020	2019
	%	%
Customer 1 - UK	**28.9**	32.6
Customer 2 – North America	**16.7**	16.7
Customer 3 – North America	**12.9**	13.6
Other customers individually representing below 10% of Group revenue	**41.5**	37.1
	100.0	100.0

4. Exceptional items

Exceptional items, booked to operating costs, comprised the following:

	2020	2019
	£m	£m
Gain on acquisition of subsidiary non-controlling interests	**3.6**	-
Gain on disposal of investment in associate	**3.8**	-
Impairment charges associated with HomeServe Labs	**(14.3)**	-
Restructuring costs	**(0.7)**	(5.1)
Fair value movement on contingent consideration liabilities	**-**	10.1
Exceptional items included within Group operating profit before tax	**(7.6)**	4.6
Net taxation on exceptional items	**2.0**	(0.2)
Net exceptional items after tax	**(5.6)**	4.4

Year ended 31 March 2020

Acquisition of subsidiary non-controlling interests
On 18 June 2019 HomeServe International Limited, a Group company, executed its call option (written on 27 January 2017, the point at which it acquired a 70% controlling interest in Habitissimo S.L.), to acquire the outstanding 30% non-controlling interests in Habitissimo S.L. for cash consideration of €8.6m (£7.7m). The transaction increased HomeServe International Limited's interest in Habitissimo S.L. to 100% of the issued share capital and did not give rise to a change in control.

The transaction resulted in a gain in the consolidated income statement of £3.6m. This represents the difference between the consideration paid and the value of the option liability, being the potential cash payment of the non-controlling interests' corresponding put option to sell the remaining 30% of their shareholding, held on the balance sheet immediately prior to the transaction, net of directly attributable transaction costs. The gain has been classified as exceptional in the consolidated income statement due to its size, nature and incidence.

Disposal of interest in associate
On 1 August 2019 HomeServe International, a Group company, disposed of its 49% equity accounted investment in Assistenza Casa Srl, by way of sale for cash consideration of €9.4m (£8.4m). At the point of disposal the carrying value of the Group's investment was £4.6m resulting in the recognition of a £3.8m gain in the consolidated income statement. The gain has been classified as exceptional due to its size, nature and incidence.

4. Exceptional items (continued)

Impairment and restructuring charges associated with HomeServe Labs

Consumers and insurance partners have been slower than expected to adopt smart leak detection technology. Following the Group's annual budgeting process and subsequent updates in light of COVID-19 HomeServe has completed an impairment review of the Group's LeakBot assets, concluding that the net assets of the business are impaired, and incurring a £15.0m exceptional charge. This conclusion has been reached based on a number of factors affecting expected future cash flows including commercial traction, access to investment and the pace of technology change. Of the £15.0m, £12.9m related to the impairment of development assets for the LeakBot device, £1.4m of inventory and a £0.7m restructuring provision.

Year ended 31 March 2019

Fair value movement on contingent consideration liabilities
At 31 March 2019 the Group reassessed the fair value of outstanding consideration payments due to the previous owners of Help-Link UK Limited, conditional on the number of boiler installations performed from the point of acquisition until July 2020. At this point the Group determined that the likelihood of the conditions being met that would trigger either of the two outstanding payments (a gross undiscounted cash outflow totalling £10.5m) was now remote and therefore the fair value of the outstanding liabilities was £nil. At the point the fair value exercise was performed the balance held on the balance sheet of £10.1m, representing the original discounted value of the liabilities and any associated interest accreted to 31 March 2019, was released to the income statement in accordance with IFRS 3 and treated as exceptional due to its size and incidence.

Restructuring costs
Charges of £5.5m were incurred during FY19 to restructure the UK business along lines that strengthen it to best adapt to evolving customer needs. Marketing and other support headcount was reduced, as the business moved away from an over reliance on direct mail activity and prepares for the implementation of new systems. Costs related to these programmes have been treated as exceptional due to their size and incidence.

5. Taxation

	2020 **£m**	2019 £m
Current tax		
Current year charge	**33.7**	31.8
Adjustments in respect of prior years	**(1.8)**	(1.9)
Total current tax charge	**31.9**	29.9
Deferred tax charge	**0.2**	1.3
Total tax charge	**32.1**	31.2

The pre-exceptional effective tax rate for the year ended 31 March 2020 was 23%. The post-exceptional effective tax rate for the same period was 24%. UK corporation tax is calculated at 19% (FY19: 19%) of the estimated assessable profit for the year. The UK Government in its 2020 Budget announced that the main UK corporate rate would be maintained at 19% until 31 March 2022, before being reviewed, and would not be reduced to 17%. We have reflected this change in our UK deferred tax calculations.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions, these being a blended (Federal/State) rate of 27% in the US (FY19: 27%), 31% in France (FY19: 33%) as a result of France enacting new tax legislation in December 2018 effective for accounting periods beginning on or after 1 January 2019 and 25% in Spain (FY19: 25%), which explains the 'Overseas tax rate differences' below.

