

22 February 2021

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

BY ELECTRONIC LODGEMENT

Appendix 4D - Half-Year Report and Interim Financial Report

Please find attached for release to the market, McGrath Limited's *Appendix 4D - Half-Year Report and Interim Financial Report for the half-year ended 31 December 2020*.

-ENDS-

This Announcement 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 102 offices located throughout the East Coast of Australia. For further information, please visit www.mcgrath.com.au.

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McGrath Limited and Controlled Entities

ACN 608 153 779

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 2020 (HY21)

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

Results for announcement to the market

In accordance with the ASX listing rule 4.2A, enclosed is an Appendix 4D for the half year ended 31 December 2020.

	Period ended 31 December 2020	Period ended 31 December 2019	Change
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	\$'000	\$'000	\$'000	% Increase
Revenues from ordinary activities	56,766	48,904	7,862	16%
Profit/(Loss) from ordinary activities after tax attributable to the owners of the Company	8,141	(980)	9,121	n/m*
Net Profit/(Loss) after tax attributable to the Consolidated Entity	8,141	(980)	9,121	n/m*
EBITDA - Statutory	13,515	4,717	8,798	187%
EBITDA - Underlying	6,634	1,590	5,044	317%

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

*percentage movement in result not meaningful.

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

Dividend information

	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Interim dividend for 2021 (to be paid 23 March 2021)	0.5	0.5	30%

There was no final dividend for the year ended 30 June 2020 paid during the reporting period.

Interim dividend dates

Ex-dividend date	1 March 2021
Record date	2 March 2021
Payment date	23 March 2021

Net tangible assets

	31 December 2020	30 June 2020
Net Tangible Assets per security (cents)	13.19	8.58

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 2020 is attached.



McGrath Limited and Controlled Entities
ACN 608 153 779

Interim Financial Report
for the Half Year Ended 31 December 2020

McGrath

McGrath Limited and Controlled Entities

A.C.N. 608 153 779

Interim Financial Report

For the half year ended 31 December 2020

Interim Financial Report

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Directors' Report for the Half Year Ended 31 December 2020

The Directors present their Financial Report for the half year ended 31 December 2020. 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 profit after providing for income tax for the half year ended 31 December 2020 amounted to \$8,140,951 (2019: loss of \$980,293).

Directors

The following persons were Directors of McGrath Limited during the half year ended 31 December 2020:

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.

Mr. Shane Smollen

Non-executive Director.
Appointed 3 September 2020.

Dividends

No dividends were declared and paid during the reporting period (2019: \$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

An interim fully franked dividend of 0.5 cents per share was declared on 22 February 2021 with a record date of 2 March 2021 and a payment date of 23 March 2021, totalling \$834,250. The financial effect of these dividends has not been provided for in the half year financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2021.

At the date of approving the financial statements there remains uncertainty caused by the impact of the COVID-19 pandemic. The directors have considered developments since 31 December 2020 and are of the view that there is no material change to assumptions in the financial statements.

There has been no other item, transaction or event which has arisen in the interval between 31 December 2020 and the date of this report which would significantly affect 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
22 February 2021

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 2020 the network comprised 30 Company owned offices and 72 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 5 offices in the six months since 30 June 2020 with 6 openings, 1 transfer from Company owned to Franchise services and 1 closure.

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.

