



McGrath Limited (ASX: MEA)

Results for the 6 months ended 31 December 2016

23 February 2017

1H17 – A SNAPSHOT

EBITDA DOWN
↓
37% TO
\$9.3M



COMPANY OWNED
LISTINGS
DOWN 20% ↓

MKT SHARE
↑ UP TO
3.6%²



OFFICES UP
↑
9 TO
96¹



REVENUE DOWN
↓
8% TO
\$67M

AGENT NUMBERS
↑ UP 6 TO
648¹

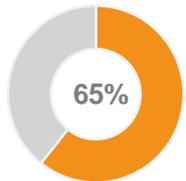
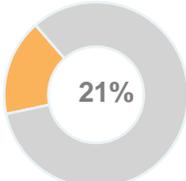
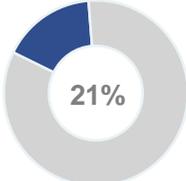
NPAT DOWN
↓
72% TO
\$2.4M³

CASH AT
BANK
\$5.3M

FULLY FRANKED
INTERIM DIVIDEND
1.0cps

Note: Financial performance above compares 1H17 pro forma vs 1H16 pro forma results 1. Comparison between 30 June 2016 and 31 December 2016 2. McGrath Management estimates based on published sales data where an agent was recorded in that data. Total market size by value derived from CoreLogic data, 12 months to 31 Dec 2016. 3. Includes impairment of software costs of \$2.2m (\$1.5m after tax)

BUSINESS OVERVIEW BY SEGMENT

	Company Owned		Franchise Services	Other ³
	Sales	Property Management		
FY17 H1 EBITDA Contribution / Margin	 <p>23% margin</p>	 <p>33% margin</p>	 <p>60% margin</p>	 <p>-16% margin</p>
Overview ¹	<ul style="list-style-type: none"> • 28 offices • 243 agents • 2,544 property sales • \$3.5 billion value of property sales • Generates revenue by charging the vendors of residential property a commission for successfully selling a property 	<ul style="list-style-type: none"> • 71 property managers • 7,498 properties under management (leased) • Churn rate of ~20.3%² • Generates revenue through management and leasing fees 	<ul style="list-style-type: none"> • 68 offices • 405 agents • 4,222 property sales • \$3.8 billion value of property sales • 23,102 properties under management • Partners with 41 franchise groups • Franchise fees are largely consistent across the network 	<ul style="list-style-type: none"> • 32 brokers settled 748 mortgages for a value of \$443 million • ~\$2.6 billion of loans under management • Mortgage broking generates up front and trailing revenue from each loan • McGrath Training organises and operates a number of industry leading residential real estate conferences in Australia • 45 exclusive auctioneers

Note: ¹ Data as at 31 December 2016 unless otherwise stated; ² Churn rate is defined as the total number of properties lost as a percentage of total properties managed each year and does not account for the addition of new properties ³ Incorporates the mortgage broking and training businesses

