McGrath

ASX ANNOUNCEMENT

McGrath Posts Strong EBITDA result in FY22

22 August 2022 - McGrath Limited (ASX: MEA) today announced strong results for the 2022 financial year, within the guidance range provided in May 2022.

Results highlights:

- Underlying Revenue[1] of $112.4 million, a 1.3% increase from FY21
- Underlying EBITDA[2] of $19.1 million, a 7.9% increase from FY21
- Statutory Net Profit After Tax (NPAT) of $11.7 million
- Strong Balance sheet with $34.7 million cash and no debt
- Fully Franked Final Dividend of 1.0 cent per share declared.

McGrath has announced a $19.1 million underlying EBITDA for the 2022 financial year, compared with $17.7 million in the previous year. The underlying EBITDA result is within the guidance range provided at the company's trading update on 23rd May 2022.

The group posted a NPAT of $11.7 million, which is lower than 2021 (as previously flagged) due to one-off, significant items totaling approximately $7 million included in the previous corresponding period.

CEO and Managing Director, Mr John McGrath, said "We are very happy with the results as they reflect our focus on growing our market share and agent productivity – delivering greater value for our shareholders."

"However, the second half results were impacted by a range of external factors, including the Federal Election and a series of rapid rises in the cash rate by the Reserve Bank, which have resulted in higher mortgage rates."

"The property market is taking a much-needed and anticipated breather following its rapid growth phase and it is expected these headwinds to continue for the remainder of the FY23."

"However, we are implementing a range of initiatives to take advantage of the industry's consolidation, while focusing on our talent and technology to continue delivering superior results to our customers," he added.

McGrath is focused on rapidly growing its core business of quality agents and franchisees on the East Coast of Australia in markets where we are not yet represented. Most of the future growth will be in the form of franchise ownership which allows for rapid growth and leverage of brand and relationships with quality partners.

Mr McGrath said "We intend to retain a smaller number of our company owned offices and property management rent roll and will seek to sell a number of these offices to franchise ownership. The franchise model should also provide more predictable and stable levels of income. We have recently experienced great success and proven the strategy when a small number of our company owned offices were sold into franchise ownership structure and will assess each opportunity on its merits".

The company's strong financial position is also reflected in the balance sheet which shows no borrowings, $34.7 million in cash and $49.6 million worth of net assets, while the estimated value of its rent roll sits at approximately $50 million – approximately $37 million of which is not reflected on the balance sheet.

Chair of McGrath, Mr Peter Lewis said "Our strong balance sheet allows us to pursue a range of capital management initiatives, including an extension of our share buy-back program and payment of fully-franked dividends. We will also consider further capital management opportunities as we receive proceeds from the sale of some of the company owned offices and property management rent rolls."

The payment of 1.0 cent fully franked final dividend payable on the 20th September 2022 contributes to a FY22 total ordinary dividend of 2.0c per share payable, while a further $2.5 million will be allocated to the share buy-back program, in addition to the $2.5 million allocated in March 2022.

Mr McGrath concluded "Australia's property market is healthy and supported by strong fundamentals. We are in a strong financial position and have a great team who continue to provide superior service to our customers. However, the earnings trend we experienced in the second half of FY22 has continued in the first half of the current financial year."

"This strategic transition from company owned to more franchise offices should yield a significant release of capital with more predictable and sustainable, albeit lower, earnings. The challenging economic conditions make the timing of this strategic change even more imperative and is expected to see our first half underlying earnings for financial year 2023 materially lower than the previous corresponding period.

We will update the market as the year progresses."

Authorised for release by McGrath Board of Directors

[1] *For comparative purposes, prior year underlying Revenue has been adjusted to reflect the impact of the new agent remuneration structure to better enable 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 later. This has resulted in a $11.4m reduction prior year revenue.*

[2] *Pre-adoption of new AASB 16 Leasing standard and not including Government Grants and gain on sale of business*

For further information, please contact:

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About McGrath:
McGrath Limited (ASX: MEA) has grown to be an integrated real estate services business, offering agency sales, property management, mortgage broking and career training services. McGrath Estate Agents currently has 111 offices located throughout the East Coast of Australia. For further information, please visit www.mcgrath.com.au.