

McGrath Limited and Controlled Entities ACN 608 153 779

Interim Financial Report for the Half Year Ended 31 December 2023

## **McGrath**

## **McGrath Limited and Controlled Entities**

A.C.N. 608 153 779

# **Interim Financial Report For the half year ended 31 December 2023**

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## **Directors' Report**

The Directors present their Financial Report for the half year ended 31 December 2023. 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 3-6 of this Interim Financial Report.

The Consolidated Entity profit after providing for income tax for the half year ended 31 December 2023 amounted to \$7,504,131 (2022: \$1,815,944).

#### **Directors**

The following persons were Directors of McGrath Limited during the half year ended 31 December 2023:

#### **Peter Lewis**

Chair and Independent Non-executive Director. Appointed 19 January 2018.

Chair of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

## Wayne Mo

Non-executive Director.

Appointed 27 June 2018.

Chair of the Audit and Risk Committee and member of the Remuneration and Nomination Committee.

## **Shane Smollen**

Non-executive Director.

Appointed 3 September 2020.

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

## Juliana Nguyen

Independent Non-executive Director.

Appointed 28 January 2022.

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

## John McGrath

Managing Director and Chief Executive Officer. Appointed Executive Director 8 September 2015 and on 8 April 2022 appointed Managing Director and Chief Executive Officer.

#### **Dividends**

Dividends totalling \$5,578,655 were declared and paid during the half year period (2022: \$1,610,478).

#### 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 1.5 cents per share and a special dividend of 1.5 cents per share were declared on 19 February 2024 with a record date of 27 February 2024 and a payment date of 12 March 2024. 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 2024.

McGrath's investment in insuretech company, Honey Insurance Pty Limited (Honey), is held through a convertible note. Subsequent to the reporting date, on 9 February 2024, Honey completed a capital raise and the convertible note converted to shares. The financial effect of the conversion is the transition from a debt instrument to an equity instrument. This transition has not been presented in the half year financial statements.

There has been no other item, transaction or event which has arisen in the interval between 31 December 2023 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

19 February 2024

## **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).

In August 2022, the company announced a change in business model to transition to predominantly a franchise operation. This transition should lead to delivering more reliable annuity income from franchisees based on a fixed percentage of total sales commissions. In addition, this transition is a key strategy for attracting and retaining agent talent.

The operating segments for the period under review are:

**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.

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.

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
- 44% investment in the mortgage broking business, Oxygen Capital Group Pty Limited
- 30% investment in the Central Coast McGrath Franchise

#### Office locations

As at 31 December 2023 the network comprised 113 Franchise offices and 18 Company owned offices. The spread of offices is across the Eastern seaboard as seen in the graphic in Figure 1 below. There was a growth of five offices in the six months since 30 June 2023. In line with our business model change, three offices were transitioned from Company owned to Franchise services during the year.

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.

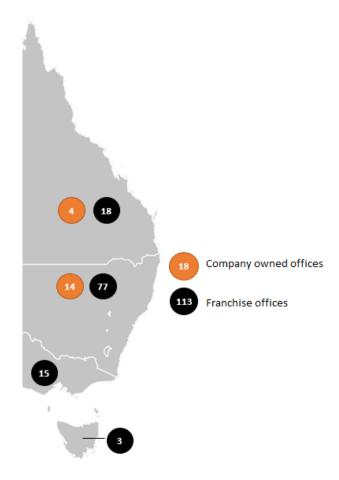


Figure 1: McGrath office Network

#### **Income Statement**

The information below shows the reconciling items from statutory results to the underlying results for the six months ended 31 December 2023.