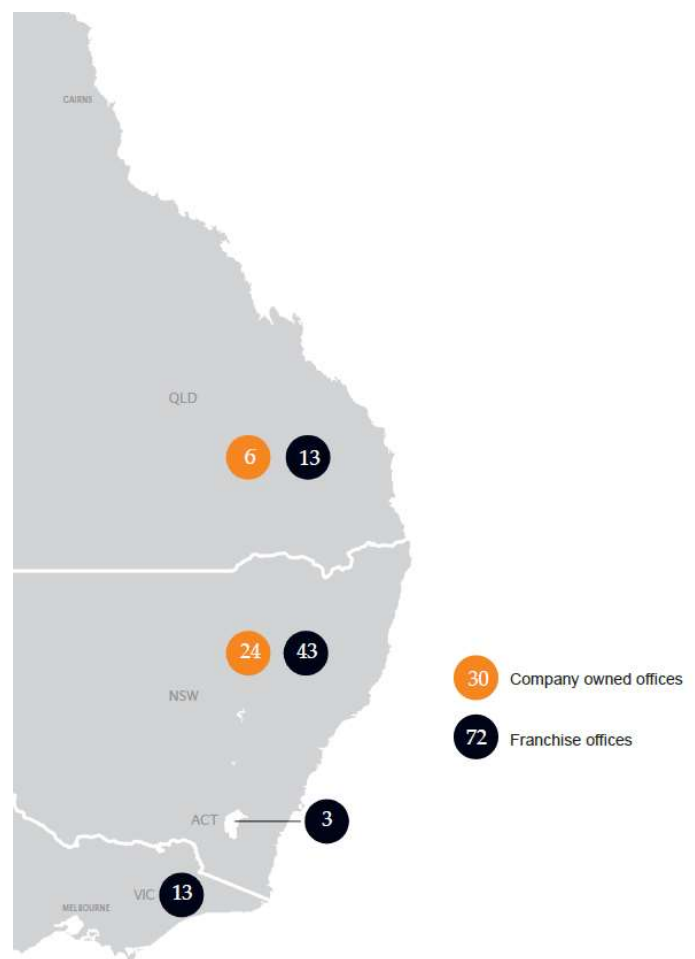


Figure 1: McGrath office Network

Income Statement

To assist in the interpretation of the performance of the Consolidated Entity, the information below show the statutory EBITDA of \$13.515 million to underlying EBITDA of \$6.634 million. The reconciling items below adjust for the impact of Government Grant JobKeeper subsidy received, gain on sale of the Parramatta office and the adoption of the new leasing accounting standards, AASB 16 Leases, adopted from 1 July 2019.

The impact of the COVID-19 pandemic in Australia and the real estate market has been less severe than other countries and industries and has not materially impact the results for the period. In response to the pandemic, the Government provided grants to assist businesses. Included in the results is the JobKeeper wage subsidy Government Grant recognised for the period 1 July 2020 to 27 September 2020. The Government Grant, as disclosed in the financial statements as other income, increased the EBITDA and profit before income tax by \$2.094 million.

In July 2020 the agreement for the sale of the assets and rent roll of the Parramatta Company owned office to a franchise office become unconditional. Consequently, a gain on sale of \$1.919 million has been recognised as other income and increased the profit before income tax to half year ending 31 December 2020.

The adoption of AASB 16 Leases resulted in a decrease of \$272 thousand to profit before income tax to the half year ending 31 December 2020, due to \$2.309 million of depreciation expenses and \$0.831 million of interest expenses being recognised in the statutory accounts and excluding \$2.868 million to occupancy and communication expenses.

	Statutory Dec 2020	Reconciling amounts	Underlying Dec 2020	Underlying Dec 2019
	\$'000	\$'000	\$'000	\$'000
Revenue	56,766	-	56,766	48,904
Other Income ¹	4,013	(4,013)	-	-
Cost of sales	(23,871)	-	(23,871)	(20,155)
Underlying Gross profit	36,908	(4,013)	32,895	28,749
Employee benefits expenses	(15,183)	-	(15,183)	(15,022)
Other expenses ²	(8,210)	(2,868)	(11,078)	(12,137)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	13,515	(6,881)	6,634	1,590
Depreciation and amortisation ²	(4,018)	2,309	(1,709)	(1,841)
Earnings before interest and tax (EBIT)	9,497	(4,572)	4,925	(251)
Net finance (expense)/income ²	(800)	831	31	19
Profit/(Loss) before income tax	8,697	(3,741)	4,956	(232)
Income tax expense	(556)	-	(556)	(783)
Profit/(Loss) after income tax expense	8,141	(3,741)	4,400	(1,015)
Basic earnings/(losses) per share (cents)	4.88	(2.24)	2.64	(0.61)

¹The impact on the Government Grant totalled \$2.094 million and the profit from the sale of Parramatta office and associated rent rolls totalled \$1.919 million.

