ASX Release
23 August 2023

FY23 FINANCIAL AND OPERATIONAL UPDATE

THE AGENCY ACCELERATES MARKET SHARE GROWTH IN DIFFICULT OPERATING ENVIRONMENT.

Highlights

	FY23	FY22	% Change
Revenue	**$76.93m**	**$72.66m**	**+6%**
Underlying EBITDA – pre AASB16	**($1.30m)**	**$3.85m**	**n.m.**
GCI[1]	**$95.4m**	**$102.5m**	**-7%**
Gross Value of Properties Sold	**$5.3bn**	**$5.9bn**	**-7%**
Number of Properties Sold	**5,734**	**5,709**	**+0.4%**
National Market Share	**1.23%**	**0.98%**	**+25 bps**
Number of Agents	**399**	**393**	**+2%**

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 FY23 as it continues to grow market presence nationally across six states and territories.

The Agency achieved its fifth straight year of growth in the number of properties sold, with The Agency exchanging 5,734 properties (+0.4% to FY22 exchanged properties of 5,709). This growth was achieved in an environment where National Market Transactions decreased by 20.3%[2] over the same period. This achievement was a significant outperformance to the market volumes that were impacted by a range of negative external factors, most notably rising interest rates and the adverse impact on home values across the country. This resulted in an increase in national market share where The Agency sold 1.23% of all residential property transactions across Australia, up from 0.98% national market share in FY22, a 25 basis point increase.

A 7% reduction in Gross Commission Income (GCI) to $95.4m (FY22: $102.5m) 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 7% reduction in Gross Value of Properties sold.

Revenue grew by 6% to $76.93m (FY22: $72.66m), which was primarily driven by a strong performance by payroll agents in WA[3] and increased management fees from national properties under management (FY23:

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[1] Gross Commission Income (GCI) is the fees the vendor pays for the sale of a property
[2] CoreLogic Economist Pack July 2023 edition
[3] 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 of 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.

$7.43m, FY22: $5.11m). Investment initiatives undertaken increased operating expenses which resulted in an Underlying EBITDA of -$1.30m (1H FY23: +$3.85m).

During the financial year, The Agency announced a new strategic alliance with MDC Trilogy Group[4]. The alliance with MDC Trilogy provides an opportunity for Principals to sell their business, including rent roll assets, and join The Agency as sales agents. Since its announcement, MDC Trilogy have deployed nearly $20m in purchasing rent roll assets across NSW and Queensland. These rent roll assets comprise of over 3,000 properties under management, which are now managed by The Agency, enabling greater cost synergies across both The Agency and MDC Trilogy owned portfolios.

As at 30 June 2023, the Group's Cash and Cash Equivalents was $4.63m (30 June 2022: $8.22m). During the financial year, 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 and the re-establishment of the Western Australia property management business, The Agency has grown to 5,018 properties under management as at 30 June 2023, which during FY23 collected over $135m 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 The Agency's statutory net assets. The property management and mortgage book has a combined value of $27.9m[5], and underpins Estimated Net Assets for Agency Shareholders of $29.2m[6].

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, March 2023 and June 2023 quarter end. The company has had extensive discussions with Macquarie Bank around the covenant testing and are confident a waiver will be obtained for the September 2023 quarter end as part of the normal quarterly reporting process. As part of the approval of partial mortgage 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.

Commentary

Commenting on the results and outlook, The Agency Managing Director & CEO Geoff Lucas said:
"The investments undertaken in FY23 which have contributed to an EBITDA loss will generate returns for many years to come. The second half of FY23 saw a return to sales commissions growth and improved operational performance from the 1H growth initiatives underpinned a reduction in the second half of FY23

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[4] Refer to ASX announcement dated 17 November 2022

[5] Management valuation of the Property Management portfolio is calculated on a blended valuation multiple of 3.35x on Q4 FY23 Annualised Property Management fees and 2.25x Net Trail Income relating to the remaining Mortgage Book (combined value of $27.9m).

[6] Only $11.3m of property management value is held on the Balance Sheet as an intangible asset, leaving $16.6m value off balance sheet. Adjusted for this off-balance sheet assets, Estimated Net Assets was $29.2m at 30 June 2023.

operating expenses. The second half FY23 cost of doing business materially reduced to 32.6% of revenue from 35.9% in the first half. As a result second half EBITDA loss reduced significantly from $950k EBITDA (Pre AASB16) loss in the first half, to $350k EBITDA (Pre AASB16) loss in the second half."

Mr Lucas added "We continue to build our business for scale and the management team continue to take a long term view ensuring the business can continue to deliver robust, scalable and profitable growth as the business continues to win further market share in what is a highly fragmented market. Targetted investments by the management team have resulted in our recent market share growth and reinforces the alternate and attractive business model to many of the franchise operations."

"We remain committed to continuing to deliver market share growth and the delivery of exceptional results and service to our customers. Our total commissions of $95.4 million is just a fraction of the $6.0 billion[7] total Australian residential real estate commissions paid by vendors in FY23 across Australia. We believe our contemporary business model, national reach, culture, and commitment to excellence in customer service means we are well positioned to expand our share of this $6.0 billion residential sales commissions market."

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. Across FY23, The Agency entered new geographical markets in Launceston, Tasmania and Rockhampton, Queensland. In May 2023, The Agency announced an expansion of its presence in Sydney's Inner West market, with the joining of independent Devine Real Estate, a four office group selling over $250m in properties annually."

"We are pleased with the initial performance and learnings from The MDC Trilogy Group strategic alliance which is generating significant inbound enquiry from Principals, where MDC Trilogy Group are in late stage due dillgence on a number of opportunities across targeted areas in a "capital light" acceleration of areas where The Agency is not yet represented across the country."

"Across FY24, The Agency will continue to focus on further market share growth, across both existing geographical areas and additional regions across Australia. The Queensland and Victorian states represent nearly 50% of Australian annual sales transaction volumes, and following the January 2023 commencement of QLD and Victoria/Tasmania State General Managers, addititional focus on these states is expected to assist in continued national market share growth in FY24."

ENDS

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

7 Assessed at 1.50% Average Commission Rate on FY23 Gross Sales Volume of $400.9Bn (CoreLogic July 2023 Monthly Housing Chart Pack)

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