	Statutory Dec 2023 \$'000	Reconciling amounts \$'000	Underlying Dec 2023 \$'000	Underlying Dec 2022 \$'000
Revenue	40,222	-	40,222	42,691
Cost of sales	(14,231)	-	(14,231)	(16,495)
Gross profit	25,991	-	25,991	26,196
Other income	5,040	(4,546)	494	286
Share of profit of an associate	413	-	413	294
Employee benefits expenses	(11,566)	-	(11,566)	(13,099)
Other expenses	(7,958)	-	(7,958)	(7,349)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	11,920	(4,546)	7,374	6,328
Depreciation and amortisation	(3,221)	-	(3,221)	(4,054)
Earnings before interest and tax (EBIT)	8,699	(4,546)	4,153	2,274
Net finance income/(expense)	136	-	136	(225)
Profit/(Loss) before income tax	8,835	(4,546)	4,289	2,049
Income tax expense	(1,331)	576	(755)	(931)
Profit/(Loss) after income tax expense	7,504	(3,970)	3,534	1,118
Basic earnings per share (cents)	4.79		2.25	0.72

The reconciling item of \$4,546 thousand in other income relates to the gain on sale of assets and rent roll of Company owned offices which transitioned to Franchise services (\$2,626 thousand) and a fair value adjustment of investments (\$1,920 thousand).

The Company has transitioned to EBIT as a key metric, removing AASB 16 Leases from a reconciling item. EBITDA pre AASB 16 Leases has been represented below for comparative purposes.

	Underlying Dec 2023 \$'000	Underlying Dec 2022 \$'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)	7,374	6,328
Lease expenses	(2,568)	(2,951)
Earnings before interest, tax, depreciation and amortisation (EBITDA) pre AASB 16 Lease impact	4,806	3,377

 $\label{thm:local_problem} \textbf{Note: The Income statement presented above is a non-IFRS measure and was not subject to review.}$ 

## Segment revenue and EBIT

There are no reconciling amounts between Statutory and Underlying Revenue in the year ended 31 December 2023.

Segment EBIT has been impacted by \$4,546 thousand gain on sale of the assets and rent roll and fair value adjustment of investments.

To ensure a fair and reasonable representation of operating segments and to more accurately assess the performance of each segment, Corporate costs have been allocated to trading segments to better represent the segment profit contribution as the business transitions to being predominately Franchise. Underlying Dec 2022 comparatives have been restated on the same basis.

	Statutory	Reconciling	Underlying	Underlying
	Dec 2023	Amounts	Dec 2023	Dec 2022
	\$'000	\$'000	\$'000	\$'000
Revenue				
Company owned sales	20,490	-	20,490	24,657
Company owned property management	8,299	-	8,299	9,882
Franchise services	8,651	-	8,651	6,609
Other operating segments	2,782	-	2,782	1,543
Total Revenue	40,222	-	40,222	42,691
EBIT				
Company owned sales	1,336	=	1,336	561
Company owned property management	(797)	-	(797)	(1,071)
Franchise services	3,029	-	3,029	2,628
Other operating segments	585	-	585	156
Non-underlying EBIT	4,546	(4,546)	-	-
Total EBIT	8,699	(4,546)	4,153	2,274

Note: The segment revenue and EBIT 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 underlying segment results for HY24 exclude the gain on sale of the Company offices transitioned to Franchise services.

## **Company Owned Sales and Project Marketing**

Company owned sales generated an EBIT of \$1.3 million, up 138% on prior year. The improvement in EBIT has been driven by a reduction of operating expenses of 21% while transaction volumes declined 20% and average selling prices increased 11%. In addition, during the six months ended 31 December 2023, 3 offices transitioned from Company owned to Franchise office.

## **Company Owned Property Management**

Company owned property management generated an EBIT loss of (\$0.8) million, a 25% improvement on the prior year. Revenues have reduced 16% through the disposal of property managements as part of the transition of Company owned offices to Franchise services. The increase in EBIT has been achieved through operating expenses reducing 14%, despite the lower revenues.

#### **Franchise Services**

Our franchise services generated an EBIT of \$3.0 million, up 15% on prior year. The increase was primarily driven by a 34% rise in the number of properties sold, with the average selling price growing 10%. There were additional franchise expansion costs with a net 5 new office openings and 3 offices transferring from Company owned to Franchise services.

## **Other Operating Segments**

Other operating segments comprise Auction Services, TRET, investment in Oxygen Home Loans and McGrath Central Coast Franchise and the Marketing Fund. The Marketing Fund is for the benefit of both Franchise and Company owned networks.

## **Auction Services**

Auction Services provides auctioneers to the Company owned and Franchise segments. Auction services accounted for 34% of all properties listed in the financial year with Auction bookings increasing 28%.

