ASX Release
28 February 2023

1H FY23 FINANCIAL AND OPERATIONAL UPDATE

THE AGENCY CONTINUES AGENT AND MARKET SHARE GROWTH THROUGH DIFFICULT OPERATING ENVIRONMENT.

Highlights

	1H FY23	1H FY22	% Change
Revenue	**$37.5m**	**$35.5m**	**+6%**
Underlying EBITDA – pre AASB16	**($0.95m)**	**$2.14m**	**n.m.**
GCI	**$45.7m**	**$52.9m**	**-14%**
Gross Value of Properties Sold	**$2.6bn**	**$3.1bn**	**-17%**
Number of Properties Sold	**2,847**	**2,910**	**-2%**
Number of Listings	**3,124**	**3,050**	**+2%**
National Market Share	**1.15%**	**0.92%**	**+0.23%**
Number of Agents	**412**	**345**	**+19%**

National real estate company The Agency Group Australia **(ASX:AU1) ("The Agency" or "the Company")** has delivered a strong increase in national market share in 1H FY23 as it continues to grow market presence nationally across six states and territories.

The Agency sold 2,847 properties in 1H FY23 which, while a 2% reduction on the prior year, was significantly above industry performance as National transaction volumes fell 21.6%[1] over the same period.

Importantly, despite the uncertainties that have been present in the market, the pipeline for future sales remains strong with the combined Group recording 3,124 listings for the half year, up from 3,050 listings for H1 FY22.

A 14% reduction in Gross Commission Income (GCI) to $45.7m (1H FY22: $52.9m) was the result of a higher proportion of sales in WA combined with a reduction in average selling price across the East Coast that resulted in a 17% reduction in Gross Value of Properties sold.

Revenue grew by 6% to $37.5m (1H FY22: $35.5m), which was primarily driven by a strong performance by payroll agents in WA[2] and increased management fees from national properties under management (1H

[1] CoreLogic Economist Pack January 2023 edition
[2] According to accounting standards, recognition of revenue is dependent on the engagement mechanism of the Agent. A sale by a payroll agent will result as revenue equal to GCI, with an agent commission expense in Cost of Sales. A sale by a non-payroll independent contractor agent, revenue is equal to The Agency share GCI. There is no cost of sale expense for a non-payroll agent. As a general rule, Western Australia agents are predominantly Payroll agents, while East Coast agents are predominantly non payroll agents.

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FY23: $3.51m, 1H FY22: $2.51m). Investment initiatives undertaken increased operating expenses which resulted in an Underlying EBITDA of -$0.95m (1H FY23: +$2.14m).

As at 30 June 2022, the Group's cash and cash equivalents was $4.41m (30 June 2021: $8.22m). During the period, The Agency settled the Bushby Property Group Tasmania acquisition and continued to invest in the businesses long term, strategic objectives. Following the acquisition of Bushby, The Agency has grown to 4,908 properties under management as at 31 December 2022 which in 1H FY23 collected $64.8m in rent for our landlords. Under accounting standards, the value of organically generated growth in the number of properties under management is not included as an asset on the balance sheet or as part of our statutory net assets. Our property management and mortgage book has a combined value of $26.0m[3], and underpinned an Estimated Net Assets for Shareholders of $27.7m[4].

The MDC Trilogy Group Alliance[5] is progressing well and continues to complete late-stage due diligence regarding a number of opportunities to be managed by The Agency.

Macquarie Bank Update

As announced, on 25th July 2022, The Agency entered into a Primary lender banking facility with Macquarie Bank, with a facility limit of $8.4m for a 3-year term expiring on 20 July 2025.

Concurrently with the approval of the part sale of the Mortgage trail asset, the primary lender has provided a covenant waiver in relation to the interest cover ratio for the period December 2022 quarter end. It has also confirmed approval has been obtained to waive the 31 March 2023 quarter Interest Cover Ratio covenant testing and will finalise the documentation within the next two weeks. As part of the approval of sale and waiver conditions, the Company delivered a duly executed deposit account agreement and transferred $650k into a nominated deposit account to cover 12 months interest costs. Conversations and discussions continue with the primary lender regarding future support initiatives while the business continues to invest in strategic initiatives.

