



Geoff Lucas, CEO
Glynn Wright, CFO

McGrath

McGrath Limited (ASX: MEA)
Results for the 12 months ended 30 June 2018
20 August 2018

FY18

Underlying EBITDA of \$5m

Achieved guidance and reflects challenging
market conditions

UNDERLYING EBITDA \$5M, ACHIEVED GUIDANCE

Statutory \$m	FY18	FY17	% Change
Revenue	99.2	129.4	(23%)
EBITDA	1.0	15.6	(93%)
(NLAT) / NPAT	(63.1)	4.9	n/a
Cash	10.9	8.0	37%
Underlying \$m	FY18	FY17	% Change
Revenue	99.6	129.0	(23%)
EBITDA	5.0	15.3	(67%)
(NLAT) / NPAT	(1.5)	4.6	(132%)

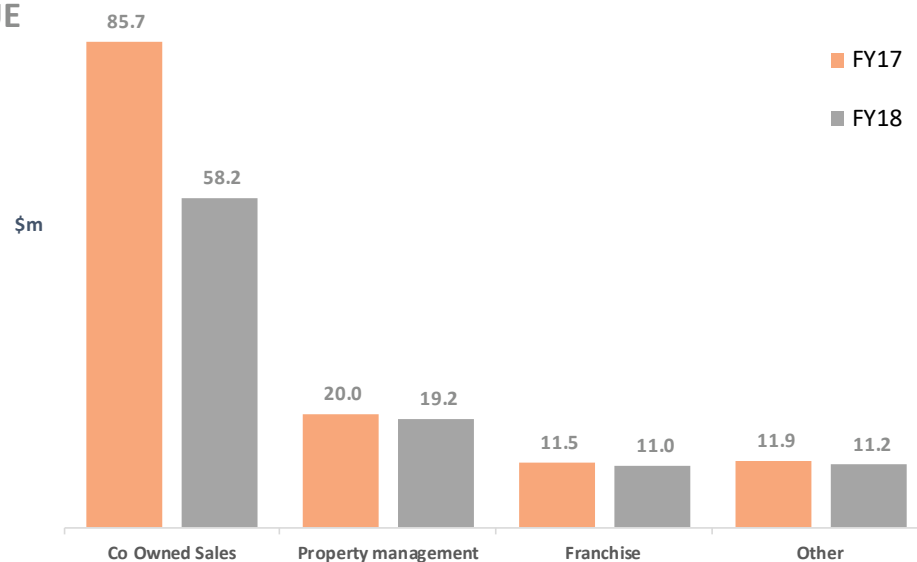
- Difficult market conditions impacted results
- **Revenues**
 - Impacted by lower number of agents
 - Challenging market conditions impacting listings
 - Net decline in offices, particularly within the Franchise network
 - Slowdown in the Project Marketing business with tightening regulatory conditions impacting investment demand¹
 - Properties under management in Company Owned network lower
- **Underlying EBITDA of \$5m achieved guidance**
 - Company Owned Sales segment main contributor to decline
 - Additional McGrath Future costs (\$1.6m) ²
- **Net Loss After Tax**
 - Adversely impacted by \$59.4m impairment predominately relating to the Company Owned network (refer slide in appendix)