²The adoption of AASB 16 Leases has resulted in \$2.309 million of depreciation expenses of right-of-use assets and \$0.831 million of interest expenses relating to the associated lease liabilities being recognised in the statutory accounts. Excluding the adoption of AASB 16 Leases the Consolidated Entity would have recognised \$2.868 million to occupancy and communication expenses.

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

Segment revenue and EBITDA

The receipt of Government Grants and the application of AASB 16 has impacted EBITDA by \$2.094 million and \$2.868 million respectively which has been allocated across all segments with company owned property management and company owned sales being impacted the most. The EBITDA of company owned sales increased by \$2.741 million due to \$2.075 million from AASB 16 and \$0.666 million from the receipt of the Government Grant, whilst property management increased by \$1.013 million due to \$0.247 million from AASB 16 and \$0.766 million from the Government Grant.

The corporate business segment statutory result includes the gain on sale of the company owned Parramatta office of \$1.919 million.

	Statutory December 2020 \$'000	Reconciling amounts \$'000	Underlying December 2020 \$'000	Underlying December 2019 \$'000
Revenue				
Company owned sales	38,750	-	38,750	31,125
Company owned property management	10,074	-	10,074	10,123
Franchise services	5,778	-	5,778	4,615
Other operating segments	2,164	-	2,164	3,041
Total Revenue	56,766	-	56,766	48,904
EBITDA				
Company owned sales	9,192	(2,741)	6,451	3,264
Company owned property management	4,053	(1,013)	3,040	2,777
Franchise services	3,420	(100)	3,320	2,092
Other operating segments	657	(747)	(90)	(692)
Corporate	(3,807)	(2,280)	(6,087)	(5,851)
Total EBITDA	13,515	(6,881)	6,634	1,590

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

The following relates to underlying results, as presented above. The results are not that of statutory profit and were not subject to audit. The segment results for HY21 are excluding the impact of adoption of AASB 16, the Government Grants and gain on sale of the Parramatta office.

Company Owned Sales and Project Marketing

Company owned sales were the major contributor to the overall improvement in earnings for HY21 assisted by a 22% increase in the number of properties sold and a 7% increase in the average sales price, resulting in segment EBITDA of \$6.5 million, up on the HY20 by \$3.3 million.

There was \$3.3 billion in sales value from 2,091 sales in HY21 compared to \$2.5 billion and 1,702 sales in HY20.

In the past 6 months, there was no net movement in offices, with 2 new office openings, 1 office transfer from Company owned to Franchise services and 1 office closure.

Company owned property management

Properties under management decreased 3.4% from FY20 to 8,090 at HY21 (FY20: 8,375), adversely impacted by the sale of Parramatta office. The segment generated \$3.0 million EBITDA, a 9.5% increase on HY20.

Franchise services

Our Franchise network exchanged 4,808 properties during HY21 (HY20: 4,066), generating an EBITDA of \$3.3 million, up 59% on the prior year.

Over the past 6 months, there has been 4 new office openings and 1 office transfer from Company owned to Franchise services.

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 \$382 million was up 5% for HY21. At the end of HY21, there were 26 brokers supporting the network, a decline of 1 from FY20.

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, AREC, is scheduled to be held in May 2021 and attracts real estate talent Australia wide.

Auction Services

Auction Services provides auctioneers to the Company owned and Franchise segments. There were 2,532 auctions booked in HY21 (HY20: 2,696) representing 33% 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.