#### **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.

- 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 and property management commissions. 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.
- 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 which could include some equity participation, designed to assist in attracting and retaining high performing residential sales agents.
- Digital disruption McGrath focuses on four key service offerings including residential property sales, property management, 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.
- Regulatory risks McGrath currently has business operations in New South Wales, Queensland, Victoria and Tasmania, 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.

- Cybersecurity The ongoing cyber security risk of McGrath includes data breach risks, privacy, identity theft and fraud. McGrath continues to mitigate these risks including updating its security operations centre, third party risk assessments and upgrading malware protection software.
- 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.

#### **Environment, Social and Governance (ESG)**

With corporate social responsibility becoming an increasingly prevalent topic, at McGrath, we are committed to best practice in ethical behaviour, compliance and corporate governance within the ESG landscape, with the health, safety and wellbeing of our key stakeholders being our primary focus.

McGrath is at the start of its ESG journey and has commenced the process of transitioning toward an overarching ESG framework. Several initial steps have been taken to improve our ESG performance:

- A formal diversity policy, to ensure that we achieve a
  work environment that values and utilises the
  contributions of staff with diverse backgrounds,
  experiences and perspectives through improved
  awareness of the benefits of workforce diversity and
  successful management of diversity.
- A whistle-blower policy, to ensure a safe and confidential process when reporting wrongdoing that may cause harm to others or damage to the company's reputation and protect disclosing persons against any reprisals.
- Employee Assistance Program, supporting wellbeing with confidential phone counselling throughout Australia.

McGrath is also drafting its initial ESG policy, which will continue to evolve over the coming years as we learn more about the company's impact on the environment and as we evaluate the effectiveness of our ESG practices. We have used the 2030 agenda for sustainable development adopted by the United Nations as a guide to developing sustainable goals, of which we have focused on the those that are most relevant to our business and where we can make the largest impact.

The Board is responsible for corporate governance and is committed to developing and implementing appropriate policies while adhering to a fundamental commitment to create and sustain long term value for its shareholders and stakeholders.

The risks and opportunities of legal changes in ESG are less immediate for McGrath. Therefore, there are no materiality judgements about environmental matters disclosed in these financial statements.



# 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 2023 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.

KIMG

**KPMG** 

Karen Hopkins

Partner

Sydney

19 February 2024

## **Condensed Consolidated Interim Financial Statements**

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2023

	Notes	December 2023	December 2022
	_	\$'000	\$'000
Revenue	3	40,222	42,691
Other income	4	5,040	1,247
Cost of sales		(14,231)	(16,495)
Share of profit of an associate		413	294
Employee benefits expenses		(11,566)	(13,099)
Directors' fees		(196)	(196)
Professional fees		(837)	(847)
Doubtful debts		36	47
Occupancy		(718)	(836)
IT expenses		(3,394)	(2,521)
Communications		(336)	(238)
Advertising and promotions		(908)	(727)
Other expenses		(1,605)	(2,031)
Depreciation and amortisation expenses		(3,221)	(4,054)
Earnings before interest and tax (EBIT)	_	8,699	3,235
Finance income		558	334
Finance costs	_	(422)	(559)
Net finance income/(costs)		136	(225)
Profit before income tax		8,835	3,010
Income tax expense	11	(1,331)	(1,194)
Profit after income tax expense	=	7,504	1,816
	-		
Total comprehensive income for the period	=	7,504	1,816
Total comprehensive income attributable to the owners of the Company		7,459	1,816
Total comprehensive income attributable to the non-controlling interest		45	-
Basic earnings per share (cents)		4.79	1.15
Diluted earnings per share (cents)		4.71	1.12