1. Source: CoreLogic, APRA

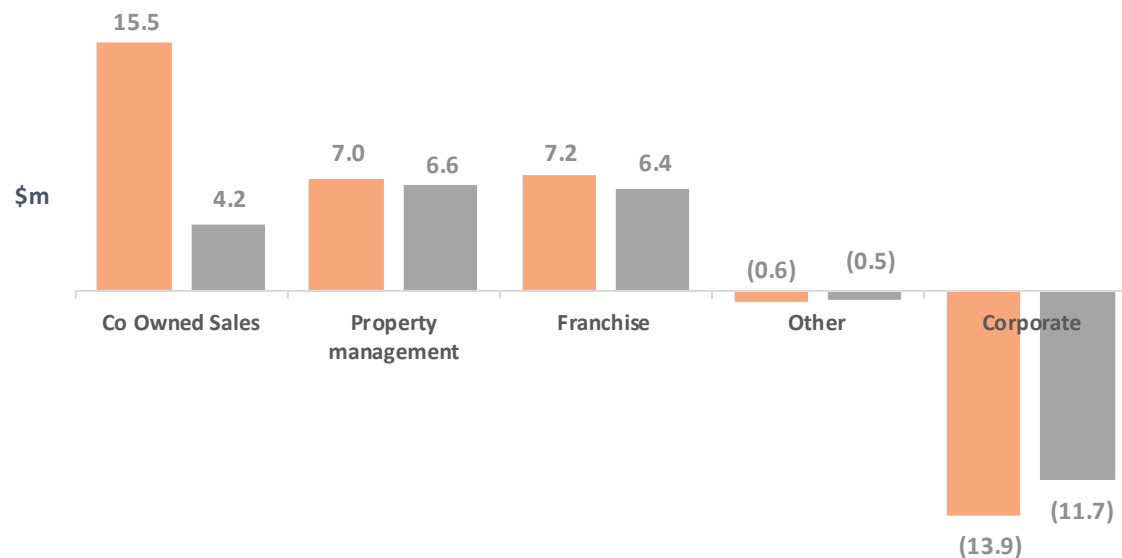
2. Includes additional costs of McGrath Future in 1H2018 due to the program launching in January 2017

UNDERLYING REVENUE AND EBITDA BY SEGMENT

REVENUE



EBITDA



• Co Owned Sales

- Decline in agent numbers in FY17 and 1H2018. Net growth in agents in the fourth quarter with focus on developing and retaining high performing agents
- Slowdown in Project Marketing. Business has been 'right-sized' for the current market
- Transfer / Closure of 2 offices to enhance earnings

• Co Owned Property Management

- Lower number of properties under management (PUM) impacting earnings
- New lean team structure implemented focussing on churn reduction

• Franchise

- Franchise fees in line with prior year
- 2 grant fee signings, lower than prior year. Renewed focus on improving the Franchise offering and growing the network
- Net reduction of 5 offices, including 1 transfer from Co Owned Sales

