McGrath Limited and Controlled Entities
ACN 608 153 779

Interim Financial Report
for the Half Year Ending 31 December 2021

McGrath Limited and Controlled Entities

A.C.N. 608 153 779

Interim Financial Report
For the half year ended 31 December 2021

Interim Financial Report

Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

Directors' Report

The Directors present their Financial Report for the half year ended 31 December 2021. The half year report comprises the results of McGrath Limited (the Company or McGrath) and the subsidiaries (the Consolidated Entity or the Group) 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 3-7 of this Interim Financial Report.

The Consolidated Entity profit after providing for income tax for the half year ended 31 December 2021 amounted to $6,907,000 (2020: $8,141,000).

Directors

The following persons were Directors of McGrath Limited during the half year ended 31 December 2021:

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

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.
Member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Mr. John McGrath
Executive Director.

Dividends

Dividends totalling $1,668,500 were declared and paid during the half year period (2020: $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 and a special fully franked dividend of 1.0 cents per share and 1.5 cents per share respectively was declared on 21 February 2022 with a record date of 1 March 2022 and a payment date of 23 March 2022, totalling $4,171,250.

The financial effect of the interim and special 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 2022.

The board has assessed that given level of cash reserves, the limited acceptable investment opportunities and the Company's current share price the Company have announced on 21 February 2022 an on-market Share Buy-Back program, allocating up to $2.5 million for the buyback under the program.

As part of the corporate strategy the Consolidated Entity entered into a strategic partnership and investment in insuretech company, Honey Insurance Pty Limited (Honey) on 27 January 2022. The Honey investment entails an investment of $6.5 million in Honey through a convertible note with a maturity date of 31 December 2023 which at Honey's next qualifying raise will convert to equity at a discount to the then current market value of Honey, or at maturity, at McGrath's option, is either redeemable or converts to equity. The partnership entails a referral partnership agreement for Honey insurance products.

On 28 January 2022 Juliana Nguyen was appointed as an independent non-executive director and on 18 February 2022 Andrew Robinson retired from his position as an independent non-executive director.

Eddie Law has resigned as CEO of the Group on 1 February 2022. He will continue to remain in the role and serve out his six month notice period.

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 2021 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 2021 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 8.

Signed in accordance with a resolution of the Directors.

Peter Lewis
Chair
21 February 2022

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, 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 and investments: The Consolidated Entity also has a number of other services and investments which complement the service offerings of the segments above. These include:
• Auction service group generates earnings based on a fixed fee per auction;
• Training services organise a number of Australian residential real estate conferences and receives revenue from fees paid by attendees, exhibitors and sponsors; and
• 45% investment in the mortgage broking business, Oxygen Investment Pty Limited.

Office locations

As at 31 December 2021 the network comprised 28 Company owned offices and 79 Franchise offices. The spread of offices is across the Eastern seaboard as seen in the graphic in Figure 1 below. There was a zero net movement in offices in the six months since 30 June 2021 with 2 openings, 1 transfer from Company owned to Franchise services and 2 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.

