Geoff Lucas, CEO
Howard Herman, CFO

McGrath

# McGrath Limited (ASX: MEA)

Results for the 12 months ended 30 June 2019

26 August 2019

FY19 result in line with guidance.

Challenging trading conditions remain. Buyer sentiment has improved in recent months however listed properties remain subdued at decade low levels[1].

(1) Per Core Logic (2nd August 2019)

# Market conditions impacted business performance

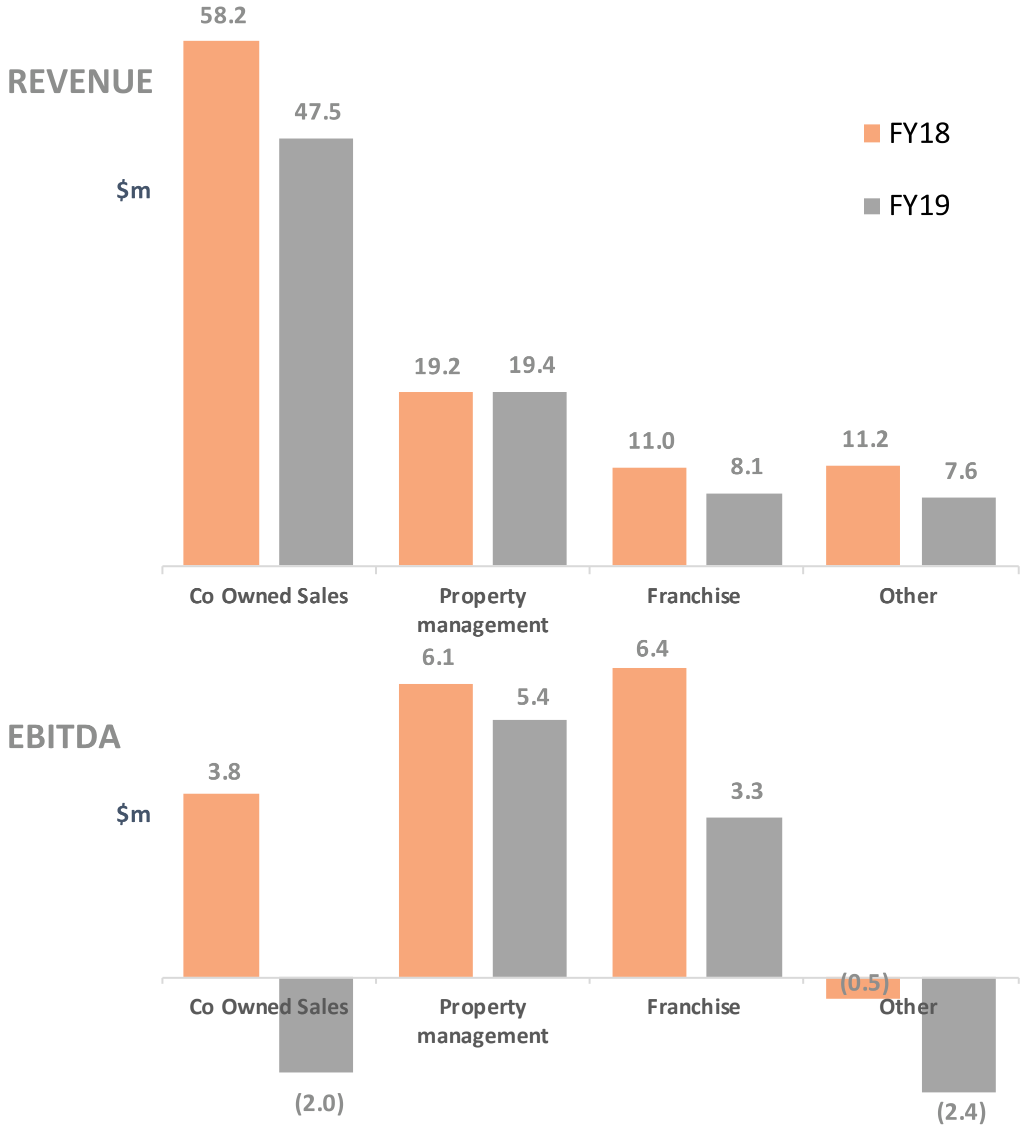
| Statutory $m | FY19 | FY18 | % Change |
|---|---|---|---|
| Revenue | 82.7 | 99.2 | (17%) |
| EBITDA | (10.1) | 1.0 | n.m |
| (NLAT) | (15.6) | (63.1) | (75%) |
| | | | |
| **Cash** | **10.3** | **10.9** | **(6%)** |