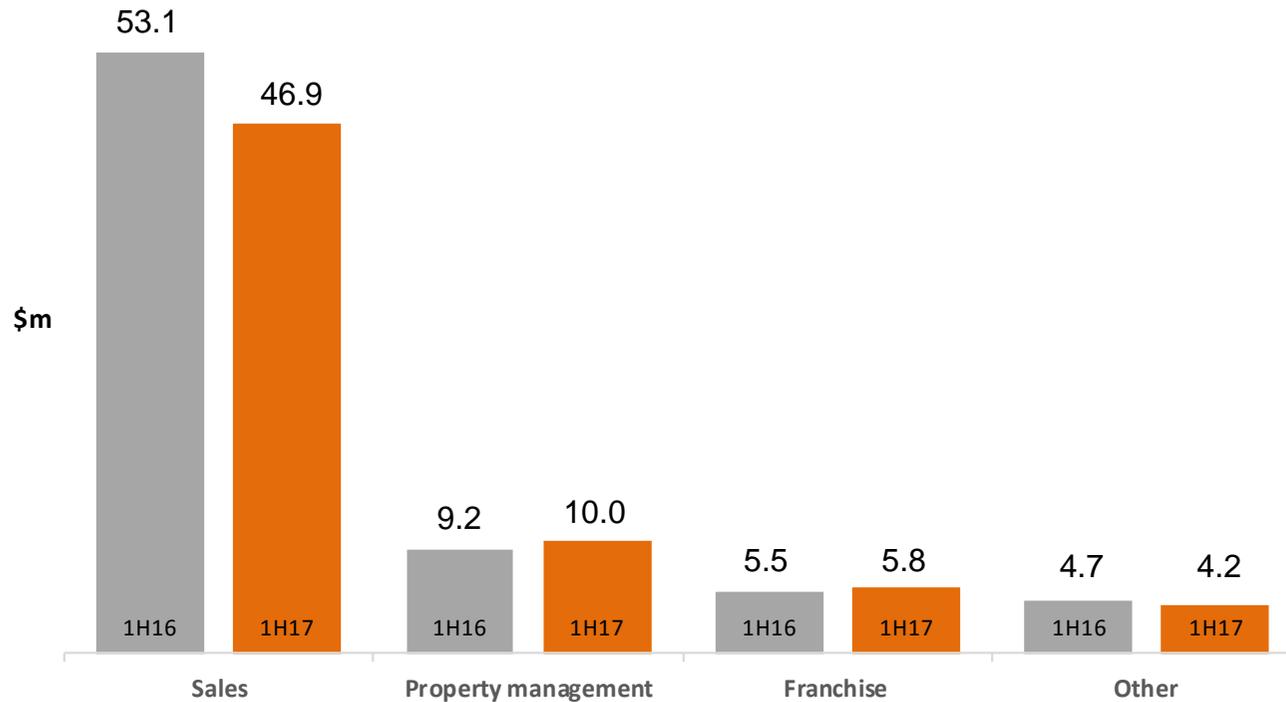
CHALLENGING OPERATING ENVIRONMENT

Pro forma

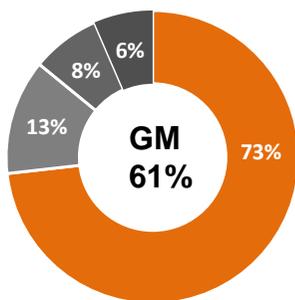
\$m	1H17	1H16	% Change
Revenue	66.9	72.5	(8%)
Gross Profit	41.9	44.0	(5%)
<i>Gross margin</i>	63%	61%	3%
EBITDA	9.3	14.7	(37%)
NPAT	2.4	8.5	(72%)
Dividend per share (cps)	1.0	N/A	
Cash	5.3	14.0	(63%)
Total assets	127.8	130.4	(1%)
Net assets	94.4	87.2	8%
Statutory:			
Operating cash flow	6.3	2.9	112%
Investing cash flow	(5.7)	(31.4)	82%
Financing cash flow	(7.8)	39.7	(120%)

- Sales EBITDA down \$5.9m
 - Listings down 20%
 - Lower agent numbers
 - Opened 3 offices
- Property management EBITDA up \$1.2m
 - Increase in PUMs
- Franchise EBITDA up \$0.1m
 - Opened 7 offices
- Impairment of software asset \$2.2m

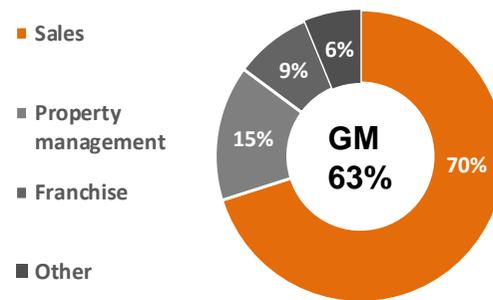
REVENUE BY SEGMENT



- Sales
 - Listings down 20%
 - Lower agent numbers
- Property Management
 - Increase in PUMs
- Franchise
 - Franchise fees up 14%
 - Grant fees down 59%
 - 4 grant fee signings vs 8 PCP