5. Taxation (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2020 £m	2019 £m
Profit before tax on continuing operations	**137.9**	139.5
Tax at the UK corporation tax rate of 19% (FY19: 19%)	**26.2**	26.5
Tax effect of items that are not taxable in determining taxable profit	**1.1**	(0.6)
Adjustments in respect of prior years – current tax	**(1.8)**	(1.9)
Overseas tax rate differences	**6.6**	7.2
Tax expense for the year	**32.1**	31.2

Given the UK parented nature of the Group, the majority of financing that the overseas businesses require is provided from the UK, and as such the UK has provided a number of intra-group loans to its overseas operations in order to fund their growth plans. In light of the different tax rates applicable in each of the markets in which the Group operates, as noted above, these loans result in a reduction in the Group's effective tax rate, which is included in 'Overseas tax rate differences' in the table above.

A retirement benefit tax charge of £0.3m (FY19: £0.1m credit) has been recognised directly in other comprehensive income. In addition to the amounts credited/(charged) to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2020 £m	2019 £m
Current tax		
Excess tax deductions related to share-based payments on exercised options	**3.0**	2.7
Deferred tax		
Opening impact of IFRS 15	**-**	0.5
Change in estimated excess tax deductions related to share-based payments	**(1.2)**	0.3
Total tax recognised directly in equity	**1.8**	3.5

6. Dividends

	2020 £m	2019 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2019 of 16.2p (2018: 14.4p) per share	**54.1**	47.8
Interim dividend for the year ended 31 March 2020 of 5.8p (2019: 5.2p) per share	**19.4**	17.2
	73.5	65.0

The proposed final dividend for the year ended 31 March 2020 is 17.8p per share amounting to £59.6m (FY19: 16.2p per share amounting to £54.1m). The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The payment of this dividend will not have any tax consequences for the Group.

7. Earnings per share

	2020 **pence**	2019 pence
Basic	**31.7**	32.7
Diluted	**31.5**	32.3
Adjusted basic	**41.3**	37.5
Adjusted diluted	**41.0**	37.0

The calculation of the basic and diluted earnings per share is based on the following data:

Number of shares	**2020** **m**	2019 m
Weighted average number of shares		
Basic	**334.2**	331.7
Dilutive impact of share options	**2.8**	3.9
Diluted	**337.0**	335.6

Earnings	**2020** **£m**	2019 £m
Profit for the year attributable to equity holders of the parent	**106.0**	108.5
Amortisation of acquisition intangibles	**35.5**	26.8
Exceptional items (note 4)	**7.6**	(4.6)
Tax impact arising on amortisation of acquisition intangibles and exceptional items	**(11.0)**	(6.4)
Adjusted profit for the year attributable to equity holders of the parent	**138.1**	124.3

Basic and diluted earnings per ordinary share have been calculated in accordance with IAS 33 *Earnings Per Share*. Basic earnings per share is calculated by dividing the profit or loss in the financial year by the weighted average number of ordinary shares in issue during the year. Adjusted earnings per share is calculated excluding the amortisation of acquisition intangibles, exceptional items and the associated tax impacts.

The Group uses adjusted operating profit, adjusted operating margin, adjusted EBITDA, adjusted profit before tax and adjusted earnings per share as its primary performance measures. These are non-IFRS measures which exclude the impact of exceptional items, the amortisation of acquisition intangibles and the associated tax impacts. For further details refer to the ‘Profitability’ section of the Glossary.

Diluted earnings per share includes the impact of dilutive share options in issue throughout the year.

8. Other intangible assets

	Acquired access rights £m	Acquired customer databases £m	Other acquired intangibles £m	**Total acquisition intangibles £m**	Trademarks & access rights £m	Customer databases[1] £m	Software £m	**Total intangibles £m**
Cost								
At 1 April 2018	87.7	191.5	13.9	**293.1**	34.1	94.1	211.7	**633.0**
IFRS 15 reclassification	–	–	–	**–**	–	(85.0)	–	**(85.0)**
Additions	28.2	20.6	–	**48.8**	1.3	8.8	42.0	**100.9**
Acquisition of subsidiaries	12.4	2.6	–	**15.0**	–	–	_	**15.0**
Disposals	–	–	–	**–**	–	–	(1.1)	**(1.1)**
Transfers	(6.1)	6.4	–	**0.3**	0.6	–	(0.9)	–
Exchange movements	4.3	3.8	–	**8.1**	1.4	(0.3)	1.9	**11.1**
At 1 April 2019	126.5	224.9	13.9	**365.3**	37.4	17.6	253.6	**673.9**
Additions	4.1	4.2	–	**8.3**	4.8	13.1	45.4	**71.6**
Acquisition of subsidiaries	72.3	6.7	1.4	**80.4**	–	–	0.1	**80.5**
Disposals	–	(0.2)	–	**(0.2)**	–	–	(4.5)	**(4.7)**
Transfers	(3.7)	3.7	–	**–**	–	–	0.7	**0.7**
Exchange movements	8.7	7.6	–	**16.3**	0.8	0.7	3.1	**20.9**
At 31 March 2020	**207.9**	**246.9**	**15.3**	**470.1**	**43.0**	**31.4**	**298.4**	**842.9**
Accumulated Amortisation								
At 1 April 2018	27.4	78.6	0.6	**106.6**	27.0	49.1	65.5	**248.2**
IFRS 15 reclassification	–	–	–	**–**	–	(46.5)	–	**(46.5)**
Charge for the year	7.5	17.6	1.7	**26.8**	3.0	2.3	17.8	**49.9**
Disposals	–	–	–	**–**	–	–	(0.1)	**(0.1)**
Transfers	0.1	–	–	**0.1**	(0.1)	–	–	**–**
Exchange movements	0.7	2.0	–	**2.7**	0.5	(0.1)	0.7	**3.8**
At 1 April 2019	35.7	98.2	2.3	**136.2**	30.4	4.8	83.9	**255.3**
Charge for the year	13.8	19.9	1.8	**35.5**	4.1	3.5	30.7	**73.8**
Impairment	–	0.7	–	**0.7**	1.0	–	11.9	**13.6**
Disposals	–	–	–	**–**	–	–	(4.5)	**(4.5)**
Transfers	0.1	(0.1)	–	**–**	(0.8)	0.8	0.2	**0.2**
Exchange movements	1.8	3.6	–	**5.4**	0.4	0.2	1.4	**7.4**
At 31 March 2020	**51.4**	**122.3**	**4.1**	**177.8**	**35.1**	**9.3**	**123.6**	**345.8**
Carrying Amount								
At 31 March 2020	**156.5**	**124.6**	**11.2**	**292.3**	**7.9**	**22.1**	**174.8**	**497.1**
At 31 March 2019	90.8	126.7	11.6	229.1	7.0	12.8	169.7	418.6