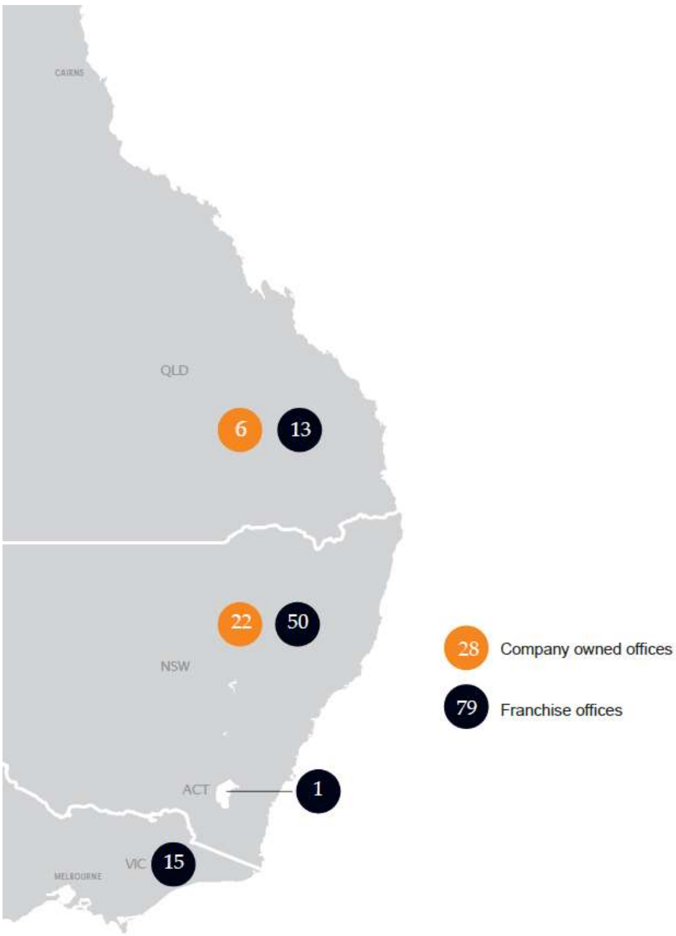

Figure 1: McGrath office Network

Income Statement

To assist in the interpretation of the performance of the Consolidated Entity, the information below shows the reconciliation of the statutory and underlying revenue and profit after income tax (NPAT).

	Dec 2021	Dec 2020
	$'000	$'000
Statutory revenue	**59,369**	**56,766**
Less change in commission structure	-	(5,299)
Underlying revenue	**59,369**	**51,467**
Statutory profit before income tax	9,460	8,697
Income tax expense	(2,553)	(556)
Statutory profit after income tax	**6,907**	**8,141**
Less Government Grant	-	(2,094)
Less gain on disposal of intangible asset	(447)	(1,919)
Add AASB 16 Leases impact	149	272
Add income tax expense	89	-
Underlying profit after income tax	**6,698**	**4,400**

The reconciling items adjust for the change in the agent commission structure, Government Grants received, gain on sale of Company owned office to franchise office and the adoption of the lease accounting standards, AASB 16 Leases, adopted from 1 July 2019.

Prior year underlying revenue has been adjusted to reflect the impact of the new agent remuneration structure to enable better comparison to current period results. Under the new package, introduced on 1 July 2021 to retain and attract top agent talent, agents are entitled to receive all commissions at settlement, instead of a proportion being payable at a later date. Assuming this revised remuneration structure was in operation in 2020, revenue and cost of sales would have been reduced by $5.299 million.
The underlying revenue has increased by $7.902 million from $51.467 million to $59.369 million, an increase of 15.3% on HY21.

The statutory NPAT has decreased by $1.234 million. This is partially due to the recognition of carried forward tax losses which were not previously recognised in the six months ending 31 December 2020. In addition, after adjusting for reconciling items of Government Grant, gain on disposal of company owned office to franchise office and the adoption of AASB 16 Leases, underlying NPAT increased by $2.298 million from $4.400 million to $6.698 million. Further detail to the reconciling items can be seen in the following table.

The information below shows the statutory EBITDA of $14.047 million to underlying EBITDA of $10.580 million. The reconciling items below adjust for the impact of the gain on sale of the Rouse Hill Company owned office to a franchise office and the adoption of the leasing accounting standards, AASB 16 Leases, adopted from 1 July 2019.

	Statutory Dec 2021	Reconciling amounts	Underlying Dec 2021	Underlying Dec 2020
	$'000	$'000	$'000	$'000
Revenue[1]	59,369	-	59,369	51,467
Other income	447	(447)	-	-
Cost of sales[1]	(23,232)	-	(23,232)	(18,572)
Gross profit	**36,584**	**(447)**	**36,137**	**32,895**
Share of profit of an associate	68	-	68	-
Employee benefits expenses	(14,368)	-	(14,368)	(15,183)
Other expenses	(8,237)	(3,020)	(11,257)	(11,078)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**14,047**	**(3,467)**	**10,580**	**6,634**
Depreciation and amortisation	(3,952)	2,394	(1,558)	(1,709)
Earnings before interest and tax (EBIT)	**10,095**	**(1,073)**	**9,022**	**4,925**
Net finance (expense)/income	(635)	775	140	31
Profit before income tax	**9,460**	**(298)**	**9,162**	**4,956**
Income tax expense	(2,553)	89	(2,464)	(556)
Profit after income tax expense	**6,907**	**(209)**	**6,698**	**4,400**
Basic earnings per share (cents)	4.19	(0.12)	4.07	2.64

[1] Due to the new company owned sales agent remuneration package, which was introduced on 1 July 2021, for comparative purposes prior year underlying revenue has been restated from $56.766 million to $51.467 million and prior year underlying cost of sales has been restated from $23.871 million to $18.572 million, with gross profit remaining unchanged.