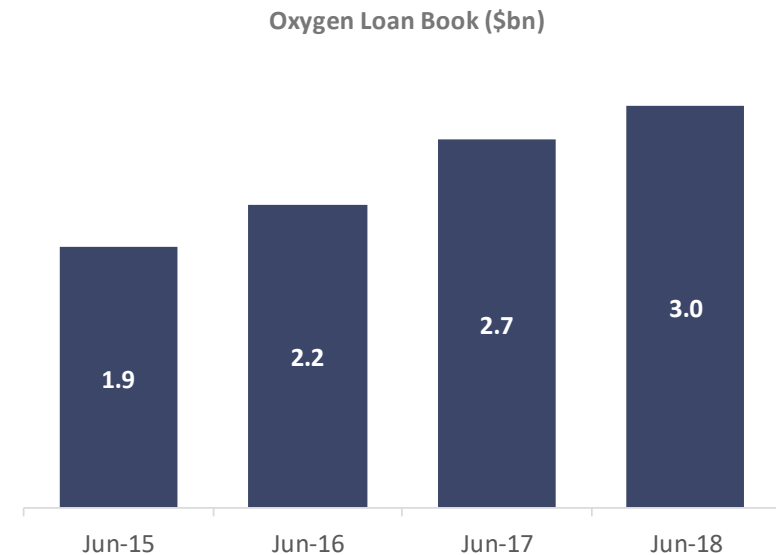
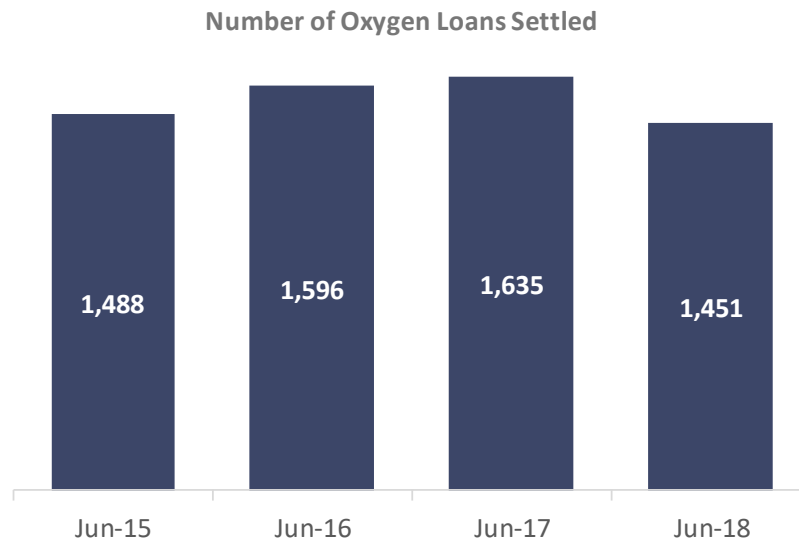
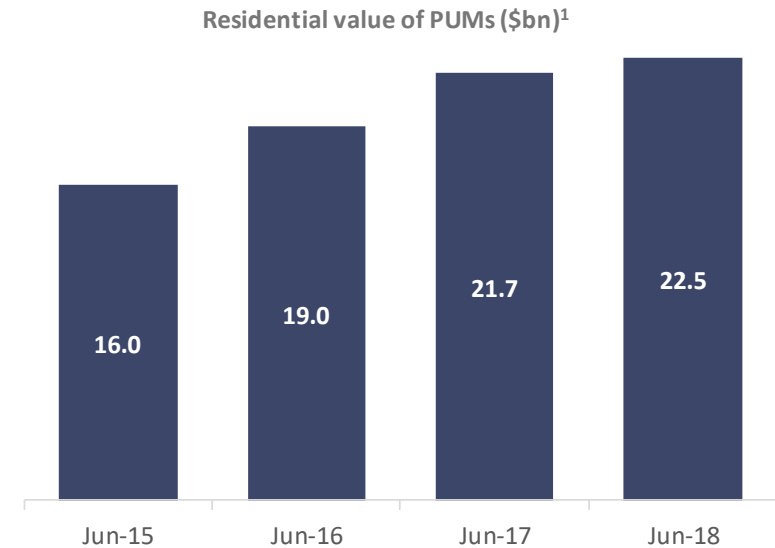
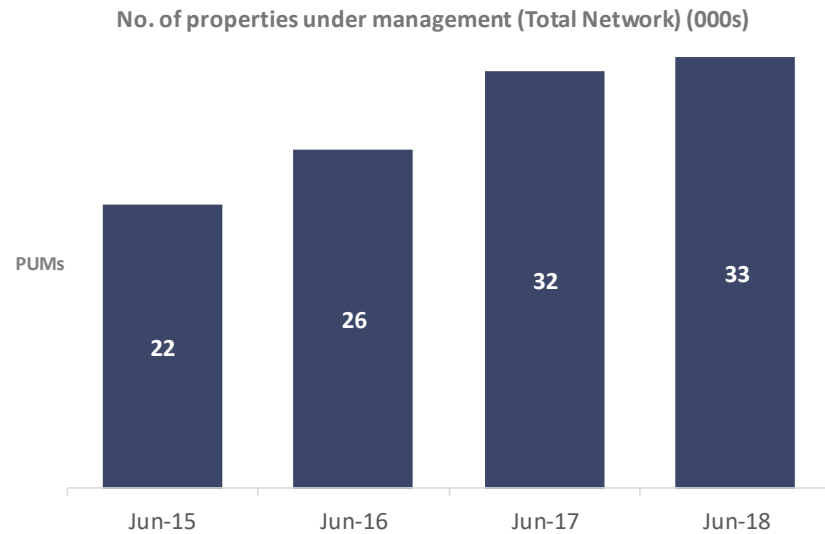
• Other segment

- Reduction in agents and difficult market conditions had a flow on impact to Oxygen and Auction Services' revenue

• Corporate

- Reduction reflects benefit of restructure

GROWING PROPERTY MANAGEMENT AND HOME LOANS



1. The residential value of properties under management is estimated by applying a rental yield to the average rent to estimate the property values

