



**McGRATH LIMITED 2017 ANNUAL GENERAL MEETING
WEDNESDAY 22 NOVEMBER 2017
191 NEW SOUTH HEAD ROAD, EDGECLIFF, NEW SOUTH WALES**

CHAIR'S ADDRESS

Dear fellow shareholders,

Good afternoon and welcome to the McGrath Limited Annual General Meeting.

All Directors are present, as are our Executive leadership team, which has significantly increased in depth and breadth of talent during the past 6 months.

Welcome, also, to our agents and franchisee partners in the room, and visitors.

FY17 results and trading conditions

I start my address today by acknowledging our common disappointment in the overall FY17 earnings results and their impact on our shareprice.

At last year's AGM we reported that the then-unprecedented low listings volumes had much to do with the underperformance of the Company Owned Sales segment in H2 16 and our assessment of the reasons behind those low volumes. Many of those external conditions remain, including high transaction prices and costs dampening transaction volumes, people moving less often and tighter lending criteria for foreign and domestic investors, owner occupier buyers and developers.

Since this time last year, low listing volumes translated into lower sales volumes in the markets we serve. As perspective, CoreLogic says the aggregate value of residential sales in FY17 was approximately \$20 billion less than it was in FY16 across the markets we serve. McGrath's Company Owned offices transacted approximately \$850m less in sales value over the period. Conversely, our Franchise network gained approximately \$1.5bn of sales value. Pleasingly, almost \$500m of that gain was on a same store basis, pointing to decent market share growth in much of our Franchise network.

Our Franchise and Property Management businesses increased Revenue, EBITDA and Margins, allowing an improvement in McGrath's overall Gross Margin. This is despite net agent outflow in the Company Owned offices and difficult trading conditions and predictability in Project Marketing. As you will see from Cameron's presentation, Company Owned Sales including Project Marketing account for approximately half our earnings, and Franchise and Property Management the other half.

Post FY17 trading conditions and outlook

Since the 2017 Financial Year end, some data is pointing to improvement in listing volumes in Sydney and overall NSW. This follows recent price stabilisation providing greater certainty for buyers and sellers. Melbourne, Canberra and Brisbane still had some price growth in the quarter ended October 30, but we expect Melbourne to cool. Brisbane and greater

Queensland have potential for material growth over the next few years, having lagged their southern neighbours for the past few.

For our Property Management business, rental incomes in Sydney, Melbourne and Canberra are currently rising well above the national average. Overall, we are hopeful for more stable trading conditions across our business segments in the near future.

Our McGrath Report titled Two Thousand Eighteen contains further insights from John and our team, and we welcome you to take a copy home to read and share, or you can download a copy from the Company website, McGrath.com.au.

Results for our clients

It is important to note that while our Company Owned sales segment has suffered from lower market volumes and lower net agent numbers, we continue to deliver outstanding results for our clients. Comprehensive market research we commissioned from a large, independent data analysis and research firm showed that vendors who use McGrath for the first time have their expectations exceeded on value, service and overall experience. McGrath is known in the industry as being able to secure the best prices for our vendors, while supporting them throughout an often stressful process.

We know that many of the best agents in the country work at McGrath. The Real Estate Business 2017 Survey shows we have 19 of the Top 100 agents in Australia (more than twice that of our nearest competitor), 10 of the top 50 female agents in Australia and 9 of the top 50 "Dealmaker" agents in Australia. In aggregate, around 20% of the top performing agents with just 4% of market share by value and less by volume.

Our brand, training and competitive reward systems allow us to recruit and develop the best agents in the country, and in 2017 to date we have recruited 67 emerging and talented agents across the network, including some high performers. We have a solid recruitment pipeline.

In a new initiative, we have a Senior Executives developing business to business initiatives, which is showing valuable lead generation opportunities for agents and property managers in the group, and the clients they serve.

Corporate activity

During the year, we have assessed many businesses for possible acquisition or partnership. Our filters include business model, strategic fit, valuation and service proposition. In the digital arena, we have reviewed fixed fee listing platforms, fixed fee selling platforms, agent referral platforms, fixed fee property management platforms, property marketing finance platforms, peer to peer selling platforms and more. So far, while we may look more at underlying technologies, we have not found irresistible service propositions.

We do not dismiss disruption. However we are yet to see compelling, broad based disruptor models. It is difficult to see customers securing *better* real estate outcomes with *less* personalised service.

We have also assessed other agency groups, but none which have sufficient profitability or strategic fit to warrant investment. However, we remain debt free and able to take up opportunities should they arise.

The Board is acutely conscious of the shareprice underperformance, and its obligations to shareholders to encourage a liquid and positive market for their shares. We are conscious that the shares are trading close to asset value on market accepted metrics. I note recent commentary on the status of the company as a listed entity. We have reviewed a number of options for shareholders, but have nothing to disclose at this time.

Finally, I would like to thank my fellow Directors including Founder John McGrath, Elizabeth Crouch, Cath Rogers and Nigel Dews, each of whom contribute valuable time, wisdom and support to me, Cameron and the business.

I will now hand over to our CEO, Cameron Judson.

Cass O'Connor
Chair