Note: The underlying profit numbers presented above are a non-IFRS measure and was not subject to review.

During the half year the Consolidated Entity sold the assets and rent roll of the Rouse Hill company owned office to a franchise office. Consequently, a gain on sale of $447 thousand has been recognised as other income.

The impact of AASB 16 Leases resulted in a decrease of $149 thousand to profit before income tax to the half year ending 31 December 2021, due to $2.394 million of depreciation expenses and $775 thousand of interest expenses being recognised in the statutory accounts and excluding $3.020 million to occupancy and communication expenses.

Segment revenue and EBITDA

There are no reconciling amounts between Statutory and Underlying Revenue in the half year ended 31 December 2021.

Segment EBITDA has been impacted as detailed below.

The application of AASB 16 Leases has impacted EBITDA by $3.020 million which has been allocated across all segments with company owned sales being impacted by $2.254 million and the other operating segments being jointly impacted by $0.766 million. The $447 thousand gain on sale of the assets and rent roll is included in the Corporate EBITDA reconciling amount.

	Statutory December 2021 $'000	Reconciling amounts $'000	Underlying December 2021 $'000	Underlying December 2020 $'000
Revenue		-		
Company owned sales[1]	38,406	-	38,406	33,451
Company owned property management	9,628	-	9,628	10,074
Franchise services	8,962	-	8,962	5,778
Other operating segments	2,373	-	2,373	2,164
Total Revenue	**59,369**	**-**	**59,369**	**51,467**
EBITDA				
Company owned sales	10,838	(2,256)	8,582	6,451
Company owned property management	2,791	(234)	2,557	3,040
Franchise services	5,335	(50)	5,285	3,320
Other operating segments	353	(462)	(109)	(90)
Unallocated corporate	(5,270)	(465)	(5,735)	(6,087)
Total EBITDA	**14,047**	**(3,467)**	**10,580**	**6,634**

[1] Underlying prior year company owned sales revenue has been restated for comparative purposes from $38.750 million to $33.451 million to reflect the new agent remuneration package which was introduced on 1 July 2021.

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 HY22 are excluding the impact of adoption of AASB 16 and gain on sale of the Rouse Hill office and rent roll.

Company Owned Sales and Project Marketing

Company owned sales were the major contributor to the overall improvement in earnings for HY22 assisted by a 27% increase in the average sales price, resulting in segment EBITDA of $8.6 million, up on the HY21 by $2.1 million.

There was $4.3 billion in sales value from 2,111 sales in HY22 compared to $3.3 billion and 2,091 sales in HY21.

In the past 6 months, Rouse Hill office transferred from Company owned to Franchise services.

Company owned property management

Properties under management marginally decreased by 1.6% from HY21 to 7,960 at HY22 (HY21: 8,090). The segment generated $2.6 million EBITDA, a 15.9% decrease on HY21, adversely impacted by the sale of Rouse Hill rent rolls during the year and the sale of Blacktown in FY21.

Franchise services

Our franchise services generated an EBITDA of $5.3 million, up 59% on prior year. The increase was assisted by a 28% increase in average selling price together with a 18% increase in properties exchanged during the year (HY22: 5,686 and HY21: 4,808).

Over the past 6 months, there has been 2 new office openings, 2 office closure and 1 office transfer from Company owned to Franchise services.

Other Operating Segments

Other operating segments comprise Auction Services, TRET, Oxygen Home Loans, 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.

Auction Services
Auction Services provides auctioneers to the Company owned and Franchise segments. There were 3,508 auctions booked in HY22 (HY21: 2,532) representing 42% of all properties listed.

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, attracts real estate talent Australia wide.

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. 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 2021 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

Hopkins

Karen Hopkins
Partner

Sydney
21 February 2022

Condensed Consolidated Interim Financial Statements

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2021

	Notes	December 2021 $'000	December 2020 $'000
Revenue	3	59,369	56,766
Other income	4	447	4,013
Cost of sales		(23,232)	(23,871)
Share of profit of an associate		68	-
Employee benefits expenses		(14,368)	(15,183)
Directors' fees		(196)	(165)
Professional fees		(888)	(1,102)
Doubtful debts		(376)	(376)
Occupancy		(780)	(1,047)
IT expenses		(2,236)	(2,386)
Communications		(431)	(727)
Advertising and promotions		(1,346)	(929)
Other expenses		(1,984)	(1,478)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**14,047**	**13,515**
Depreciation and amortisation expenses		(3,952)	(4,018)
Finance income		152	69
Finance costs		(787)	(869)
Net finance costs		(635)	(800)
Profit before income tax		**9,460**	**8,697**
Income tax expense	6	(2,553)	(556)
Profit after income tax expense		**6,907**	**8,141**
Total comprehensive income attributable to owners of the Company		**6,907**	**8,141**
Basic earnings per share (cents)		4.19	4.88
Diluted earnings per share (cents)		4.07	4.73