[1]On 1 April 2018 assets with a total net book value of £38.5m were transferred out of customer databases and reclassified as contract cost assets under IFRS 15.

Other acquired intangibles include acquired brands and technology assets. At the balance sheet date there are no contractual commitments for the purchase of intangible assets (FY19: £nil).

Software includes assets with a book value of £81.8m (FY19: £81.8m) in respect of the new Customer Relationship Management (CRM) system which has been rolled out in the UK business during FY20 for front book policies. The asset is being amortised over 10 years on a straight-line basis and over 9 years remains of its useful economic life. Acquired access rights include assets with a book value of £62.1m in respect of customer relationships acquired as part of the acquisition of eLocal Holdings LLC (see note 12). The assets are being amortised over periods ranging between 10 and 11 years on a straight-line basis and have over 9 to 10 years useful economic life remaining.

8. Other intangible assets (continued)

Impairment

At 31 March 2020 the carrying value of intangible assets associated with HomeServe Labs were reviewed for impairment resulting in charges being recorded in association with the software assets (£11.9m) and trademarks & access rights (£1.0m) of the business. The total impairment charges of £12.9m associated with HomeServe Labs related intangible assets were treated as exceptional due to their size and incidence (see note 4). Post impairment the carrying value of the impaired intangibles was £nil.

Additionally, during the year a further £0.7m impairment charge was recorded in association with the acquired customer databases of Somgas Hogar S.L. For additional detail on the impairment review of the Somgas business see note 13.

9. Share capital

	2020	2019
	£m	£m
Issued and fully paid 334,634,278 ordinary shares of 2 9/13p each (FY19: 332,490,377)	**9.0**	9.0

The Company has one class of ordinary shares which carry no right to fixed income. Share capital represents consideration received or amounts, based on fair value, allocated to LTIP and One Plan participants on exercise, or amounts, based on fair value of the consideration for acquired entities. The nominal value was 2 9/13p per share on all issued and fully paid shares.

During the period from 1 April 2019 to 31 March 2020 the Company issued 2,143,901 shares with a nominal value of 2 9/13p creating share capital and share premium with a combined value of £8.6m.

During the period from 1 April 2018 to 31 March 2019 the Company issued 2,713,611 shares with a nominal value of 2 9/13p creating share capital and share premium with a combined value of £9.0m.

10. Notes to the cash flow statement

	Notes	2020 £m	2019 £m
Operating profit		**158.6**	152.6
Adjustments for:			
Depreciation of property, plant and equipment		**9.3**	9.1
Depreciation of right-of-use assets		**14.2**	-
Amortisation of acquisition intangible assets	8	**35.5**	26.8
Amortisation of other intangible assets	8	**38.3**	23.1
Amortisation of contract costs		**11.8**	14.9
(Gain)/loss on disposal of property, plant and equipment, intangible assets and contract costs		**(0.8)**	0.6
Non-exceptional impairment of goodwill and intangible assets		**1.2**	-
Fair value movement on contingent consideration		**(1.5)**	-
Share-based payments expense		**7.2**	9.8
Employee expenses associated with put options over non-controlling interests		**1.0**	-
Share of equity accounted investees results		**2.1**	0.3
Exceptional impairment charges		**14.3**	-
Other exceptional items		**(6.7)**	(4.6)
Operating cash flows before movements in working capital		**284.5**	232.6
Increase in inventories		**(1.0)**	(0.7)
(Increase)/decrease in receivables		**(46.3)**	104.0
Increase/(decrease) in payables and provisions		**3.2**	(133.7)
Net movement in working capital		**(44.1)**	(30.4)
Cash generated by operations		**240.4**	202.2
Income taxes paid		**(30.2)**	(31.7)
Interest paid (inclusive of payments on lease liabilities)		**(18.2)**	(8.5)
Net cash inflow from operating activities		**192.0**	162.0

Analysis of movement in bank loans

	2020 £m	2019 £m
Facilities with net inflows	**206.6**	-
Facilities with net outflows	**(24.0)**	(98.9)
Movement in existing bank and other loans	**182.6**	(98.9)

11. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with equity accounted investees

	2020 £m	2019 £m
Sales to associates	**0.1**	0.3
Purchases from associates	**0.3**	-
Sales to joint ventures	**0.4**	-
Purchases from joint ventures	**0.3**	-
Amounts owed to joint ventures	**0.1**	-

11. Related party transactions (continued)

Transactions and balances principally relate to salaries, consultancy, contractor costs and marketing services.

