McGrath

# ASX ANNOUNCEMENT

24 February 2020

ASX Markets Announcement Office
**Exchange Centre**
**20 Bridge Street**
**Sydney NSW 2000**

**BY ELECTRONIC LODGEMENT**

**Appendix 4D - Half Year Report**

Please find attached McGrath Limited's (**ASX:MEA**) Appendix 4D - Half Year Report

-ENDS-

This Appendix 4D - Half Year report was authorised for release by McGrath Limited's Board of Directors

**For Investor and media enquiries, contact:**


| | | |
|---|---|---|
| Geoff Lucas CEO/Howard Herman CFO | Terri Sissian | Tim Allerton |
| +61 2 9386 3333 | +61 419 881 414 | +61 412 715 707 |


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

# McGrath Limited and Controlled Entities
# ACN 608 153 779

(the **Company** or the **Consolidated Entity**)

## Appendix 4D - Half Year Report

## Results for announcement to the market

### Details of the reporting period and the previous corresponding reporting period

Reporting period: For the half year ended 31 December 2019 (**HY20**)

Previous period: For the half year ended 31 December 2018 (**HY19**)

### Results for announcement to the market

In accordance with the ASX listing rule 4.2A, enclosed is the Company's Appendix 4D for the half year ended 31 December 2019.

| | Period ended 31 December 2019 | Period ended 31 December 2018 | Change | |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **% Increase** |
| Revenues from ordinary activities | 48,904 | 42,481 | 6,423 | 15% |
| Loss from ordinary activities after tax attributable to the owners of the Company | (980) | (9,602) | 8,622 | 90% |
| Net Loss after tax attributable to the Consolidated Entity | (980) | (9,602) | 8,622 | 90% |
| EBITDA - Statutory[1] | 4,717 | (5,772) | 10,489 | n/m* |
| EBITDA - pre AASB 16 Leases | 1,590 | (5,772) | 7,362 | n/m* |

*Note: All of the above comparisons are on a statutory basis unless stated.*

[1] *The half year ended 31 December 2018 comparative Statutory figure does not include the impact of AASB 16 Leases.*

**percentage movement in result not meaningful.*

Refer to the attached Directors' Report and Operating and Financial Review for discussion of the results.

### Dividend information

There was no final dividend for the year ended 30 June 2019 paid during the reporting period.

There is no interim dividend declared or proposed to be paid for the reporting period.

| Net tangible assets | 31 December 2019 | 30 June 2019 |
|---|---|---|
| Net Tangible Assets per security (cents) | 7.87 | 11.02 |

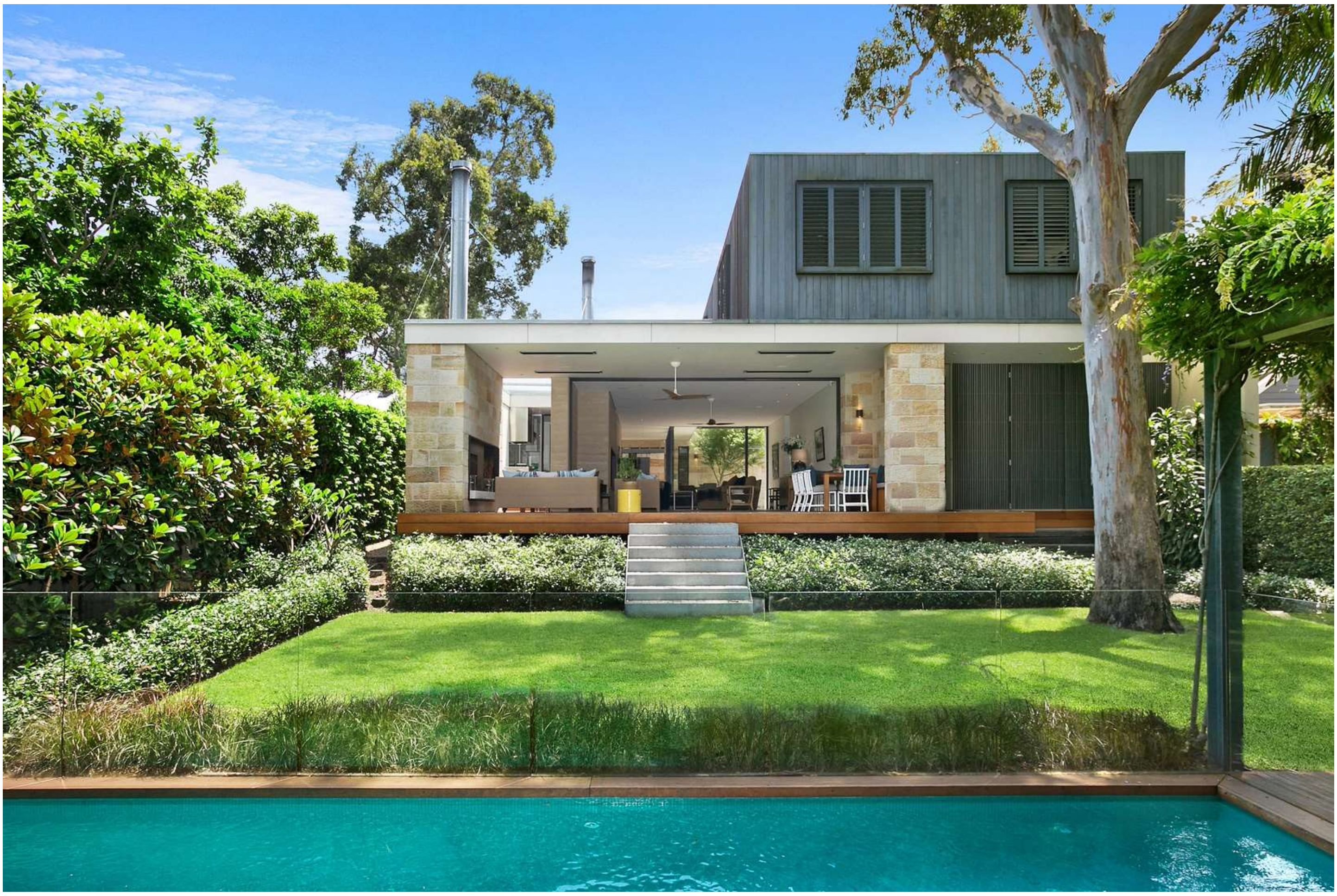
*The decrease in the Net Tangible Assets per security is mainly due to the utilisation of cash reserves for the acquisition of intangibles (primarily being property management rights) during the reporting period.*