| Underlying $m | FY19 | FY18 | % Change |
|---|---|---|---|
| Revenue | 82.7 | 99.6 | (17%) |
| **EBITDA** | **(6.4)** | **5.0** | **n.m** |
| (NLAT) | (9.7) | (1.5) | 555% |

- **Revenues**
  - Outperformed the market in new listings and number of sales[1] but challenging market conditions and lower average selling price impacted performance
  - Slowdown in the Project Marketing business with challenging conditions ahead (particularly in NSW Apartment developments)
  - Lower sales transactions continued to impact Auction services and Oxygen businesses in 2H
- **Underlying EBITDA consistent with guidance**
- **Net Loss After Tax**
  - Adversely impacted by $3.4 impairment charges and onerous contracts provisions of $3.7m mainly relating to the IT strategy reinvigoration as announced at 1H19.

(1) Core Logic
n.m. = not meaningful

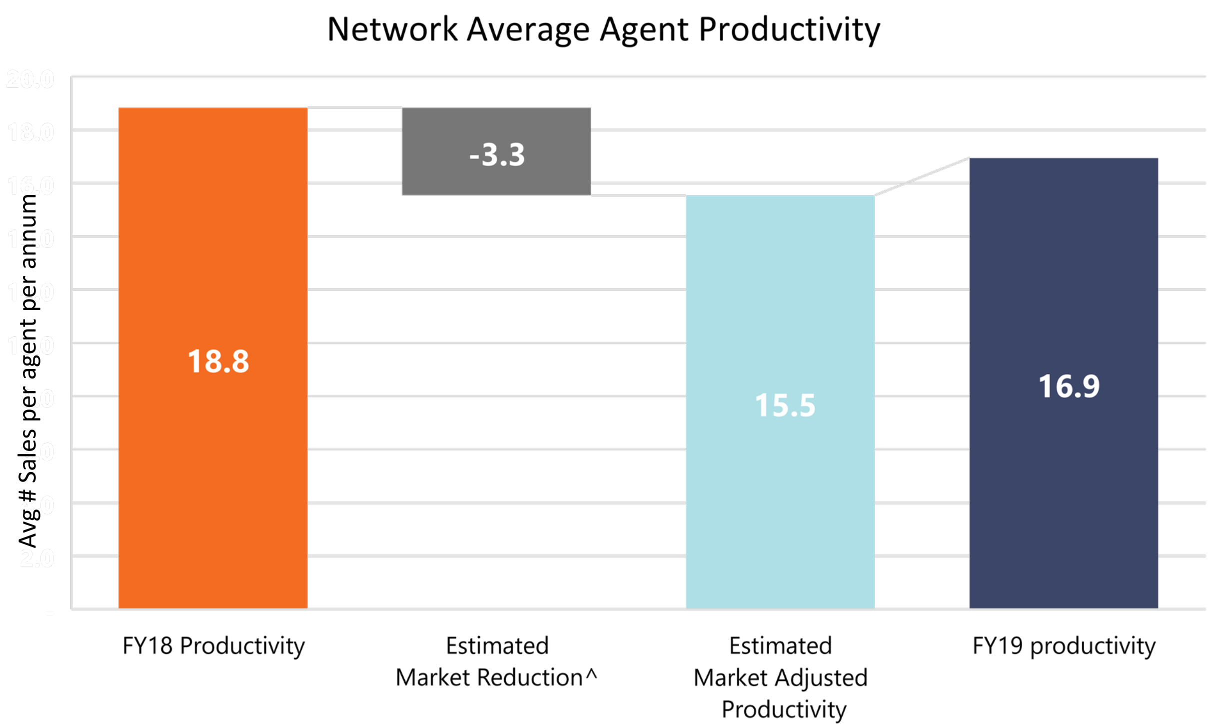
# Underlying results by segment




- **Co Owned Sales** [2]
  - Impacted by weakening market conditions with the core Sydney market dwelling prices down 10% on the prior year with the number of settled sales down 22%[1]
