

Joint Lead Managers & Underwriters

J.P.Morgan

Financial Adviser





Important notices

Offer

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in McGrath Holding Company Limited (to be renamed 'McGrath Limited' following Settlement of the Offer) (ABN 61 608 153 779) (McGrath Holdings) (Shares). This Prospectus is issued by McGrath Holdings and McGrath SaleCo Limited (ACN 65 608 153 797) (SaleCo) for the purposes of Chapter 6D of the Corporations Act 2001 (Cth) (Corporations Act)

Shares will also be issued to a limited number of subscribers as consideration for the Acquisition described in Section 9.4.1. However, those Shares are not part of the Offer.

At the date of this Prospectus, McGrath Holdings had one Share on issue and had not traded. Following Settlement, McGrath Holdings will acquire all of the issued capital of McGrath Limited (to be renamed 'McGrath Operations Limited') (ABN 17 091 455 711) (McGrath Operations) and the Smollen Group (as defined below). Refer to Section 7 for further information.

Lodgement and listing

This Prospectus is dated 12 November 2015 and was lodged with the Australian Securities and Investments Commission (ASIC) on that date. None of ASIC, the Australian Securities Exchange (ASX) or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. McGrath has applied to ASX for listing and quotation of the Shares on ASX.

Expiry date

No securities will be issued or transferred on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs (including financial and tax issues) of any prospective investor. Cooling-off rights do not apply to an investment in Shares under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

It is important that you read this Prospectus carefully and in full before deciding whether to invest in McGrath. In considering the prospects of McGrath, you should consider the best estimate assumptions underlying the Forecast Financial Information set out in Section 4 and sensitivities associated with that information set out in Section 4.8, respectively, and the risk factors that could affect McGrath's business, financial condition and results of operations and the value of your investment in it. You should carefully consider these factors in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, tax adviser, lawyer or other professional adviser before deciding whether to invest in the Shares. Some of the key risk factors that should be considered by prospective investors are set out in Sections 1.D and 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of McGrath, the repayment of capital by McGrath or the payment of a return on the Shares.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by McGrath or its Directors, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on the information in this Prospectus.

Disclosing entity

Once admitted to the official list of ASX, McGrath Holdings will be a disclosing entity for the purposes of the Corporations Act and as such will be subject to regular reporting and disclosure obligations under the Corporations Act and the official listing rules of ASX (ASX Listing Rules). Refer to Section 9 for further information.

Exposure Period

The Corporations Act prohibits McGrath Holdings and SaleCo from processing applications for Shares under this Prospectus (Applications) in the seven day period after the date of lodgement of this Prospectus with ASIC (Exposure Period). This period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on Applications received during the Exposure Period.

During the Exposure Period, this Prospectus will be made available to Australian residents, without the Application Forms, at McGrath's offer website, www.mcgrath.com.au.

Obtaining a copy of this Prospectus

This Prospectus is available to Australian investors in electronic form at www. mcgrath.com.au. The Offer constituted by this Prospectus in electronic form at www. mcgrath.com.au is available only to persons within Australia. It is not available to persons in other jurisdictions (including the United States). Persons having received a copy of this Prospectus in its electronic form may, before the Closing Date, obtain a paper copy of this Prospectus (free of charge) by telephoning the McGrath IPO Offer Information Line on 1300 880 732. If you are eligible to participate in the Offer and are calling from outside Australia, you should call +61 1300 880 732. Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus, or in its paper copy form which may be downloaded in its entirety from www. mcgrath.com.au. Refer to Section 7 for further information.

Statements of past performance

This Prospectus includes information regarding the past performance of McGrath. Investors should be aware that past performance is not indicative of future performance.

Financial information presentation

Section 4 sets out in detail the financial information referred to in this Prospectus. The basis of preparation of the financial information is set out in Section 4.2.

All references to FY2013, FY2014, FY2015 and FY2016 appearing in this Prospectus are to the financial years ended or ending 30 June 2013, 30 June 2014, 30 June 2015 and 30 June 2016, respectively, unless otherwise indicated.

The Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by the Australian Accounting Standards issued by the Australian Accounting Standards Board, which are consistent with International Financial Reporting Standards (IFRS) and interpretation issued by the International Accounting Standards Board (IASB).

All financial amounts contained in this Prospectus are expressed in Australian currency, unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

Non-IFRS financial information

The Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Financial Information in this Prospectus should be read in conjunction with, and is qualified by reference to, the information contained in Section 4.

Unless otherwise stated or implied, all pro forma data in this Prospectus gives effect to the pro forma adjustments referred to in Section 4.

Readers should be aware that certain financial data included in this Prospectus is 'non-IFRS financial information' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. McGrath believes this non-IFRS financial information provides useful information to users in measuring the financial performance and condition of McGrath. The non-IFRS financial information does not have standardised meanings prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor

should it be construed as an alternative to other financial information determined in accordance with Australian Accounting Standards. Readers are cautioned, therefore, not to place undue reliance on any non-IFRS financial information or ratio included in this Prospectus.

Financial data is as at 30 June 2015, unless otherwise stated or implied. Operational and other non-financial data is at 10 November 2015 unless otherwise stated or implied.

Forward looking statements

This Prospectus includes Forecast Financial Information based on the best estimate assumptions of the Directors and on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place (including the key assumptions set out in Section 4). The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Pro Forma Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

This Prospectus contains forward looking statements which are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may", and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward looking statements

Any forward looking statements are subject to various risk factors that could cause McGrath's actual results to differ materially from the results expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of McGrath, SaleCo and their Directors and management. Forward looking statements should be read in conjunction with, and are qualified by reference to, risk factors as set out in Section 5, general assumptions as set out in Section 4.7.1, specific assumptions as set out in Section 4.7.2, the sensitivity analysis as set out in Section 4.8, and other information in this Prospectus.

McGrath, SaleCo and their Directors cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. McGrath has no intention of updating or

revising forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information, contained in this Prospectus, except where required by law.

Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

Market and industry data

This Prospectus contains statistics, data and other information relating to: (i) the markets that McGrath operates in, market sizes, market shares, market positions, and other industry data; and (ii) macroeconomic trends, positions and other data (Market Data).

Unless otherwise indicated, the information in Section 2.4 of this Prospectus is based on a residential property market profile and outlook report (Market Report) that McGrath commissioned from BIS Shrapnel Pty Limited (BIS Shrapnel), as well as McGrath's analysis of such information.

While the views, opinions, forecasts and information contained in such Market Report are based on information reasonably believed by BIS Shrapnel in good faith to be reliable, BIS Shrapnel has not independently verified or audited any information provided by or on behalf of McGrath. Similarly, McGrath has not independently verified and cannot give any assurances as to the accuracy and completeness of the Market Report.

In addition, certain statistical information, modelled data and analytics contained in the Market Data is based on information provided by RP Data Pty Ltd (trading as CoreLogic Asia Pacific) (CoreLogic) for the purpose of this Prospectus (CoreLogic Data). In addition to the CoreLogic Data, there are other statements and charts in this Prospectus made by, attributed to or based on statements made by CoreLogic. These have not been consented to by CoreLogic for the purpose of section 729 of the Corporations Act and are included by McGrath on the basis of Class Order relief from the Corporations Act for statements used from books, journals or comparable publications.

The Market Report and CoreLogic Data includes or is otherwise based on information obtained by BIS Shrapnel or CoreLogic (respectively) from: (i) real estate websites; (ii) publicly available information, such as federal and state government publications; and (iii) other information publicly released by corporations and government departments. BIS Shrapnel and CoreLogic have not

independently verified or audited this information or any information provided by or on behalf of McGrath. Accordingly, the accuracy and completeness of such information is not guaranteed. The Market Data provided by BIS Shrapnel and CoreLogic has been accurately reproduced and, as far as McGrath is aware, no facts have been omitted that would render the information provided inaccurate or misleading. Investors should note that Market Data is inherently predictive and subject to uncertainty and is not necessarily reflective of actual market, industry and macroeconomic conditions.