POSITIVE OPERATING CASH FLOW DESPITE DIFFICULT CONDITIONS

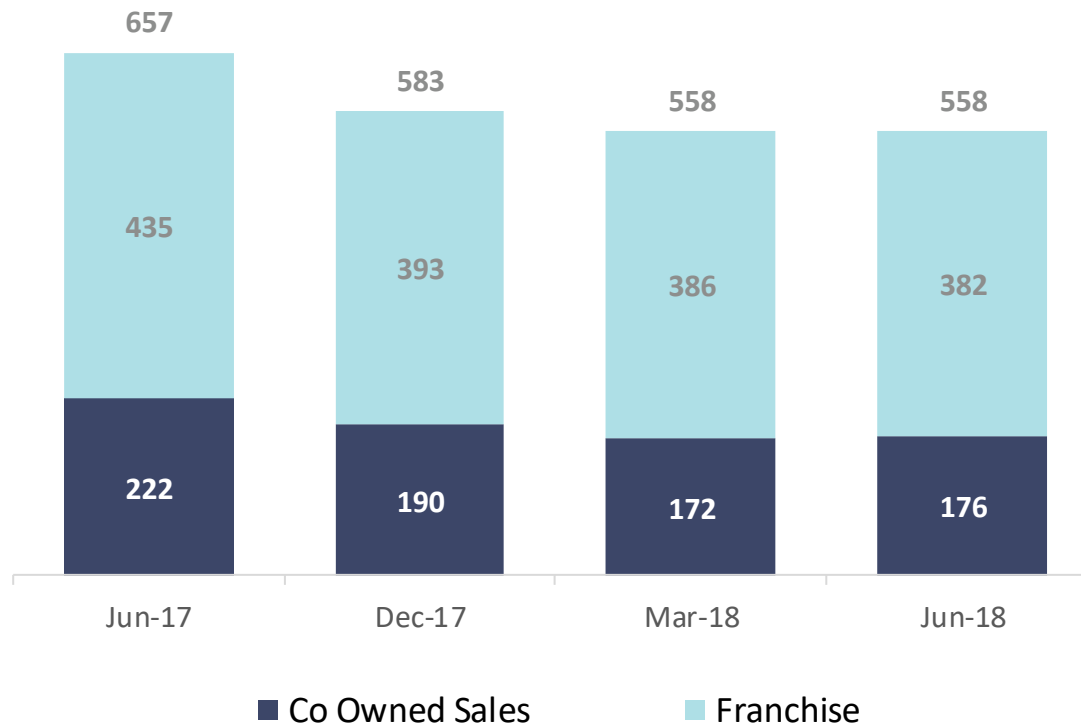
1 July 2017 to 30 June 2018

\$m	FY18	FY17
Opening balance	8.0	12.5
Cash flow from operating activities	1.5	12.4
Cash flow from investing activities	0.7	(7.6)
Cash flow from financing activities	0.7	(9.3)
Net cash flow	2.9	(4.5)
Closing balance	10.9	8.0

- Cash flow impacted by:
 - FY17 Final Dividend Payment (\$1.5m)
 - Second deferred consideration payment made to Smollen Group (\$3.1m)¹
 - New share capital issued (\$5.6m)
 - \$1.0m in sales proceeds relating to Seaforth
 - Slowdown on capital expenditure (\$0.8m FY18)
- Balance sheet at 30 June 2018 had \$10.9m cash and no debt

1. Payment represented in financing activities offset by the cash from equity issues. Further detail on cash flow can be found in the appendix

AGENT NUMBERS STABILISED, WITH COMPANY OWNED SALES CHANNEL RETURNING TO GROWTH IN FOURTH QUARTER

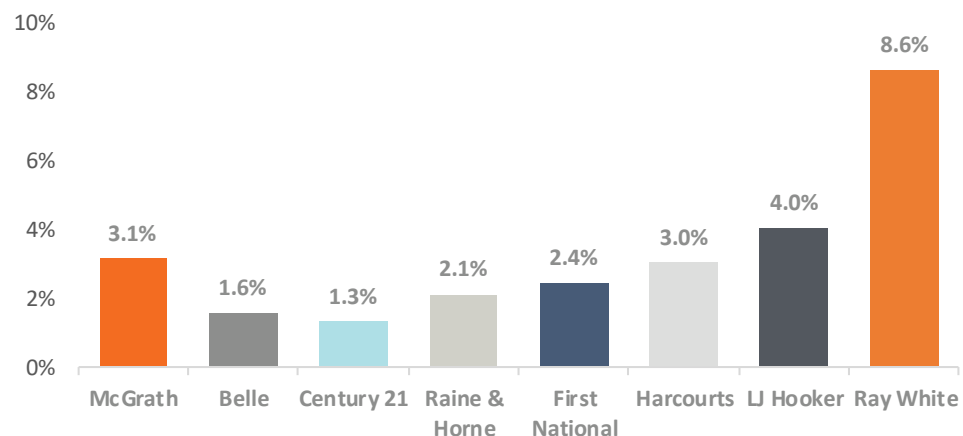


- Total agent numbers consistent from third quarter to fourth quarter with gains in the Company Owned network offset by departures in the Franchise network.
- Total Network has continued to grow in July, moving to 560 agents, driven by the Company Owned network increasing by 8 agents to 184.
- Continued focus on
 - Talent identification
 - Developing and retaining high performing and emerging agents
 - Conversion of strong recruitment pipeline
- 27 of top 100 agents work for McGrath¹, 3 times more than any other brand