### Audit qualification or review

The Financial Statements were subject to review by the auditors and the review report is attached as part of the Interim Financial Report.

### Attachments

The Interim Financial Report of McGrath Limited and its controlled entities for the half year ended 31 December 2019 is attached.



# McGrath Limited and Controlled Entities
# 2020 Half Year Report
# ACN 608 153 779

# McGrath Limited and Controlled Entities

A.C.N. 608 153 779

## Interim Financial Report
## For the half year ended 31 December 2019

### Interim Financial Report



### Interim Condensed Consolidated Financial Statements



### Notes to the Condensed Consolidated Interim Financial Statements

# Directors' Report for the Half Year ended 31 December 2019

The Directors present their Financial Report for the half year ended 31 December 2019. The half year report comprises the results of McGrath Limited (the Company or McGrath) and the subsidiaries (the Consolidated Entity) that it controlled at the end of the period and from time to time throughout the period.

## Principal activities and review of operations

The principal activities of the Consolidated Entity during the reporting period were the facilitation of real estate sales and property management services. Revenue is generated from franchise and Company owned operations.

Information on the operations and financial position of the Consolidated Entity is set out in the Operating and Financial Review on pages 3-6 of this Interim Financial Report.

The Consolidated Entity loss after providing for income tax for the half year ended 31 December 2019 amounted to $980,293 (2018: loss of $9,601,556).

## Directors

The following persons were Directors of McGrath Limited during the half year ended 31 December 2019:

**Mr. Peter Lewis**
Chair and Independent Non-executive Director.
Member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

**Mr. John McGrath**
Executive Director.

**Mr. Andrew Robinson**
Independent Non-executive Director.
Chair of the Audit and Risk Committee and member of the Remuneration and Nomination Committee.

**Mr. Wayne Mo**
Non-executive Director.
Chair of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

## Dividends

No dividends were declared and paid during the reporting period (2018: $nil).

## Significant changes in state of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the reporting period and up to the date this report.

## Subsequent events

In the interval between 31 December 2019 and the date of this report, there has not arisen any item, transaction or event which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in the future financial years.

## Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Interim Financial Report and the Directors' Report have been rounded to the nearest thousand dollars unless otherwise indicated.

## Auditor's Independence declaration

The Directors have received a declaration of independence from the Auditor. Refer to page 7.

Signed in accordance with a resolution of the Directors.

Peter Lewis
Chair
24 February 2020

# Operating and financial review

## Business Overview

The Consolidated Entity operates a diverse business model which provides a range of services that include residential property sales, property management, mortgage broking, auction services and real estate training.

The McGrath Network of real estate offices includes both sales offices operated by the Consolidated Entity (Company owned offices) and sales offices operated by franchisees of the Consolidated Entity (Franchise offices).

The operating segments are:

**Company owned sales:** This segment undertakes residential property sales on behalf of property vendors through Company owned offices and agents. The segment generates earnings by charging a sales commission to a property vendor upon successful sale of a property. The commission is generally based on a percentage of the property's value.

**Company owned property management:** This segment directly manages residential properties on behalf of owner clients. The segment generates earnings through charging a commission to manage a property and leasing fees earned upon successful letting of a property.

**Franchise services:** This segment manages franchise offices that undertake both property sales and property management activities. The segment receives fees from its franchisees that include:

- An ongoing franchise fee based on a fixed percentage of the total sales commission paid on the sale of a property (Gross Commission Income);
- An ongoing marketing fund contribution based on a fixed percentage of the gross commission income generated by the franchisee; and
- A fixed percentage of the Franchisees' property management fees.