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 2023

	Notes	December 2023	June 2023
		\$'000	\$'000
CURRENT ASSETS	_	7 222	
Cash and cash equivalents		26,346	27,054
Trade and other receivables		14,216	15,380
Held for sale assets	9	3,553	4,077
Other assets		3,041	3,320
Current tax assets		341	-
TOTAL CURRENT ASSETS	_	47,497	49,831
NON CURRENT ASSETS	_		
Trade and other receivables		1,352	1,124
Property, plant and equipment	6	3,876	1,549
Right-of-use assets	7	10,684	7,912
Intangible assets		6,023	6,640
Investment in associates		7,960	8,012
Other financial asset	8	8,371	6,776
TOTAL NON CURRENT ASSETS	_	38,266	32,013
TOTAL ASSETS	=	85,763	81,844
CURRENT LIABILITIES	_		
Trade and other payables		14,507	13,520
Liabilities held for sale	9	-	49
Lease liabilities	7	3,089	3,781
Current tax liabilities	,	-	361
Provisions		2,256	2,226
TOTAL CURRENT LIABILITIES	_	19,852	19,937
10 1/12 GOTHLEN 21/15/21/11/20	_	13,032	13,337
NON CURRENT LIABILITIES			
Trade and other payables		20	1,184
Lease liabilities	7	9,669	6,368
Provisions		1,285	1,575
Deferred tax liabilities	_	1,141	694
TOTAL NON CURRENT LIABILITIES	_	12,115	9,821
TOTAL LIABILITIES	_	31,967	29,758
NET ASSETS	=	53,796	52,086
EQUITY			
Contributed equity		104,450	104,518
Share based payment reserve		927	1,138
Profits Reserve		28,946	27,065
Accumulated losses		(80,572)	(80,635)
TOTAL EQUITY ATTRIBUTIBLE TO OWNERS OF THE COMPANY	_	53,751	52,086
Non-controlling interest	_	45	-
TOTAL EQUITY	_	53,796	52,086
	_		

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 2023

Contributed Accumulated

Profit

Share Total equity,

Non-

**Total** 

	equity	losses	reserve	based payment reserve	attributable to owners of the Company	controlling interest	equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2023	104,518	(80,635)	27,065	1,138	52,086	-	52,086
Profit after income tax expense	-	-	7,459	-	7,459	45	7,504
Total comprehensive income for the period	-	-	7,459	-	7,459	45	7,504
Share based payment transactions Vesting of employee incentives scheme <sup>1</sup>	416	- 63	-	269 (479)	269	-	269
Dividends	-	-	(5,579)	-	(5,579)	-	(5,579)
Share buy-back <sup>2</sup>	(484)	-	-	-	(484)	-	(484)
Total transactions with owners of the Company	(68)	63	(5,579)	(210)	(5,794)	-	(5,794)
Balance at 31 December 2023	104,450	(80,572)	28,945	928	53,751	45	53,796

<sup>&</sup>lt;sup>1</sup> In October 2023, the FY21 Equity Incentive Plan vested as conditions were met and 908,314 shares were issued to qualifying employees.

<sup>&</sup>lt;sup>2</sup> In line with the Company's share buy-back intention as announced on 21 February 2022, during the half year ended 31 December 2023, 1,196,242 shares were purchased on-market and cancelled.

	Contributed equity	Accumulated losses	Profit reserve	Share based payment reserve	Total equity, attributable to owners of the Company	Non- controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2022	103,943	(79,843)	24,095	1,398	49,593	-	49,593
Profit after income tax expense	-	-	1,816	-	1,816	-	1,816
Total comprehensive income for the period	-	-	1,816	-	1,816	-	1,816
Issue of equity	1,298	-	-	_	1,298	-	1,298
Share based payment transactions	-	-	-	123	123	-	123
Vesting of employee incentives scheme	1,191	(792)	-	(399)	-	-	-
Dividends	-	-	(1,610)	-	(1,610)	-	(1,610)
Share buy-back	(1,168)		-	-	(1,168)	-	(1,168)
Total transactions with owners of the Company	1,321	(792)	(1,610)	(276)	(1,357)	-	(1,357)
Balance at 31 December 2022	105,264	(80,635)	24,301	1,122	50,052	=	50,052