1. Real Estate Business: Top 100 Ranking June 2018.

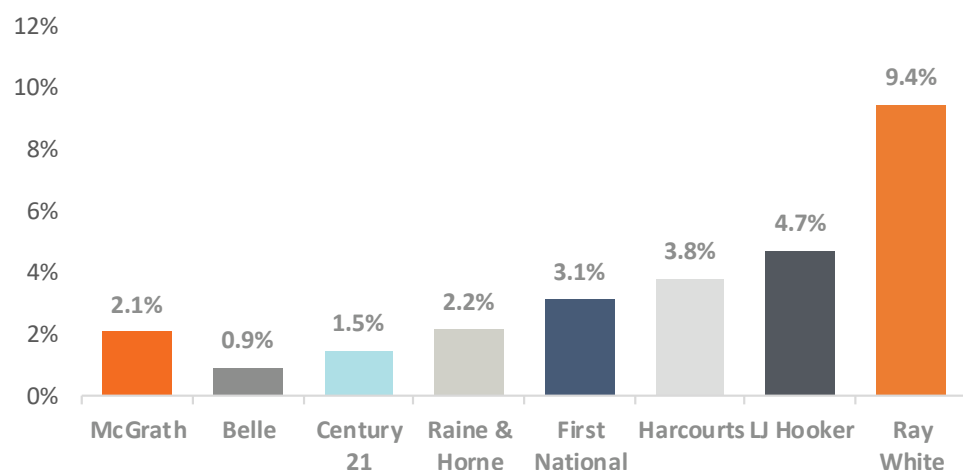
STABLE MARKET SHARE SUPPORTS FUTURE GROWTH

Market share by sales value¹



- National Market share remaining constant at 3.1% based on sales value
- Market share gains in most states McGrath represented

Market share by sales volume¹



Market share by sales value¹

Addressable Markets	12 mths to Jun18	12 mths to Jun17 ²
NSW	6.3%	6.2%
QLD	1.8%	1.9%
ACT	5.5%	4.2%
VIC	1.0%	0.6%
National	3.1%	3.1%

1. Estimates By Core Logic based on published sales data where an agent was recorded in the 12 months to 30 June 2018. 2. Prior period comparative CoreLogic data, for 12 months to 30 June 2017 re-run. NB Core Logic underestimates individual market share for all groups due to a number of property sales not being allocated to a brand.

FY19

Stabilising the business and returning it to growth

STRATEGIC INVESTMENT BY AQUALAND – OPPORTUNITY TO GROW PROJECT MARKETING

- Strategic relationship formed between McGrath and Aqualand on 20 June 2018
- Aqualand is one of Australia's premier residential property development and investment groups with a portfolio of 18 sites that have a collective gross development value of approximately \$5 billion
- Aqualand invested \$10.7m (before costs) for a 15% shareholding in McGrath at an issue price of \$0.425 per share
 - 25.0% premium to closing price on 19 June 2018
 - 16.9% premium to 60 day VWAP to 19 June 2018
- As McGrath's second largest shareholder, Aqualand appointed Wayne Mo to the Board
- McGrath granted first right to discuss appointment on new Aqualand developments :
 - as an agent to market new developments
 - to provide property management services for leased apartments within new developments
- Opportunity to increase McGrath's Project Marketing operations and support Property Management and property resale growth



KEY PRIORITIES AND OUTLOOK FOR FY19

- **FY19 outlook**





- Challenging market conditions expected to continue
- Despite a tighter cycle, a quality brand, skills and experience are crucial with McGrath well placed in this environment
- Tougher financing conditions continuing

