



REAL ESTATE
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ASX ANNOUNCEMENT

31 January 2019

SHAREHOLDER LETTER

Please find attached a copy of a Shareholder letter dispatched to all shareholders today.

Your faithfully

Stuart Usher
Company Secretary
The Agency Group Australia Ltd

HEAD OFFICE 68 Milligan Street PERTH WA 6000
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THE AGENCY



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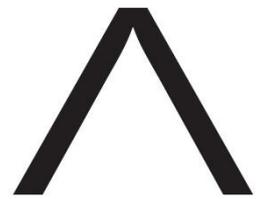
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REAL ESTATE
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30 January 2019

Shareholder Letter

Platform Now Set For Growth

Highlights

- Top Level acquisition now complete with \$8.4 million capital raising complete at 30c per share
- Transaction makes The Agency the fastest growing national real estate company in Australia
- The Agency expects significant increase in agents joining now transaction completed
- The Agency now comprises a national real estate business having two prominent brands (The Agency and Sell Lease Property) with:

Combined Total (as at 31 st December 2018)	
No. of Agents	293
No. of Properties Sold	1121
\$ Value of Properties sold	\$1.2bn
Properties under Mgmt.	4209
No. of Current Listings	1394
Group Revenue	\$24.5m

Note: Unaudited figures for 6 months to 31st December 2018

- A new cornerstone investor joins share register, via \$5 million of the recent placement, with Non-Executive Director John Kolenda taking a 16.97% interest
- The Agency completes a 6:10 bonus issue
- The Agency completes a consolidation of its capital on a 1:30 basis that will provide the best platform for continued growth, a capital structure that is more in line with the Company's size and a share price level that is more attractive to institutional investors
- Business has been built for scale with ability to materially grow the number of agents and properties under management with limited capital expenditure or increase in corporate overheads
- The Agency wins REIWA's top office for value of listings sold for December 2018

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Dear Shareholder,

It is with great pleasure that I inform you The Agency Group has recently completed its acquisition of high-growth eastern states focused real estate firm Top Level Real Estate and raised the required \$8.4 million via a share placement at 30c per share.

Even though this transaction has taken some time to complete, and there were doubters in the industry who believed it would never eventuate, it has now been completed. With this significant transaction now behind us, I thought it an opportune time to provide you with an overview of the transaction, recent highlights of the Company and some insights into our future plans.

But before this, I want to refresh in your minds the primary reasons as to why our model is and will continue to be so attractive to agents.

As you are no doubt aware, Australian real estate brokerage is dominated by franchised based brand networks which have caused significant fee leakage away from agents combined with multiple layers of administration and costs.

The traditional alternative for agents has been to establish their own small-scale operations, either stand alone or with peers. However, under this model, agents take on significant overhead cost and administrative burden in exchange for a higher share of their fee income.

Why Our Model Is & Will Continue to Be So Attractive

Below are the primary reasons why agents are flocking to join our brand and leave the traditional model in droves.

1. **Higher commission:** We provide overall larger profits to the agent (higher revenue and lower costs) than a traditional franchise or independent operations
2. **High-level of support:** We have a centralised office and created a cloud-based platform that provides superior support to the agent. Instead, the traditional models burden agents with significant overhead costs and administrative costs which impacts on their profits.
3. **Full Service Offering:** We are the first company to provide an opportunity for agents to participate in the value of property management, finance, conveyancy, insurance and risk.
4. **Add-on Services:** We provide our agents with innovative new services including access to our extensive client database and social media service offering.

In addition, the current environment is the best time for recruitment of agents who are discouraged by a tougher market and lower commissions.

A tough market is also the time when owners of franchises and small-scale operations question the high fees and costs and the risk versus return equation associated with the franchise model or the running of a small business. They are drawn to the enhanced fee offering, reduced risk and the high level of support under our disruptive model.

We can offer higher commissions to agents without effecting our net return due to not being a franchise model and having a centralised office using our cloud-based platform. We recruit only quality agents in the markets we want to operate in.

The agent is at the centre of their business under our model. They are our clients and our aim is to deliver the best quality service via superior support and tools. Ultimately, we allow the agent to focus only on what they do best – list and sell property.

This is our model and this is why we will continue to succeed.

In 2019, due to the tougher market we expect there will be further consolidation in the industry with our disruptive model attracting further attention from those agents and business owners wishing to change as they look for a more attractive offering and stronger brand and business model.

With completion of the Top Level acquisition, we expect a number of other reputable businesses will look at joining the national brand.

Our approach to acquisitions will be very selective and will only consider those real estate firms which are significantly value accretive to the business.

Top Level acquisition

I cannot stress enough to you how significant this acquisition is for The Agency which makes our disruptive model a national business. It will see the addition of a highly experienced east coast real estate sales and project marketing team, a significant property management portfolio and an extensive sales pipe-line.

