Catalist

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12 April 2021

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Subject: AGM Considerations

Dear Nic,

Catalist Partners ("Catalist") is a shareholder in Foxtons Plc, ("Foxtons" or "the Company") controlling c.2% of the common shares outstanding. Catalist identified Foxtons as being substantially undervalued relative to (i) its historically dominant, well located market share across London and (ii) the platform's potential - being superbly positioned to add new business lines and to satisfy the emerging needs of ever more digitally connected customers.

We are writing ahead of the AGM to share concerns stemming from the current renumeration policy which we believe fails in providing suitable incentives to outperformance. We know that other shareholders have similar concerns and note also that this issue has been flagged by various voting advisory agencies – if not swiftly addressed, this risks distracting Management from the pursuit of value creation.

As we recently discussed, and as detailed in our letter of the 22nd Feb 2021, if Foxtons can return its market share towards 2015 levels, particularly in key locations and price points; seize opportunity to selectively add revenue lines and make more use of its superior digital infrastructure, we believe Foxtons would once again be a FTSE 250 constituent – with a market cap in excess of £500m vs c.£215m today.

The earnings to underpin such valuation will not come from higher market transaction volumes alone, but we believe Foxtons has the resources needed to secure this vision – a strong and debt free balance sheet, brand recognition and an established digital platform to grow from.

Specifically, we see the following areas of opportunity for Foxtons:

- **Residential Sales**: With few exceptions, market share has fallen in areas Foxtons once dominated including Chelsea, South Kensington, Kensington, Notting Hill Gate, Holland Park and Fulham. House prices in these areas and others have trebled over time, resulting in a greater number of super prime properties. Foxtons' dogmatic high fee policy, across price points, has allowed other "high end" agents to undercut them. A more competitive fee structure combined with a targeted social media marketing campaign and selective super-prime-agent (re)hires would quickly recover share in these lucrative core markets.

- **The Sale of New Developments**: This is a high margin segment in which Foxtons has had previous success but didn't commit to. A renewed focus, seeded with a suitably incentivised team hired from the 4 market leaders would secure significant market share and also feed Lettings with revenues from international buyers.

- **Lettings**: Share in +£5,000 pw rental market has followed the decline in Sales market share – if the market doesn't perceive you to be relevant in attracting buyers for high value properties, they will assume you don't have the tenants either. Solving Sales will cascade market share and revenues to lettings. Winning back lost market share will deliver greater returns than buying it back.

- **Expansion Outside of London**. National brand recognition, a broad London client base and significant cash position present Foxtons with an enviable opportunity to acquire a complementary regional business, and quickly benefit from London sellers moving to Country, Country sellers and international buyers.

- **Digital Revenues**. Foxtons has been ahead of its competitors on technology for more than 15 years but the gap is narrowing; competitors are actively investing to catch up and to utilise advances initiated by the online agencies. With c.790,000 open accounts and 1,000 viewing requests a week, the potential of My Foxtons exceeds its current contribution. Intelligently providing a curated, targeted selection of services – a superior customer experience – as part of every transaction (purchase, sale, tenancy, property management) would secure incremental revenues from current and future customers. We look forward to continuing the active dialogue we are having with Patrick Franco on this topic.

Value creation should be rewarded. Management should be compensated proportionally to their contribution to the Company's success. To ensure Foxtons achieves its potential, and its management are well rewarded for this achievement, we recommend that the metrics against which success is determined be recalibrated and the renumeration framework amended to provide clearer incentive and alignment with shareholder value creation.

Benchmarking absolute compensation to that of a FTSE 250 company is not unreasonable – if compensation is to be matched so too must the financial performance. Peers such as Chestertons and Dexters have delivered consistently superior results over the past 3-5 years (increasing market share, growing revenue and EBITDA Y-o-Y) and now record higher EBITDA than Foxtons, yet their Management receive less in compensation. Similarly, the Executive Management of far larger and more profitable businesses (e.g. Savills) have lower fixed pay and are set to earn significantly less for 2020.

Executive management compensation should be predominantly market neutral – increases in revenue driven by higher transaction volumes alone need to be distinguished from gains due to considered investment and strategic actions. To do otherwise would be to reward cyclicality. In contrast, front line fee earning staff must be incentivised on absolute performance and aligned with the business. Top performers should be encouraged to continue to perform; non-fee earning managerial roles offering higher compensation work against this. We understand that Foxtons recently had as many as 13 non-fee earning directors collectively earning more than £8m per year; high relative to Foxtons' revenue and compared to its peers.

We agree that variable non-cash compensation should form the majority, that share based incentives should vest over time (+3 years), and should be linked to delivery of strategic objectives, struck above prevailing market price, ensuring alignment with the pursuit of long-term shareholder value creation. Any cash bonus for outperformance, must be linked to objective, ambitious revenue metrics, both absolute and where appropriate relative to key peers. Relevant metrics would include Revenue Growth and EBITDA targets, split by divisions (Sales, Lettings, Financial Services) and include new areas of focus which we believe would significantly increase earnings:
- Super-prime properties
- New developments
- Regional Ex-London
- Digital Revenue

We would appreciate an opportunity to discuss these points with you further, ahead of the AGM, and look forward to continuing working with you for the long-term success of the business.

With kind regards,

Robin Paterson
on behalf of Catalist Partners

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