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 2023

	Notes	December 2023	December 2022
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES	•	,	,
Receipts from customers		43,319	49,091
Receipts from other income		494	316
Payments to suppliers and employees		(37,252)	(46,403)
Interest paid		(390)	(512)
Interest received		531	264
Income taxes paid		(1,585)	(4,833)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	•	5,117	(2,077)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from deferred consideration from investments in associates		1,500	-
Proceeds net of loans granted from the disposal of property management		2 444	
rights and property plant and equipment		2,411	-
Proceeds net of loans granted from the disposal of held for sale assets		1,498	987
Proceeds from partial divestment of Auctions business		236	-
Payment of deferred consideration for investments in associates		(717) (2,710)	(120)
Purchase of property, plant and equipment  Purchase of intangibles		(2,710)	(128)
Purchase of investment in associate		(603)	(578) (2,792)
Dividends received		465	201
Loans granted		(250)	(50)
Loan repayments received		330	164
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		2,158	(2,196)
,		,	( / /
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for lease liabilities		(1,920)	(2,557)
Payment for share buy-back		(484)	(1,168)
Dividends paid	10	(5,579)	(1,610)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(7,983)	(5,335)
Net decrease in cash and cash equivalents		(708)	(9,608)
Cash and cash equivalents at the beginning of the financial year	•	27,054	34,741
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		26,346	25,133

# Notes to the Condensed Consolidated Interim Financial Statements for the half year ended 31 December 2023

## 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 2023 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 2023 to 31 December 2023. The comparative information presented in the interim financial statements represents the financial position of the Consolidated Entity as at 30 June 2023 and the Consolidated Entity's performance for the period from 1 July 2022 to 31 December 2022.

Accounting policies of the Consolidated Entity are set out in Note 13 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 2023 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 fully franked dividend of 1.5 cents per share and a special dividend of 1.5 cents per share were declared on 19 February 2024 with a record date of 27 February 2024 and a payment date of 12 March 2024. 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 2024.

McGrath's investment in insuretech company, Honey Insurance Pty Limited (Honey), is held through a convertible note. Subsequent to the reporting date, on 9 February 2024, Honey completed a capital raise and the convertible note converted to shares.

There has been no other item, transaction or event which has arisen in the interval between 31 December 2023 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 Entity's 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	December
	2023	2022
	\$'000	\$'000
Company owned sales commission and fees	20,490	24,657
Company owned property management fees	8,299	9,882
Franchise service fees	8,651	6,609
Other revenue	2,782	1,543
Total revenue	40,222	42,691

## 4 Other income

	December	December
	2023	2022
	\$'000	\$'000
Lease income	494	286
Gain on sale from disposal of held for sale assets	1,126	839
Gain on sale from disposal of property, plant and equipment and property management rights	1,263	122
Gain on sale from partial divestment of Auctions business	236	-
Fair value adjustment of deferred consideration	326	-
Fair value adjustment of financial asset	1,595	-
	5,040	1,247

In the half year ended 31 December 2023 the Company recognised the following items in other income:

- \$494 thousand of lease income relating to operating office licence lease agreements.
- \$1,126 thousand gain from the disposal of held for sale assets to a Franchise office.
- \$1,263 thousand gain from the disposal of plant and equipment as part of the business model to transition to a predominately franchise business.
- \$236 thousand gain from the partial divestment of Auctions business.
- \$326 thousand gain from fair value adjustment of deferred consideration following the acquisition of 30% of the Central Coast Franchise business in October 2022.
- \$1,595 thousand gain from fair value adjustment of Honey Insurance.

## 5 Operating segments

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

Half year ended 31 December 2023	Company owned sales <sup>1</sup>	Company owned property management	Franchise services	Other segments	Consolidated total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	20,490	8,299	8,651	2,782	40,222
Segment profit before interest, tax, depreciation and amortisation <sup>2</sup>	3,191	324	3,213	647	7,375
Earnings before interest and tax (EBIT) <sup>2</sup>	1,336	(797)	3,029	585	4,153
Gain on sale from disposal of property management r	ights and proper	ty, plant and ed	quipment		2,389
Gain on sale from partial divestment of Auctions busin	ness				236
Fair value adjustments				_	1,921
EBIT				_	8,699
Net finance income/(costs)	(265)	(59)	(7)	467	136
Profit before income tax				=	8,835