Other related party transactions

Other related party transactions during FY20 were similar in nature to those in FY19 and amounted to £0.3m (FY19: £0.5m).

Furthermore, in May 2020 HomeServe entered into a new structure to scale the French Home Experts business. The management team will now own 80% with HomeServe taking a 20% stake with an option to increase this in the future, once the business has achieved national scale.

Full details of the Group's related party transactions are included in the Annual Report and Accounts 2020.

12. Business combinations

The Group has incurred a net cash outflow in respect of business combinations of £140.6m in the year (FY19: £37.5m).

There were three material acquisitions in the year ended 31 March 2020.

- On 26 November 2019, HomeServe USA Holdings Corp., a Group company, acquired 79% of the partnership capital and obtained control of eLocal Holdings LLC., (hereafter 'eLocal'). eLocal operates within the Home Experts business line of the Group. The acquisition of eLocal allows HomeServe to continue to progress the Group wide growth strategy in the Home Experts market.

- On 6 December 2019 Homeserve HVAC LLC, a Group company, acquired 100% of the issued share capital and obtained control of Crawford Services, Inc., (hereafter 'Crawford'). Crawford operates within the HVAC business line of the Group. The acquisition of Crawford enhances the scale and scope of the Group's HVAC capabilities in North America.

- On 17 December 2019, HomeServe USA Repair Management Corp., a Group company, acquired a group of assets constituting a business under IFRS 3 from Sunbelt Group LLC (hereafter 'ServLine'). ServLine operates within the Membership business line of the Group. The acquisition of ServLine allows HomeServe to expand the range of products available to offer to its North American water partners.

Additionally the following immaterial acquisitions, which have been combined and presented as 'Other' for the purpose of provisional fair value disclosures, were made during the year ended 31 March 2020.

Membership

- On 31 May 2019, HomeServe USA Repair Management Corp., a Group company, acquired 100% of the issued share capital and obtained control of American Home Guardian, Inc., (hereafter 'AHG').

- On 1 November 2019, HomeServe USA Repair Management Corp., a Group company, acquired 100% of the issued share capital and obtained control of Nations Preferred Home Warranty Inc., (hereafter 'Nations').

The acquisition of AHG and Nations enhance the scale and scope of the Group's home warranty offering and increases the opportunity for future growth in this market.

12. Business combinations (continued)

HVAC

- On 11 July 2019 Homeserve Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Linacal S.L.

- On 11 July 2019 Homeserve Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Tecno Arasat Servicios de Mantenimiento S.L.

- On 25 July 2019 Homeserve Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Somgas Hogar S.L.

- On 31 July 2019 Homeserve HVAC LLC, a Group company, acquired 100% of the issued share capital and obtained control of FAB Electric, Inc.

- On 17 September 2019 Homeserve HVAC LLC, a Group company, acquired 100% of the issued share capital and obtained control of Newcore, Inc., also known as Fred's Home Services.

- On 31 October 2019 Electro Gaz Service SA, a Group company, acquired a group of assets constituting a business under IFRS 3 from Michel Vial Services SARL.

- On 30 December 2019 Homeserve Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Servicios Tecnicos SATE, S.L.

- On 31 December 2019 HomeServe Energy Services SAS, a Group company, acquired 100% of the issued share capital and obtained control of Sylvain Brun Froid SAS.

- On 31 December 2019 HomeServe Energy Services SAS, a Group company, acquired 100% of the issued share capital and obtained control of ID Energies EURL ('ID Energies'). Subsequent to this transaction, on 31 December 2019, ID Energies, a Group company by virtue of its aforementioned acquisition by HomeServe Energy Services SAS, acquired the outstanding 90% of the issued share capital of ID S.A.T SAS not already owned by ID Energies, thereby obtaining control of ID S.A.T SAS and bringing the Group's total ownership interest to 100% of the issued share capital.

- On 2 March 2020 ID Energies, a Group company, acquired a group of assets constituting a business under IFRS 3 from Ener'nat SARL.

All HVAC acquisitions made during FY20 enhance the scale and scope of the Group's HVAC capabilities and increase the opportunity for future growth related to new HVAC system installations.

Home Experts

- On 27 June 2019 HomeServe Home Experts SAS, a Group company, acquired a group of assets constituting a business under IFRS 3 from Sell Me Up SAS.