Specifically, there is no assurance that any of the forecasts or projections contained in the Market Report, which are referred to in the Prospectus, will be achieved. Forecasts and projections involve risks and uncertainties and are subject to change based on various factors, including those discussed in "Risks" in Section 5 of this Prospectus.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by McGrath. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables are based on information available at the date of this Prospectus.

Company website

Any references to documents included on McGrath's website at www.mcgrath.com. au are for convenience only, and none of the documents or other information available on McGrath's website is incorporated herein by reference

Defined terms and time

Defined terms and abbreviations used in this Prospectus have the meanings given in the glossary in Appendix D of this Prospectus. Unless otherwise stated or implied, references to times in this Prospectus are to Sydney time (GMT +10). Unless otherwise stated or implied, references to dates or years are calendar year references.

Disclaimer

Except as required by law, and, the Joint Lead Managers only to the extent so required, neither McGrath nor any other person warrants or guarantees the future performance of McGrath, or any return on any investment made pursuant to this Prospectus.

As set out in Section 7.2, it is expected that the Shares will be quoted on ASX initially on a deferred settlement basis. McGrath, its Directors, the Joint Lead Managers and all other persons named in this Prospectus disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

J.P. Morgan Australia Limited and Bell Potter Securities Limited have acted as Joint Lead Managers to the Offer, Neither J.P. Morgan Australia Limited nor Bell Potter Securities Limited has authorised, permitted or caused the issue or lodgement, submission, despatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by either of them or by any of their affiliates, officers or employees. To the maximum extent permitted by law, each of J.P. Morgan Australia Limited and Bell Potter Securities Limited and each of their respective affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

Selling restrictions

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In particular, the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered or sold in the United States unless the Shares are registered under the U.S. Securities Act, or an exemption from the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws is available.

See Section 7.8 for more detail on selling restrictions that apply to the offer and sale of Shares in jurisdictions outside of Australia.

Privacy

By filling out the Application Form to apply for Shares, you are providing personal information to McGrath and the Share Registry. McGrath, the Joint Lead Managers and the Share Registry may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

Your personal information may also be provided to McGrath's Agents and service providers on the basis that they deal with such information in accordance with McGrath's privacy policy and applicable laws. McGrath's Agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of members;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires McGrath to include information about that Shareholder (including name, address and details of the Shares held) in its public register of Shareholders. If you do not provide all the information requested, your Application Form may not be able to be processed.

The information contained in McGrath's register of Shareholders must remain there even if that person ceases to be a Shareholder. Information contained in McGrath's register of Shareholders is also used to facilitate dividend payments, corporate communications (including financial results, annual reports and other information that McGrath may wish to communicate to its Shareholders) and compliance with legal and regulatory requirements. An Applicant has a right to access and correct the information that McGrath and the Share Registry hold about that person and to make complaints.

Applicants can obtain a copy of McGrath's privacy policy by visiting the McGrath website (www.mcgrath.com.au). By submitting an Application, you agree that McGrath and the Share Registry may communicate with you in electronic form or contact you by telephone in relation to the Offer.

Offer management

The Offer is being arranged, managed and underwritten (other than the Employee Award Offer) by J.P. Morgan Australia Limited and Bell Potter Securities Limited.

Investigating Accountant's Report on Financial Information and financial services quide

The provider of the Investigating Accountant's Report on Financial Information has provided Australian retail clients with a financial services guide in relation to its independent review under the Corporations Act.

The financial services guide is provided in Section 8.

Questions

If you have any questions about how to apply for Shares, please call your Broker. Instructions on how to apply for Shares are set out in Section 7 of this Prospectus and on the back of the Application Form.

This Prospectus is important and should be read in its entirety.



