

McGrath FY20 First Half Results

24 February 2020 - McGrath Limited (ASX: MEA) (**McGrath** or the **Company**) today announced its FY20 first half results, at the top end of guidance.

1H FY20 vs 1H FY19 results financial snapshot

- Revenue up 15% to \$48.9 million
- EBITDA¹ of \$1.6 million, a \$4.1 million turnaround from 1H FY19 EBITDA loss of \$2.5 million²
- Statutory reported EBITDA of \$4.7 million following impact of AASB 16 leasing standard
- NPAT loss of \$0.98 million significantly lower as compared to prior corresponding period (**pcp**) loss of \$9.6 million

McGrath noted that an uplift in market sentiment and strong clearance rates, notwithstanding the market's lower listing numbers has contributed to the business performing significantly better in the first half of FY20.

EBITDA of \$1.6 million (pre the adoption of the AASB 16 leasing standard) for 1HFY20 is at the top end of the range as communicated at the company's Annual General Meeting on 28 November 2019 and is an increase of \$4.1 million over the first half of the prior year.

The turnaround on the prior year is significant and a reflection of the Company's initiatives impacting its bottom line. These initiatives include:

- Growing our Company owned store footprint through 3 acquisitions and organic growth
- Optimising our Company owned portfolio by consolidating unprofitable offices
- Investment in and execution of our Marketing and Technology (Martech) strategy
- Over 32 real estate professionals who had previously left McGrath have returned over the past 18 months
- Growing our Property Management business organically and via acquisitions, providing stable annuity styled income
- Building closer partnerships with the Company's agents and franchisees to increase agent productivity through integration of new data and technology solutions

Mr. Geoff Lucas, CEO of McGrath said "I'm pleased to say that in the face of what has been a challenging property environment, our focus on talent development, improved customer service the execution of our strategy has allowed us to achieve solid results this half. Our Company owned sales division in particular has benefited from improved agent productivity and has contributed a strong uplift in revenue. As the market conditions improved in Q2 of FY20, we were well placed to capitalise on these positive tailwinds.

"We have seen a strong start to activity in January 2020 with an increased number of vendors who have gone to market early and benefitted from strong demand and continued rising values during the last quarter of CY2019. We believe this will have a positive impact on vendor sentiment for the second half", Mr. Lucas added.

¹ Pre adoption of new AASB 16 Leasing standard

² Statutory reported loss \$5.7m after on off \$3.5m impairment charges

Strong Balance Sheet

McGrath had a strong balance sheet at 31 December 2019 with no debt, \$8.1 million in cash and \$28.4 million in net assets. The Company notes that its rent roll is estimated to be worth \$52.9 million, of which \$39.7 million is not reflected on the balance sheet.

The Board remains focused on conserving cash for business reinvestment and will not pay an interim FY20 dividend. McGrath's dividend policy will be reinstated as soon as it is deemed prudent.

2H FY20 Key Priorities

- Further agent experience improvements following the successful roll out of our reinvigorated IT solution to offices and the launch of the new mcgrath.com.au platform
- Continue to develop larger agent teams and further improve agent productivity across the network
- Further roll out of new Franchise offices in select key markets with a focus on Victoria
- Continued optimisation of the Company Owned office footprint
- Continuation of earnings accretive acquisitions

Outlook

- Easing of financing restrictions and interest rate reductions are assisting in the availability of credit
- Recent price growth to moderate, however tight listing levels are expected to remain
- Continued market share gain, with experienced agents and strong brand positioning
- Ongoing consolidation of a highly fragmented industry

Mr Lucas commented "The improved market conditions from the end of the 2019 calendar year have continued into into 2020, with strong clearance rates, fewer days on market and healthy buyer demand. Market listing volumes remain below prior year, continuing to contribute to stock shortage and solid price gains.

"Industry forecasts indicate increases of 6-10% in sale prices across the Eastern Seaboard during CY2020 and 4-8% into CY2021*. We believe these strong price increases will attract vendors back to the market and we may see new listing volumes start to increase. The increase in stock would moderate price increases.

"Trends for the first half of FY20 have continued into the second half of FY20. Subject to economic conditions, we expect to the turnaround of the business to continue throughout the year, which will manifest in the FY2020 full year results. We will update the market as more information becomes available." concluded Mr. Lucas.

* Domain house prices forecast published on 12 February 2020

-ENDS-

This Announcement was authorised for release by McGrath Limited's Board of Directors.

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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 currently has 98 offices located throughout the East Coast of Australia. For further information, please visit www.mcgrath.com.au.