12. Business combinations (continued)

The provisional fair values of identifiable assets acquired and liabilities assumed are set out in the table below:

At fair value	eLocal £m	Crawford £m	ServLine £m	Other £m	**Total £m**
Property, plant and equipment	0.2	1.0	-	0.7	**1.9**
Right-of-use assets	1.5	0.5	-	1.4	**3.4**
Cash and cash equivalents	3.0	0.4	-	3.1	**6.5**
Inventories	-	0.2	-	1.0	**1.2**
Trade and other receivables	4.9	1.1	-	1.9	**7.9**
Trade and other payables	(5.4)	(1.0)	-	(2.0)	**(8.4)**
Deferred income	(0.8)	(0.5)	-	(2.4)	**(3.7)**
Lease liabilities	(1.5)	(0.5)	-	(1.4)	**(3.4)**
Bank & other loans	(11.6)	-	-	(0.2)	**(11.8)**
Deferred & contingent consideration	(4.4)	-	-	-	**(4.4)**
Intangible assets identified on acquisition	63.2	3.6	5.4	8.3	**80.5**
Deferred tax on acquisition intangibles	-	-	-	(0.1)	**(0.1)**
Net assets acquired	49.1	4.8	5.4	10.3	**69.6**
Less non-controlling interests	(10.3)	-	-	-	**(10.3)**
Goodwill	60.0	6.9	13.1	12.8	**92.8**
Total	**98.8**	**11.7**	**18.5**	**23.1**	**152.1**
Satisfied by:					
Cash	96.4	10.9	13.7	19.7	**140.7**
Deferred consideration	-	0.8	-	1.8	**2.6**
Contingent consideration at fair value	2.4	-	4.8	1.6	**8.8**
Total	**98.8**	**11.7**	**18.5**	**23.1**	**152.1**
Net cash outflow arising on acquisition					
Cash consideration	96.4	10.9	13.7	19.7	**140.7**
Less: cash acquired	(3.0)	(0.4)	-	(3.1)	**(6.5)**
Total	**93.4**	**10.5**	**13.7**	**16.6**	**134.2**

The information above is provisional with fair value assessment activities ongoing.

The goodwill arising on the excess of consideration over the fair value of the assets and liabilities acquired on represents the expectation of future growth, synergistic benefits and efficiencies. Where elections are made to treat an acquisition that is in scope of US tax legislation as an asset purchase for tax, goodwill is deemed deductible for tax purposes. No other goodwill balances are expected to be deducted for tax purposes. Deferred tax liabilities associated with elected goodwill deductions at 31 March 2020 are £0.8m (FY19: £nil). The gross contracted amounts due are equal to the fair value amounts stated above for trade and other receivables.

The post-acquisition revenue, operating profit and acquisition related costs (included in operating costs) from these acquisitions in the year ended 31 March 2020 were as follows:

	eLocal £m	Crawford £m	ServLine £m	Other £m	**Total £m**
Revenue	22.1	4.1	0.4	11.2	**37.8**
Operating profit/(loss)	2.8	-	-	(0.8)	**2.0**
Acquisition related costs	(1.7)	-	(0.2)	(0.4)	**(2.3)**

If all acquisitions had been completed on the first day of the financial year, Group revenue for the year would have been £1,199.2m and Group adjusted profit before tax would have been £192.2m.

12. Business combinations (continued)

In addition to the net cash outflow on the acquisitions above of £134.2m, deferred and contingent consideration was paid relating to previous business combinations of £6.4m (FY19: £10.4m).

During FY20 the provisional fair values for the acquisition of Cropp Metcalfe Air Conditioning and Heating Company Inc. disclosed as part of the Group's FY19 Annual Report have been updated, resulting in a £0.3m increase to goodwill at 31 March 2020.

Options in relation to the potential future acquisition of the non-controlling interests in eLocal

The non-controlling shareholders of eLocal hold a series of put options exercisable between 1 July 2021 and 1 July 2023 which obligate HomeServe USA Holdings Corp. to acquire the remaining 21% of eLocal's outstanding partnership capital not already owned by the Group. Option pricing is based on certain future non-market performance metrics and is subject to a floor, being the implied value of eLocal at the time it was acquired by HomeServe USA Holdings Corp.

To the extent that the potential cash payments relating to the put options issued by the Group over the equity of eLocal do not relate to post-acquisition employment services of the option holder, they have been accounted for as financial liabilities. These liabilities have been recognised at the present value of the expected gross obligation with the corresponding entry being recognised in retained earnings. A finance charge will be recorded in order to accrete the liability up to the expected amount payable under the options. All subsequent changes in the carrying amount of the financial liability that result from the re-measurement of the present value of the amount payable upon exercise of the NCI puts will be recognised in the income statement as part of the profit or loss attributable to the parent, and not impact the NCIs' share of the profit or loss of the subsidiary. The carrying values of the put options are provisional with measurement period assessment activities ongoing.

The proportion of the potential cash payments relating to the put options which relate to post-acquisition employment services of the option holder are accounted for as post combination employee benefit expenses in accordance with IAS 19. The expenses are not considered within the scope of IFRS 2 as the associated liabilities are determined based on a fixed multiple which does not reflect the market price of the equity on an ongoing basis.

Additionally, HomeServe USA Holdings Corp. holds a call option which, if exercised, requires certain non-controlling shareholders to sell their remaining interests. This option is only exercisable if in scope shareholders leave the company and are not considered 'Good Leavers' as defined in the option agreements. HomeServe currently assess the likelihood that any in scope shareholder would trigger this clause to be remote and as such have determined that the fair value of this call option is £nil.