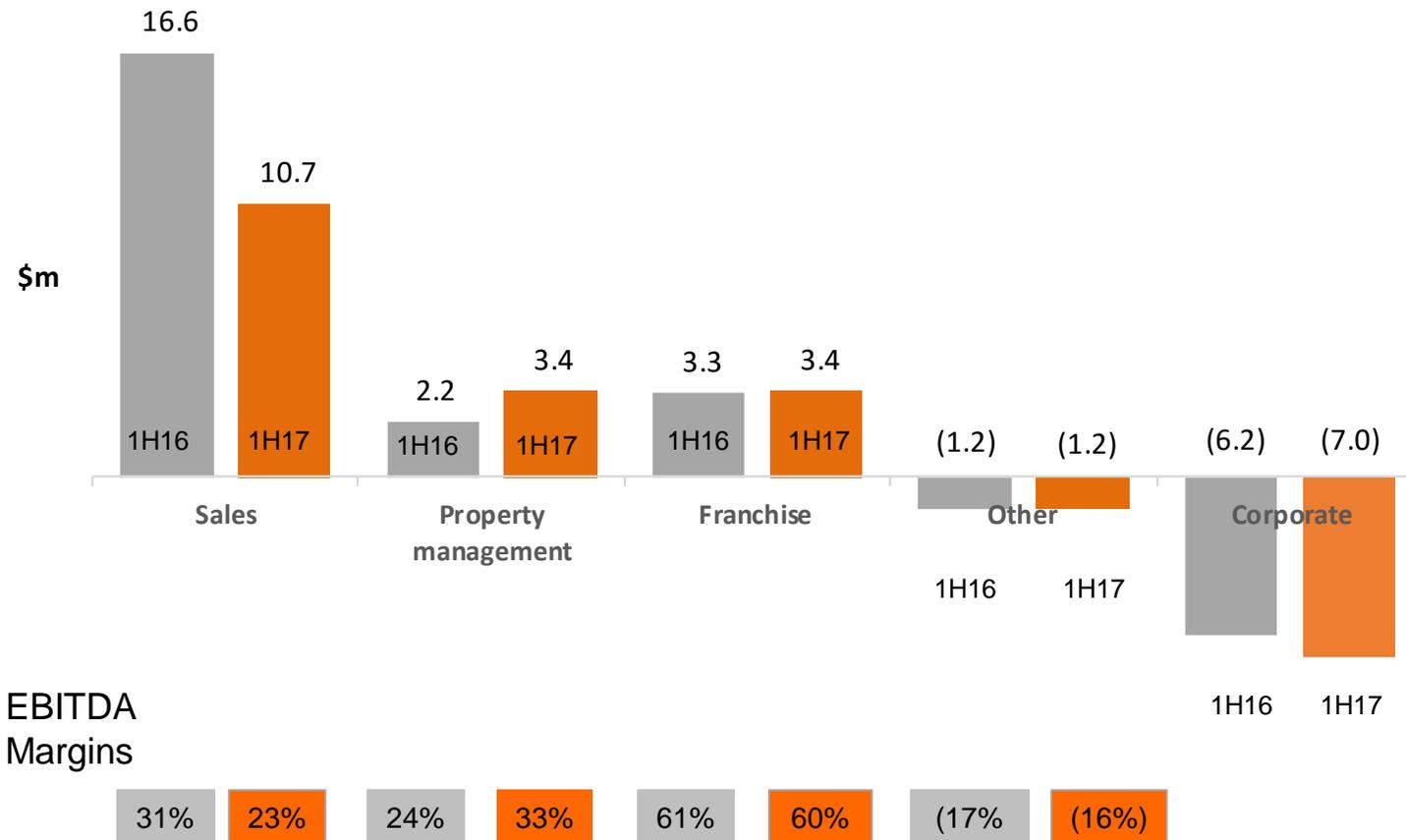


1H16



1H17

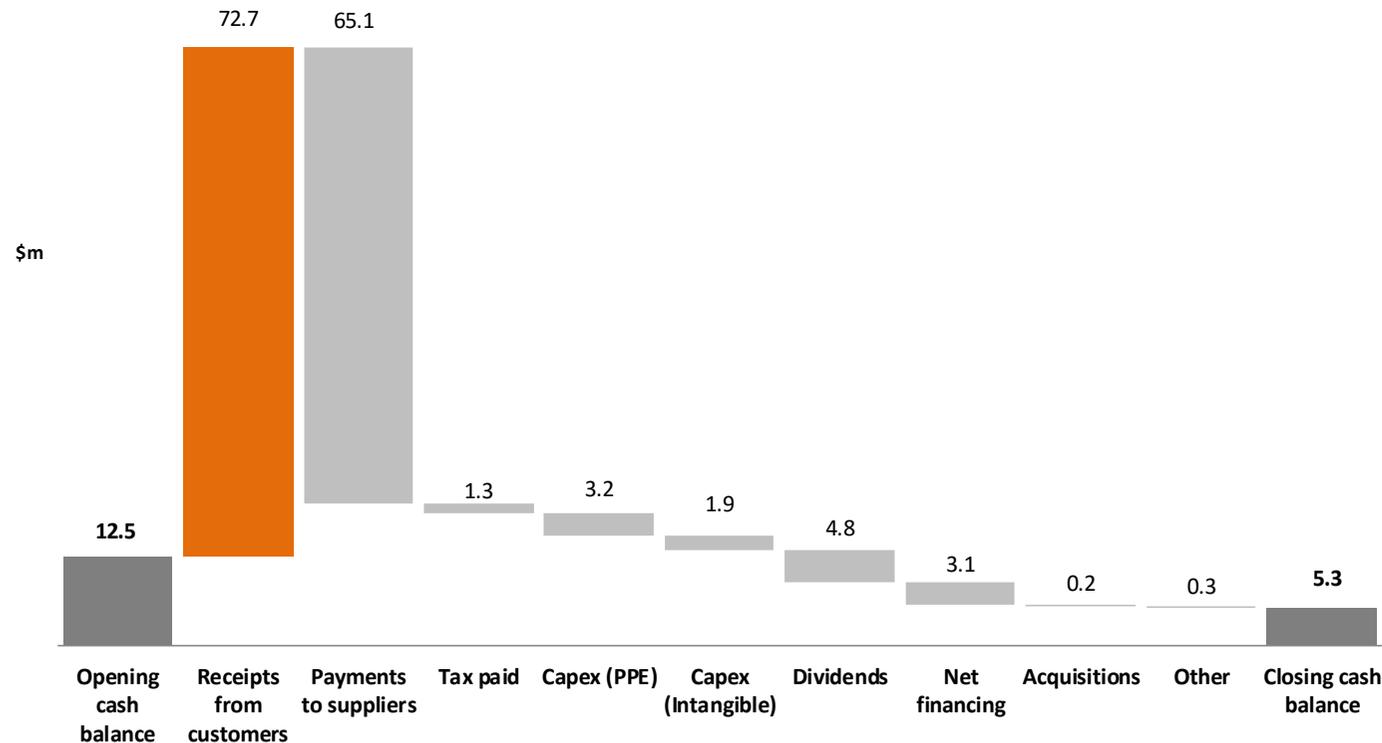
EBITDA BY SEGMENT



- Sales
 - 3 new offices in half
 - 5 new offices year on year
 - Higher opex
- Property Management
 - Focus on productivity and efficiencies
- Franchise
 - Growing network of offices
- Corporate
 - IT infrastructure costs

