

### McGrath FY19 First Half Results

18 February 2019 – McGrath Limited (ASX: MEA) today announced its FY19 first half results, within guidance for 1H FY19 provided late last year.

#### 1H FY19 vs 1H FY18 results financial snapshot

- Revenue down 18% to \$42.5 million
- Underlying EBITDA loss of \$2.5m down from EBITDA of \$1.6 million<sup>1</sup>
- Underlying NPAT loss of \$3.3 million from \$1.8 million<sup>1</sup> loss
- Small increase in national market share by sales value to 3.1% from 2.9%<sup>2</sup> at June 2018

The continuing subdued property market conditions have impacted McGrath's performance in the first six months of the 2019 financial year, resulting in an underlying EBITDA loss for the first half of \$2.5 million. This result comprises the previously reported first quarter loss of \$1.9 million and a reduced second quarter loss of \$600,000 and is in line with guidance provided to the market on 23 October 2018.

Total one off charges of \$6.6 million (pre-tax), relating to legacy IT development costs and contracts, contributed to an unaudited NPAT loss of \$9.6 million. McGrath is well advanced in rolling out a new and advanced technology solution, which combined with McGrath's extensive database and data analytics systems, is expected to revolutionise its operations during 2019.

Mr Geoff Lucas, CEO of McGrath, said "After conducting a comprehensive analysis of the prior technology investment, we have determined our new in market solution will deliver our team and customers superior performance into the future.

"Market conditions are expected to remain soft during 2019, however there have been some signs of optimism with buyers, especially owner-occupiers who are increasingly more active as prices return to more affordable levels in many areas. This trend is underpinned by a stable economy with low unemployment and record low interest rates.

"Economic factors are contributing to a significant reduction in transaction volumes with settled sales for the real estate sector nationally down 13.2%, and across the eastern Seaboard with Sydney down 20.3%, Melbourne down 22.3% and Brisbane down 11.3% on the 12 months to January 2019. Prices continue to weaken with national dwelling values to January 2019 down 5.6%, with Sydney down 9.7%, Melbourne down 8.3% and Brisbane in line with last year."\*

Mr Lucas concluded "We continue to see a trend of rationalisation of real estate agencies in the current market creating a flight to quality."

\* Industry data as at January 2019 sourced from CoreLogic. % comparisons are against **January 2018**.

<sup>1</sup> The Underlying comparative figures for the half year ended 31 December 2017 have been adjusted to include the commission expenses associated with the McGrath Future Program, launched in 2017. This was previously excluded from the 1H 18 numbers to be comparative with the prior year earnings before the launch of the program.

<sup>2</sup> Current period based on published CoreLogic data in the 6 months to 31 December 2018. Prior period comparative CoreLogic data for 12 months to 30 June 2018 re-run.

## **Strong Balance Sheet**

McGrath has a strong balance sheet at 31 December 2018 with no debt and \$36.7 million in net assets with \$16.5 million in cash. The Company notes that an additional \$38 million in rent roll assets is not reflected on the balance sheet (note that this number is unaudited and based on a multiple of annual management fees. The multiple is based on an assessment of historical market transactions).

The Board remains focused on conserving cash for business reinvestment and will not pay an interim FY19 dividend. McGrath's dividend policy will be reinstated as soon as it is deemed prudent.

## **FY19 Full Year Outlook**

### **Outlook**

The Company notes that trading to the end of January 2019 has been in line with the expectations underlying its guidance provided to the market on 23 October 2018. However, trading over the first two weeks of February 2019 has been below those expectations, with generally lower listing volumes and average sale prices than expected.

Underlying EBITDA for the second half of FY19 is expected to be impacted by ongoing difficult trading conditions, with external factors such as the NSW and Federal elections, potentially further impacting performance of the property market and McGrath.

While March is a seasonally higher listings month, the upcoming elections, together with the late timing of Easter and general market uncertainty reduces the current visibility into the third and fourth quarters. Should the balance of the second half continue to be impacted, the Company will update the market in accordance with its continuous disclosure obligations.

## **Strategic Imperatives**

The Board and Management are focused on returning the company to growth, with a strategy based on driving customer leads and closer partnerships with the company's agents and franchisees.

McGrath will:

- maintain a focus on attracting and developing the industry's top sales agents
- integrate new data driven marketing and technology solutions for both customers and agents
- partner with leading property data providers to generate market leading insights
- utilise latest technology combining with McGrath sales expertise to enhance customer service
- continue to assess strategic acquisitions in key growth areas
- focus on increased productivity, efficiency and cost reduction initiatives

Mr Lucas said "We are pleased with the success of our current recruitment program and believe it will give us strength to further consolidate our presence in key markets. We will ensure that McGrath delivers the best professional advice to both buyers and vendors, while landlords and tenants are also assisted through our advanced technology".

## Franchise update

McGrath has extended franchise agreements with four top franchisees within the McGrath network operating in the following regions:

- Central Coast – 6 offices
- Northern Rivers/Gold Coast – 4 offices
- Buderim/Mooloolaba – 2 offices
- Sutherland Shire – 4 offices

McGrath notes that a new franchise has been granted to service the Wollongong region.

On 1 February 2019, McGrath opened its first company owned office in Sydney's Lower North Shore following the termination of the previous franchise agreement. The new office is staffed by a number of McGrath's long term agents and is expected to enhance McGrath's strong presence in what is one of the country's top property markets.

-Ends-

For further information, please contact:

### Investors

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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 92 offices located throughout the East Coast of Australia. For further information, please visit [www.mcgrath.com.au](http://www.mcgrath.com.au).

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