**Other services:** The Consolidated Entity also has a number of other services which complement the service offerings of the segments above. These include:

- Mortgage broking services which earn revenue based on an up-front fee and an ongoing trailing commission;
- Training services organise a number of Australian residential real estate conferences and receives revenue from fees paid by attendees, exhibitors and sponsors; and
- Auction service group generates earnings based on a fixed fee per auction.

## Office locations

As at 31 December 2019 the network comprised 32 Company owned offices and 68 Franchise offices. The spread of offices is across the Eastern seaboard as seen in the graphic in Figure 1 below. There was a net increase of 3 offices in the six months since June 2019 with 7 openings and 4 closures.

McGrath continues to focus on agent productivity whilst also recruiting and retaining high performing agents. This is complemented by a focus on learning and development initiatives and data technology improvements to enhance the agent and vendor experience.


*Figure 1: McGrath office Network*

## Income Statement

To assist in the interpretation of the performance of the Consolidated Entity, the results presented below includes the impact on the initial adoption of AASB 16 *Leases*. Prior to the application of AASB 16, leases were classified as operating leases and payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. AASB 16 introduces a single on-balance sheet lessee accounting model where leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. The lease liability is initially measured at the present value of the future lease payments discounted at the Consolidated Entity's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The interest cost is charged to the profit or loss over the lease period and the associated right-of-use asset is depreciated over the lease term on a straight-line basis.

The impact of AASB 16 to the 31 December 2019 half year results is an increase of $3.127 million to EBITDA and a decrease of $35 thousand to loss after income tax, as presented in the table below.

| | December 2019 Post AASB 16 $'000 | December 2019 Pre AASB 16 $'000 | December 2018[1] $'000 |
|---|---|---|---|
| Revenue | 48,904 | 48,904 | 42,481 |
| Cost of sales | (20,155) | (20,155) | (17,545) |
| **Underlying Gross profit** | **28,749** | **28,749** | **24,936** |
| Employee benefits expenses | (15,022) | (15,022) | (15,431) |
| Other expenses | (9,010) | (12,137) | (12,025) |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** | **4,717** | **1,590** | **(2,520)** |
| Depreciation and amortisation | (4,024) | (1,841) | (2,291) |
| **Earnings before interest and tax (EBIT)** | **693** | **(251)** | **(4,811)** |
| Net finance (expense)/income | (875) | 19 | 128 |
| **Loss before income tax** | **(182)** | **(232)** | **(4,683)** |
| Income tax (expense)/benefit | (798) | (783) | 1,350 |
| **Loss after income tax** | **(980)** | **(1,015)** | **(3,333)** |
| Basic (losses)/earnings per share (cents) | (0.59) | (0.61) | (2.01) |

[1]The half year ended 31 December 2018 figures exclude one off items that will not recur in future years of $3.252 million in onerous contracts and $3.365 million in impairment charges.

Note: The Income statement presented above is a non-IFRS measure and was not subject to review.

## Segment revenue and EBITDA

The adoption of AASB 16 improves total company EBITDA by $3.127 million with the Company owned sales segment being impacted the most, increasing by $1.972 million, while the other segments were less impacted, as presented in the table below.

| | December 2019 Post AASB 16 $'000 | December 2019 Pre AASB 16 $'000 | December 2018[1] $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Company owned sales | 31,125 | 31,125 | 25,243 |
| Company owned property management | 10,123 | 10,123 | 9,515 |
| Franchise services | 4,615 | 4,615 | 4,514 |
| Other operating segments | 3,041 | 3,041 | 3,209 |
| **Total Revenue** | **48,904** | **48,904** | **42,481** |
| | | | |
| **EBITDA** | | | |
| Company owned sales | 5,236 | 3,264 | (665) |
| Company owned property management | 3,012 | 2,777 | 2,578 |
| Franchise services | 2,119 | 2,092 | 2,012 |
| Other operating segments | (145) | (692) | (1,214) |
| Corporate | (5,505) | (5,851) | (5,231) |
| **Total EBITDA** | **4,717** | **1,590** | **(2,520)** |

[1]The half year ended 31 December 2018 EBITDA figures exclude one off items that will not recur in future years of $3.252 million in onerous contracts.

Note: The segment revenue and EBITDA presented above is a non-IFRS measure and was not subject to review.

## Balance Sheet

The adoption of AASB 16 has decreased net assets by $1.484 million for the half year ended 31 December 2019. The table below shows the balance sheet pre and post application of AASB 16.

| | December 2019 Post AASB 16 $'000 | December 2019 Pre AASB 16 | June 2019[1] $'000 |
|---|---|---|---|
| Total current assets | 30,812 | 31,180 | 32,310 |
| Total non current assets | 43,649 | 19,143 | 17,275 |
| **Total assets** | **74,461** | **50,323** | **49,585** |
| | | | |
| Total current liabilities | 21,733 | 18,466 | 15,709 |
| Total non current liabilities | 24,340 | 1,985 | 3,028 |
| **Total liabilities** | **46,073** | **20,451** | **18,737** |
| | | | |
| **Total net assets** | **28,388** | **29,872** | **30,848** |

[1]The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

Note: The balance sheet presented above is a non-IFRS measure and was not subject to review.