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Key offer statistics and important dates

Key offer statistics

Offer Price	\$2.10 per Share
Gross proceeds of the Offer	\$129.6 million
Total number of New Shares to be issued by McGrath under the Offer	31.5 million
Total number of New Shares to be issued by McGrath at completion of the Acquisition ¹	10.0 million
Total number of Existing Shares to be sold by SaleCo under the Offer	30.6 million
Total number of Shares on issue at Completion of the Offer	134.2 million
Total number of Shares to be held by Existing Shareholders at Completion of the Offer	62.1 million
Market capitalisation at the Offer Price ²	\$281.8 million
Pro forma net cash (as at 30 June 2015)	\$9.7 million
Enterprise Value at the Offer Price ³	\$272.1 million
Enterprise Value/pro forma consolidated FY2016 forecast EBITDA ⁴	8.8x
Offer Price/pro forma consolidated FY2016 forecast NPATA per Share ⁵	13.4x
Annualised forecast FY2016 dividend yield at the Offer Price ⁶	3.7%

¹ The Acquisition is structured to include an initial purchase price of approximately \$52.5 million, payable at completion partly in cash (\$31.5 million) and partly in ordinary shares (\$21 million) to be issued at the Offer Price. There will also be deferred consideration payable in cash and scrip if certain conditions are satisfied. The scrip component of the deferred consideration is to be effected through the issue of CRPS, which convert into Shares on different dates. If conversion in full were to occur at the same price as the Offer Price, the CRPS could convert into approximately 4.2 million Shares at the relevant conversion date (representing approximately 3.1% of the issued capital in McGrath immediately after completion of the Offer and the Acquisition).

² Equal to the total number of Shares on issue on completion of the Offer and the Acquisition multiplied by the Offer Price.

³ Equal to the indicative market capitalisation less pro forma consolidated cash (as at 30 June 2015) set out in Section 4.

⁴ The Forecast Financial Information is based on assumptions and accounting policies set out in Section 4 and Appendix A, and is subject to the key risks set out in Section 5. There is no guarantee that the Forecast Financial Information or any other forecasts will be achieved. Certain Financial Information included in this Prospectus is described as pro forma for the reasons described in Section 4

⁵ NPATA refers to net profit after tax with non-tax effected amortisation of property management rights acquired added back. This ratio is commonly referred to as a price to earnings, or PE, ratio. A PE ratio is a company's share price divided by its earnings per Share. The Forecast Financial Information is based on and subject to the assumptions and accounting policies set out in Section 4 and Appendix A, and is also subject to the key risks set out in Section 5. There is no guarantee that the Forecast Financial Information or any other forecasts will be achieved.

⁶ Annualised dividend yield for the period from 4 December 2015 until 30 June 2016 is based on the forecast dividend per Share set out in Section 4.9 divided by the Offer Price.

Important dates

Retail Offer opens	Monday, 23 November 2015
Retail Offer closes	Wednesday, 2 December 2015
Settlement	Friday, 4 December 2015
Expected commencement of trading on ASX (on a deferred settlement basis)	Monday, 7 December 2015
Expected issue of Shares to the Smollen Sellers	Monday or Tuesday, 7 or 8 December 2015
Issue and transfer of Shares (Completion of the Offer)	Monday, 7 December 2015
Expected completion of dispatch of holding statements	Tuesday, 8 December 2015
Expected commencement of trading on ASX (on a normal settlement basis)	Wednesday, 9 December 2015

Note: This timetable is indicative only and may change. Unless otherwise indicated, all times are Sydney time. McGrath and SaleCo (with the consent of the Joint Lead Managers), reserve the right to vary any and all of the above dates and times without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Closing Date, or to accept late Applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or Applicants). If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens. No cooling-off rights apply to the Offer. The admission of McGrath to the official list of the ASX and the commencement of quotation of the Shares are subject to confirmation from ASX.

How to invest

Applications for Shares can only be made by completing and lodging the Application Form attached to or accompanying this Prospectus.

Instructions on how to apply for Shares are set out in Section 7 and on the back of the Application Form.

The Chairman's Letter

12 November 2015

Dear Investor,

On behalf of my fellow Directors, it is my pleasure to invite you to become a shareholder of McGrath.

Founded in 1988 by John McGrath as a one man operation, McGrath has consistently grown and we have established it as one of the leading residential real estate service providers in Australia.

We operate a diverse business model consisting of five business units that provide a range of services that includes residential property sales, property management, mortgage broking, auction services and real estate training. Our network of 22 Company Owned Offices and 53 Franchise Offices (following completion of the Acquisition) generates revenue primarily through commissions and franchise fees.

