

24 February 2020

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

BY ELECTRONIC LODGEMENT

Half Year 2020 Results Presentation

Please find attached McGrath Limited's (**ASX:MEA**) Half Year 2020 Results presentation.

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This Presentation and press release was authorised for release by McGrath Limited's Board of Directors.

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.

For Investor and media enquiries, contact:

Investors

Geoff Lucas CEO /Howard Herman CFO
+61 2 9386 3333

Media

Terri Sissian	Tim Allerton
+61 419 881 414	+61 412 715 707



Geoff Lucas, CEO
Howard Herman, CFO

McGrath

McGrath Limited (ASX: MEA)
Results for the 6 months ended 31 December 2019
24 February 2020

1H FY20 EBITDA result at top end of guidance

Buyer sentiment remains positive off recent price growth. Since the bottom of the national price cycle in June, Australian residential values have grown \$900bn⁽¹⁾ taking the asset class value to \$7.0tn⁽²⁾

Despite this, listed properties remain at subdued levels ⁽³⁾

1. Calculated as difference of Residential Real Estate value difference between CoreLogic Monthly Property Market and Economic Update February 2020 and July 2019
2. Per CoreLogic Monthly Property Market and Economic Update Residential Real Estate Value February 2020
3. National listings down 15.7% in 1H FY20 compared to 1H FY19 (per CoreLogic)

\$4.1m EBITDA turnaround versus underlying 1H 19

Group Financial Highlights (\$m)	1H 20 (Statutory) (Post AASB16)	1H 20 (Pre AASB16) ¹	1H 19 Underlying (Pre AASB16) ¹	% Change (Pre AASB16)
Revenue	48.9	48.9	42.5	15%
EBITDA	4.7	1.6	(2.5)	163%
(NLAT)	(1.0)	(1.0)	(3.3)	70%

- **Underlying EBITDA top end of guidance**
 - Year on Year growth across all business units
 - Company Owned Sales segment primary contributor in recovery from prior year
- **Net Loss After Tax**
 - Impacted by \$0.8m non cash tax expense
- **Solid growth across key indicators**

Key Indicators	1H 20	1H 19 ^	% Change
# of Properties Sold	5,768	4,862	19%
Value of Properties sold	\$5.9bn	\$5.2bn	13%
Company Owned Properties Under Management	8,199	7,154	15%
Adjusted Net Assets¹	\$72.2m	\$71.7m	1%

^ Adjusted Net Asset comparison is 30 June 2019.

1 This is a non A-IFRS measure. Refer page 14 for calculation of adjusted Net Assets.

Positive operating cashflows funding investment activities

\$m	1H 20 (Statutory) (Post AASB16)	1H 20 (Pre AASB16 ¹)	1H 19 (Pre AASB16)
EBITDA	4.7	1.6	(5.8)
Change in net working capital	1.1	1.5	2.8
Non cash EBITDA items	0.6	0.6	3.7
Net interest received	(0.9)	-	0.1
Income tax received / (paid)	-	-	1.3
Net cash flow from operating activities	5.6	3.7	2.1
Proceeds from disposal of property, plant and equipment	-	-	0.0
Purchase of property, plant and equipment	(2.1)	(2.1)	-
Purchase of Intangible Assets	(3.8)	(3.8)	(1.4)
Net cash flow from investing activities	(5.9)	(5.9)	(1.4)
Proceeds from issue of share capital	-	-	4.9
Payment for lease liabilities	(1.9)	-	-
Net cash flow from financing activities	(1.9)	0.0	4.9
Opening Balance	10.3	10.3	10.9
Net cash flow	(2.2)	(2.2)	5.6
Closing Balance	8.1	8.1	16.5