Half year ended 31 December 2022 Restated <sup>2</sup>	Company owned sales <sup>1</sup>	Company owned property management	Franchise services	Other segments	Consolidated total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	24,657	9,882	6,609	1,543	42,691
Segment profit before interest, tax, depreciation and amortisation <sup>2</sup>	2,639	682	2,746	260	6,327
Earnings before interest and tax (EBIT) <sup>2</sup>	561	(1,071)	2,628	156	2,274
Gain on sale from disposal of property management rig	ghts and prope	rty, plant and e	quipment	_	961
EBIT					3,235
Net finance income/(costs)	(395)	(83)	(2)	255	(225)
Profit before income tax				=	3,010

<sup>&</sup>lt;sup>1</sup>The Company owned sales revenue from external customers includes sales and project commissions of \$12.9 million (31 December 2022: \$15.2 million) and \$7.5 million in marketing revenue (31 December 2022: \$9.4 million).

<sup>&</sup>lt;sup>2</sup> The half year ended 31 December 2022 comparative figures for unallocated corporate costs has been amended to be consistent with the 31 December 2023 presentation. Corporate costs have been allocated to trading segments to better represent the segment profit contribution as the business transitions to being predominately Franchise. Management considers the change in approach is to ensure a fair and reasonable representation of operating segments and to more accurately assess the performance of each segment.

## 6 Property, plant and equipment

	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000
Consolidated Entity, half year ended 31 December 2023			
At 30 June 2023	652	897	1,549
Additions <sup>1</sup>	109	2,601	2,710
Depreciation charge for the year	(142)	(202)	(344)
Disposals	(10)	(29)	(39)
At 31 December 2023	609	3,267	3,876

<sup>&</sup>lt;sup>1</sup> During the half year ended 31 December 2023, McGrath moved to a new head office in Pyrmont in which a fit-out was completed.

## 7 Leases

Presented below is information about leases where the Consolidated Entity is a lessee, for the 6 month period ending 31 December 2023

Right-of-use assets	Property	Equipment	Total
	\$'000	\$'000	\$'000
Consolidated Entity, half year ended 31 December 2023			
At 1 July 2023	7,485	427	7,912
Additions <sup>1</sup>	4,491	-	4,491
Remeasurement	84	-	84
Disposals	(22)	-	(22)
Depreciation charge for the period	(1,548)	(233)	(1,781)
At 31 December 2023	10,490	194	10,684

Lease liabilities	Property	Equipment	Total
	\$'000	\$'000	\$'000
Consolidated Entity, half year ended 31 December 2023			
At 1 July 2023	9,700	449	10,149
Additions <sup>1</sup>	4,491	-	4,491
Remeasurement	84	-	84
Payments	(2,052)	(248)	(2,300)
Disposals	(38)	-	(38)
Interest expense	367	5	372
At 31 December 2023	12,552	206	12,758
Current	2,883	206	3,089
Non current	9,669	-	9,669
At 31 December 2023	12,552	206	12,758

<sup>&</sup>lt;sup>1</sup> During the half year ended 31 December 2023, McGrath entered into a lease for its new head office in Pyrmont.

## 8 Other financial asset

The Consolidated Entity holds an investment in insuretech company, Honey Insurance Pty Limited (Honey). Honey is a digital home and contents insurance service which provides homeowners, landlords and renters an innovative and comprehensive insurance service.

McGrath's investment in Honey is held through a convertible note. The convertible note originally had a maturity date of 31 December 2023 which, during the period, was extended to 29 February 2024.

Subsequent to the reporting date, on 9 February 2024, Honey completed a capital raise and the convertible note converted to shares. This instrument is carried at fair value and is classified as a Level 3 financial asset under the accounting standards. The fair value is determined by management by reference to recent capital raise in the company. This increased the fair value to \$8.1 million.

	December	June
	2023	2023
Non current	\$'000	\$'000
Debt Instrument Financial asset		
- at fair value through profit and loss		
-convertible note	8,095	6,500
Equity Instrument Financial asset		
- at fair value through profit and loss	276	276
Total non current other financial assets	8,371	6,776
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## 9 Assets and liabilities held for sale

	Assets	Liabilities
Consolidated Entity, half year ended 31 December 2023	\$'000	\$'000
At 1 July 2023	4,077	49
Property, plant and equipment	(11)	-
Intangible assets	(513)	-
Lease liabilities	-	(49)
At 31 December 2023	3,553	

During the reporting period, the Consolidated Entity sold and transitioned three offices and associated rent roll to franchisee, with the gains recognised in the profit or loss and other comprehensive income and declassified as held for sale.

