McGrath

ASX ANNOUNCEMENT

Trading Update

06 November 2017: McGrath Limited (ASX: MEA) provides the following trading update to the market ahead of its Annual General Meeting on 22nd November 2017.

Trading Update

McGrath has completed the first four months of trading for FY18 and the Company's financial performance has fallen short of expectations at both the revenue and EBITDA levels. The underperformance is largely in Company Owned Sales, and is influenced by several factors including continued lower volumes of listings in most markets we serve, lower agent numbers and a significant slow-down in the traditionally volatile Project Marketing segment. Government policy changes around foreign buyers and developers coupled with tightened lending requirements have particularly affected this segment.

The Franchise and Property Management businesses are performing largely to expectations, and both have new management with significant relevant experience. Our events and training business TRET is performing well. Other divisional activities are mixed, and small contributors to earnings in aggregate.

McGrath has not given earnings guidance for FY18, but notes equities research by Bell Potter which gives a full year estimate of $16.6 million EBITDA. In the absence of an improvement in market conditions or a major cost out program, the Board does not expect EBITDA for FY18 to reach $16.6 million.

The Board believes it prudent to assume continued subdued market conditions, especially in Project Marketing. Accordingly, it is assessing a range of measures including the optimal level of cost reductions, balancing shareholder earning requirements with longer term objectives.

McGrath is committed to maintaining market leading service to vendors, landlords and borrowers, while improving its service to its franchisee partners and agents. In order to deliver a result that would align with forecasts in the market of $16.6 million EBITDA in FY18, we would be required to make significant cost cuts that may not be in the best interests of the business in the long term.

We do not believe that is in the best interests of McGrath or its shareholders.

Balancing short and long term objectives, the Board and Executive are finalising a Plan which:

1. Recognises that the M&A activity anticipated at the time of its 2015 listing on the ASX is unlikely to eventuate;
2. Recognises that the current market environment does not support expansion of Company Owned Offices in the near term;
3. Continues to support and strengthen the Franchise and Property Management businesses as they are; and
4. Allows for appropriate cost controls resulting from the above factors, while not damaging the long term prospects for the business.

Current Intentions

The Board and CEO will have progressed this work and will update investors at the upcoming AGM. The preliminary plan, which will be discussed with major shareholders between now and then, is to remove approximately $5 million of annualised costs from the business at a one-time restructuring cost of $1.4 million to $1.6 million. Most of these savings will be achieved by restructuring the Board, Executive and Leadership Team, removing management associated with M&A and Company Owned Office expansion activities and non-revenue generating roles across the organisation. Our objective is to at least maintain, if not improve, service delivery to our Sales Agents, Property Managers and Principals.

"We are one of Australia's largest residential real estate services companies and we continue to leverage the underlying strength of the McGrath brand, quality of its sales agents and network reach", McGrath CEO, Cameron Judson said.

"Our aim has been to grow the relative contributions of each of our annuity businesses in Property Management, Franchise and Oxygen and de-risk the volatility of our earnings in Project Marketing and Company Owned Sales."

Future Structural Options

The discussions with major shareholders may inform the Board and Executive about options to further accelerate, slow or add to the Plan. The Board and Executive will seek to best balance short and long term imperatives, but note that the short term imperatives demanded of a listed real estate services company are often at odds with long term capacity building and market share growth. This, too, will be discussed with shareholders.

At the level of cost out contemplated above, FY18 earnings could be 20% to 25% lower than the current Analyst estimate, due to high restructuring charges and a partial year of cost savings. On a full year of cost savings, the result would be within 10% of that estimate.

The Non-Executive Directors confirm they have nothing to disclose in relation to any approach to the Company. McGrath confirms it is in compliance with Listing Rule 3.1. The Company will keep shareholders fully informed in accordance with its continuous disclosure obligations.

-Ends-

For further information, please contact:

Media
Terri Sissian
Communications Director
P: +61419 881 414
E: terrisissian@mcgrath.com.au

Investors
Cameron Judson
Chief Executive Officer
P: +61 2 9386 3333
E: cameronjudson@mcgrath.com.au

About McGrath

Founded in 1988, McGrath (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 99 offices located throughout the East Coast of Australia.

For further information, please visit www.mcgrath.com.au