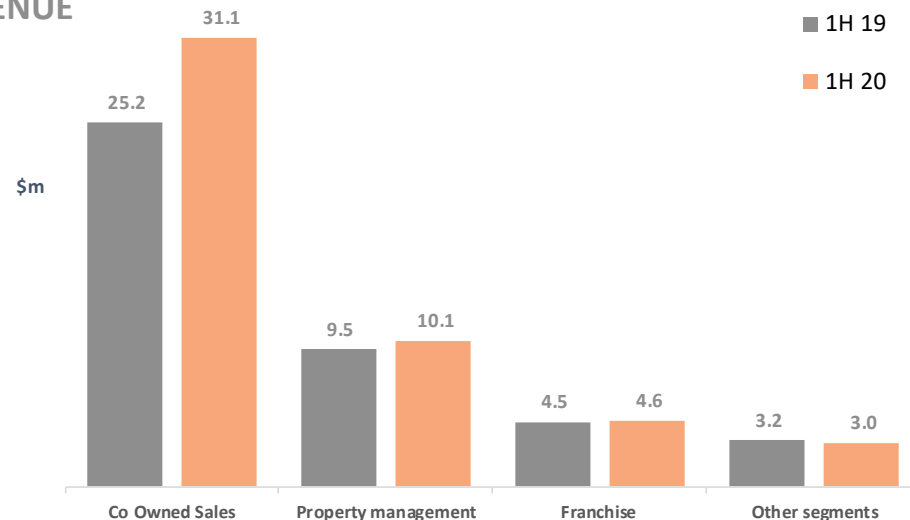
- **\$8.1m of cash and no debt**

- Operating cashflow driven by positive EBITDA result and improvement in working capital
- Investment activities relate to
 - Acquisition of 3 rent rolls in the half
 - Investment in MarTech and refreshed company owned offices at Hunters Hill, Mosman and our new headquarters in Pyrmont.

¹ This is a non A-IFRS measure.

Company Owned Sales driving turnaround

REVENUE



EBITDA

Pre AASB16¹



1. This is a non A-IFRS measure.

2. Source: CoreLogic Daily House Value Index (price movement from 19th May 2019 to 31 Dec 2019)

• Company Owned Sales

- Improved revenue assisted by buyer sentiment derived from the Sydney market dwelling prices growth of 10.4% since May 2019². Industry listing volumes continue to lag the prior year.
- Improved EBITDA contribution due to continued optimisation of Company Owned business and cost initiatives.

• Company Owned Property Management

- Increase in properties under management (PUM) growing organically and from acquisitions in 1H are yet to fully flow through to management fees and other income.
- Continued focus on customer centric approach contributing to the underlying performance of the segment.

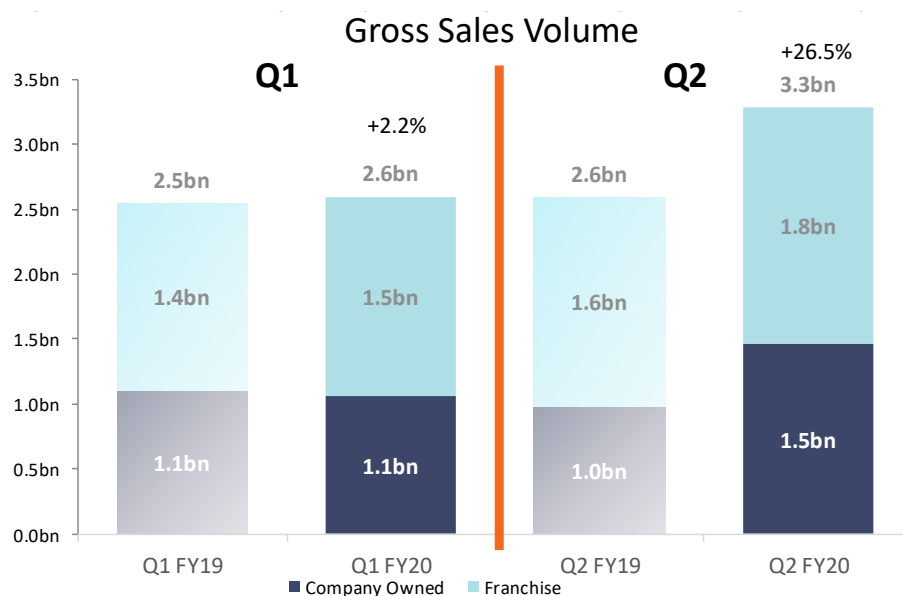
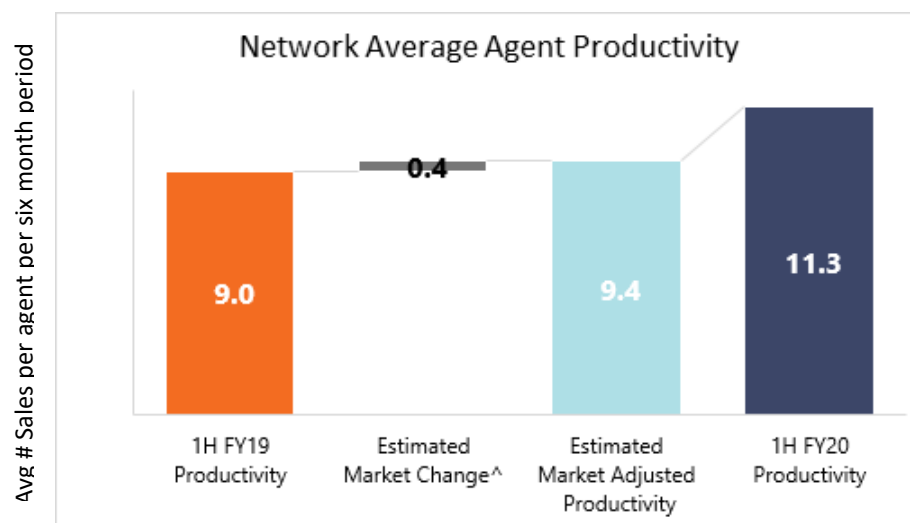
• Franchise

