

25 January 2018

Violetta Codreanu  
Senior Adviser, Listings Compliance  
ASX Compliance Pty Ltd  
20 Bridge Street  
Sydney NSW 2000

BY EMAIL: Violetta.Codreanu@asx.com.au

Dear Ms Codreanu

## **McGrath Limited (the "Company"): ASX Aware Letter**

McGrath Limited (ASX:MEA) (**MEA** or the **Company**) refers to your letter of 23 January 2018 (**Aware Letter**).

MEA's responses to the questions posed in the Aware Letter are set out below. Unless otherwise defined, capitalised terms in this letter have the same meaning as given to those terms in the Aware Letter.

### **1. When did MEA first become aware of the Revised Guidance?**

The Board was first presented with the draft results related to the month of December and a draft full year forecast on the afternoon of Friday, 19 January 2018 at a Board meeting.

### **2. Does MEA consider the Revised Guidance to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

Yes.

### **3. If the answer to question 2 is "yes" and MEA first became aware of the information before the relevant date, did MEA make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe MEA was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps MEA took to ensure that the information was released promptly and without delay.**

As referenced above, the Board was presented with draft results related to the month of December and a draft full year forecast at a Board meeting on the afternoon of Friday, 19 January 2018. During the meeting, the Board considered a number of material financial matters and alternative organisational scenarios, each of which would impact the full year forecast. The Board determined to proceed with organisational changes as outlined in the Revised Guidance and concluded that the December results together with the cost impacts of the proposed organisational changes necessitated revised guidance.

The Company undertook and completed work over the weekend to produce the Revised Guidance, which was finalised early on the morning of Monday, 22 January 2018 and was lodged with the ASX promptly shortly thereafter being released at 9.02am on Monday, 22 January 2018, in accordance with the Company's obligations under Listing Rule 3.1.

**4. If the answer to question 2 is "no", please advise the basis for that view.**

Not applicable.

**5. In light of Listing Rule 15.7, please explain how certain information contained in the Announcement appeared in the Article.**

The Company is not aware as to how certain information relating to McGrath came to appear in the Article. The publication of the information in the Article occurred without the knowledge or approval of the Board. The Company takes its obligations under Listing Rule 15.7 very seriously and is investigating how information came to appear in the Article. For completeness however we note that information contained in the Announcement dated 22 January 2018 does not appear in the Article. The internal documents referred to in the Article relate to the results for the month of November as later clarified in the online version of the Article. The November results were received by the Board on 14 December 2017 and were determined not to be information that a reasonable person would expect to have a material effect on the price or value of its securities given the trading update released on 6 November 2017, the inter-month volatility of earnings, continuing work on the cost cutting program and the relevance of December earnings.

**6. What arrangements does MEA have in place to ensure compliance with Listing Rule 15.7? If the current arrangements are inadequate or not being enforced, what additional steps does MEA intend to take to ensure compliance with Listing Rule 15.7?**

The Company has a Continuous Disclosure Policy (**Policy**), available on its Corporate Website, which governs the Company's compliance with its continuous disclosure obligations and which specifically prohibits the release of any material information to the media (even on an embargoed basis) before it has been disclosed to the ASX. The Policy is well understood and respected by the Board and senior management of the Company. Consistent with the Policy, directors and management of the Company may not discuss any financial information, broker estimates or forecasts with investors, analysts or the media unless that information has previously been disclosed to the ASX. The Company routinely circulates reminder emails to directors and employees in relation to share trading and media policies.

The Company considers its current arrangements are adequate.

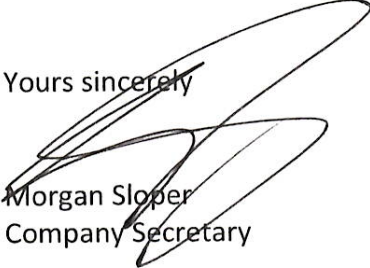
**7. Please confirm that MEA is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.**

Confirmed.

8. Please confirm that MEA's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of MEA with delegated authority from the board to respond to ASX on disclosure matters.

Confirmed.

Yours sincerely



Morgan Sloper  
Company Secretary



23 January 2018

Mr Morgan Sloper  
Company Secretary  
McGrath Limited  
191 New South Head Road  
Edgecliff NSW 2027

By email: [MorganSloper@mcgrath.com.au](mailto:MorganSloper@mcgrath.com.au)

Dear Mr Sloper

**McGrath Limited ("MEA")**

ASX Limited ("ASX") refers to the following:

- A. MEA's announcement entitled "Trading Update" lodged on the ASX Market Announcements Platform ("MAP") and released at 8:38am on 6 November 2017, which stated the following:

*"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."*

...

*"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."*

- B. MEA's announcement entitled "Earnings Guidance and key organisational changes" lodged on MAP and released at 9:02am on 22 January 2018 (the "Announcement"), which stated the following:

*"Based on currently available information, the Board anticipates the Company's EBITDA for the half year ended 31 December to be \$1.63m before one off items and a small loss of \$50,000 post one off items."*

...

*"On current indications, full year EBITDA is expected to be in the range of \$5.8m - \$6.8m after one off items. This would translate to underlying earnings of \$10.6m - \$11.6m before one off items and assuming the cost initiatives were in place for a full year period."*

(the "Revised Guidance").

- C. The article in the Australian Financial Review entitled "Documents reveal McGrath in the red amid board clashes", dated 22 January 2018 (the "Article").



- D. The decrease in the price of MEA's securities from a close of \$0.58 on 19 January 2018 to a low of \$0.50 after the release of the Announcement on 22 January 2018.
- E. Listing Rule 3.1, which requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- F. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:
- "an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity",*
- and section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information"*.
- G. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.
- "3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:*
- 3.1A.1 *One or more of the following applies:*
- *It would be a breach of a law to disclose the information;*
  - *The information concerns an incomplete proposal or negotiation;*
  - *The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
  - *The information is generated for the internal management purposes of the entity; or*
  - *The information is a trade secret; and*
- 3.1A.2 *The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*
- 3.1A.3 *A reasonable person would not expect the information to be disclosed."*
- H. Listing rule 15.7 which states:
- "An entity must not release information that is for release to the market to any person until it has given the information to ASX and has received an acknowledgement that ASX has released the information to the market."*

Having regard to the above, ASX asks MEA to respond separately to each of the following questions and requests for information:

1. When did MEA first become aware of the Revised Guidance?

2. Does MEA consider the Revised Guidance to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
3. If the answer to question 2 is “yes” and MEA first became aware of the information before the relevant date, did MEA make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe MEA was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps MEA took to ensure that the information was released promptly and without delay.
4. If the answer to question 2 is “no”, please advise the basis for that view.
5. In light of Listing Rule 15.7, please explain how certain information contained in the Announcement appeared in the Article.
6. What arrangements does MEA have in place to ensure compliance with listing rule 15.7? If the current arrangements are inadequate or not being enforced, what additional steps does MEA intend to take to ensure compliance with Listing Rule 15.7?
7. Please confirm that MEA is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
8. Please confirm that MEA’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of MEA with delegated authority from the board to respond to ASX on disclosure matters.

#### **When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than half an hour before the start of trading (**i.e., before 9.30 a.m. AEDT) on Thursday, 25 January 2018**). If we do not have your response by then, ASX will have no choice but to consider suspending trading in MEA’s securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, MEA’s obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

#### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to MEA’s obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that MEA’s obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

## Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in MEA's securities under Listing Rule 17.1.

If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

*[sent electronically without signature]*

Violetta Codreanu

**Senior Adviser, Listings Compliance (Sydney)**