CASH FLOW WATERFALL

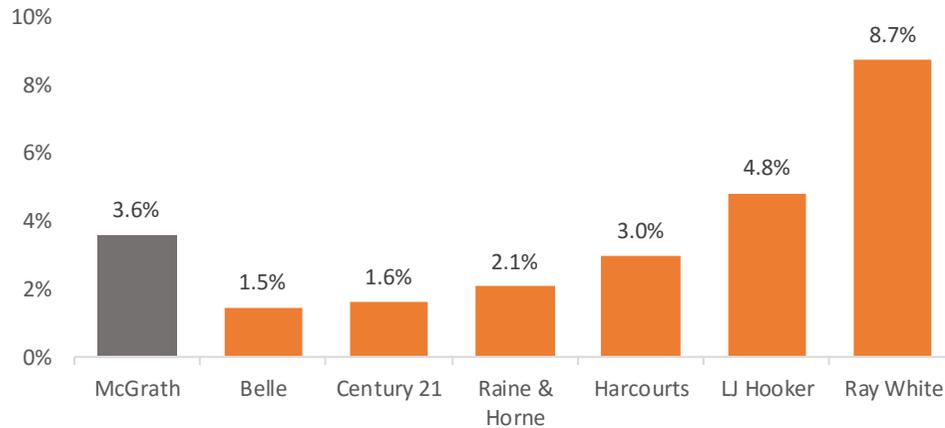
30 June 2016 to 31 December 2016



- Dividend payment
- Deferred consideration payment made to Smollen Group
- Capital expenditure on new offices, relocations and refurbishment
- IT software spend
 - MAP
 - Website
- IT program spend
 - Infrastructure refresh

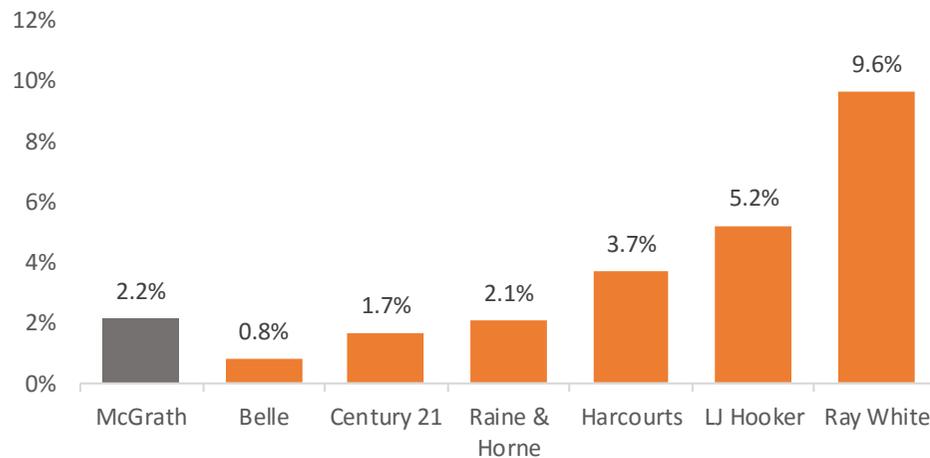
MCGRATH IS GROWING MARKET SHARE IN ALL MARKETS

Market share by sales value¹



- Market share increased nationally to 3.6%¹
- Increases in every state
- 9 offices now in Victoria²