- COVID-19** – The ongoing COVID-19 pandemic has had an impact on the global and Australian economy and the ability of businesses, individuals and governments to operate. Emergency powers and restrictions have been enacted on an international, Federal and State level in Australia which, amongst other things, has restricted travel and the ability of individuals to leave their homes and travel to places of work. McGrath has experienced some adverse impact on its sales and property management business borne out by government lock down measures, and broader global uncertainty around a recovery of business activity affecting the real estate market. Whilst the impact of the pandemic in Australia and the real estate market has been less severe than other countries and industries, there is a risk if the duration of events surrounding COVID-19 are protracted. There are also other changes in the domestic and global macroeconomic environment associated with the events relating to COVID-19 that are beyond the control of McGrath and may be exacerbated in an economic recession or downturn. These include but are not limited to: (i) changes in inflation and interest rates (ii) changes in employment levels and labour costs; (iii) changes in aggregate investment and economic output; and (iv) other changes in economic conditions which may affect the business of McGrath. There are a number of actions McGrath could consider to mitigate this risk which include actions such as restructuring the cost base of the business to reduce costs and raising capital on the markets to strengthen the balance sheet and create additional liquidity.
- 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 mitigates this risk by 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 mitigates this risk by providing a competitive commission and incentive program designed to assist in attracting and retaining high performing residential sales agents.
- Regulatory risks** – McGrath currently has business operations in New South Wales, Queensland, Victoria and the Australian Capital Territory, with regulations and legislation varying in each state and territory. 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 2020 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.

A handwritten signature of 'KPMG' in black ink.

KPMG

A handwritten signature of 'Karen Hopkins' in black ink.

Karen Hopkins
Partner

Sydney
22 February 2021

Condensed Consolidated Interim Financial Statements

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2020

	Notes	December 2020 \$'000	December 2019 \$'000
Revenue	3	56,766	48,904
Other Income	4	4,013	-
Cost of sales		(23,871)	(20,155)
Employee benefits expenses		(15,183)	(15,022)
Directors' fees		(165)	(110)
Professional fees		(1,102)	(911)
Doubtful debts		(376)	(585)
Occupancy		(1,047)	(1,165)
IT expenses		(2,386)	(2,352)
Communications		(727)	(749)
Advertising and promotions		(929)	(1,034)
Other expenses		(1,478)	(2,104)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		13,515	4,717
Depreciation and amortisation expenses		(4,018)	(4,024)
Finance income		69	40
Finance costs		(869)	(915)
Net finance costs		(800)	(875)
Profit/(Loss) before income tax		8,697	(182)
Income tax expense	6	(556)	(798)
Profit/(Loss) after income tax expense		8,141	(980)
Total comprehensive income/(loss) attributable to owners of the Company		8,141	(980)
Basic earnings/(losses) per share (cents)		4.88	(0.59)
Diluted earnings/(losses) per share (cents)		4.73	(0.59)

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 2020

	Notes	December 2020	June 2020
		\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents		24,633	17,273
Trade and other receivables		16,979	15,465
Held-for-sale assets		-	1,170
Other assets		2,536	3,288
TOTAL CURRENT ASSETS		44,148	37,196
NON CURRENT ASSETS			
Trade and other receivables		2,346	1,292
Property, plant and equipment		3,453	3,696
Right-of-use assets		19,685	21,199
Intangible assets	7	16,164	15,853
Deferred tax assets		-	556
TOTAL NON CURRENT ASSETS		41,648	42,596
TOTAL ASSETS		85,796	79,792
CURRENT LIABILITIES			
Trade and other payables		19,368	19,037
Liabilities held for sale		-	1,123
Lease liabilities		4,434	4,448
Provisions		2,695	2,579
TOTAL CURRENT LIABILITIES		26,497	27,187
NON CURRENT LIABILITIES			
Trade and other payables		294	154
Lease liabilities		18,685	19,727
Provisions		2,140	2,555
TOTAL NON CURRENT LIABILITIES		21,119	22,436
TOTAL LIABILITIES		47,616	49,623
NET ASSETS		38,180	30,169
EQUITY			
Contributed equity		108,286	108,416
Share-based payment reserve		938	938
Accumulated losses		(71,044)	(79,185)
TOTAL EQUITY		38,180	30,169