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 2021

	Notes	December 2021 $'000	June 2021 $'000
CURRENT ASSETS			
Cash and cash equivalents		41,322	35,775
Trade and other receivables		20,120	20,130
Other assets		2,259	2,433
TOTAL CURRENT ASSETS		63,701	58,338
NON CURRENT ASSETS			
Trade and other receivables		3,215	3,867
Property, plant and equipment		3,186	3,238
Right-of-use assets	8	16,026	20,232
Intangible assets	7	15,059	14,221
Investment in an associate		1,771	1,703
TOTAL NON CURRENT ASSETS		39,257	43,261
TOTAL ASSETS		102,958	101,599
CURRENT LIABILITIES			
Trade and other payables		24,304	23,650
Lease liabilities	8	4,747	4,759
Current tax liabilities		1,747	-
Provisions		2,739	2,955
TOTAL CURRENT LIABILITIES		33,537	31,364
NON CURRENT LIABILITIES			
Trade and other payables		311	497
Lease liabilities	8	14,660	18,861
Provisions		1,727	1,725
Deferred tax liabilities		1,892	1,252
TOTAL NON CURRENT LIABILITIES		18,590	22,335
TOTAL LIABILITIES		52,127	53,699
NET ASSETS		50,831	47,900
EQUITY			
Contributed equity		105,814	108,030
Share based payment reserve		1,414	1,429
Profits Reserve		16,539	18,207
Accumulated losses		(72,936)	(79,766)
TOTAL EQUITY		50,831	47,900

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 2021

	Notes	Contributed equity	Accumulated losses	Profit reserve	Share based payment reserve	Total equity, attributable to owners of the Company
		$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2021		108,030	(79,766)	18,207	1,429	47,900
Profit after income tax expense		-	6,907	-	-	6,907
Share based payment transactions		-	-	-	122	122
Shares acquired for employee incentive scheme		(2,430)	-	-	-	(2,430)
Vesting of employee incentives scheme[1]		214	(77)	-	(137)	-
Dividends	9	-	-	(1,668)	-	(1,668)
Transactions with owners, recorded directly in equity		(2,216)	(77)	(1,668)	(15)	(3,976)
Balance at 31 December 2021		105,814	(72,936)	16,539	1,414	50,831
Balance at 30 June 2020		108,416	(79,185)	-	938	30,169
Change in accounting policy[2]		-	(581)	-	-	(581)
Adjusted balance at 1 July 2020		108,416	(79,766)	-	938	29,588
Profit after income tax expense		-	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	(71,625)	-	938	37,599

[1] In September 2021 the FY19 Equity Incentive Plan vested as conditions were met and 472,170 shares were issued to qualifying employees.

[2] The Consolidated Entity has changed its accounting policy in line with IFRIC agenda decisions - Software as a Service (SaaS) arrangement costs at 30 June 2021, with the cumulative retrospective adjustment booked in opening retained earnings at 1 July 2020. The impact of this change to the profit and loss for the comparative period to 31 December 2020 is not material and has therefore not been restated.

The 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 2021

	Notes	December 2021	December 2020
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		65,925	59,385
Receipts from other income		-	3,231
Payments to suppliers and employees		(51,132)	(51,879)
Interest paid		(787)	(870)
Interest received		152	69
NET CASH INFLOW FROM OPERATING ACTIVITIES		14,158	9,936
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		-	50
Proceeds from disposal of intangible assets		530	1,804
Purchase of property, plant and equipment		(357)	(134)
Purchase of intangibles	7	(2,205)	(1,684)
Loans granted		(599)	(794)
Loan repayments received		518	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(2,113)	(758)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for lease liabilities		(2,400)	(1,818)
Payment for treasury shares		(2,430)	-
Dividends paid	9	(1,668)	-
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(6,498)	(1,818)
Net increase in cash and cash equivalents		5,547	7,360
Cash and cash equivalents at the beginning of the financial year		35,775	17,273
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		41,322	24,633

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 2021

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 2021 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 2021 to 31 December 2021. The comparative information presented in the interim financial statements represents the financial position of the Consolidated Entity as at 30 June 2021 and the Consolidated Entity’s performance for the period from 1 July 2020 to 31 December 2020.