The following segment results for HY20 are excluding the adoption of AASB 16.

## Company Owned Sales and Project Marketing

Company owned sales were the major contributor to the overall improvement in earnings for HY20 assisted by a 25% increase in the number of properties sold, resulting in segment EBITDA of $3.3 million, up on the HY19 loss of $0.7 million.

There was $2.5 billion in sales value from 1,702 sales in HY20 compared to $2.1 billion and 1,367 sales in HY19.

In the past 6 months, there was a net increase of 2 offices, with 5 new office openings and 3 office closures.

## Company owned property management

Properties under management increased by 7.5% to 8,199 in HY20, generating $2.8 million EBITDA, an 8% increase on HY19.

## Franchise services

Our Franchise network exchanged 4,066 properties during HY20 (HY19: 3,495), generating an EBITDA of $2.1 million, up 4% on the prior year. The growth in properties exchanged was partially offset by a lower average selling price.

Over the past 6 months, there has been 2 new office openings and 1 closure.

## Other Operating Segments

Other operating segments comprise Oxygen Home Loans, Auction Services, TRET, IT Network Services and the Marketing Fund. IT Networking Services and the Marketing Fund are for the benefit of both the Franchise and Company owned networks.

**Mortgage Broking**

Oxygen Home Loans total settlements value of $378 million was down 5% for HY20, impacted by tightening lending conditions. At the end of HY20, there were 28 brokers supporting the network, a decline of 5 from HY19.

**Total Real Estate Training (TRET)**

TRET provides a range of events for principals, agents, property managers and real estate professionals to help them develop their skills and grow their careers. The major event of the year remains AREC, attracting real estate talent Australia wide.

**Auction Services**

Auction Services provides auctioneers to the Company owned and Franchise segments. There were 2,696 auctions booked in HY20 (HY19: 2,697) representing 41% of all properties listed.

## Key Business Risks

The Consolidated Entity is subject to various risk factors. Some of these are specific to its business activities while others are of a more general nature. Individually, or in combination, these risk factors may affect the future operating and financial performance of the Consolidated Entity.

- **Australian residential real estate market** – McGrath generates the majority of its income from the Australian Eastern Seaboard residential real estate market through commission revenue generated by agents on the sale of properties, property management commissions and commissions on the arranging of mortgages.

  The risk of a reduction in sales transaction volumes or prices is a material risk for McGrath and could be impacted by general economic conditions and factors beyond the Company's control such as housing affordability, employment, interest rates, domestic investor growth and demand, foreign investment and consumer confidence.

- **Increased competition and disintermediation** – McGrath operates in a highly competitive environment and constantly monitors the market and the competitive environment. McGrath is also potentially exposed to disintermediation whereby buyers and sellers are able to transact directly in private sale without using the services of an agent. McGrath prides itself on delivering exceptional client service and providing a market-leading experience.

- **Digital disruption** – McGrath focuses on five key service offerings including residential property sales, property management, mortgage broking, auction services and career training. As technological advancements occur, there is a risk that new entrants into the market or larger established corporations that may offer alternative services and products to that of the traditional real estate service offerings. These may impact McGrath's market share. McGrath continues to monitor the emergence of these disruptor technologies, and as part of its longer-term strategy is placing additional emphasis on innovation and technology throughout the Group to add value to its existing service offerings.

- **Loss of key agents** – McGrath relies significantly on its agents to deliver services to clients and promote the reputation of the Company through their dealings with clients. There is a risk that McGrath may lose agents to competitors and/or other industries. McGrath launched the McGrath Future Program in early 2017, a commission and incentive program designed to assist in attracting and retaining high performing residential sales agents.

- **Regulatory risks** – McGrath currently has business operations in three states and the ACT within Australia, with regulations and legislation varying in each state. McGrath relies on licences and approvals issued by various regulatory bodies to carry out its services. Non-compliance may result in penalties and a negative impact to McGrath's operations and reputation.

- Additionally, changes and developments in legislation and/or regulation and policy in different jurisdictions may impact McGrath's operations. McGrath mitigates regulatory risks through monitoring the regulatory and legislative environment, providing appropriate staff training, and maintaining relationships with regulatory bodies or industry organisations. McGrath also participates in various industry events.

The Consolidated Entity's strategy takes into account these risks, however predicting future conditions is inherently uncertain.

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of McGrath Limited

I declare that, to the best of my knowledge and belief, in relation to the review of McGrath Limited for the half-year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Stuart Marshall

Partner

Sydney

24 February 2020

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Liability limited by a scheme approved under Professional Standards Legislation.