- Net Office Growth of +1 in the period

• Other segments

- Cost focused initiatives and improvement in sales key indicators had a flow on impact to other segments

Outperformance in Agent Productivity delivering growth in sales values



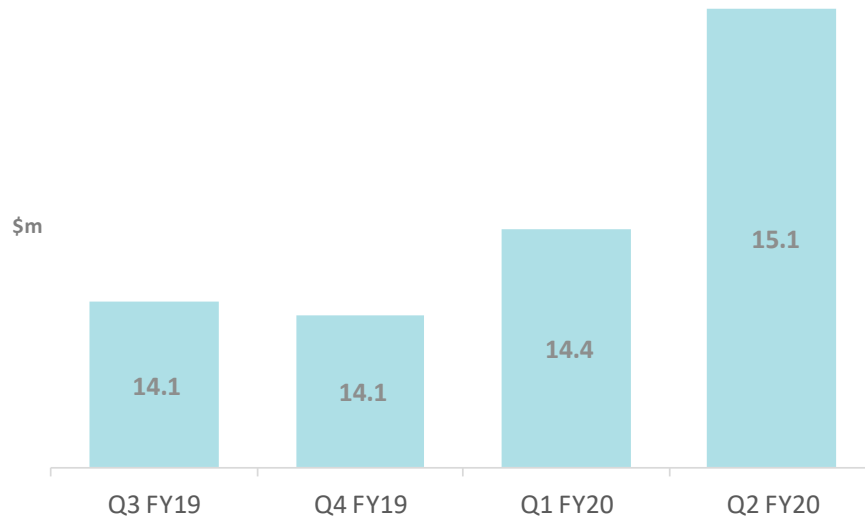
- Improvement in Agent Productivity (adjusted for market volumes) in both Company Owned and Franchise channels as offices continue to 'right size' their businesses focusing on high performing agents/teams
- Strong Q2 Gross Sales Volume resulting from improved agent productivity and market conditions
- Continued focus on
 - Agent and customer experience
 - Talent identification and recruitment
 - Strong commitment to training and development of junior agents within high performing teams

Industry Leading data provider CoreLogic is in the process of enhancing its reporting suite and as a result the market share information is not available for this report at the time of publishing.

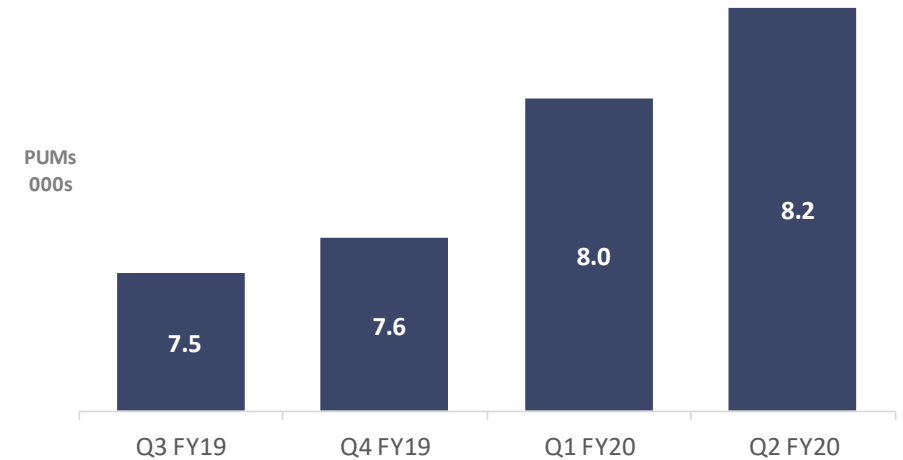
^ Estimated at a 4.3% increase based on McGrath's weighted average sales by region of the annual Sales Volume change in settled sales from CoreLogic as at 31 December 2019 - Sydney +12%, Regional NSW -4%, Melbourne +3%, Regional Victoria -5%, Brisbane -6%, Regional Queensland -4% and Canberra 5%.