- **FY19 key priorities**

- Grow market share in key markets
- Focus on learning and development initiatives and data technology improvements to enhance the agent and vendor experience
- Continue to grow our annuity businesses in Property Management, Franchise and Oxygen
- Office growth with a focus on the Eastern seaboard predominately in the Franchise network
 - Grow agent network with focus on improving agent productivity
 - Convert strong agent recruitment pipeline
- Retain high performing agents
- Develop scale in Project Marketing business to position business for future growth
- Assessment of select acquisition opportunities

APPENDIX

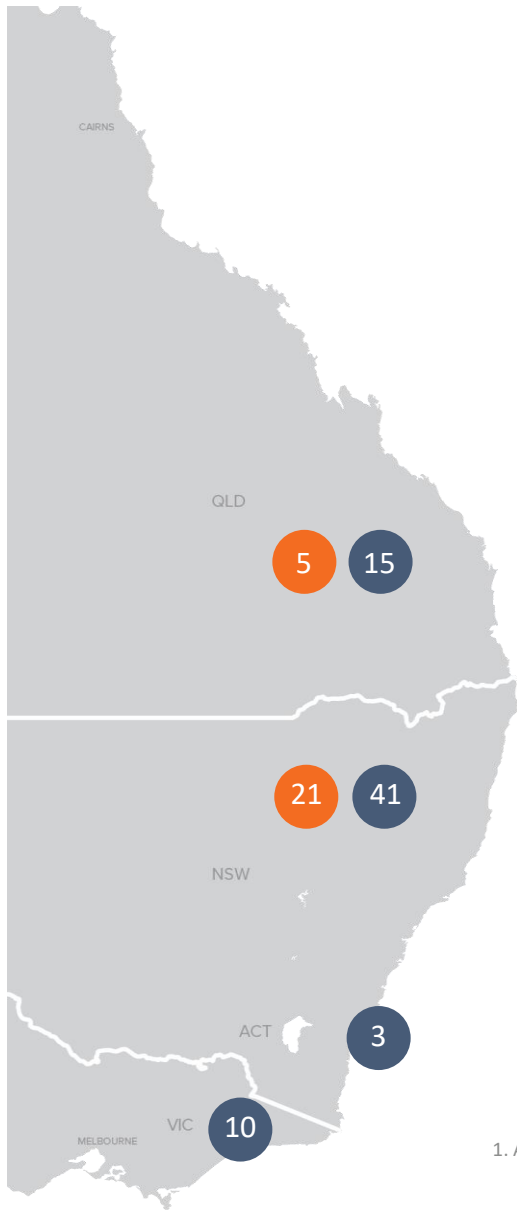
BUSINESS OVERVIEW BY SEGMENT

	Company owned		Franchise Services	Other ³
	Sales	Property Management		
FY18 Revenue / EBITDA Contribution	 <p>25% of EBITDA¹</p>	 <p>39% of EBITDA¹</p>	 <p>38% of EBITDA¹</p>	 <p>-3% of EBITDA¹</p>
Overview	<ul style="list-style-type: none"> Generates revenue by charging the vendors of residential property a commission for successfully selling a property 26 offices 176 agents 3,002 property sales \$4.6 billion value of property sales 	<ul style="list-style-type: none"> Generates revenue through management and leasing fees 57 property managers 7,215 properties under management (leased) Churn rate of ~21%² Generates revenue through management and leasing fees 	<ul style="list-style-type: none"> Generates revenue from franchise fees on gross commission income, and property management income 69 offices 382 agents 8,065 property sales \$7.4 billion value of property sales 26,084 properties under management 	<ul style="list-style-type: none"> Mortgage broking generates up front and trailing revenue from each loan 31 brokers settled 1451 mortgages for a value of \$778 million \$3.0 billion of loans under management McGrath Training organises and operates a number of industry leading residential real estate conferences in Australia 50 exclusive auctioneers

Note: Pie chart represents revenue contribution of segment. Data as at 30 June 2018 unless otherwise stated. 1. Excludes unallocated corporate costs. 2. Churn rate is defined as the total number of properties lost as a percentage of total properties managed as at beginning of Financial Year. 3. Incorporates the mortgage broking, auctioneering and training businesses.