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 2020**

	Contributed equity	Accumulated losses	Share based payment reserve	Total equity, attributable to owners of the Company
	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2020	108,416	(79,185)	938	30,169
Total comprehensive income for the period	-	8,141	-	8,141
Shares acquired for employee incentive scheme	(130)	-	-	(130)
Transactions with owners, recorded directly in equity	(130)	-	-	(130)
Balance at 31 December 2020	108,286	(71,044)	938	38,180
Balance at 30 June 2019 ¹	108,416	(78,387)	819	30,848
Adjustment on initial application of AASB 16 (net of tax)	-	(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
Transactions with owners, recorded directly in equity	-	-	39	39
Balance at 31 December 2019	108,416	(80,886)	858	28,388

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.

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 2020

	December 2020 \$'000	December 2019 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	59,385	53,437
Receipts from government grant	3,231	-
Payments to suppliers and employees	(51,879)	(46,952)
Interest paid	(870)	(915)
Interest received	69	40
NET CASH INFLOW FROM OPERATING ACTIVITIES	9,936	5,610
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment ¹	50	-
Proceeds from disposal of intangibles ¹	1,804	-
Purchase of property, plant and equipment	(134)	(2,055)
Purchase of intangibles	(1,684)	(3,833)
Loans granted ¹	(794)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(758)	(5,888)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment for lease liabilities	(1,818)	(1,924)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(1,818)	(1,924)
Net increase/(decrease) in cash and cash equivalents	7,360	(2,202)
Cash and cash equivalents at the beginning of the financial year	17,273	10,289
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	24,633	8,087

¹ The Consolidated Entity sold the property, plant and equipment and rent roll of Parramatta for a total consideration of \$1.854 million, of which \$0.794 million is being vendor financed.

The condensed 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 2020

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 2020 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 2020 to 31 December 2020. The comparative information presented in the interim financial statements represents the financial position of the Consolidated Entity as at 30 June 2020 and the Consolidated Entity's performance for the period from 1 July 2019 to 31 December 2019.

Accounting policies of the Consolidated Entity are set out in Note 8 or in the note to which they relate. The half year financial report does not include all notes of the type normally included within an Annual Financial Report. As a result this half year financial report should be read in conjunction with the 30 June 2020 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rule.

2 Events subsequent to reporting date

An interim fully franked dividend of 0.5 cents per share was declared on 22 February 2021 with a record date of 2 March 2021 and a payment date of 23 March 2021, totalling \$834,250. The financial effect of the interim dividend has not been provided for in the half year financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2021.

At the date of approving the financial statements there remains uncertainty caused by the impact of the COVID-19 pandemic. The directors have considered developments since 31 December 2020 and are of the view that there is no material change to assumptions in the financial statements.

There has been no other item, transaction or event which has arisen in the interval between 31 December 2020 and the date of this report which would significantly affect 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.

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 2020	December 2019
	\$'000	\$'000
Company owned sales commission and fees	38,750	31,125
Company owned property management fees	10,074	10,123
Franchise service fees	5,778	4,615
Other revenue	2,164	3,041
Total revenue	56,766	48,904

4 Other Income

	December 2020	December 2019
	\$'000	\$'000
Government Grants	2,094	-
Gain on sale from disposal of intangible asset	1,919	-
	4,013	-

The Government Grants recognised in current period relates to the JobKeeper subsidy for the period 1 July 2020 to 27 September 2020, in response to the COVID-19 pandemic.

The profit from disposal of assets relates to the sale of property management rights and property, plant and equipment of Parramatta from a company owned office to a franchise office.