We believe that our business model and high performance culture differentiates us from our competitors. Combined with McGrath's respected brand and agent support, these factors have helped us to attract and retain over 600 Agents, including what we believe are some of the most highly rated agents in the Australian market. As a whole, the McGrath Network was responsible for sales turnover of approximately \$11.6 billion in FY2015 from approximately 11,000 sales and manages approximately 21,900 properties, which McGrath believes have a value of approximately \$16.2 billion. Our award winning mortgage broking business, Oxygen Home Loans, has total loans under management of approximately \$2.0 billion.

McGrath operates in the Australian residential real estate industry which is highly fragmented. In the year to 31 March 2015, we estimate that McGrath was the third largest residential real estate sales network in Australia by total value of properties sold with a market share of approximately 3.2%. Given our current scale relative to our market share, we believe there is significant scope for expansion in our current network as well as entering new regions. In order to achieve this, we have a clear organic growth strategy that involves growing by adding new Company Owned Offices and new Franchise Offices. In particular, we are in well advanced discussions with potential Franchisees to enter the Victorian market in the near term, together with 15 additional Franchise Offices and four Company Owned Offices in NSW, the ACT and Queensland (within our existing markets) in FY2016.

The Offer will provide McGrath with greater access to capital, leaving it well positioned to potentially execute select, accretive acquisitions. To that end, McGrath will utilise part of the Offer proceeds and issue Shares to acquire the Smollen Group, currently McGrath's largest Franchisee. The Board believes that the Smollen Group presents a high quality acquisition that will further enhance McGrath's scale and presence in the Australian market place to the benefit of all shareholders.

Through this Prospectus, McGrath is inviting investors to acquire 61.7 million Shares at an Offer Price of \$2.10 per Share for a total Offer size of \$129.6 million.7 The Offer will provide McGrath with an improved capacity to attract and retain quality staff and agents through the ability to offer listed equity as an incentive and retention tool, additional financial flexibility to pursue growth opportunities, and the opportunity for Existing Shareholders to partially realise their investment. Following Completion of the Offer and completion of the Acquisition, the Existing Shareholders will own approximately 46.3% of McGrath and John McGrath will remain McGrath's largest shareholder with a holding of 27.0%.

Detailed information about the Offer and the financial and operating performance of McGrath is set out in this Prospectus.

As with any company, there are a number of risks associated with an investment in McGrath which investors should consider as part of their investment decision. Key risks associated with an investment in McGrath are set out in Section 5 of this Prospectus and include risks relating to: exposure to the Australian residential real estate market; increased competition and disintermediation; reliance on management; franchises; acquisitions; retention of agents; reputation and brand; information technology and the regulatory environment.

It is important to read this Prospectus carefully and in its entirety before making your investment decision.

On behalf of the Board and senior management team, I look forward to welcoming you as a Shareholder.

Yours sincerely,



David Mackay Chairman

⁷ Excluding Shares issued under the Employee Award Offer and the NED Bonus Shares.

The Founder's Letter

12 November 2015

Dear Investor,

It is with great pleasure that I invite you to become a fellow shareholder in McGrath, the business that I founded in 1988. I started the business with a vision of building a world class residential real estate services business by bringing high calibre real estate professionals together with a focus on quality customer experiences and superior results. Since we started, we have maintained a strong culture that rewards success and ongoing growth and I believe this sets us apart from our competitors.

We have now established the McGrath brand as one of the leading residential real estate service providers in Australia with a footprint that spans Sydney, regional NSW, the ACT, Brisbane and regional Queensland. We have plans to rapidly grow our footprint following the Offer, with an immediate focus on expanding in our current regions and entering Victoria, a state that accounted for around 24% of the Australian residential real estate market by sales volume for the year to 31 March 2015.8 I believe we have a strong opportunity to grow our presence and that we cover only 40% of our addressable markets.

I believe our model provides us with advantages over other real estate groups as it allows us to partner with strong local Franchisees and rollout our brand into new regions as well as to selectively open new Company Owned Offices. Testament to the success of our model has been our pro forma compound annual growth in property sales volumes of over 17% from CY2008 to CY2014.