FOOTPRINT IN CORE MARKETS

95 McGrath offices¹



26 Company owned offices

69 Franchise offices

1. As at 30 June 2018. 2. Avalon, a Company Owned office transferred to Franchise in October, 2017

- **Company Owned Sales**
 - Avalon, NSW (Oct-17)²
 - Seaforth, NSW (Feb-18)
- **Franchise**
 - + Avalon, NSW (Oct-17)²
 - + Coburg/Brunswick (Jan-18)
 - + McGrath Land, NSW (Jun-18)
 - Wollongong, NSW (Oct-17)
 - Thirroul, NSW (Oct-17)
 - Shellharbour, NSW (Oct-17)
 - Kiama, NSW (Nov-17)
 - Bentleigh, VIC (Dec-17)
 - Berry, NSW (Jan-18)
 - Cairns, QLD (Jan-18)
 - The Ponds, NSW (Jun-18)

PROFIT AND LOSS

	Statutory				Underlying ¹		
\$m	FY18	FY17	% Change		FY18	FY17	% Change
Total revenue	99.2	129.4	(23%)		99.6	129.0	(23%)
Cost of sales	(38.1)	(49.9)	(24%)		(38.1)	(49.9)	(24%)
Gross Profit	61.1	79.4	(23%)		61.5	79.1	(22%)
Employee benefits expenses	(33.8)	(36.9)	(8%)		(31.8)	(36.9)	(14%)
Other expenses	(26.3)	(26.9)	(2%)		(24.7)	(26.9)	(8%)
EBITDA	1.0	15.6	(94%)		5.0	15.3	(67%)
Depreciation and Amortisation	(7.2)	(7.6)	(6%)		(7.2)	(7.6)	(6%)
Impairments	(59.3)	(2.2)	2620%		-	(2.2)	n/a
EBIT	(65.5)	5.8	n/a		(2.1)	5.5	(139%)
Net finance costs	0.0	0.0	(11%)		0.0	0.0	(11%)
Net (loss)/profit before tax	(65.5)	5.9	n/a		(2.1)	5.5	(138%)
Tax expense	2.4	(1.0)	(340%)		0.6	(1.0)	(162%)
Net (loss)/profit after tax	(63.1)	4.9	n/a		(1.5)	4.6	(133%)

1. Underlying results adjusted for \$4m of one-off costs

IMPAIRMENT OF COMPANY OWNED SALES SEGMENT

\$m	Goodwill	Property, plant and equipment	Total¹
Opening Balance	53.3	9.0	62.4
FY18 movements	-	(1.0)	(1.0)
FY18 amortisation / depreciation	-	(2.8)	(2.8)
1H2018 impairment	(21.8)	-	(21.8)
2H2018 impairment	(31.5)	(3.8)	(35.3)
Total impairment	(53.3)	(3.8)	(57.1)
30 June 2018 carrying amount	-	1.5	1.5

- An additional impairment of \$35.3m was recognised at year end, in addition to the \$21.8m recognised at half year
- The additional impairment is against the Company Owned sales segment and relates to assets that were primarily brought onto the balance sheet as part of agency acquisitions in 2015
- All Goodwill in the Company Owned sales segment is considered impaired

1. Total includes impairments of Goodwill relating to prior acquisitions and Property, plant and equipment. Excludes receivables impairment

SEGMENT PERFORMANCE

	Statutory		
\$m	FY18	FY17	% Change
Revenue			
Co Owned Sales	58.2	85.7	(32%)
Property management	18.8	20.0	(6%)
Franchise	11.0	11.5	(4%)
Other	11.2	12.2	(9%)
Total Revenue	99.2	129.4	(23%)
EBITDA			
Co Owned Sales	3.8	15.5	(75%)
Property management	6.2	7.0	(12%)
Franchise	5.7	7.2	(21%)
Other	(0.5)	(0.6)	(7%)
Corporate	(14.1)	(13.6)	4%
Total EBITDA	1.0	15.6	(93%)

	Underlying ¹		
	FY18	FY17	% Change
Co Owned Sales	58.2	85.7	(32%)
Property management	19.2	20.0	(4%)
Franchise	11.0	11.5	(4%)
Other	11.2	11.9	(6%)
Total Revenue	99.6	129.0	(23%)
Co Owned Sales	4.2	15.5	(73%)
Property management	6.6	7.0	(6%)
Franchise	6.4	7.2	(11%)
Other	(0.5)	(0.6)	(20%)
Corporate	(11.7)	(13.9)	(16%)
Total EBITDA	5.0	15.3	(67%)