With the addition of Top Level, your company will be the only national real estate business having two prominent brands (The Agency and Sell Lease Property), with 293 sales representatives across Perth, Sydney, Melbourne and the Gold Coast (across nine offices). This model of having two brands in the one market is common overseas in major real estate markets.

It will also have 4209 properties under management, 1394 listings and a mortgage book of over A\$1.2 billion.

Our footprint expands to not only include Perth and Sydney residential property markets but also offices in Melbourne and the Gold Coast with plans for offices in Canberra and further expansion of its Western Australian operations.

Real Estate Market

As you would no doubt be aware, the property market in Australia's eastern states has been in decline with property prices falling most notably in Melbourne and Sydney.

On this topic, I want to allay any concerns you may have regarding the timing of the Top Level acquisition during this downturn.

A drop in property values has little effect in our model. Our model is driven by the number of transactions and this in turn is driven by the number of agents.

East Coast Achievements

In the six months to 31st December 2018, The Agency East Coast has recorded 402 residential sales (with a combined value of ~ A\$805m), built a property management portfolio in excess of 3,300 properties, recruited a team of approximately 117 sales agents and established offices positioned in blue chip locations across the eastern suburbs, inner west and lower north shore of Sydney. They have achieved a strong market share in the most in an area that is in high demand and is regarded as the premium real estate area in the country.

Last year, the group's property partners achieved two of the top five record prices on the East Coast in 2018 including Bellevue Hill's Rona estate sold in the vicinity of \$60m (Australian record for a non-waterfront property) and Vacluse waterfront mansion sold in the vicinity of \$40m.

The Agency General Manager Victoria Peter Kakos and Michael Paproth Real Estate were selling agents for The Block's Bianca Chatfield and Carla Dziwoki, whose penthouse sold for \$2,991,000 at auction, netting the girls \$301,000 in prize money. When considering the cooling market in Melbourne, this was an amazing result and boosted our brand recognition in Melbourne.

Meanwhile, in a further example The Agency continues to attract top quality agents, The Agency Central Coast Brian Whiteman was included in REB's top ten Dealmakers 2018, a significant result when considering the award to The Agency Central Coast office is within 12 months of operation.

Significant Growth in WA

We are achieving strong growth in Western Australia so far in FY2019 with 30% growth anticipated across all key metrics including properties sold, properties under management, listings and revenue. All this in a market that has been decreasing, proving our model.

We are confident revenue growth will continue via organic growth which is driven by recruitment due to the attractiveness of our model.

When considering The Agency is officially a start-up, this growth represents a phenomenal achievement and is testament to our proven disruptive model and the tireless efforts of all staff.

The Group's combined revenue – including Top Level – would have been \$24.5 million for the six-month period to 31st December 2018 which represents around 60% of the \$41.8 million combined revenue generated for the FY2018.

Boost in Market Share

In Western Australia, The Agency Group and SLP have witnessed a significant increase in market share over the past few months nearing 5% market share in Western Australia placing us at Number 4 in the state. In comparison, the market leader in the state holds a market share of approximately 9%.

Awards

In further proof that our disruptive model works, The Agency was awarded Top Office for Listings Sold and Top Office by Value Sold in Western Australia for 2018 at the annual REIWA.com Awards.

The Company reported 667 sales worth over \$400 million for the past 12 months, which was 200 more sales and over \$50 million more property sold than second place.

The Agency also finished fourth in project market sales for the year. Sell Lease Property (SLP) would have come in second place for Listings Sold with 659 sales for the year, however was ineligible due to the change in ownership.

The Agency continues to top the REIWA monthly rankings, recently taking out top office for value of listings sold for December 2018 with over \$31 million in property sold for the month.

Conclusion

In the space of two very short years since listing in December 2016, the Agency Group has introduced a new disruptive model that has seen significant uptake by sales agents, has completed key acquisitions, integrated companies into the group, achieved top office rankings in WA for sales and has delivered robust revenue growth.

Significantly, our growth has taken place in a real estate market that has been experiencing a major decline in recent years. Our growth shows that in this market, our disruptive business model – which gives power back to the real estate agent to better serve clients and provides a significant value proposition to agents – is thriving while the traditional franchise model and small-scale offices are finding it difficult to grow and recruit.

In addition, it is very difficult for the traditional franchise model to adopt The Agency model given the franchise licences and multiple layers of administration and costs that are in place. By starting with a blank canvas, The Agency has been able to seize the opportunity by building an alternative model that provides agents with an enhanced fee and support offering without the administrative burden or risk.

Our target now is to become cashflow positive within the next 12 months while also focusing on national expansion opportunities.

I am incredibly proud of what The Agency stands for and for what we have delivered in only a short timeframe. Thank you for your continued support and unwavering belief in our company and our proven disruptive real estate model.

Yours sincerely,



Paul Niardone