- **Co Owned Property Management** [2]
  - Increase in properties under management (PUM) in 2H has yet to flow through to management fees and other income.
  - Investment continues to ensure a customer centric approach. This has resulting in a lower churn of managements of 15.9% in 2H (FY18: 21%)
- **Franchise**
  - Opened of 3 new offices in May and renewal of existing franchisees
  - Strong pipeline of additional franchisees across the Eastern Seaboard
- **Other segment**
  - Difficult financing and marketing conditions had a flow on impact to other segments

1. Source: CoreLogic: Monthly Property Market and Economic Update issued July 2019
2. FY18 comparative figures have been amended to be consistent with the FY19 presentation with the change of dedicated support staff costs allocated across segments

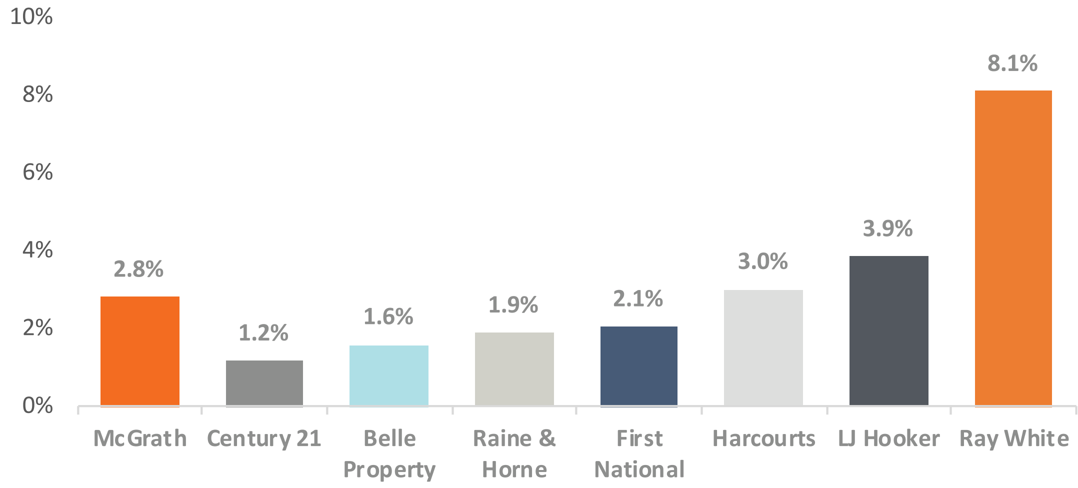
# Focus on productivity resulted in the exit of lower performing agents and a trend to larger agent teams