1. Underlying results adjust for \$4m of one-off costs

STATUTORY BALANCE SHEET

\$m	FY18	FY17	% Change
Total current assets	40.5	39.2	3%
Total non-current assets	21.1	88.4	(76%)
Total assets	61.6	127.6	(52%)
Total current liabilities	13.1	21.8	(40%)
Total non-current liabilities	6.1	7.1	(14%)
Total liabilities	19.2	28.9	(33%)
Net assets	42.4	98.7	(57%)
Contributed equity	103.5	95.2	9%
Share based payment reserve	0.7	0.7	(0%)
(Accumulated losses) / retained profits	(61.8)	2.8	(2289%)
Total equity	42.4	98.7	(57%)

STATUTORY CASH FLOW

\$m	FY18	FY17
EBITDA	1.0	15.6
Change in net working capital	0.2	(3.2)
Non cash EBITDA items	1.6	0.4
Net interest received / (paid)	0.0	0.0
Income tax paid	(1.3)	(0.5)
Net cash flow from operating activities	1.5	12.4
Purchase of controlled entities, net of cash acquired		(0.2)
Proceeds from disposal of property, plant and equipment	1.0	-
Loan repayments received	0.5	0.1
Loans granted		(0.8)
Capital expenditure	(0.8)	(6.7)
Net cash flow from investing activities	0.7	(7.6)
Proceeds from issue of share capital	5.6	-
Payment for purchase of shares and options	(0.3)	-
Repayment of borrowings	(3.1)	(3.1)
Dividends and distributions paid	(1.5)	(6.1)
Net cash flow from financing activities	0.7	(9.3)
Net cash flow	2.9	(4.5)
Cash conversion ratio	147%	79%

McGRATH CONTACTS ASSOCIATED WITH THIS PRESENTATION

Geoff Lucas

Chief Executive Officer

Glynn Wright

Chief Financial Officer

Terri Sissian

Communications Director

Investor Centre Contact Details:

Phone

+61 2 9386 3333

Email

InvestorCentre@mcgrath.com.au

DISCLAIMER

This presentation has been prepared by McGrath Limited (Company) together with its related bodies corporate (McGrath Group). The material contained in this presentation is intended to be general background information on the McGrath Group and its activities.

The information is supplied in summary form and is therefore not necessarily complete. It should be read in conjunction with the Company's other periodic and continuous disclosure announcements filed with the Australian Securities Exchange and in particular the Company's latest full year results. It is not intended that it be relied upon as advice to investors or potential investors, who should consider seeking independent professional advice depending upon their specific investment objectives, financial situation or particular needs. The material contained in this presentation may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information.

All amounts are in Australian dollars unless otherwise indicated.

Unless otherwise noted, financial information in this presentation is based on A-IFRS. McGrath Group uses certain measures to manage and report on its business that are not recognised under Australia Accounting Standards or IFRS. These measures are collectively referred to in this presentation as 'non-IFRS financial measures' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. Managements uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business and the Company believes that they are useful for investors to understand the Company's financial condition and results of operations. This information is also important for comparative purposes with the use of those measures in the Company's IPO prospectus dated 12 November 2015. Unless otherwise specified those non-IFRS financial measures have not been subject to audit or review in accordance with Australian Accounting Standards.

Forward-looking statements are statements about matters that are not historical facts. Forward looking statements appear in a number of places in this presentation and include statements regarding the McGrath Group's intent, belief or current expectations with respect to business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions, financial support to certain borrowers, indicative drivers, forecasted economic indicators and performance metric outcomes.

This presentation contains words such as 'will', 'may', 'expect', 'indicative', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'probability', 'risk', 'forecast', 'likely', 'estimate', 'anticipate', 'believe', or similar words to identify forward-looking statements. These forward-looking statements reflect the McGrath Group's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond the control of McGrath Group, and have been made based upon the McGrath Group's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with the McGrath Group's expectations or that the effect of future developments on the McGrath Group will be this anticipated. Actual results could differ materially from those which the McGrath Group expects, depending on the outcome of various factors. Factors that may impact on the forward-looking statements made include, but are not limited to, general economic conditions in Australia, competition in markets in which the McGrath Group will operate and the inherent regulatory risks in the business of the McGrath Group.

When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider such factors and other uncertainties and events. The McGrath Group is under on obligation to update any forward looking statements contained in this presentation, where as a result of new information, future events or otherwise, after the date of this presentation.