McGrath

# ASX ANNOUNCEMENT

## Chairman and Chief Executive Officer Address

**Chairman's Address**

**Good afternoon and welcome to the McGrath Limited Annual General Meeting held for the first time at our new Head Office here in Sydney's technology hub of Pyrmont.**

**All Directors are present, as are our Executive Leadership Team and we extend a welcome to all those present.**

The 2019 financial year was a very difficult year heavily impacted by the continued contraction of the Australian real estate market.

Difficult market conditions and an evolving real estate industry have demanded that we adapt our business, reduce our cost base and move swiftly to right size for the conditions we are currently facing.

Unfortunately the FY19 results do not reflect the work being done undertaken but the benefits should become evident in the current financial year and, with what seems to be a stabilising market, we are on the path to returning to profitability in future financial years. Geoff will shortly be taking you through our trading update. Our strong capital position has allowed us to invest in acquisition opportunities, training, development, technology and our agents, at a time when others in the market are retracting.

As you are aware, we formed a strategic relationship with Aqualand in June 2018. In the past month, they have increased their shareholding, which reflects the depth of our relationship and underlying confidence in the McGrath business and I would like to publicly thank our Director, Wayne Mo, for his continued engagement and support of our endeavours.

In closing, I would like to acknowledge my fellow Directors and Management team for their dedication, energy and focus in what has been a challenging year across both our sector and for our business. I would also like to thank our magnificent team of agents and employees - whether franchised or company owned - for their efforts and professionalism in a very difficult time. Finally, to you our shareholders, thank you for your ongoing support and patience during this very difficult period.

I will now ask Geoff Lucas, our CEO, to present the FY19 financial results, our trading update and provide further details on our initiatives.

**Chief Executive Officer's Address**
Good afternoon ladies and gentlemen and thank you Peter for your introduction. My brief presentation this afternoon will have three parts:

**A brief recap of the 2019 financial year;**

**A review of our trading update; and**

**Key Priorities and Outlook.**

Before I start the recap of the 2019 financial year, I would like to thank you our shareholders for your patience and commitment in supporting our board, the management team and myself as CEO, as we have stabilised the business and focused on turning the performance of your company around. It is a responsibility we don't take lightly, and speaking personally, a challenge and responsibility that I'm embracing with enormous energy, enthusiasm and pride. Together, we thank you for your continued support.

I'd also like to welcome you to our new corporate headquarters. We believe this office embodies our Brand as the premier real estate agency in Australia. This signifies a fresh new energy and approach to doing business in an ever-changing environment. Such flexibility and efficiencies will increase our agent's productivity to the benefit of our clients. Equally we are pleased to note the lease costs are comparable with our previous premises in Edgecliff. Furthermore, we managed to secure this excellent office fitout for minimal cost and a substantially reduced cost, when compared with the required refurbishment costs of our previous head office in Edgecliff.

Speaking of our brand, the fundamentals remain strong. McGrath continues to dominate the annual Real Estate Business Top 100 Ranking. We had three times the number of agents than any other brand and we are very proud, one of our top agents Betty Ockerlander was named as Residential Salesperson of the Year at the 2019 REINSW Awards. Despite the difficulties of the market, we have gained market share based on sales data published by the industry leading data provider CoreLogic. Substantial capital has also been allocated and re-invested into our operations to create the best and most efficient possible environment to list, sell and manage real estate.

<u>Recap of the FY19 results.</u>

The headline of our FY19 result was that EBITDA was in line with the previous market guidance issued on the 14th of June 2019. Our Statutory EBITDA of negative $10.1m is reconciled to the underlying result of negative $6.4m via the $3.7m in onerous contracts that were taken in the 2019 year.