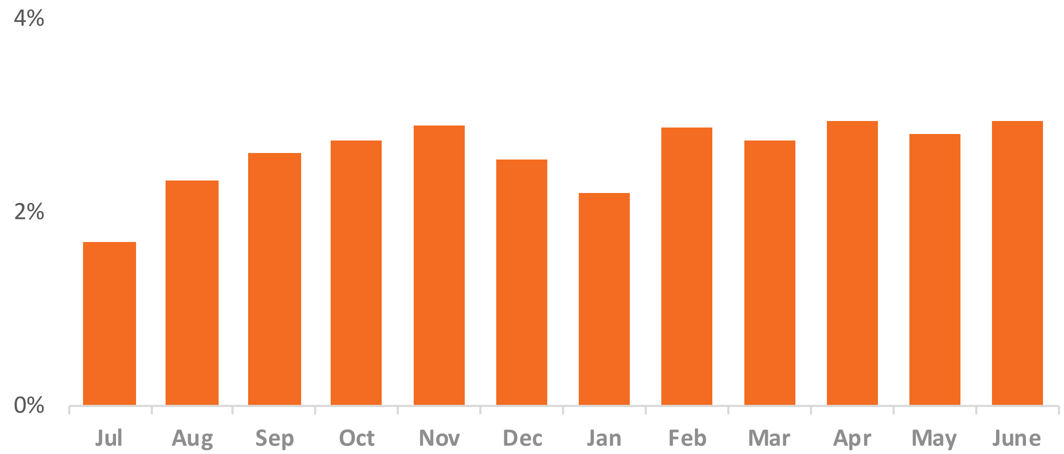



^ Estimated at 17.5% reduction in line with National sales volumes reduction (Core Logic)

- Larger teams being created by agents, with lead agents having a greater number of associate agents and assistants. This is resulting in agent numbers becoming a less relevant indicator of performance.
- McGrath has consciously focused on a reduction in Company Owned and Franchise agents as lower performing agents transition to be an associate agent in a Super Team or exit the business.
- Improvement in Agent Productivity (adjusted for market reduced volumes) in both Company Owned and Franchise offerings as offices continue to 'right size' their businesses focusing on high performing agents/teams.
- Continued focus on
  - Talent identification and recruitment at both a Lead Agent and associate agent level
  - Developing and retaining high performing and emerging agents

# Maintaining market share in a challenging environment




- NSW Market Share impacted by exit of Lower North Shore franchisee in FY19. Expected to normalise over time by growth in Company Offices entry into this region.
- 20%+ market share (by sales value) growth in QLD, ACT and Victoria
- QLD, ACT, Victoria growth off back of new office openings and increased productivity

| Addressable Markets | Market share by sales volume[1] 12 mths to Jun19 | 12 mths to Jun18[2] | Market share by sales value[1] 12 mths to Jun19 | 12 mths to Jun18[2] |
|---|---|---|---|---|
| NSW | 4.5% | 4.2% | 5.0% | 5.9% |
| QLD | 1.6% | 1.4% | 2.0% | 1.6% |
| ACT | 5.9% | 4.2% | 6.3% | 4.4% |
| VIC | 0.9% | 0.7% | 1.0% | 0.8% |
| **National** | **2.1%** | **1.9%** | **2.8%** | **2.9%** |

1. Estimates By CoreLogic based on published sales data where an agent was recorded in the 12 months to 30 June 2019 (Houses, Flats and Units Segments). 2. Prior period comparative CoreLogic data, for 12 months to 30 June 2018 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.