Accounting policies of the Consolidated Entity are set out in Note 12 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 2021 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

Subsequent to the reporting date, an interim and special fully franked dividend of 1.0 cents per share and 1.5 cents per share respectively was declared on 21 February 2022 with a record date of 1 March 2022 and a payment date of 23 March 2022, totalling $4,171,250. The financial effect of the interim and special 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 2022.

The board has assessed that given the level of cash reserves, the limited acceptable investment opportunities and the Company’s current share price the Company have announced on 21 February 2022 an on-market Share Buy-Back program, allocating up to $2.5 million for the buyback under the program.

As part of the corporate strategy the Consolidated Entity entered into a strategic partnership and investment in insuretech company, Honey Insurance Pty Limited (Honey) on 27 January 2022. The Honey investment entails an investment of $6.5 million in Honey through a convertible note with a maturity date of 31 December 2023 which at Honey’s next qualifying raise will convert to equity at a discount to the then current market value of Honey, or at maturity, at McGrath’s option, is either redeemable or converts to equity. The partnership entails a referral partnership agreement for Honey insurance products.

On 28 January 2022 Juliana Nguyen was appointed as an independent non-executive director and on 18 February 2022 Andrew Robinson retired from his position as an independent non-executive director.

Eddie Law has resigned as CEO of the Group on 1 February 2022. He will continue to remain in the role and serve out his six month notice period.

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 2021 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 2021 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 2021	December 2020
	$'000	$'000
Company owned sales commission and fees	38,406	38,750
Company owned property management fees	9,628	10,074
Franchise service fees	8,962	5,778
Other revenue	2,373	2,164
Total revenue	59,369	56,766

4 Other income

	December 2021	December 2020
	$'000	$'000
Government Grants	-	2,094
Gain on sale from disposal of intangible asset	447	1,919
	447	4,013

The gain on sale from disposal of intangible assets in the half year ended 31 December 2021 relates to the sale of property management rights and property, plant and equipment of Rouse Hill office 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.

Half year ended 31 December 2021	Company owned sales[1]	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	**38,406**	**9,628**	**8,962**	**56,996**	**2,373**	**59,369**
Segment profit before interest, tax, depreciation and amortisation	**10,838**	**2,791**	**5,335**	**18,964**	**353**	**19,317**
Gain on sale from disposal of intangible asset						**447**
Unallocated corporate costs						**(5,717)**
EBITDA						**14,047**
Depreciation and amortisation	(2,072)	(1,058)	(40)	(3,170)	(414)	(3,584)
Finance costs	(574)	(62)	(14)	(650)	(125)	(775)
Unallocated corporate depreciation and amortisation						(368)
Unallocated corporate net finance income						140
Profit before income tax						**9,460**

Half year ended 31 December 2020	Company owned sales[1]	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
	$'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**

[1] The Company owned sales revenue from external customers includes sales and project commissions of $26.7 million (31 December 2020: $27.8 million) and $11.7 million in marketing revenue (31 December 2020: $10.9 million).

6 Taxation

The major components of the income tax expense in the interim condensed consolidated statement of profit or loss are presented below.

Income tax expense	**December 2021 $'000**	**December 2020 $'000**
Current tax expense		
Current year	1,913	-
	1,913	-
Deferred tax expense		
Origination and reversal of temporary differences	712	1,116
Adjustments in respect of deferred tax of previous years	(72)	(6)
Carried forward tax losses recognised	-	(554)
	640	556
Total income tax expense	2,553	556
Reconciliation of income tax expense		
Profit before tax	9,460	8,697
At the statutory income tax rate of 30% (2020: 30%)	2,838	2,609
Adjustments in respect of previous years income tax	(72)	3
Non assessable income	-	(67)
Carried forward losses recognised	-	(2,075)
Non deductible expenses	99	86
Shares acquired for employee incentive scheme	(312)	-
Income tax expense	2,553	556

7 Intangible assets

	Property Management Rights $'000	**Software $'000**	**Total $'000**
Consolidated Entity, half year ended 31 December 2021			
At 1 July 2021	12,351	1,870	14,221
Additions	2,149	56	2,205
Amortisation charge for the period	(870)	(278)	(1,148)
Disposals	(219)	-	(219)
At 31 December 2021	13,411	1,648	15,059

During the half year ended 31 December 2021, the Consolidated Entity acquired one rent roll in NSW totalling $2.1 million and disposed of $219 thousand property management rights of Rouse Hill to a franchisee.