10 Dividends paid and proposed		
	December	December
	2023	2022
	\$'000	\$'000
Dividends declared and paid:		_
Final Dividend		
Final franked dividend for 2023 of 1.0 cent per share, franked at 100%, paid 14 September 2023	1,594	
Special dividend for 2023 of 2.5 cent per share, franked at 100%, paid 14 September 2023	3,985	
Final franked dividend for 2022 of 1.0 cent per share, franked at 100%, paid 20 September 2022		1,610
	5,579	1,610

Subsequent to the reporting date, an interim fully franked dividend of 1.5 cents per share and a special dividend of 1.5 cents per share were declared on 19 February 2024 with a record date of 27 February 2024 and a payment date of 12 March 2024. The financial effect of these interim 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 2024.

## 11 Taxation

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

	December	December
	2023	2022
Income tax expense	\$'000	\$'000
Reconciliation of income tax expense		
Profit before tax	8,835	3,010
At the statutory income tax rate of 30% (2020: 30%)	2,650	903
Adjustments in respect of previous years income tax	(566)	34
Prior year capital losses not recognised brought to account against current year gains	(837)	195
Non assessable income	(86)	(87)
Non deductible expenses:	170	149
Income tax expense	1,331	1,194

In the half year ended 31 December 2023, the 15% effective tax rate is lower than the 30% statutory tax rate mainly due to adjustments to prior year income tax and the utilisation of carried forward capital tax losses from the sale of Company owned business and property management, for which no deferred tax asset has been recognised.

## 12 Related party transactions

### 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.

## Investments

During the half year ended 31 December 2023, the Group had several related party transactions with its investments in associates, all of which were conducted in the normal course of business and under arms-length terms and conditions:

#### Oxygen

McGrath has a 44% interest in Oxygen Home Loans mortgage business.

During the half year ending 31 December 2023, \$1.5 million of the deferred cash consideration was received for the partial sale of Oxygen in April 2021, with \$267 thousand owing to the Group at 31 December 2023.

There were no other transactions between the two entities.

### Central Coast

McGrath has a 30% interest in MCC Sales Holdings Pty Ltd and MCC PM Holdings Pty Ltd, the McGrath Central Coast franchisee.

During the half year ended 31 December 2023, the related party transactions between the two entities comprised were \$805 thousand relating to franchise fees and \$717 thousand relating to the 30% acquisition deferred consideration received.

As at 31 December 2023, the Group owed the following: \$931 thousand relating to deferred consideration.

## 13 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 2023 ('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 2023 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 19 February 2024.

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 a continual basis.

The Company has applied significant judgement and estimates to provision of doubtful debt, going concern, assessment of impairment of assets, financial risk management and valuation of investments in associates and other financial assets.

The Company has used key assumptions including the effect of uncertainties related to the current market conditions in its assessment of future trends in real estate.

## (c) New and amended standards adopted

A number of new or amended standards and interpretations apply for the first time in this half-year reporting period, but do not have a material impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

## Directors' Declaration for the half year ended 31 December 2023

In the opinion of the directors of McGrath Limited:

- (a) the condensed consolidated financial statements and notes set out on pages 8-18 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 2023 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

19 February 2024



## 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 2023 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 2023.
- 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 13 comprising a summary of material 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 Consolidated Entity 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; 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 2023 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

KPMG

Karen Hopkins *Partner* 

Kophins

Sydney 19 February 2024

## **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

#### Wayne Mo

Non-executive Director

### **Shane Smollen**

Non-executive Director

## Juliana Nguyen

Independent Non-executive Director

## MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

John McGrath

## **CHIEF FINANCIAL OFFICER**

**Howard Herman** 

## **COMPANY SECRETARY**

Melissa Jones

## **REGISTERED OFFICE**

## **Address**

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www.mcgrath.com.au

## **SHARE REGISTRY**

## Address

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## **AUDITORS**

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