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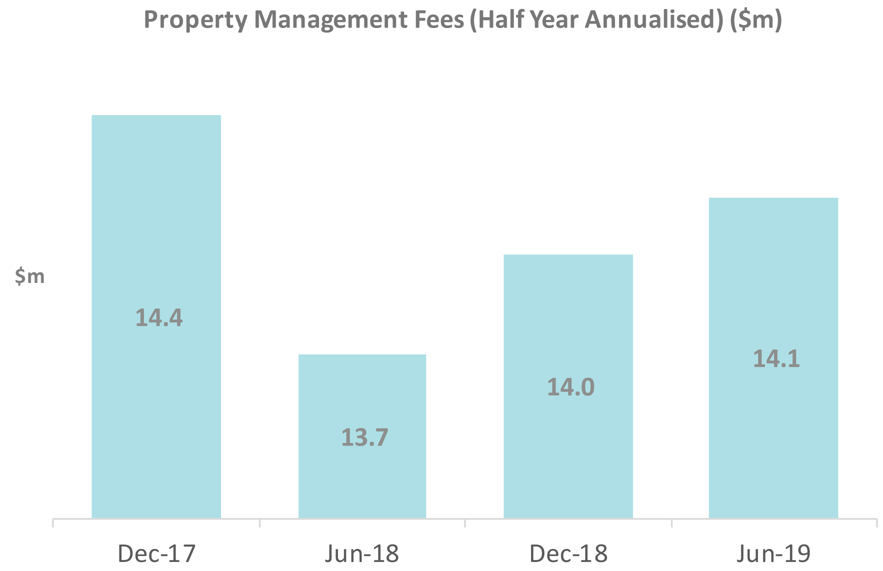
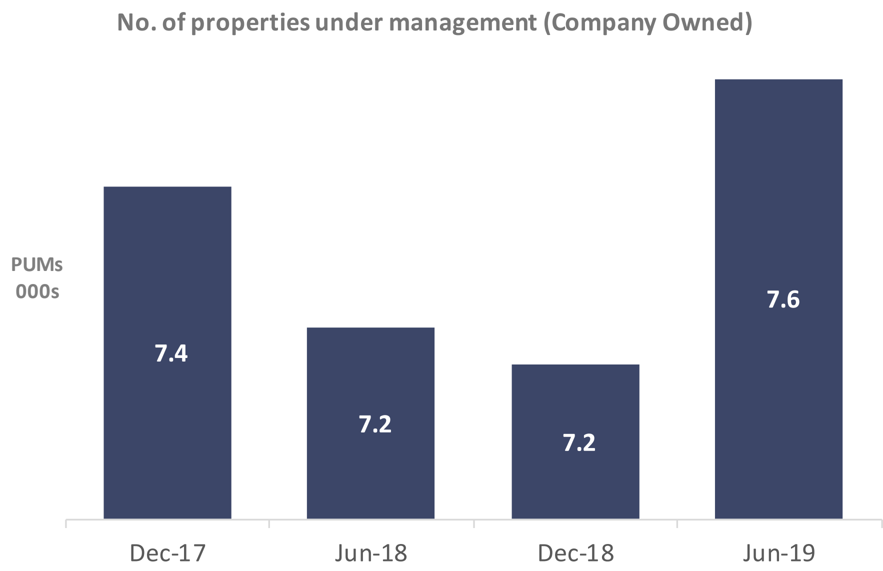
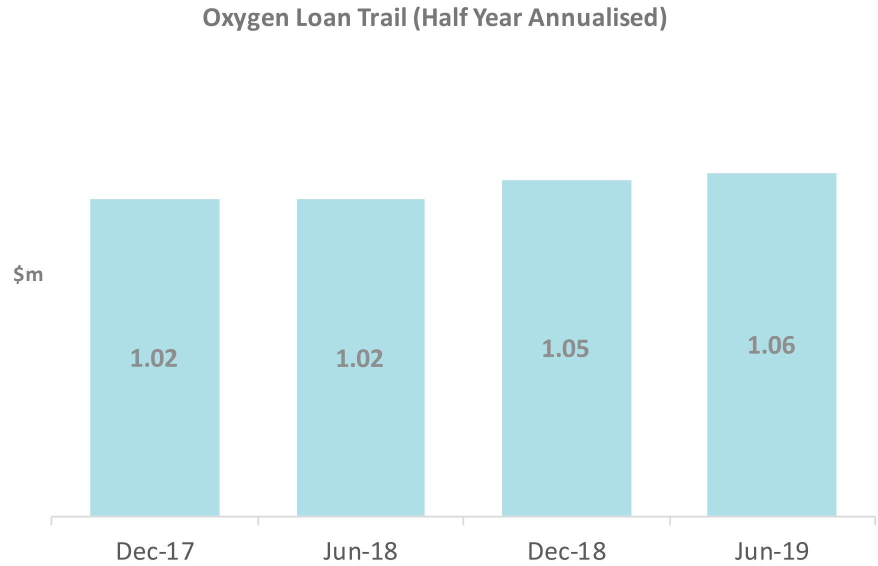
# Estimated Management Valuation of $49.4m for Company Owned Property Management Rent Roll and $2.6m for Oxygen Trail book




- Managements estimate of the Property Management rent roll value is $49.4m based on a 3.5x multiple. Only $11.1m of this value is held on Balance Sheet.
- Growth in Company Owned Properties Under Management will flow through to increased management fees in FY20.
- Stable Oxygen Trail commission income on lower settlements. Management estimate the value of the Oxygen Portfolio to be $2.6m based on a 2.5x multiple. None of this value is held on balance sheet

(1) Management Valuation calculated on blended valuation multiple of 3.5x on 2H Annualised management fees. (2) Management Valuation calculated on a valuation multiple of 2.5x on 2H Annualised trial income.