Market share by sales volume¹

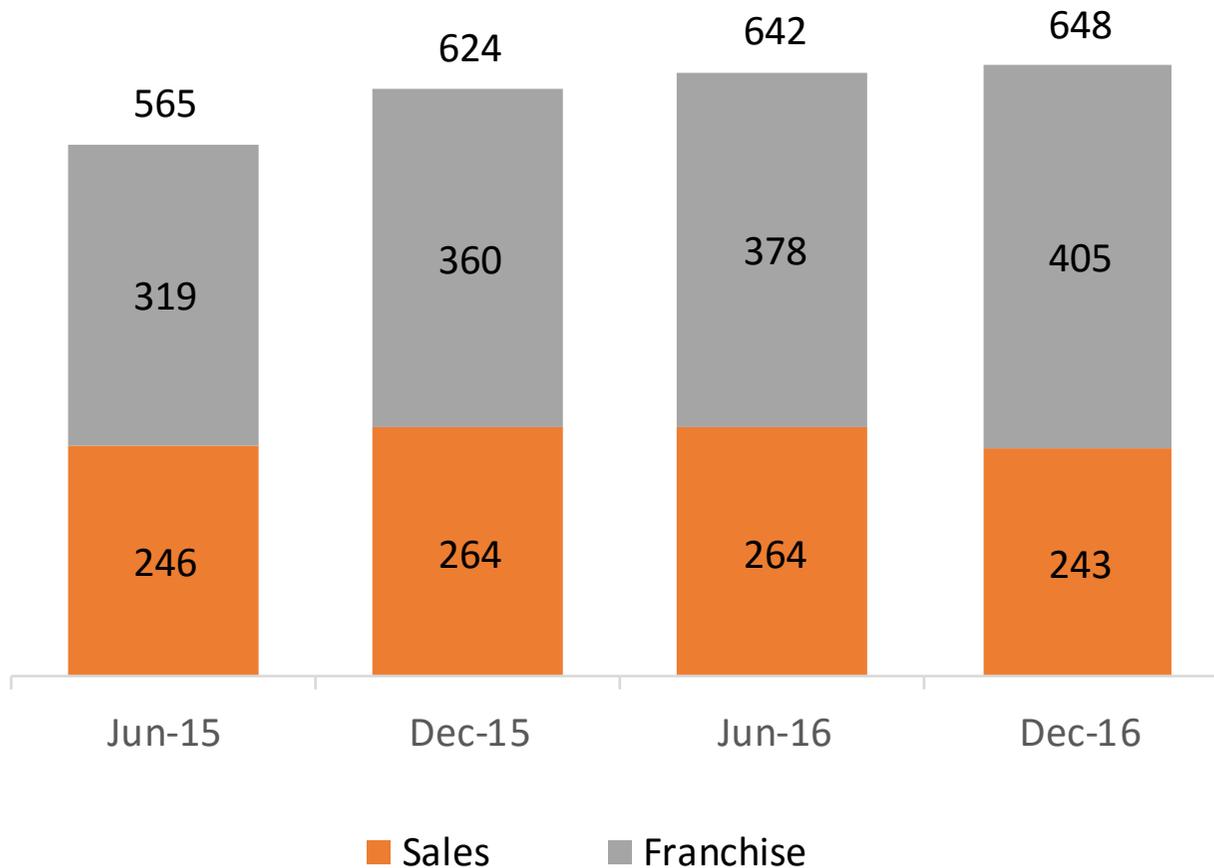


Market share by sales value¹

Addressable Markets	12 mths to Dec16	12 mths to Jun16
NSW	7.40%	7.36%
QLD	2.19%	1.79%
ACT	5.02%	4.86%
VIC	0.44%	0.10%

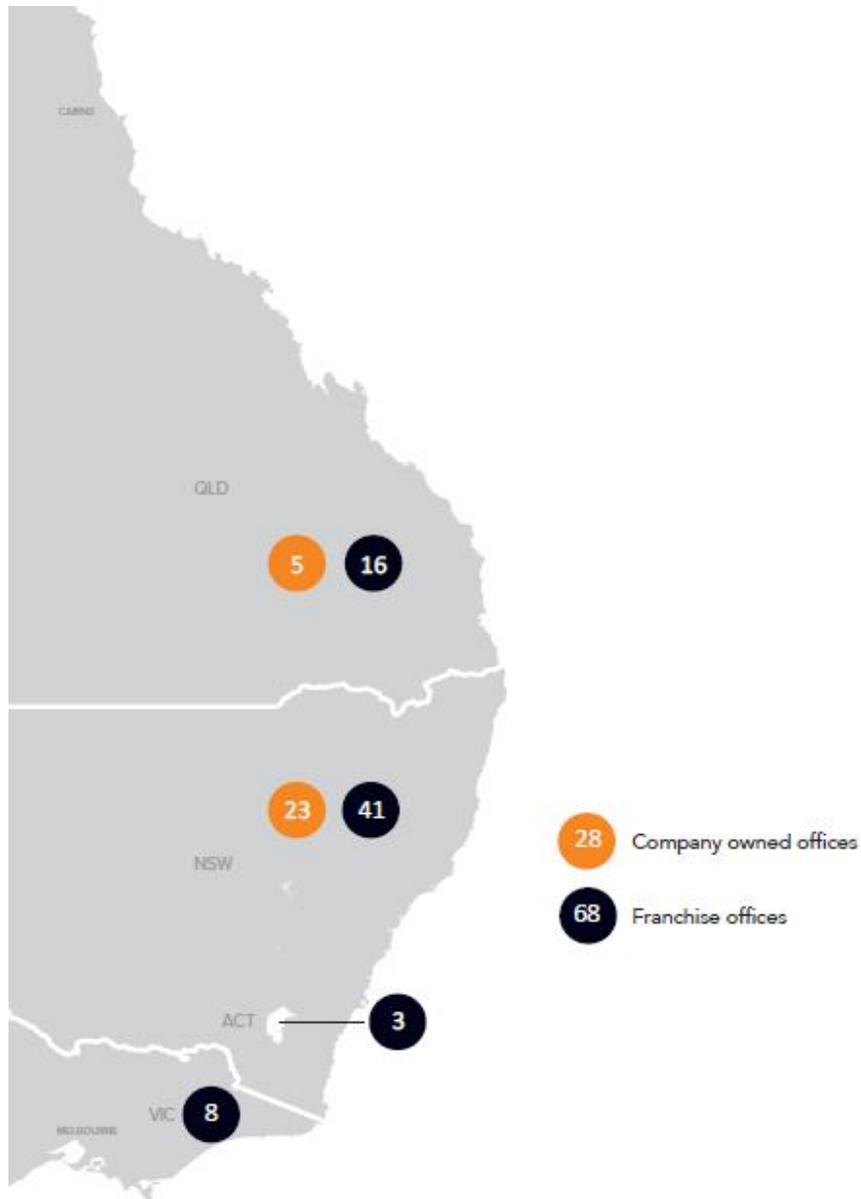
1. McGrath management estimates based on published sales data where an agent was recorded in that data. Total market size derived from CoreLogic data, 12 months to 31 December 2016. 2. Geelong, Victoria opened 20th February 2017