At 30 June 2019 we had a healthy cash balance of $10.3 million and zero debt, assisted by the second tranche of the Aqualand placement of $4.9 million being offset by capex and acquisitions of $4.5 million. What is not shown on our balance sheet is the value and stability that is provided by our Oxygen mortgage broking business and Property Management rent roll. As explained during the most recent investor presentation, our rent roll is conservatively valued at $49.4m, and our Oxygen trailing commission can conservatively be valued at $2.6 million. Of these, only $11.1 million was shown on our balance sheet. In summary, this is a very healthy balance sheet. We recognise the importance of a strong balance sheet and high liquidity, especially in times when competitors are increasingly weak, and acquisition opportunities continue to present themselves. To that end we've been careful to manage working capital tightly; and look to continue reducing costs wherever possible without cutting areas that impact future prosperity.

Trading Update.

We're pleased to advise that there are some promising signs starting to come through in the market. Notwithstanding the market's lower listing numbers, our business is performing better than last year and we continue to outperform the market.

Based on our performance to date we expect an EBITDA for the first half of the year in the range of between of $1.0 million to $1.5 million (pre the adoption of the AASB leasing standard), which is a median increase of just on $3.8 million over the first half of the prior year.

We are pleased with this turnaround on the prior year and are encouraged that our initiatives are being reflected in McGrath's bottom line.

Moving to our outlook and key priorities for the 2020 year and beyond.

The past five months have seen a reduction in the rate of fall in Australian residential property prices. Most recently, October 2019 saw both Sydney and Melbourne property prices increase by 1.7% and 2.3% respectively. The three months to October 2019, saw property prices in the Sydney and Melbourne metropolitan markets increasing by 5.0% and 5.5% respectively. We believe this signals the end of the most recent price correction cycle, and whilst these first few months are extremely strong price growth numbers we do not expect this rate of growth to continue. Rather, we expect more modest price gains in Eastern Seaboard metropolitan markets over the next year.

It is volumes however that are contributing to most of the challenges in the industry and whilst we have seen some recent improvements, new listings for the industry are still down on the prior year. For the 4 weeks to 27 October 2019, new listing data shows both Sydney and Melbourne down by 6.6% and 15.8% respectively over the same period last year. While recent above reserve prices, increased auction clearance rates and buyer engagement levels have all improved sentiment, all of which might improve listing levels, we do not see evidence yet of any sustainable improvement.

As mentioned by Peter, we've made substantial progress with upgrading our business technology across the network, further enhancing our position as the place where agents know they can be more successful. We've re-based our agent population, removed the less productive agents, and now focussed on building more efficient larger agent teams.

We've attracted high calibre agents back to McGrath as we re-position ourselves as Australia's best real estate brand.

We place a very high value on all our people across the business, as we are essentially a "people business". We have robust employee management systems in place which operate in confidence and safeguard the interests and welfare of all our employees across our network.

Complimenting the employee management systems, we have structured remuneration practices and policies to ensure the adequacy of remuneration for all our people. One component of this is the McGrath Equity Incentive Plan. The plan has been established to assist in the motivation, retention and reward of Executives and senior management. It's designed to align the interests of the participants with the interests of Shareholders by providing an opportunity for the them to receive an equity interest in the Company.

We've re-established growth in our franchise footprint, with three new franchises and a building pipeline for continued growth this year and beyond.

We're optimizing the company owned portfolio of offices, removing loss making businesses and retaining and growing our profitable businesses.

We are delighted that Aqualand has further committed to McGrath. This is a great endorsement that our transformation plan is gaining traction while also enhancing our partnership for any strategic opportunities.

We've built one of the best property management businesses in Australia, positioning McGrath as the best business to lead the inevitable consolidation of the industry through appropriate and value creating acquisitions. As announced previously in October, we will continue to assess and acquire strategically beneficial and value creating businesses where appropriate. To this end we have recently completed the acquisition of the Castle Cove business which, coupled with the Willoughby business acquired in June 2019, has consolidated our market share in Sydney's Lower North Shore. In addition we have bolstered our Sydney city presence through our Millers Point acquisition. Each of these acquisitions have been funded by existing cash resources.

In summary, the 2020 year is one during which we are targeting a return to growth as we assess the growing number of opportunities to bolster our team through quality recruitment and acquisitions whilst we continue to utilise technology and scale to increase shareholder value.

The trading update currently supports this outlook.

Thank you