McGrath

ASX ANNOUNCEMENT

McGrath achieves FY18 earnings guidance

20 August 2018 - McGrath Limited (ASX: MEA) announces its results for the 12 months ended 30 June 2018 (FY18), that saw the Company deliver underlying EBITDA of $5.0 million, achieving the guidance previously provided.

Importantly, the core fundamentals of McGrath are robust, with one of Australia's leading sales agent teams, brand, customer service offering and network reach. Decisively responding to the challenges faced, the new Board and management team have put in place an operational plan that is stabilising the business, with early signs of positive momentum repositioning the business for a return to growth.

FY18 (vs FY17) results overview:

- Revenue down 23% to $99.2 million
- Reported results reflect the impact of one-off restructuring costs ($4.0 million) and impairment charges ($59.4 million) – EBITDA of $1.0 million, and loss after tax of $63.1 million
- Underlying EBITDA of $5.0 million; achieved guidance
- Balance sheet with no debt and $10.9 million cash
- Even after the departure of some of McGrath's sale agents, market share was constant at 3.1% (source: CoreLogic, 30th June 2018).

Commenting on the results, McGrath CEO Geoff Lucas said:

"With the new Board and senior leadership team settled in, the last quarter of FY18 saw the beginning of a period of stabilisation, and we are in the midst of a business turnaround. We are already seeing good progress in culture and agent recruitment, and critically we are seeing some strong sales results within our key markets."

FY18: weak real estate industry conditions impacted sales volumes

Due to the difficult market conditions, lower sales volumes, and the departure of some of McGrath's sales agents over FY17 and FY18, Group revenue was down 23% to $99.2 million (compared to FY17). The lower revenue reduced underlying EBITDA to $5.0 million (before $4.0 million of one-off costs and $59.4 million of goodwill impairments), achieving market guidance. The ability of the business to generate positive earnings even after a $30.2 million reduction in revenue is testament to the robustness of the McGrath brand and position in the real estate industry.

Aqualand investment and strategic alignment

Aqualand's investment in McGrath provides additional capital and resources to grow. Aqualand is one of Australia's premier property development and investment groups with a portfolio of 18 sites in New South Wales with a gross development value of approximately $5.0 billion, and as part of their investment Aqualand has given McGrath the first right to discuss being a sales agent and leasing agent on these and future projects over the next five years.

Balance sheet with no debt and $10.9 million cash

McGrath's balance sheet at 30 June 2018 had no debt and $10.9 million cash. This has been further enhanced post 30 June by the second tranche of the Aqualand Placement ($4.9 million).

The Board remains focused on conserving cash for business reinvestment and will not pay a final FY18 dividend. McGrath's dividend policy will be reinstated as soon as it is deemed prudent.

FY19: a year of stabilisation and return to growth

McGrath is committed to, and focused on, restoring its industry-leading position in FY19. Commenting on the Company's outlook, McGrath CEO Geoff Lucas said:

"We intend to introduce a range of strategic initiatives that are designed to improve the business, including initiatives relating to learning and development, data driven technology improvements and assessment of select acquisitions.

"We remain committed to growing the contributions of our annuity businesses in Property Management, Franchise and Oxygen as well as de-risking the volatility of our earnings in Company Owned Sales. At the same time, we are focused on maintaining a disciplined approach to cost management across the business.

"While the current property market conditions are challenging, we believe this will continue to generate some very real opportunities as more agencies and sales people will be seeking to join larger, well capitalised, quality branded groups like McGrath. Company owned agent numbers returned to growth over the fourth quarter of FY18, and that trend has continued into FY19.

"Our strategic plan has, as its centrepiece, the goal of growing McGrath's franchised and company offices across Australia over the next five years. We will be concentrating our growth in predominantly franchised offices along the Eastern Seaboard, with particular focus on Victoria and Queensland. We will also be strengthening our presence in our existing company owned offices with an additional focus on the growth precincts around Western Sydney", he added.

"With an industry-leading team and unmatched knowledge of the market developed over 30 years, we believe that McGrath's most difficult days are behind it. The Board and the new management team are united and focused on stabilising the business and returning it to growth in FY19, and pleasingly we are already seeing signs of positive momentum."

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About McGrath:
McGrath Limited (ASX: MEA) has grown to be an integrated real estate services business, offering agency sales, property management, mortgage broking and career training services. McGrath Estate Agents currently has 94 offices located throughout the East Coast of Australia. For further information, please visit www.mcgrath.com.au.