ATTRACT AND RETAIN AGENTS



- Continued to focus on
 - Talent identification
 - Develop and retain high performing and emerging agents
- McGrath Future launched in 1H17
 - high performance bonus commission
 - agent recruitment trail commission
 - property management partnership
- Average of 13 days of training provided each month

ROLL OUT NEW OFFICES



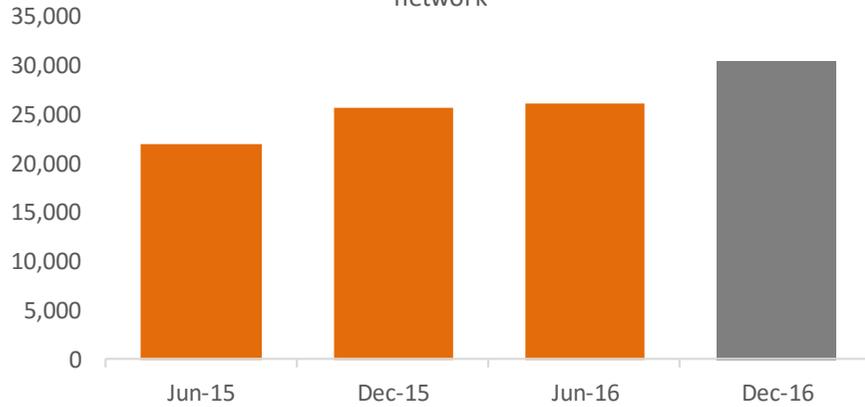
- 96 McGrath offices¹
- Opened 3 Sales in 1H17
 - Forestville, NSW
 - Wahroonga, NSW
 - Blacktown, NSW
- Opened 7 Franchise in 1H17²
 - Northcote, VIC
 - Hunter Valley, NSW
 - Shellharbour, NSW
 - Sandringham, VIC
 - New Lambton, NSW
 - Blackburn, VIC
 - Box Hill, VIC
- Geelong, VIC (Franchise) opened in Feb17
- Planned new offices
 - Yarraville, VIC
 - San Souci, NSW
 - Berowra, NSW
 - Toukley, NSW

1. As at 31 December 2016

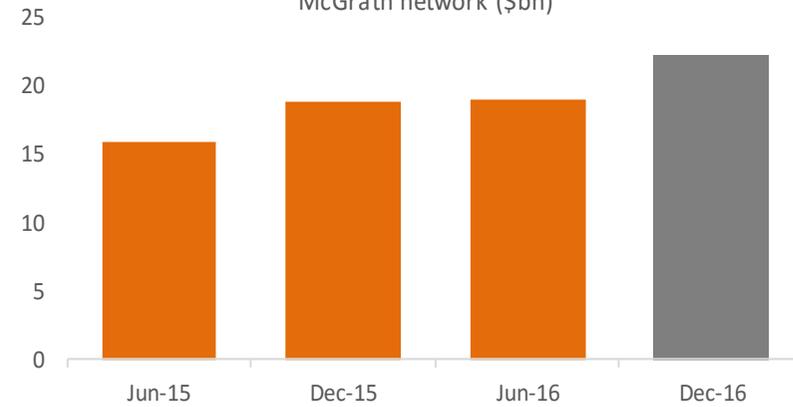
2. Forestville office transferred from franchise to company owned