Commentary

Commenting on the results and outlook, The Agency Managing Director & CEO Geoff Lucas said:
"We are disappointed to be reporting an EBITDA loss, however we believe the investment activities undertaken are critical to set the business up for the next stage of growth and ensure a solid platform for execution of our strategic objectives.

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[3] Management valuation of the Property Management portfolio is calculated on a blended valuation multiple of 3.35x on Q2 FY23 Annualised Property Management fees and 2.25x Net Trail Income relating to the remaining Mortgage Book (combined value of $26.0m).
[4] Only $13.2m of property management value is held on the Balance Sheet as an intangible asset, leaving $12.7m value off balance sheet. Adjusted for this off-balance sheet assets, Estimated Net Assets was $27.7m at 31 December 2022.
[5] Refer to ASX announcement dated 17 November 2022

“Our business is designed and built for scaling efficiencies from a critical mass. The recent market conditions have seen the company drop slightly below that scaled revenue level in this half, the continued growth in agent numbers and market share will see a resumption to scaled earnings in the near term.

“Across the period we commenced several cost reduction actions which will begin to take effect in 2H FY23 and FY24. Notwithstanding the EBITDA result, we are pleased with agent growth across 2022 which has helped deliver above industry performance, in what were difficult operating conditions across the East Coast. The nine consecutive interest rate increases to tame inflation have significantly impacted consumer confidence which is in line with GFC lows.

“Across the past 12 months, we’ve increased our team by 67 agents, taking us to 412 agents, compared to 345 as at 31 December 2021. As the founders established the business with a mid-term target of 600 agents, we are pleased with the progress toward that level. This agent growth underpinned our national market share uplift to 1.15%, from 0.92% in the corresponding half. Despite our increasing market share, our GCI is a small fraction of the $7.0 billion[6] total annual Australian residential real estate commissions pool. Our business is well positioned to continue growing our share of this pool.

“To ensure solid foundations to achieve a greater portion of this commission pool, a number of strategic initiatives including a brand alignment, data consolidation strategy, data security review, establishment costs relating to MDC Trilogy group, and fulfilment of key appointments for State Manager roles to drive recruitment and market expansion were undertaken during the period.

“We have also recommenced our Western Australian Property management business, which has incurred a loss in starting up, and will become profitable in the current half. The WA property management grew to over 200 PUM as at 31 December 2022 and had portfolio value in excess of $1m at balance date. Looking ahead, we are planning the rollout of a national Property management platform that will deliver greater efficiency.

“These growth initiatives combined with general cost inflation and additional costs from new geographical premises have resulted in increased operating expenses and an increase in the Cost of Doing Business ratio which we expect to reduce over time as our agent numbers and sales revenue grow.”

Outlook

“We are continuing to see agents and franchise principals alike being attracted to our business. Our contemporary business model is free from the traditional franchise restrictions and constraints. It also alleviates agents from the distractions and the administrative burden associated with operating an office. Pleasingly a number of our 2022 recruits have already achieved some significant results because of the benefits of our model and are becoming brand advocates for future recruits.

“Our new agent recruits generally take six months to begin contributing positively to the group’s EBITDA, depending on their skills and experience. Given we have had a net increase of 67 agents over the preceding 12 months we expect future revenue growth to be underpinned by this strong level of agent growth.

[6] Assessed at 1.50% Average Commission Rate of Annual Gross Sales Volume of $465.9Bn.

"We are a relatively new business which has attracted 412 agents in our six years of operation. With the evolving industry dynamic we have highlighted, we believe there is immense opportunity for continued agent number growth within The Agency across Australia as increasing numbers of agents become familiar with the benefits of our contemporary model and powerful brand. This growth will allow us to meet and then surpass critical mass for our business model and cost structure. We are focused on our strategic objectives to deliver the best business model and environment for real estate agents to operate in."

Mr Lucas continued, "In terms of price movements, we have estimated that national price movement will be negative 4% to negative 8% across calendar year 2023. Uncertainty around the interest rate outlook continues to restrict the volumes of homes coming to market. We believe this reduced volume will provide a buffer against more aggressive price reductions in the short to mid-term. As the terminal rate approaches in what we believe will be the next three months, we expect an improvement in consumer sentiment, leading to greater buyer certainty and improved levels of demand. That is likely to lead to an environment of greater price stability for the balance of CY2023 and into CY2024 and an improvement in transaction volumes."

ENDS

Announcement authorised for release by the Board of The Agency Group Australia Limited.

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