# Strong cash balance to navigate the challenging market conditions

| $m | FY19 | FY18 |
|---|---|---|
| **EBITDA** | **(10.1)** | **1.0** |
| Change in net working capital | 1.5 | 0.2 |
| Non cash EBITDA items | 6.1 | 1.6 |
| Net interest received | 0.2 | 0.0 |
| Income tax received / (paid) | 1.3 | (1.3) |
| **Net cash flow from operating activities** | **(1.0)** | **1.5** |
| Proceeds from disposal of property, plant and equipment | - | 1.0 |
| Purchase of property, plant and equipment | (1.4) | (0.3) |
| Purchase of intangibles | (3.1) | (0.5) |
| Loan repayments received | - | 0.5 |
| **Net cash flow from investing activities** | **(4.5)** | **0.7** |
| Proceeds from issue of share capital | 4.9 | 5.6 |
| Payment for purchase of shares and options | - | (0.3) |
| Repayment of borrowings | - | (3.1) |
| Dividends and distributions paid | - | (1.5) |
| **Net cash flow from financing activities** | **4.9** | **0.7** |
| **Net cash flow** | **(0.6)** | **2.9** |
| **Closing balance** | **10.3** | **10.9** |

- $10.3m of cash and no debt
- Operating activities assisted by positive working capital in FY19
- Investing activities predominately relate to the acquisition of two rent rolls and McGrath Willoughby
- Financing cash flows are the second tranche of the Aqualand investment received in August 2018 ($4.9m)

# FY20

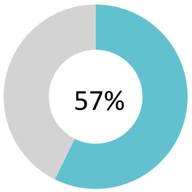
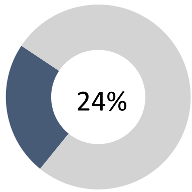
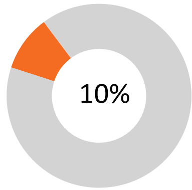
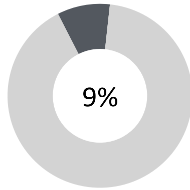
## Return to growth in continued challenging market conditions

# KEY PRIORITIES AND OUTLOOK FOR FY20

- **FY20 outlook**
  - Recent easing of financing restrictions and interest rate reductions is likely to assist in the availability of credit for house borrowers
  - Stabilisation in house prices however tight listing levels are expected to remain and continue to impact transaction volumes
  - McGrath well placed with experienced agents to gain market share as clients look to established brands to transact.
- **FY20 key priorities**
  - Establishment of a new Head office in Sydney's technology hub in Pyrmont
  - Continued roll out of our reinvigorated IT solution to all offices by Christmas (50 of the 98 current offices already completed)
  - Continue to establish larger agent teams and further improvement in agent productivity across the network
  - Further roll out of new Franchise offices in select key markets
  - Optimising of company owned office footprint
  - Continued assessment of select value accretive acquisition opportunities