GROWING PROPERTY MANAGEMENT AND HOME LOANS

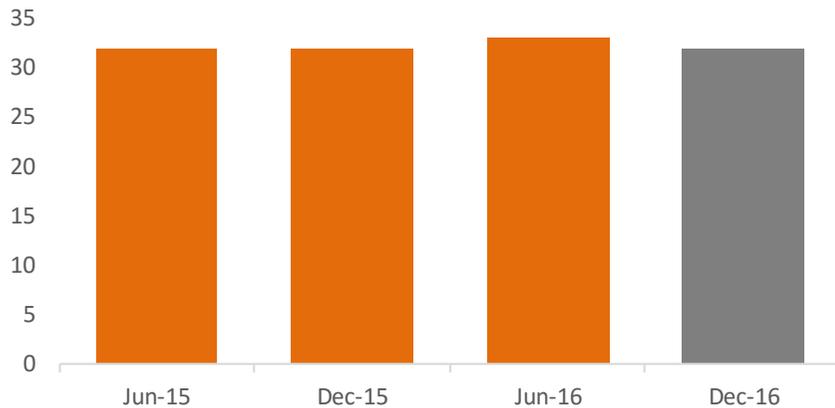
No. of properties under management across the McGrath network



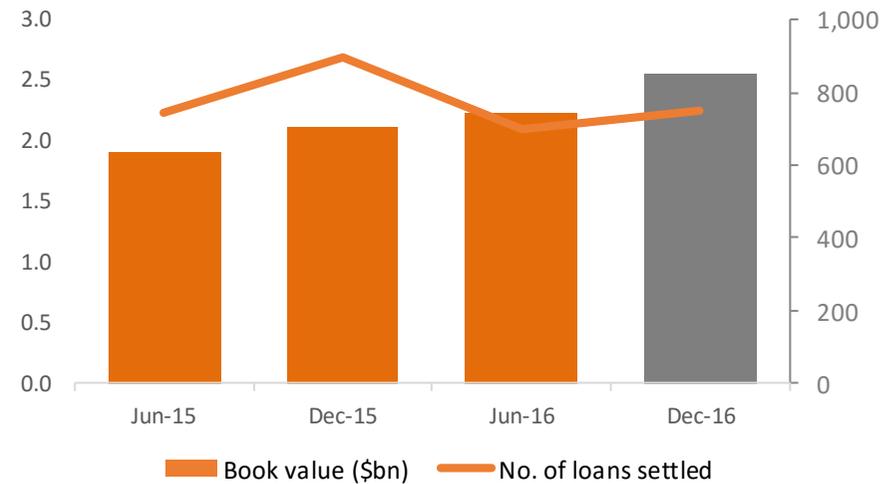
Value of properties under management across the McGrath network (\$bn)



No. of Oxygen Brokers



Growth in loan book



OUTLOOK

- Challenging market conditions expected to continue, as seen through lower listing volumes
- Market share nationally is now 3.6%. We continue to focus on :
 - Attract, retain, develop and reward high performing sales agents
 - Focus on growing our office network and market share in NSW, ACT, QLD and VIC
 - Increase productivity of existing and new agents through new tools and software
- Commenced strategic review with a renewed focus on improving productivity and performance of each of our existing segments and exploring new revenue opportunities
- Our aim is to grow the relative contributions of our annuity businesses and de-risk the volatility of our earnings
- Disciplined investment for sustained and profitable growth

Questions

Appendix

PRO FORMA P&L

\$m	1H16	2H16	1H17
Total revenue	72.5	64.5	66.9
Cost of sales	(28.5)	(25.7)	(25.0)
Gross Profit	44.0	38.8	41.9
Employee benefits expenses	(18.1)	(16.3)	(18.4)
Other expenses	(11.2)	(11.0)	(14.2)
EBITDA	14.7	11.5	9.3
Depreciation and Amortisation	(2.4)	(3.3)	(3.5)
Impairment of software costs	0.0	0.0	(2.2)
EBIT	12.3	8.2	3.6
Net finance costs	0.0	0.1	0.0
Net profit before tax	12.3	8.3	3.6
Tax expense	(3.8)	(2.2)	(1.2)
NPAT	8.5	6.1	2.4

PRO FORMA SEGMENT PERFORMANCE

\$m	1H16	2H16	1H17
Revenue			
Sales	53.1	43.8	46.9
Property management	9.2	9.8	10.0
Franchise	5.5	5.1	5.8
Other	4.7	5.8	4.2
Total Revenue	72.5	64.5	66.9
EBITDA			
Sales	16.6	10.1	10.7
Property management	2.2	3.0	3.4
Franchise	3.3	3.0	3.4
Other	(1.2)	1.7	(1.2)
Corporate	(6.2)	(6.3)	(7.0)
Total EBITDA	14.7	11.5	9.3

STATUTORY P&L

\$m	1H17	1H16	% Change
Total revenue	67.3	54.3	24%
Cost of sales	(25.1)	(20.7)	21%
Gross Profit	42.2	33.6	26%
Employee benefits expenses	(18.3)	(14.8)	24%
Other expenses	(14.3)	(16.2)	(12%)
EBITDA	9.6	2.6	269%
Depreciation and Amortisation	(3.5)	(1.1)	218%
Impairment of software costs	(2.2)	0.0	0%
EBIT	3.9	1.5	160%
Net finance costs	0.0	(0.1)	(100%)
Net profit before tax	3.9	1.4	179%
Tax expense	(1.2)	(1.0)	20%
NPAT	2.7	0.4	575%