5 Operating segments

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

	Company owned Sales ¹	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
Half year ended 31 December 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	38,750	10,074	5,778	54,602	2,164	56,766
Segment profit before interest, tax, depreciation and amortisation	9,192	4,053	3,420	16,665	657	17,322
Gain on sale from disposal of intangible asset						1,919
Unallocated corporate costs						(5,726)
EBITDA						13,515
Depreciation and amortisation	(1,916)	(1,321)	(25)	(3,262)	(469)	(3,731)
Finance costs	(613)	(74)	(9)	(696)	(146)	(842)
Unallocated corporate depreciation and amortisation						(287)
Unallocated corporate net finance income						42
Profit before income tax						8,697

	Company owned Sales ¹	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
Half year ended 31 December 2019	\$'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)

¹The Company owned Sales revenue from external customers includes sales and project commissions of \$27.8 million (31 December 2019: \$21.2 million) and \$10.9 million in marketing revenue (31 December 2019: \$9.9 million).

6 Taxation

	December 2020 \$'000	December 2019 \$'000
Income tax expense		
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	1,116	808
Adjustments in respect of deferred tax of previous years	(6)	(10)
Carried forward tax losses recognised	(554)	-
	<u>556</u>	<u>798</u>
Total income tax expense	<u>556</u>	<u>798</u>
<i>Reconciliation of income tax expense</i>		
Profit/(Loss) before tax	8,697	(182)
At the statutory income tax rate of 30% (2019: 30%)	2,609	(55)
Adjustments in respect of previous years income tax	3	(10)
Non assessable income	(67)	-
Tax losses not recognised	-	803
Carried forward losses recognised	(2,075)	-
Non deductible expenses:		
Other	86	60
Income tax expense	<u>556</u>	<u>798</u>

Tax losses

For the year ended 30 June 2020 the Consolidated Entity had \$0.9 million of tax effected capital losses where no deferred tax asset was recognised. The Consolidated Entity has assessed that the carried forward capital tax losses no longer satisfy the relevant statutory tests and are not available to offset against future capital gains.

The Consolidated Entity has tax effected income tax losses totalling \$2.3 million (30 June 2020: \$4.4 million) where no deferred tax asset is recognised on the consolidated statement of financial position which are available for offset against future taxable income.

7 Intangible assets

	Property Management Rights \$'000	Software \$'000	Total \$'000
Consolidated Entity, half year ended 31 December 2020			
At 1 July 2020	13,432	2,421	15,853
Additions	1,271	267	1,538
Amortisation charge for the period	(1,119)	(216)	(1,335)
Transfer of asset classified as held for sale	108	-	108
At 31 December 2020	<u>13,692</u>	<u>2,472</u>	<u>16,164</u>

During the half year, the Consolidated Entity acquired one rent roll in NSW totalling \$1.3 million. The software additions include \$0.2 million on McGrath's website.

8 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 2020 ('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 2020 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 22 February 2021.

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.

(c) New and amended standards adopted

A number of other new or amended standards became effective from 1 January 2020 but they do not have a material effect on the Consolidated Entity's financial statements for the reporting period.

- (i) AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business;
- (ii) AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material;
- (iii) AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework;
- (iv) AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform Phase 1;
- (v) AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia; and
- (vi) AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions.

Directors' Declaration for the Half Year Ended 31 December 2020

In the opinion of the directors of McGrath Limited:

(a) the condensed consolidated financial statements and notes set out on pages 8-16 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 2020 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
22 February 2021



Independent Auditor's Review Report

To the shareholders of McGrath Limited

Conclusion

We have reviewed the accompanying **Interim Financial Report** of McGrath Limited.

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Consolidated Entity's** financial position as at 31 December 2020 and of its performance for the Half-Year 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 2020.
- 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 Half-Year ended on that date.
- Notes 1 to 8 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 Half-Year's end or from time to time during the Half-Year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



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 Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Consolidated entity's financial position as at 31 December 2020 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim 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.

KPMG

Karen Hopkins
Partner

Sydney
22 February 2021

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

Shane Smollen

Non-executive Director

John McGrath

Executive Director

CHIEF EXECUTIVE OFFICER

Edward Law

CHIEF FINANCIAL OFFICER

Howard Herman

COMPANY SECRETARY

Phil Mackey

REGISTERED OFFICE

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