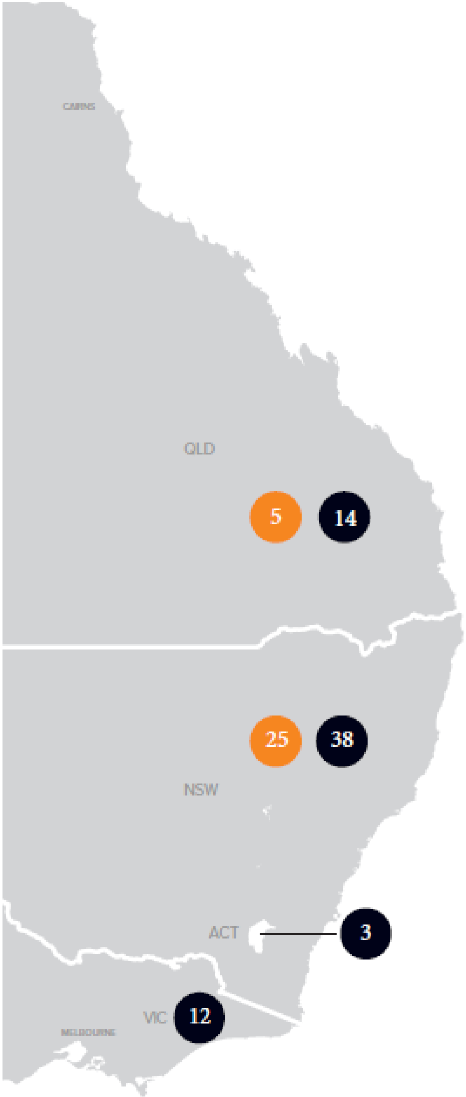
# APPENDIX

# Business overview by segment

| | Company owned | | Franchise Services | Other[3] |
|---|---|---|---|---|
| | Sales | Property Management | | |
| FY19 Revenue / EBITDA (Underlying) Contribution |   <br>**($2.0m) EBITDA** |   <br>**$5.4m EBITDA** |   <br>**$3.3m of EBITDA** |   <br>**($2.4m) of EBITDA** |
| Overview | • Generates revenue by charging the vendors of residential property a commission for successfully selling a property<br>• 30 offices<br>• 173 lead agents<br>• 2,655 property sales<br>• $3.7 billion value of property sales | • Generates annuity style revenue through management and leasing fees<br>• 56 property managers<br>• 7,627 properties under management (leased)<br>• Churn rate of 15.9% in 2H[2]<br>• Generates revenue through management and leasing fees | • Generates revenue from franchise fees on gross commission income, and property management income<br>• 67 offices<br>• 352 agents<br>• 6,558 property sales<br>• $5.4 billion value of property sales<br>• 24,606 properties under management | • Mortgage broking generates up front and trailing revenue from each loan<br>• 30 brokers settled 1,284 mortgages for a value of $752 million<br>• $3.2 billon of loans under management<br>• McGrath Training organises and operates a number of industry leading residential real estate conferences in Australia<br>• 50 exclusive auctioneers with 4,835 auctions booked |

Note: Pie chart represents revenue contribution of segment. Data for 12 months ending 30 June 2019 unless otherwise stated. 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




97 McGrath offices[1]

30 Company owned offices

67 Franchise offices

**Office movements in FY19:**

- **Company Owned Sales**
  - + Rouse Hill, NSW (Sep-18)[2]
  - + Neutral Bay, NSW (Feb-19)[3]
  - + Willoughby, NSW (May-19)
  - + Mosman, NSW (Jun-19)[3]
- **Franchise**
  - + Avoca Beach, NSW (Oct-18)
  - + Nambucca Heads (Oct-18)
  - - Charlestown (Jul-18)
  - - Springwood/Cornubia combined (Aug-18)
  - - Rouse Hill (Sep-18)[2]
  - - Lower North Shore Franchisee (Jan-19)[3]
  - + Wollongong (May-19)
  - + Ballarat (May-19)
  - + Greensborough | Eltham (May-19)

**Franchisees re-signed:**

- Central Coast Group
- Northern Rivers/Gold Coast
- Buderim / Mooloolaba
- Sutherland Shire / Illawarra
- Townsville
- Bowral
- Port Macquarie
- Wentworth Falls

McGrath Millers Point | Sydney CBD opened 1st July 2019

1. As at 30 June 2019. 2. Rouse Hill, a Franchise office transferred to Company Owned in September, 2018 3 The Franchisee on the Lower North Shore of Sydney left the McGrath network on 31st January 2018. They operated 4 offices (Neutral Bay, Mosman, Northbridge, Chatswood).