# Condensed Consolidated Interim Financial Statements

## Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2019

| | Notes | December 2019 | December 2018[1] |
|---|---|---|---|
| | | $'000 | $'000 |
| Revenue and other income | 3 | 48,904 | 42,481 |
| Cost of sales | | (20,155) | (17,545) |
| Employee benefits expenses | | (15,022) | (15,431) |
| Directors' fees | | (110) | (110) |
| Professional fees | | (911) | (531) |
| Doubtful debts | | (585) | (342) |
| Occupancy | | (1,165) | (3,425) |
| IT expenses | | (2,352) | (2,935) |
| Communications | | (749) | (1,010) |
| Advertising and promotions | | (1,034) | (1,269) |
| Other expenses | | (2,104) | (2,403) |
| Onerous contract expenses | | - | (3,252) |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** | | **4,717** | **(5,772)** |
| Depreciation and amortisation expenses[1] | | (4,024) | (2,291) |
| Impairments | | - | (3,365) |
| Finance income | | 40 | 128 |
| Finance costs[1] | | (915) | - |
| Net finance (costs)/income | | (875) | 128 |
| **Loss before income tax** | | **(182)** | **(11,300)** |
| Income tax (expense)/benefit | 5 | (798) | 1,698 |
| **Loss after income tax benefit** | | **(980)** | **(9,602)** |
| **Total comprehensive (loss)/income attributable to owners of the Company** | | **(980)** | **(9,602)** |
| Basic losses per share (cents) | | (0.59) | (5.79) |
| Diluted losses per share (cents) | | (0.59) | (5.79) |

[1] The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. Following adoption depreciation expense for the right-of-use asset and interest expense on the lease liability is presented separately in the statement of profit or loss and other comprehensive income. See Note 7(c).

The condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

## Condensed consolidated statement of financial position as at 31 December 2019

| | Notes | December 2019 | June 2019[1] |
|---|---|---|---|
| | | $'000 | $'000 |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 8,087 | 10,289 |
| Trade and other receivables | | 20,248 | 19,209 |
| Other assets | | 2,477 | 2,812 |
| **TOTAL CURRENT ASSETS** | | 30,812 | 32,310 |
| NON CURRENT ASSETS | | | |
| Trade and other receivables | | 604 | 1,999 |
| Property, plant and equipment | | 3,085 | 1,961 |
| Right-of-use assets[2] | 7(c) | 23,851 | - |
| Intangible assets | 6 | 15,263 | 12,341 |
| Deferred tax assets | | 846 | 974 |
| **TOTAL NON CURRENT ASSETS** | | 43,649 | 17,275 |
| **TOTAL ASSETS** | | 74,461 | 49,585 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 15,231 | 13,036 |
| Lease liabilities[2] | 7(c) | 4,408 | - |
| Provisions | | 2,094 | 2,673 |
| **TOTAL CURRENT LIABILITIES** | | 21,733 | 15,709 |
| NON CURRENT LIABILITIES | | | |
| Trade and other payables | | 161 | 507 |
| Lease liabilities[2] | 7(c) | 22,355 | - |
| Provisions | | 1,824 | 2,521 |
| **TOTAL NON CURRENT LIABILITIES** | | 24,340 | 3,028 |
| **TOTAL LIABILITIES** | | 46,073 | 18,737 |
| **NET ASSETS** | | 28,388 | 30,848 |
| EQUITY | | | |
| Contributed equity | | 108,416 | 108,416 |
| Share-based payment reserve | | 858 | 819 |
| Accumulated losses | | (80,886) | (78,387) |
| **TOTAL EQUITY** | | 28,388 | 30,848 |

[1] The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 7(c).

[2] Following the adoption of AASB 16, the Consolidated Entity has presented right-of-use assets and lease liabilities separately from other assets and liabilities in the statement of financial position.

The condensed consolidated statement of financial position is to be read in conjunction with the accompanying notes.

## Condensed consolidated statement of changes in equity for the half year ended 31 December 2019

| | Notes | Contributed equity | Accumulated losses | Share based payment reserve | Total equity, attributable to owners of the Company |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| Balance at 30 June 2019[1] | | 108,416 | (78,387) | 819 | 30,848 |
| Adjustment on initial application of AASB 16 (net of tax) | 7(c) | - | (1,519) | - | (1,519) |
| Adjusted balance at 1 July 2019 | | 108,416 | (79,906) | 819 | 29,329 |
| Total comprehensive loss for the period | | - | (980) | - | (980) |
| Share based payment transactions | | - | - | 39 | 39 |
| Balance at 31 December 2019 | | 108,416 | (80,886) | 858 | 28,388 |
| | | | | | |
| Balance at 30 June 2018 | | 103,549 | (61,826) | 670 | 42,393 |
| Adjustment on initial application of AASB 9 (net of tax) | | - | (988) | - | (988) |
| Adjusted balance at 1 July 2018 | | 103,549 | (62,814) | 670 | 41,405 |
| Total comprehensive loss for the period | | - | (9,602) | - | (9,602) |
| Issue of Equity | | 4,916 | - | - | 4,916 |
| Aqualand placement costs | | (49) | - | - | (49) |
| Share based payment transactions | | - | - | 75 | 75 |
| Balance at 31 December 2018 | | 108,416 | (72,416) | 745 | 36,745 |

[1] The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 7(c).