Increase in Properties under Management yield an increase in Intangible valuations. Estimated Asset value of \$52.9m

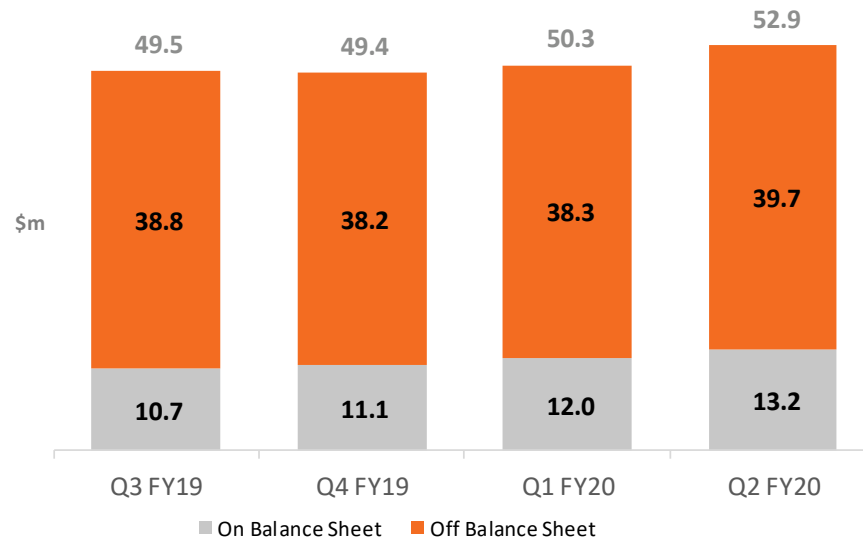
Property Management Fees (Annualised) (\$m)



No. of properties under management (Company Owned)



Estimated Property Management Value (\$m)



- Management's estimate of the Property Management rent roll value is \$52.9m based on a 3.5x multiple. Only \$13.2m of this value is held on the Balance Sheet
- The increase In Company Owned properties under management in Q2 FY20 will flow through to an increase in management fees in 2020 further boosting the rent roll value

FY20

Trends for the first half of FY20 have continued into the second half of FY20. Subject to economic conditions, we expect the turnaround of the business to continue throughout the year, which will manifest in the FY2020 full year results

KEY PRIORITIES AND OUTLOOK FOR FY20

- **2H FY20 Key Priorities**

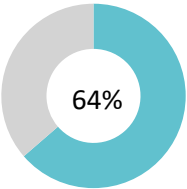
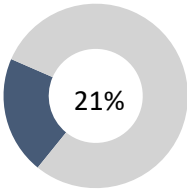
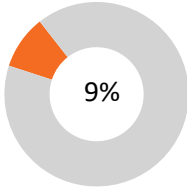
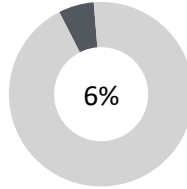
- Further agent experience improvements following the highly successful roll out of our reinvigorated IT solution to offices and the launch of the new McGrath.com.au platform
- Continue to develop larger agent teams and further improve agent productivity across the network
- Further roll out of new Franchise 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 subdued listings level are expected to remain
- Continued market share gain with experienced agents and strong brand positioning
- Ongoing continued consolidation of a highly fragmented industry