# Profit and loss

| $m | Statutory FY19 | Statutory FY18 | Statutory % Change | Underlying[1] FY19 | Underlying[1] FY18 | Underlying[1] % Change |
|---|---|---|---|---|---|---|
| **Total revenue** | **82.7** | **99.2** | **(17%)** | **82.7** | **99.6** | **(17%)** |
| Cost of sales | (34.5) | (38.1) | (9%) | (34.5) | (38.1) | (9%) |
| **Gross Profit** | **48.2** | **61.1** | **(21%)** | **48.2** | **61.5** | **(22%)** |
| Employee benefits expenses | (30.2) | (33.8) | (11%) | (30.2) | (31.8) | (5%) |
| Other expenses | (28.1) | (26.3) | 7% | (24.4) | (24.7) | (1%) |
| **EBITDA** | **(10.1)** | **1.0** | **(1113%)** | **(6.4)** | **5.0** | **(228%)** |
| Depreciation and Amortisation | (4.5) | (7.2) | (37%) | (4.5) | (7.2) | (37%) |
| Impairments | (3.4) | (59.3) | (94%) | - | - | n/a |
| **EBIT** | **(18.0)** | **(65.5)** | **(72%)** | **(11.0)** | **(2.1)** | **416%** |
| Net finance costs | 0.2 | 0.0 | 488% | 0.2 | 0.0 | 488% |
| **Net (loss)/profit before tax** | **(17.8)** | **(65.5)** | **(73%)** | **(10.8)** | **(2.1)** | **415%** |
| Tax expense | 2.2 | 2.4 | (6%) | 2.2 | 0.6 | 262% |
| **Net (loss)/profit after tax** | **(15.6)** | **(63.1)** | **(75%)** | **(8.6)** | **(1.5)** | **477%** |

1. Underlying results adjust for one-off costs in 1H 19 and 1H 18

n.m = not meaningful

# Segment performance

| | Statutory | | | Underlying[1] | | |
|---|---|---|---|---|---|---|
| **$m** | **FY19** | **FY18** | **% Change** | **FY19** | **FY18** | **% Change** |
| **Revenue** | | | | | | |
| Co Owned Sales | 47.5 | 58.2 | (18%) | 47.5 | 58.2 | (18%) |
| Property management | 19.4 | 18.8 | 3% | 19.4 | 19.2 | 1% |
| Franchise | 8.1 | 11.0 | (26%) | 8.1 | 11.0 | (26%) |
| Other | 7.6 | 11.2 | (32%) | 7.6 | 11.2 | (32%) |
| **Total Revenue** | **82.7** | **99.2** | **(17%)** | **82.7** | **99.6** | **(17%)** |
| | | | | | | |
| **EBITDA** | | | | | | |
| Co Owned Sales | (2.7) | 3.4 | (178%) | (2.0) | 3.8 | (153%) |
| Property management | 5.4 | 5.7 | (6%) | 5.4 | 6.1 | (12%) |
| Franchise | 3.3 | 5.7 | (42%) | 3.3 | 6.4 | (48%) |
| Other | (5.4) | (0.5) | 894% | (2.4) | (0.5) | 414% |
| Corporate | (10.7) | (13.2) | (19%) | (10.7) | (10.8) | (1%) |
| **Total EBITDA** | **(10.1)** | **1.0** | **n.m** | **(6.4)** | **5.0** | **(228%)** |

1. Underlying results adjust for one-off costs in FY19 and FY18
2. FY18 comparative figures have been amended to be consistent with the FY19 presentation with the change of dedicated support staff costs allocated across segments

# Statutory balance sheet

| $m | FY19 | FY18 | % Change |
|---|---|---|---|
| | | | |
| Total current assets | 32.3 | 40.5 | (20%) |
| Total non-current assets | 17.3 | 21.1 | (19%) |
| **Total assets** | **49.6** | **61.6** | **(20%)** |
| | | | |
| Total current liabilities | 15.7 | 13.1 | 20% |
| Total non-current liabilities | 3.0 | 6.1 | (50%) |
| **Total liabilities** | **18.7** | **19.2** | (3%) |
| | | | |
| **Net assets** | **30.8** | **42.4** | **(27%)** |
| | | | |
| Contributed equity | 108.4 | 103.5 | 5% |
| Share based payment reserve | 0.8 | 0.7 | 22% |
| (Accumulated losses) / retained profits | (78.4) | (61.8) | 27% |
| **Total equity** | **30.8** | **42.4** | **(27%)** |

# McGRATH CONTACTS ASSOCIATED WITH THIS PRESENTATION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