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## Condensed Consolidated statement of cash flows for the half year ended 31 December 2019

| | Notes | December 2019 $'000 | December 2018[1] $'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 53,437 | 49,601 |
| Payments to suppliers and employees | | (46,952) | (48,923) |
| Interest paid [2] | | (915) | - |
| Interest received | | 40 | 128 |
| Income taxes received/(paid) | | - | 1,320 |
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | | 5,610 | 2,126 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from disposal of property, plant and equipment | | - | 3 |
| Purchase of property, plant and equipment | | (2,055) | (179) |
| Purchase of intangibles | 6 | (3,833) | (1,255) |
| **NET CASH OUTFLOW FROM INVESTING ACTIVITIES** | | (5,888) | (1,431) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of share capital | | - | 4,867 |
| Payment for lease liabilities[2] | | (1,924) | - |
| **NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES** | | (1,924) | 4,867 |
| Net (decrease)/increase in cash and cash equivalents | | (2,202) | 5,562 |
| Cash and cash equivalents at the beginning of the financial year | | 10,289 | 10,928 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | | 8,087 | 16,490 |

[1] The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 7(c).

[2] The Consolidated Entity has classified:
- cash payments for the principal portion of lease payments as financing activities
- cash payments for the interest portion as operating activities
- short-term lease payments, payments for leases of low value assets and variable lease payments excluded in the measurement of the lease liability within operating activities.

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

# Notes to the Condensed Consolidated Interim Financial Statements for the half year ended 31 December 2019

## 1 Reporting entity

McGrath Limited (the "Company"), is a for-profit company limited by shares incorporated and domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the half year ended 31 December 2019 comprise the Company and its subsidiaries ("the Consolidated Entity").

The interim financial statements represents the results, for the Consolidated Entity, for the period from 1 July 2019 to 31 December 2019. The comparative information presented in the interim financial statements represents the financial position of the Consolidated Entity as at 30 June 2019 and the Consolidated Entity's performance for the period from 1 July 2018 to 31 December 2018. When the presentation or classification of items in the consolidated interim financial statements have been amended, comparative amounts are also reclassified, unless impractical.

Accounting policies of the Consolidated Entity are set out in Note 7 or in the note to which they relate.

## 2 Events subsequent to reporting date

There has not arisen in the interval between 31 December 2019 and the date of this report, any item, transaction or event which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial periods.

## 3 Revenue

The Consolidated Entities main revenue streams are those described in the last annual financial statement and have been categorised into four segments based on internal operations of the Company.

| | December 2019 | December 2018 |
|---|---|---|
| | $'000 | $'000 |
| Company owned sales commission and fees | 31,125 | 25,243 |
| Company owned property management fees | 10,123 | 9,515 |
| Franchise service fees | 4,615 | 4,514 |
| Other revenue | 3,041 | 3,209 |
| Total revenue | 48,904 | 42,481 |

## 4 Operating segments

The Consolidated Entity's operations are from Australian sources and therefore no geographical segments are disclosed.

| Half year ended 31 December 2019 | Company owned Sales[1] | Company owned property management | Franchise services | Total reportable segments | Other segments | Consolidated total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | **31,125** | **10,123** | **4,615** | **45,863** | **3,041** | **48,904** |
| **Segment profit/(loss) before interest, tax, depreciation and amortisation** | **5,236** | **3,012** | **2,119** | **10,367** | **(145)** | **10,222** |
| Unallocated corporate costs | | | | | | (5,505) |
| **EBITDA** | | | | | | **4,717** |
| Depreciation and amortisation | (2,051) | (875) | (22) | (2,948) | (835) | (3,783) |
| Finance costs | (629) | (77) | (9) | (715) | (179) | (894) |
| Unallocated corporate depreciation and amortisation | | | | | | (241) |
| Unallocated corporate net finance income | | | | | | 19 |
| **Loss before income tax** | | | | | | **(182)** |

| Half year ended 31 December 2018[2] | Company owned Sales[1] | Company owned property management | Franchise services | Total reportable segments | Other segments | Consolidated total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | **25,243** | **9,515** | **4,514** | **39,272** | **3,209** | **42,481** |
| **Segment profit/(loss) before interest, tax, depreciation and amortisation** | **(895)** | **2,578** | **2,012** | **3,695** | **(4,236)** | **(541)** |
| Unallocated corporate costs | | | | | | (5,231) |
| **EBITDA** | | | | | | **(5,772)** |
| Depreciation and amortisation | (13) | (1,081) | - | (1,094) | (954) | (2,048) |
| Impairments | - | - | - | - | (3,365) | (3,365) |
| Unallocated corporate depreciation and amortisation | | | | | | (243) |
| Unallocated corporate net finance income | | | | | | 128 |
| **Loss before income tax** | | | | | | **(11,300)** |

[1]The Company owned Sales revenue from external customers includes sales and project commissions of $21.2 million (31 December 2018: $15.5 million) and $9.9 million in marketing revenue (31 December 2018: $9.7 million).

[2] The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 7(c).