STATUTORY CASH FLOW

\$m	1H17	1H16
EBITDA	9.6	2.6
Change in net working capital	(1.9)	(2.3)
IPO transaction costs included in EBITDA	0.0	4.9
Non cash EBITDA items	(0.1)	0.1
Net cash flow from operating activities before capital expenditure, financing and tax	7.6	5.3
Capital expenditure	(5.2)	(3.9)
Net cash flow before financing and tax	2.4	1.4
Net interest received / (paid)	0.0	(0.2)
Income tax paid	(1.3)	(2.2)
Loan repayments received	0.0	2.1
Loans granted	(0.3)	(0.5)
Net proceeds of the offer	0.0	66.1
Purchase of controlled entities, net of cash acquired	(0.2)	(29.1)
Proceeds from borrowings	0.0	9.0
Repayment of borrowings	(3.0)	(15.9)
IPO and acquisition transaction costs	0.0	(8.4)
Net cash flow before dividends	(2.4)	22.2
Dividends and distributions paid	(4.8)	(11.1)
Net cash flow	(7.2)	11.2
Cash conversion ratio	79%	200%

- Dividend payment
- Deferred consideration payment made to the Smollen group
- Capital Expenditure on new offices, relocations and refurbishment
- IT software spend
 - MAP
 - Website
- IT program spend
 - Infrastructure refresh
- 1H16 high cash conversion ratio due to low EBITDA base

STATUTORY BALANCE SHEET

\$m	31-Dec-16	30-Jun-16
Total current assets	37.4	44.2
Total non-current assets	90.4	89.8
Total assets	127.8	134.0
Total current liabilities	26.1	24.1
Total non-current liabilities	7.3	13.6
Total liabilities	33.4	37.7
Total net assets	94.4	96.3
Contributed equity	92.1	92.1
Share based payment reserve	0.3	0.1
Retained profits / (accumulated losses)	2.0	4.1
Total equity	94.4	96.3

- No bank debt.
- Reduction of liabilities is reflective of the settlement of Milestone 1 cash payment for the Smollen acquisition
 - Remaining payment due of \$9.2m reflective of the remaining cash and scrip payments for the acquisition of the Smollen Group

DISCLAIMER

This presentation has been prepared by McGrath Limited (Company) together with its related bodies corporate (McGrath Group). The material contained in this presentation is intended to be general background information on the McGrath Group and its activities.

The information is supplied in summary form and is therefore not necessarily complete. It should be read in conjunction with the Company's other periodic and continuous disclosure announcements filed with the Australian Securities Exchange and in particular the Company's latest full year results. It is not intended that it be relied upon as advice to investors or potential investors, who should consider seeking independent professional advice depending upon their specific investment objectives, financial situation or particular needs. The material contained in this presentation may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information.

All amounts are in Australian dollars unless otherwise indicated.

Unless otherwise noted, financial information in this presentation is based on A-IFRS. McGrath Group uses certain measures to manage and report on its business that are not recognised under Australia Accounting Standards or IFRS. These measures are collectively referred to in this presentation as 'non-IFRS financial measures' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business and the Company believes that they are useful for investors to understand the Company's financial condition and results of operations. This information is also important for comparative purposes with the use of those measures in the Company's IPO prospectus dated 12 November 2015. Unless otherwise specified those non-IFRS financial measures have not been subject to audit or review in accordance with Australian Accounting Standards.

Forward-looking statements are statements about matters that are not historical facts. Forward looking statements appear in a number of places in this presentation and include statements regarding the McGrath Group's intent, belief or current expectations with respect to business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions, financial support to certain borrowers, indicative drivers, forecasted economic indicators and performance metric outcomes.

This presentation contains words such as 'will', 'may', 'expect', 'indicative', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'probability', 'risk', 'forecast', 'likely', 'estimate', 'anticipate', 'believe', or similar words to identify forward-looking statements. These forward-looking statements reflect the McGrath Group's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond the control of McGrath Group, and have been made based upon the McGrath Group's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with the McGrath Group's expectations or that the effect of future developments on the McGrath Group will be this anticipated. Actual results could differ materially from those which the McGrath Group expects, depending on the outcome of various factors. Factors that may impact on the forward-looking statements made include, but are not limited to, general economic conditions in Australia, competition in markets in which the McGrath Group will operate and the inherent regulatory risks in the business of the McGrath Group.

When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider such factors and other uncertainties and events. The McGrath Group is under an obligation to update any forward looking statements contained in this presentation, where as a result of new information, future events or otherwise, after the date of this presentation.



Cameron Judson, CEO

Paul Hauenschild, CFO

McGrath