13. Other items

Purchase of own shares

During the year 249,975 (FY19: nil) shares were repurchased at a cost of £3.0m (FY19: £nil) to fulfil awards made under share incentive schemes. No shares were transferred to individuals to satisfy awards (FY19: nil).

Impairments associated with the acquisition of Somgas Hogar S.L.

During the period between acquisition on 25 July 2019 and 31 March 2020 a significant revenue generating contract of Somgas Hogar S.L., a Group company, ceased. In light of these circumstances and due to the recent nature of the acquisition, it was considered appropriate to perform a separate impairment review of the Somgas business, resulting in an impairment of goodwill of £0.5m. Additionally an impairment charge of £0.7m was booked in association with an acquired customer database from the purchase (see note 8) and the fair value of the contingent consideration associated with the acquisition was reduced by £1.5m. The recoverable amount of goodwill associated with Somgas at 31 March 2020 was £2.8m based on its value in use. The financial performance and position of Somgas is reported within the Group's "Spain" segment and in the "HVAC" business line.

14. Events after the balance sheet date

There were no post balance sheet events between the balance sheet date and the signing of the financial statements except as explained in note 11.

15. Other information

The Annual Report and Accounts for the year ended 31 March 2020 were approved by the Board on 19 May 2020 and will be made available on the Company's website and posted to those shareholders who have requested it in June 2020. Copies will be available from the registered office at Cable Drive, Walsall, WS2 7BN.

GLOSSARY

HomeServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. APMs used in this announcement address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group.

Definitions of APMs and the rationale for their usage are included below with a reconciliation, where applicable, back to the equivalent statutory measure.

Profitability

The Group uses adjusted operating profit, adjusted EBITDA, adjusted profit before tax and adjusted earnings per share as its primary profit performance measures. These are non-IFRS measures which exclude the impact of the amortisation of acquisition intangible assets and exceptional items.

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their size, nature or incidence.

Acquisition intangible assets are calculated using the estimated and discounted incremental future cash flows resulting from the affinity relationship or future policy renewals as appropriate, which will include the impact of the past actions of the former owners. These past actions will include historical marketing and business development activity, including but not limited to, the staff and operational costs of the business. In addition the specific construct of the policy terms and conditions and the current and expected future profitability to be derived from the acquired business or asset is also a factor in determining the valuation of acquisition intangible assets.

The on-going service and operating costs incurred by the Group in managing the acquired businesses or assets, including but not limited to print, postage, telephony, claims costs and overheads are recognised as operating costs within these adjusted measures in the reporting period in which they are incurred.

Accordingly, by excluding the amortisation of acquisition intangibles from the adjusted performance measures reported by the Group in each specific reporting period ensures that these measures only reflect the revenue attributable to, and costs incurred by, the Group in managing and operating those businesses and assets at that time in each reporting period and do not include the impact of the historical costs of the vendor or considerations of the future profits to be derived from the acquired business or assets.

Reconciliations of statutory to adjusted profit measures

TOTAL GROUP

£million	2020	2019
Operating profit (statutory)	**158.6**	152.6
Exceptional items	**7.6**	(4.6)
Amortisation of acquisition intangibles	**35.5**	26.8
Adjusted operating profit	**201.7**	174.8
Operating profit (statutory)	**158.6**	152.6
Exceptional items	**7.6**	(4.6)
Depreciation of property, plant and equipment	**9.3**	9.1
Depreciation of right of use assets	**14.2**	-
Amortisation of acquisition intangible assets	**35.5**	26.8
Amortisation of other intangible assets	**38.3**	23.1
Amortisation of contract costs	**11.8**	14.9
Adjusted EBITDA	**275.3**	221.9
Profit before tax (statutory)	**137.9**	139.5
Exceptional items	**7.6**	(4.6)
Amortisation of acquisition intangibles	**35.5**	26.8
Adjusted profit before tax	**181.0**	161.7
Pence per share		
Earnings per share (statutory)	**31.7**	32.7
Exceptional items (net of tax)	**1.8**	(1.3)
Amortisation of acquisition intangibles (net of tax)	**7.8**	6.1
Adjusted earnings per share	**41.3**	37.5

SEGMENTAL

2020 £million	**UK**	**North America**	**France**	**Spain**	**New Markets**	**Home Experts**
Revenue	**372.9**	**429.5**	**111.8**	**154.1**	**-**	**71.8**
Statutory operating profit/(loss)	**62.8**	**67.6**	**26.9**	**19.6**	**(0.9)**	**(17.4)**
Operating Margin %	***17%***	***16%***	***24%***	***13%***	**-**	**-**
Adjusting items						
Exceptional items	**15.0**	**-**	**-**	**-**	**(3.8)**	**(3.6)**
Amortisation of acquisition intangibles	**3.2**	**17.8**	**6.9**	**0.5**	**-**	**7.1**
Total adjusting items	**18.2**	**17.8**	**6.9**	**0.5**	**(3.8)**	**3.5**
Effect on operating margin %	***5%***	***4%***	***6%***	**-**	**-**	**-**
Adjusted operating profit/(loss)	**81.0**	**85.4**	**33.8**	**20.1**	**(4.7)**	**(13.9)**
Adjusted operating margin %	***22%***	***20%***	***30%***	***13%***	**-**	**-**