## 5 Taxation

| Income tax benefit | December 2019 $'000 | December 2018 $'000 |
|---|---|---|
| *Current tax expense* | | |
| Adjustments in respect of income tax of previous years | - | 97 |
| | - | 97 |
| *Deferred tax benefit* | | |
| Origination and reversal of temporary differences | 808 | (2,623) |
| Adjustments in respect of deferred tax of previous years | (10) | 828 |
| Tax losses recognised | - | - |
| | 798 | (1,795) |
| Total income tax expense/(benefit) | 798 | (1,698) |
| *Reconciliation of income tax benefit* | | |
| Loss before tax | (182) | (11,300) |
| At the statutory income tax rate of 30% (2018: 30%) | (55) | (3,390) |
| Adjustments in respect of previous years income tax | (10) | 925 |
| Tax losses not recognised | 803 | 712 |
| Non deductible expenses: | | |
| Other | 60 | 55 |
| Income tax expense/(benefit) | 798 | (1,698) |

**Tax losses**

The Consolidated Entity has tax effected capital tax losses where no deferred tax asset is recognised on the consolidated statement of financial position of $0.9 million (30 June 2019: $0.9 million) which are available for offset against future capital gains subject to continuing to meet relevant statutory tests.

The Consolidated Entity has tax effected income tax losses totalling $4.0 million from financial years ending 30 June 2018 and 30 June 2019 and estimated tax effected income tax losses of $803 thousand for the half year ended 31 December 2019 where no deferred tax asset is recognised on the consolidated statement of financial position which are available for offset against future taxable income.

## 6 Intangible assets

| | Property Management Rights $'000 | Software $'000 | Total $'000 |
|---|---|---|---|
| **Consolidated Entity, half year ended 31 December 2019** | | | |
| At 1 July 2019 | 11,129 | 1,212 | 12,341 |
| Additions | 2,714 | 1,119 | 3,833 |
| Amortisation charge for the period | (690) | (221) | (911) |
| Disposals | - | - | - |
| At 31 December 2019 | 13,153 | 2,110 | 15,263 |

During the half year, the Consolidated Entity acquired three rent rolls in NSW totalling $2.714 million. The software additions include $0.8 million on a new website.

## 7 General accounting policies

### (a) Basis of preparation

These interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001,* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 30 June 2019 ('last annual financial statements').

They do not include all of the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Consolidated Entity's financial position and performance since the last annual financial statements.

The accounting policies are consistent with the 30 June 2019 Annual Financial Report, except for the adoption of new and amended standards as set out below.

These interim financial statements were authorised for issue by the Company's Board of Directors on 24 February 2020.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Financial Statements and the Directors' report have been rounded to the nearest thousand dollars unless otherwise indicated.

### (b) Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AASB's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Consolidated Entity's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of AASB 16, which is described in Note 7(c).

### (c) New and amended standards adopted

The Consolidated Entity has adopted AASB 16 Leases from 1 July 2019. A number of other new or amended standards became effective from 1 January 2019 but they do not have a material effect on the Consolidated Entity's financial statements for the reporting period.

(i) AASB 2018-1 Amendments to Australian Accounting Standards: Annual improvements 2015-2017 Cycle;
(ii) AASB 2017-7 Amendments to Australian Accounting Standards: Long-term Interests in Associates and Joint Ventures;
(iii) AASB 2017-6 Amendments to Australian Accounting Standards: Prepayment Features with Negative Compensation;
(iv) AASB 2018-2 Amendments to Australian Accounting Standards: Plan Amendment, Curtailment or Settlement; and
(v) Interpretation 23 Uncertainty over Income Tax Treatments.

# 7 General accounting policies (continued)

## (c) New and amended standards adopted (continued)

**AASB 16 Leases**

**Definition**

AASB 16 introduces a single on-balance sheet lessee accounting model. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Consolidated Entity. The lease liability is initially measured at the present value of the future lease payments discounted at the Consolidated Entity's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The interest cost is charged to the profit or loss over the lease period and the associated right-of-use asset is depreciated over the lease term on a straight-line basis.

In addition, the Consolidated Entity will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Consolidated Entity will include these onerous payments under the lease in its lease liability.

The Consolidated Entity has adopted AASB 16 from 1 July 2019 using the modified retrospective transition method. Under this approach the cumulative impact of initial application is recognised in retained earnings on 1 July 2019, with no restatement of comparative information required.