APPENDIX

Business overview by segment

	Company Owned		Franchise Services	Other ³
	Sales	Property Management		
HY19 Revenue / EBITDA Contribution	 <p>64%</p> <p>\$3.3m EBITDA¹</p>	 <p>21%</p> <p>\$2.8m EBITDA¹</p>	 <p>9%</p> <p>\$2.1m of EBITDA¹</p>	 <p>6%</p> <p>(\$0.7m) of EBITDA¹</p>
Overview	<ul style="list-style-type: none"> Generates revenue by charging the vendors of residential property a commission for successfully selling a property 32 offices 158 agents 1,702 property sales \$2.5 billion value of property sales 	<ul style="list-style-type: none"> Generates annuity style revenue through management and leasing fees 51 property managers 8,199 properties under management (leased) Churn rate of 16%² 	<ul style="list-style-type: none"> Generates revenue from franchise fees on commission earned from successfully sold property and property management income 68 offices 327 agents 4,066 property sales \$3.4 billion value of property sales 25,402 properties under management 	<ul style="list-style-type: none"> Mortgage broking generates up front commissions and trailing revenue from each loan 28 brokers settled 612 mortgages for a value of \$378 million \$3.25 billion of loans under management TRET organises and operates a number of industry leading residential real estate conferences in Australia 48 exclusive auctioneers with 2,696 auctions booked (H1 FY19: 2,697)

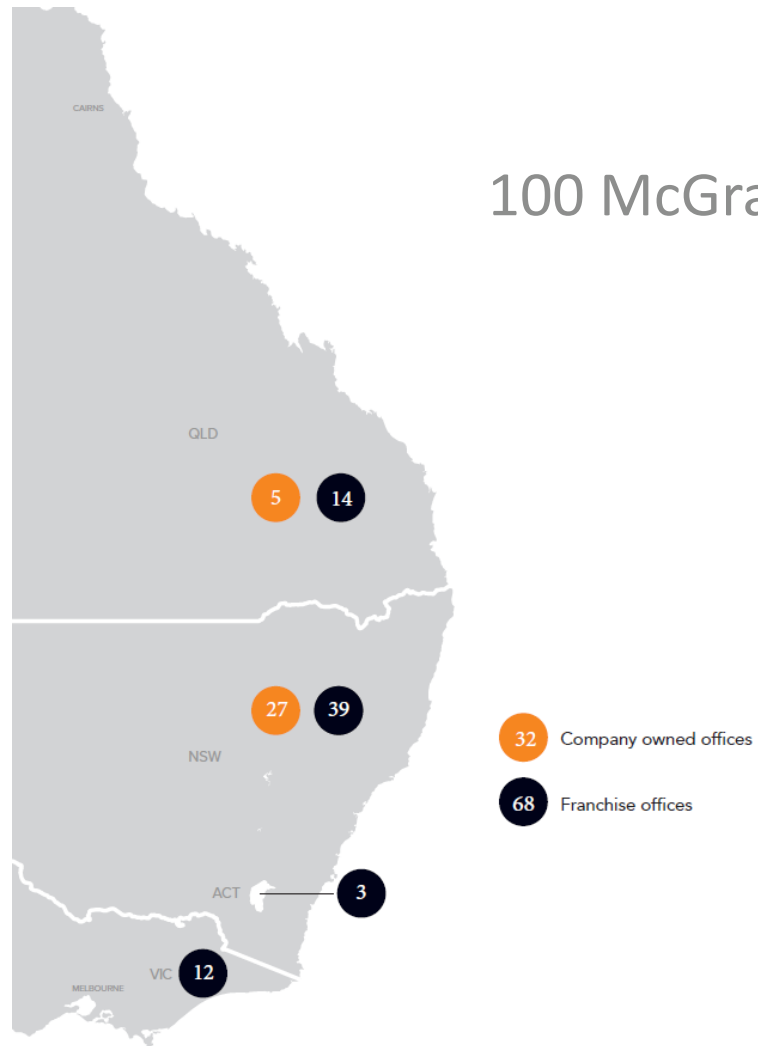
Note: Pie chart represents revenue contribution of segment. Data for 6 months ending 31 December 2019 unless otherwise stated.

1. Pre AASB16, a Non A-IFRS measure

2. Churn rate is defined as the total number of properties lost as a percentage of total properties under management as at beginning of Financial Year.