2019 £million	UK	North America	France	Spain	New Markets	Home Experts
Revenue	391.7	333.4	104.6	140.8	-	40.4
Statutory operating profit/(loss)	68.4	54.7	26.8	17.5	(2.4)	(12.4)
Operating Margin %	17%	16%	26%	12%	-	-
Adjusting items						
Exceptional items	(4.6)	-	-	-	-	-
Amortisation of acquisition intangibles	2.2	12.9	6.5	0.2	-	5.0
Total adjusting items	(2.4)	12.9	6.5	0.2	-	5.0
Effect on operating margin %	-	4%	6%	1%	-	-
Adjusted operating profit/(loss)	66.0	67.6	33.3	17.7	(2.4)	(7.4)
Adjusted operating margin %	17%	20%	32%	13%	-	-

2020 Local currency million	**UK £**	**North America $**	**France €**	**Spain €**	**New Markets £**	**Home Experts £**
Revenue	**372.9**	**546.1**	**128.4**	**176.6**	**-**	**71.8**
Statutory operating profit/(loss)	**62.8**	**86.1**	**31.2**	**22.5**	**(0.9)**	**(17.4)**
Operating Margin %	***17%***	***16%***	***24%***	***13%***	**-**	**-**
Adjusting items						
Exceptional items	**15.0**	**-**	**-**	**-**	**(3.8)**	**(3.6)**
Amortisation of acquisition intangibles	**3.2**	**22.5**	**7.8**	**0.6**	**-**	**7.1**
Total adjusting items	**18.2**	**22.5**	**7.8**	**0.6**	**(3.8)**	**3.5**
Effect on operating margin %	***5%***	***4%***	***6%***	**-**	**-**	**-**
Adjusted operating profit/(loss)	**81.0**	**108.6**	**39.0**	**23.1**	**(4.7)**	**(13.9)**
Adjusted operating margin %	***22%***	***20%***	***30%***	***13%***	**-**	**-**

2019 Local currency million	UK £	North America $	France €	Spain €	New Markets £	Home Experts £
Revenue	391.7	436.2	118.7	159.7	-	40.4
Statutory operating profit/(loss)	68.4	71.3	30.4	19.6	(2.4)	(12.4)
Operating Margin %	*17%*	*16%*	*26%*	*12%*	-	-
Adjusting items						
Exceptional items	(4.6)	-	-	-	-	-
Amortisation of acquisition intangibles	2.2	16.8	7.4	0.2	-	5.0
Total adjusting items	(2.4)	16.8	7.4	0.2	-	5.0
Effect on operating margin %	-	*4%*	*6%*	-	-	-
Adjusted operating profit/(loss)	66.0	88.1	37.8	19.8	(2.4)	(7.4)
Adjusted operating margin %	*17%*	*20%*	*32%*	*12%*	-	-

Leverage

The Group targets net debt in the range of 1.0 to 2.0x adjusted EBITDA measured at the year end. The range reflects HomeServe's relatively low risk appetite. Due to the seasonality of the business and depending on M&A opportunities, HomeServe is able to operate outside 1.0 to 2.0x for periods of time but with a highly cash generative business model HomeServe will seek to return to its target range. The leverage ratio is also important as it factors into the Group's banking covenants and the rolling 12 month rate at each half year period influences the future interest rates payable on the Group's Revolving Credit Facility.

Certain of the Group's segmental bonus measures relate to net cash. Net cash is defined and calculated in the same way as net debt but returns a positive closing balance.

The 2020 Annual Report provides a full reconciliation of the movements in liabilities arising from borrowings and lease liabilities. The closing balances at 31 March were as follows:

£million	2020	2019
Current liabilities from borrowings and lease liabilities		
Lease liabilities	**14.1**	0.5
Bank and other loans	**40.3**	39.7
	54.4	40.2
Non-current liabilities from borrowings and lease liabilities		
Lease liabilities	**45.2**	0.7
Bank and other loans	**540.6**	336.4
	585.8	337.1
Total liabilities from borrowings and lease liabilities	**640.2**	377.3
Cash and cash equivalents	**(131.2)**	(72.6)
Net Debt	**509.0**	304.7
Adjusted EBITDA	**275.3**	221.9
Leverage	**1.8x**	1.4x

Liquidity

Cash conversion % is defined as cash generated by operations divided by adjusted operating profit. The measure demonstrates the cash generative nature of the ordinary trading operations of HomeServe's business model and the ability to produce positive cashflows that can be invested for future growth initiatives or in capital projects to maintain customer service initiatives, digital enhancements or efficiencies that benefit the long-term health of the business.

Free cash flow is stated after capital expenditure, tax and interest obligations and is an indication of the strength of the business to generate funds to meet its liabilities and repay borrowings. It also shows the funds that might be made available to pursue M&A activities and to pay dividends.