In applying AASB 16 for the first time, the Consolidated Entity has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- exemption of short-term leases, with a term less than 12 months and leases of low-value;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

**Transition**

As a result of finalising the implementation of AASB 16 the following items on balance sheet have been recognised in the opening balance sheet on 1 July 2019:

| Impact on application | As reported 30 June 2019 | AASB 16 Transition Adjustment | Opening Balance 1 July 2019 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Current assets** | | | |
| Other assets | 2,812 | (407) | 2,405 |
| **Non current assets** | | | |
| Right-of-use assets | - | 22,826 | 22,826 |
| Deferred tax assets | 974 | 670 | 1,644 |
| **Current liabilities** | | | |
| Trade and other payables | 13,036 | (301) | 12,735 |
| Lease liabilities | - | 4,040 | 4,040 |
| Provisions | 2,673 | (570) | 2,103 |
| **Non current liabilities** | | | |
| Lease liabilities | - | 21,439 | 21,439 |
| **Total adjustment on equity:** | | | |
| Retained earnings-Accumulated losses | (78,387) | (1,519) | (79,906) |

## 7 General accounting policies (continued)

### (c) New and amended standards adopted (continued)

**Lease Liabilities**

The Consolidated Entity leases offices and equipment. The office rental leases are for fixed periods of 2 to 10 years with extension options. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. Previously, these leases were classified as either finance or operating leases, in accordance with AASB 117 *Leases,* and were charged to the profit and loss on a straight line basis over the life of the asset. On adoption of AASB 16, these leases are recognised on the balance sheet as lease liabilities. The Consolidated Entity has applied judgement to determine the lease term for lease contracts which include renewal options. The assessment of whether the Consolidated Entity is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of the lease liabilities and right-of use assets recognised.

At the date of transition, the present value of the lease liability comprised of:
• fixed payments offset by any lease incentives;
• variable lease payments linked to an index or rate;
• consideration of exercising renewal extension options; and
• discounting using the weighted average lessee's incremental borrowing rate as of 1 July 2019.

Under AASB 16, payments made are allocated between lease liability and finance costs, with finance costs charged to interest expense over the life of the lease. Payments associated with short-term leases and low value assets are recognised as an expense in the profit and loss on a straight line basis.

| **Reconciliation of 30 June 2019 operating leases to 1 July 2019 lease liability** | **$'000** |
|---|---|
| Operating lease commitments disclosed as at 30 June 2019 | 15,852 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | (1,691) |
| Add/(less): adjustments as a result of a different treatment of extension and termination options | 11,318 |
| Lease liability recognised as at 1 July 2019 | 25,479 |
| | |
| Current lease liabilities | 4,040 |
| Non-current lease liabilities | 21,439 |
| | 25,479 |

**Right-of-use assets**

At the date of transition, the cost of the right-of-use assets comprised of:
• initial measurement of the liability;
• any lease payments pre-commencement date, offset by any lease incentives received; and
• reliance on previous assessments on leases which were considered onerous.

Under AASB 16, right-of-use assets will be depreciated over the shorter of the asset's useful life and the life of the lease on a straight line basis and will be tested for impairment in accordance with AASB 136 *Impairment of Assets* .

The Company has categorised the right-of-use assets into the following two categories:

| | 31 December 2019 | Opening Balance 1 July 2019 |
|---|---|---|
| | **$'000** | **$'000** |
| Property | 22,448 | 21,203 |
| Equipment | 1,403 | 1,623 |
| Total right-of-use assets | 23,851 | 22,826 |

**Impact for the period**

As a result of initially applying AASB 16, in relation to the leases which were previously classified as operating leases, the Consolidated Entity recognised $23.8 million of right-of-use assets and $26.8 million of lease liabilities as at 31 December 2019.

During the six months ended 31 December 2019, the Consolidated Entity has recognised $2.2 million of depreciation expense and $0.9 million of interest expense relating to the associated leases.

# Directors' Declaration for the half year ended 31 December 2019

In the opinion of the directors of McGrath Limited:

(a) the condensed consolidated financial statements and notes set out on pages 8-17 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance, for the six month period ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Peter Lewis
Chair
24 February 2020

# Independent Auditor's Review Report

## To the shareholders of McGrath Limited

## Report on the Interim Financial Report

### Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of McGrath Limited (the Consolidated Entity).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of McGrath Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 31 December 2019 and of its performance for the ***Interim Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2019.
- Condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the Interim Period ended on that date.
- Notes 1 to 7 comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The ***Consolidated Entity*** comprises McGrath Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 31 December 2019.

### Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;* and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of McGrath Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Stuart Marshall
*Partner*

Sydney
24 February 2020

# Corporate Directory

## STOCK EXCHANGE LISTING
The shares of McGrath Limited are listed on the Australian Securities Exchange trading under the ASX Listing Code “MEA”.

**ACN:** 608 153 779

## DIRECTORS

**Peter Lewis**
Chair and Independent Non-executive Director

**Andrew Robinson**
Independent Non-executive Director

**Wayne Mo**
Non-executive Director

**John McGrath**
Executive Director

## CHIEF EXECUTIVE OFFICER
Geoff Lucas

## CHIEF FINANCIAL OFFICER
Howard Herman

## COMPANY SECRETARY
Melissa Jones

## REGISTERED OFFICE
**Address**
55 Pyrmont Street
Pyrmont NSW 2009
**Telephone**
+61 2 9386 3333
**Website**
www.mcgrath.com.au

## SHARE REGISTRY
**Address**
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
**Telephone**
(Australia) 1300 554 474
**Email**
registrars@linkmarketservices.com.au
**Website**
www.linkmarketservices.com.au

## AUDITORS
KPMG
Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000
Australia