8 Leases

Right-of-use assets	Property	Equipment	Total
	$'000	$'000	$'000
Consolidated Entity, half year ended 31 December 2021			
At 1 July 2021	18,875	1,357	20,232
Additions	570	-	570
Remeasurement	(2,383)	-	(2,383)
Depreciation charge for the period	(2,161)	(232)	(2,393)
At 31 December 2021	14,901	1,125	16,026

Lease liabilities	Property	Equipment	Total
	$'000	$'000	$'000
Consolidated Entity, half year ended 31 December 2021			
At 1 July 2021	22,236	1,384	23,620
Additions	570	-	570
Remeasurement	(2,383)	-	(2,383)
Payments	(2,927)	(248)	(3,175)
Interest expense	755	20	775
At 31 December 2021	18,251	1,156	19,407
Current	4,220	527	4,747
Non current	14,031	629	14,660
At 31 December 2021	18,251	1,156	19,407

During the six months ended 31 December 2021 the Consolidated Entity has entered into a new office premise lease contract. The Consolidated Entity has applied judgement to determine the lease term for lease contracts which include renewal options and has remeasured several right-of-use assets and associated lease liabilities to align with business needs and due to negotiations by management.

9 Dividends paid and proposed

	December 2021	December 2020
	$'000	$'000
Dividends declared and paid:		
Final fully franked dividend for 2021: 1.0¢ (2020: nil¢) paid September 2021	1,668	-
	1,668	-

Subsequent to the reporting date, an interim and a special fully franked dividend of 1.0 cents per share and 1.5 cents per share respectively was declared on 21 February 2022 with a record date of 1 March 2022 and a payment date of 23 March 2022, totalling $4,171,250. The financial effect of the interim and special 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 2022.

10 Contingent liabilities

	December 2021	June 2021
	$'000	$'000
Bank guarantees issued in regard to operating leases	2,039	2,013
Bank guarantee issued in regard to a franchisee agreement	1,041	1,056
	3,080	3,069

11 Related party transactions

(a) Parent company and its subsidiaries

A number of subsidiaries within the Consolidated Entity enter into related party transactions. These transactions are conducted in the normal course of business and under arms-length terms and conditions. These related party transactions eliminate on consolidation at the consolidated entity level.

(b) Key management personnel related party transactions

Several key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted in conjunction with the Consolidated Entity in the reporting period or prior period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

During the six month period ended 31 December 2021, 2,244,000 treasury shares totalling $1.405 million were purchased from AL Capital Holdings Pty Ltd as trustee for the AL Capital No 1 Unit Trust by the Consolidated Entity to satisfy future share issuances under the McGrath Equity Incentive Plan. These shares are being held in trust until vesting date.

Apart from the above, the total value of transactions related to key management personnel and entities over which they have control or significant influence are minor and insignificant in amount and nature. As at 31 December 2021 there were no outstanding balances owed to and owed by related parties.

12 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 2021 ('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 2021 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 21 February 2022.

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 a number of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and are assessed on an continual basis.

The Company has applied significant judgement and estimates, including any impact of the COVID-19 pandemic to provision of doubtful debt, going concern, assessment of impairment of assets and financial risk management.

The Company has used key assumption including the effect of uncertainties related to the COVID-19 pandemic in its assessment of future trends in real estate.

(c) New and amended standards adopted

A number of other new or amended standards and interpretations became effective from 1 January 2021 but they do not have a material effect on the Consolidated Entity's financial statements for the reporting period.

(i) AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform Phase 2; and

(ii) AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions.

Directors' Declaration for the half year ended 31 December 2021

In the opinion of the directors of McGrath Limited:

(a) the condensed consolidated financial statements and notes set out on pages 9-18 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 2021 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
21 February 2022

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 2021 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 ***Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2021
- 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 12 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 these requirements.

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*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and 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 2021 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 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.

KPMG

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
21 February 2022

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 (retired 18 February 2022)

Wayne Mo
Non-executive Director

Shane Smollen
Non-executive Director

Juliana Nguyen
Independent Non-executive Director (appointed 28 January 2022)

John McGrath
Executive Director

CHIEF EXECUTIVE OFFICER
Eddie Law

CHIEF FINANCIAL OFFICER
Howard Herman

COMPANY SECRETARY
Phil Mackey

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