£million	2020	2019
Adjusted operating profit	**201.7**	174.8
Exceptional items	**(7.6)**	4.6
Amortisation of acquisition intangibles	**(35.5)**	(26.8)
Operating profit	**158.6**	152.6
Impact of exceptional items	**7.6**	(4.6)
Depreciation and amortisation	**109.1**	73.9
Non-cash items	**9.2**	10.7
Increase in working capital	**(44.1)**	(30.4)
Cash generated by operations	**240.4**	202.2
Net interest and borrowing costs	**(18.5)**	(9.9)
Repayment of lease principal	**(12.4)**	(0.6)
Taxation	**(30.2)**	(31.7)
Capital expenditure - ordinary	**(79.0)**	(66.9)
Capital expenditure – acquisitions of policy books	**(6.9)**	(48.8)
Free cash flow	**93.4**	44.3

£million	2020	2019
Adjusted operating profit	**201.7**	174.8
Cash generated by operations	**240.4**	202.2
Cash conversion	**119%**	116%

IFRS 16 - Leases

HomeServe has adopted IFRS 16 using the modified retrospective approach with a date of initial application of 1 April 2019. Comparative information provided in this announcement has not been restated. The effect of IFRS 16 on the income statement is to remove operating lease charges previously shown within 'operating costs', replacing them with depreciation and interest charges that now result from the capitalisation of "Right of Use Assets" and the recording of "Lease Liabilities" in the consolidated balance sheet (see note 2).

IFRS 16 – Impact on reported profits

There is no material impact on FY20 PBTA as a result of adopting IFRS 16. The effect on adjusted operating profit at a Group level is £0.2m with the segmental breakdown shown in the table below;

FY20 £million	**UK**	**North America**	**France**	**Spain**	**New Markets**	**Home Experts**	**Total**
Adjusted operating profit (IAS 17)	81.0	85.5	33.8	20.0	(4.7)	(13.7)	201.9
Operating lease charge (IAS 17)	5.9	3.2	1.6	2.0	-	0.8	13.5
Depreciation on right of use assets (IFRS 16)	(5.9)	(3.3)	(1.6)	(1.9)	-	(1.0)	(13.7)
Adjusted operating profit (IFRS 16)	**81.0**	**85.4**	**33.8**	**20.1**	**(4.7)**	**(13.9)**	**201.7**
Interest charge on lease liabilities outstanding (IFRS 16)	(0.5)	(0.6)	(0.1)	(0.1)	-	(0.2)	(1.5)
Adjusted operating profit post IFRS 16 interest charges	80.5	84.8	33.7	20.0	(4.7)	(14.1)	**200.2**

IFRS 16 – Impact on net debt and leverage

The additional depreciation and interest charges incurred due to the adoption of IFRS 16 have resulted in an increase to FY20 adjusted EBITDA of £13.5m. Total lease liabilities outstanding at 31 March have increased net debt by £59.3m.

The overall effect on leverage is an increase of 0.1x.

	FY20 £m
Adjusted EBITDA (IAS 17)	261.8
Operating lease rentals (IAS 17)	13.5
Adjusted EBITDA (IFRS 16)	**275.3**

	FY20 £m
Net debt (IAS 17)	449.7
IFRS 16 lease liabilities	59.3
Net debt (post IFRS 16)	**509.0**

KPIs

The Group uses a number of operational key performance indicators that provide insight into past performance and are an indicator of the future prospects of the Group as a whole and its individual segments.

Affinity partner households tracks the growth in addressable market delivered through existing and new partnerships with utilities and municipals.
Customers tracks success in converting addressable market into revenue-generating customers, by delivering great products and service.
Retention rate reflects ability to deliver fit-for-purpose product and great service to customers.
Policies illustrates ability to grow the product line through customer focus and innovation.
Income per customer measures ability to design and market increasingly valuable products, and sell them efficiently. Due to currency differences, this measure is tracked at a geographic level. Income per customer is calculated as the last 12 months' net policy income divided by customers.
Trades are customers in the Home Experts business. Growing the network of vetted and reviewed trades will enable HomeServe to meet consumer needs and grow its business.
Adjusted profit before tax is the key profit measure by which business growth, efficiency and sustainability are monitored.
Net debt to EBITDA is the key cash ratio, which is used to monitor usage of financial resources within agreed risk parameters.

Customers

IFRS 15 defines a customer as 'a party that has contracted with an entity to obtain goods or services'. In the Membership businesses where the Group acts as an intermediary selling contracts and insurance policies to end consumers, the 'IFRS 15 customer' is considered to be the underwriter with which the Group has contracted to sell policies.

This is different, however, from how the Group markets and communicates the value of its products and services to end consumers. Here, the businesses strategy and communications (both internally and externally) refer to the end consumer as the customer. As a result, for the purposes of describing the strategy and operational performance of the business, the Business review and the Group's KPIs refer to the end consumer as the customer of the Group, rather than the underwriter. However, for the purposes of preparing the financial statements, the accounting transactions are recorded in accordance with IFRS 15 where the customer is the underwriter.

For all other sources of revenue, it is the party that has contracted with the Group to obtain goods and services that is classified as the customer. The following table summarises this position:

<table>
<tr><th>Revenue Stream</th><th>IFRS 15 'contracted' customer</th><th>Customer as referred to in the Business and Operating Reviews</th></tr>
<tr><td>Policy Income – insurance intermediary commissions</td><td>Underwriters</td><td>End user of the service</td></tr>
<tr><td>Policy Income – repairs</td><td colspan="2">Underwriters or other B2B contracted parties</td></tr>
<tr><td>Policy Income – home assistance</td><td colspan="2" rowspan="4">End user of the service</td></tr>
<tr><td>Home Experts</td></tr>
<tr><td>HVAC</td></tr>
<tr><td>Other</td></tr>
</table>