3. Incorporates the mortgage broking, auctioneering and training businesses.

Footprint in core markets



1. As at 31 December 2019

Office movements since June 2019:

- **Company Owned**
 - + Millers Point | CBD (Jul-19)
 - Neutral Bay (Sep-19)
 - + Surry Hills (Oct-19)
 - + Castle Cove (Oct-19)
 - Pymble (Nov-19)
 - + Northbridge (Dec-19)
- **Franchise**
 - Dee Why (Oct-19)
 - + Ulladulla (Dec-19)
 - + Mollymook (Dec-19)

Profit and loss

	Statutory			Underlying ¹		
\$m	1H 2020 (Post AASB 16)	1H 19	% Change	1H 2020 (Pre AASB 16)	1H 19	% Change
Total revenue	48.9	42.5	15%	48.9	42.5	15%
Cost of sales	(20.2)	(17.5)	15%	(20.2)	(17.5)	15%
Gross Profit	28.7	24.9	15%	28.7	24.9	15%
Employee benefits expenses	(15.0)	(15.4)	3%	(15.0)	(15.4)	3%
Other expenses	(9.0)	(15.3)	41%	(12.1)	(12.0)	(1%)
EBITDA	4.7	(5.8)	n.m	1.6	(2.5)	n.m
Depreciation and Amortisation	(4.0)	(2.3)	(76%)	(1.8)	(2.3)	20%
Impairments	0.0	(3.4)	100%	-	0.0	n/a
EBIT	0.7	(11.4)	n.m	(0.3)	(4.8)	n.m
Net finance costs	(0.9)	0.1	784%	0.0	0.1	85%
Net loss before tax	(0.2)	(11.3)	n.m	(0.2)	(4.7)	n.m
Income tax benefit	(0.8)	1.7	(147%)	(0.8)	2.4	(133%)
Net loss after tax	(1.0)	(9.6)	n.m	(1.0)	(2.3)	n.m

1. Underlying results adjusted for one-off costs in H1 FY 19, a non A-IFRS measure
n.m = not meaningful

Segment performance

	Statutory		
\$m	1H 20	1H 19	% Change
Revenue			
Co Owned Sales	31.1	25.2	23%
Property management	10.1	9.5	6%
Franchise	4.6	4.5	2%
Other	3.0	3.2	(5%)
Total Revenue	48.9	42.5	15%
EBITDA (Pre AASB 16)			
Co Owned Sales	3.3	(0.9)	n.m
Property management	2.8	2.6	8%
Franchise	2.1	2.0	4%
Other	(0.7)	(4.2)	84%
Corporate	(5.9)	(5.2)	(12%)
Total EBITDA	1.6	(5.8)	n.m

	Underlying ¹		
	1H 20	1H 19	% Change
	31.1	25.2	23%
	10.1	9.5	6%
	4.6	4.5	2%
	3.0	3.2	(5%)
	48.9	42.5	15%
	3.3	(0.7)	n.m
	2.8	2.6	8%
	2.1	2.0	4%
	(0.7)	(1.2)	43%
	(5.9)	(5.2)	(12%)
	1.6	(2.5)	163%

1. Underlying results adjust for one-off costs in H1 FY 19, a non A-IFRS measure
n.m = not meaningful

Balance Sheet

\$m	December 2019 (Statutory)	December 2019 (Pre AASB16) ¹	June 2019 (Pre AASB 16)	% Change (Pre AASB16)
Total current assets	30.8	31.2	32.3	(3%)
Total non-current assets	43.6	19.1	17.3	11%
Total assets	74.5	50.3	49.6	1%
Total current liabilities	21.7	18.5	15.7	18%
Total non-current liabilities	24.3	2.0	3.0	(34%)
Total liabilities	46.1	20.5	18.7	9%
Net assets	28.4	29.9	30.8	(3%)
Contributed equity	108.4	108.4	108.4	0%
Share based payment reserve	0.9	0.9	0.8	5%
(Accumulated losses) / retained profits	(80.9)	(79.4)	(78.4)	1%
Total equity	28.4	29.9	30.8	(3%)
Assets not on Balance Sheet ²	42.3	42.3	40.9	3%
Adjusted Net Assets¹	70.7	72.2	71.7	1%

1. This is a non A-IFRS measure

2. Management Valuation calculated on blended valuation multiple of 3.5x on Q2 FY20 Annualised Property management fees (\$52.9m) and 2.5x on 1H FY20 Annualised Oxygen trail income.

McGRATH CONTACTS ASSOCIATED WITH THIS PRESENTATION

Geoff Lucas

Chief Executive Officer

Howard Herman

Chief Financial Officer

Terri Sissian

Communications Director

Investor Centre Contact Details:

Phone

+61 2 9386 3333

Email

InvestorCentre@mcgrath.com.au

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