

McGrath delivers on strategy and continues to grow

February 24, 2016 - Leading residential real estate group, McGrath Limited (ASX: MEA) today announced its maiden half year results as a listed company. Delivering to plan, McGrath continued to grow on a pro forma basis over the six months ended 31 December 2015 (1H16).

1H16 financial snapshot:

- Statutory results (include IPO costs):
 - Revenue up 33% to \$54.3 million
 - EBITDA down 37% to \$2.7 million
 - NPAT down 82% to \$0.4 million
- Pro-forma earnings (best measure of the underlying performance of the business):
 - Revenue up 25% to \$74.9 million
 - EBITDA up 13% to \$14.7 million
- NPAT up 13% to \$8.5 million
- Strong balance sheet with no debt, \$14 million cash, and an undrawn \$11.5 million term facility
- Currently on track to meet FY16 Prospectus forecasts

Commenting on the 1H16 results, McGrath Chief Executive Officer, John McGrath said:

“The past six months have been an exciting period for the business, as McGrath became a publicly listed company and continued to grow. With so much happening, the results achieved are a testament to the dedication and passion of our entire team.

“The strength of the company’s business model can clearly be seen in the growth figures achieved over the first half of this financial year. Agent numbers were up 59 to 624, our office network grew by 11 to 78, we expanded into Victoria with the opening our office in St Kilda, and we continue to grow market share¹ with the number of listings and the value of properties sold growing substantially above market.”

¹Source: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data.

Focused on executing growth strategy

“The results achieved over the first half of the 2016 financial year reflect our ability to deliver on our growth strategy and leverage McGrath’s business model and brand which is attractive to high performing agents.

“Pro forma revenue for the first half was up 25% to \$74.9 million due to growth across our business divisions. We delivered a 15% increase in total sales combined with a 6% increase in average sales price. At the same time, the number of properties under management grew 28% and Oxygen settlements were up 41%.

“Reflecting our continued investment to drive future growth and margin expansion, pro forma EBITDA was up 13% to \$14.7 million.

“We are delivering on our four growth pillars – agent numbers and productivity, offices, acquisitions, and property management and home loans. Over the first half, we increased agent numbers and productivity, while rapidly rolling out new offices including entering the Victorian market. We acquired Smollen Group, increasing McGrath’s exposure to Sydney’s growth corridor, and its integration is progressing well. In addition, we continued to grow our property management and home loan businesses, with 7,648 properties now under management, and our home loan book standing at over \$2 billion,” added Mr McGrath.

Strong balance sheet

With no debt and \$14 million cash at 31 December 2015, McGrath has a strong balance sheet to support its growth strategy. In addition, the company has an undrawn \$11.5 million term facility in place.

Positive outlook

Commenting on the company’s outlook, Mr McGrath said:

“The investments made in recent years have positioned the business well for future growth. Our strategy is clear, underpinned by four growth pillars. We will continue to add agents into our existing network while also increasing agent productivity. We will continue to expand our office network. We will continue to evaluate strategic acquisition opportunities, like Smollen Group. Lastly, we will continue to grow our property management and home loan businesses.

“The long term fundamentals of the Real Estate industry remain attractive, underpinned by historically low interest rates, population growth, and the asset class generally. However, the short term outlook is less certain and this is creating some headwinds leading to challenging market conditions than originally anticipated at the time of our listing.

“Historically the company has derived approximately 55% of full year earnings in the second half. The second half of this financial year should see a similar profile, and will benefit from a full six months’ revenue and earnings from the Smollen Group, higher agent numbers, additional offices coming online, and the AREC conference”.

Having delivered to plan in the first half year, McGrath is currently on track to achieve the 2016 financial year prospectus forecast. However, market conditions have become more challenging in the short term including a slowdown in Chinese buyer activity, increased stock market volatility and the impact of APRA regulatory changes which increase risk in the sector.

Mr McGrath said that subject to meeting prospectus forecasts the Board intends to pay a final FY16 dividend in line with Prospectus of approximately 4.5 cents per share, franked to the maximum extent possible.

“Having established McGrath Estate Agents in 1988, we have a long and successful corporate history, and have an exceptional team in place. With a clear growth strategy, McGrath is well placed to build long term shareholder value” added Mr McGrath.

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About McGrath

Founded in 1988, McGrath Limited (ASX: MEA) has grown to be one of Australia’s most successful residential real estate groups. An integrated real estate services business, McGrath is a total solution company offering agency sales, property management, mortgage broking and career training services. McGrath Estate Agents currently has 82 offices located throughout the East Coast of Australia.