This Offer is the next stage in the evolution of our Company and our team is excited about the new opportunities it brings. In addition to our ongoing organic growth, the Offer gives us the opportunity to consider selectively acquiring businesses that are compatible with McGrath.

I am grateful for your interest in McGrath and can assure you that, going forward, I intend to continue to keep the same high quality standards, customer focus and family culture that have helped us become who we are today. Most importantly, we will continue to help Australians move from one home to the next, through sound real estate advice and skilled execution of our processes. Whether buying, selling or renting, we recognise the important role that a good real estate Agent plays in this process.

As a listed company, our talented and experienced management team will strive to maximise shareholder returns by continuing to stay focused on both our short term initiatives and long term goals and delivering our customers the greatest experience possible.

I am delighted, humbled and incredibly proud in the results that the McGrath team has achieved to date. And yet I feel in many ways, the journey is just beginning. If the McGrath story resonates with you, I would like to welcome you as one of our shareholders through the Offer and to be a part of the next phase of this exciting journey.

Yours sincerely,

Jahn Migrath

John McGrath
Founder and Chief Executive Officer

⁸ CoreLogic Data

565
Number of McGrath Agents FY2015

\$11.6 bn

Value of property sales FY2015





Section 1 Investment overview



1. Investment overview

A. Introduction

TOPIC

SUMMARY

FOR MORE INFORMATION

WHAT IS McGRATH?

Founded in 1988 by John McGrath, McGrath has been established as one of the leading residential real estate service providers in Australia with a strong market presence in NSW and the ACT, a growing presence in Queensland and is in the process of establishing a presence in Victoria.

McGrath is an integrated residential real estate services company operating five business units that provide a range of services including residential property sales, property management, mortgage broking, auction services and real estate training. McGrath operates a 'hybrid' business model, which will, following the Acquisition of the Smollen Group, consist of a network of 22 Company Owned Offices and 53 McGrath branded Franchise Offices and generate the majority of its revenue through both commissions and franchise fees.

As a whole, the McGrath Network comprises over 600 Agents and was responsible for sales turnover of approximately \$11.6 billion in FY2015 from approximately 11,000 sales. It currently manages approximately 22,700 properties, which McGrath believes have a value of approximately \$16.6 billion and McGrath's Oxygen Home Loans business has 31 mortgage brokers with current loans under management of approximately \$2.0 billion.

WHY IS THE OFFER BEING CONDUCTED?

The purpose of the Offer is to:

- achieve a listing on the ASX to broaden McGrath's shareholder base and provide a liquid market for its Shares;
- provide an opportunity for Existing Shareholders to partially realise their investment;
- provide an improved capacity to attract and retain quality agents and staff through short and long term incentive programmes;
- fund the initial consideration for the Acquisition; and
- fully repay debt and provide additional financial flexibility for McGrath to pursue growth opportunities and improve access to capital markets.

Section 3.1

Section 7.1

WHAT IS THE ACQUISITION AND WHAT IS THE STRUCTURE OF THE ACQUISITION?

SUMMARY

On 3 October 2015, McGrath entered into a binding share purchase agreement and scrip consideration deed (SPA) to acquire the Smollen Group, McGrath's largest Franchisee.

The Smollen Group is a significant real estate group that comprises 10 offices across Sydney's North Shore, North West and Northern Beaches contracting approximately 65 sales and 19 property management staff.

McGrath is familiar with the Smollen Group's operations given their long franchise relationship of over 8 years. Shane Smollen, the 75% current owner of the Smollen Group, was also previously McGrath's Sales Director. McGrath believes that the Acquisition is highly attractive and will provide scale and market presence through Company Owned Offices in key, high value markets in Sydney. Furthermore, the Smollen Group contracts some of the highest performing Agents within the McGrath Network who are expected to contribute strongly to McGrath's revenue growth and Agent productivity.

The Acquisition has been structured such that McGrath will acquire 100% of the Smollen Group for:

- an initial purchase price of approximately \$52.5 million, payable partly in cash (\$31.5 million) and partly in Shares (\$21 million) to be issued at the Offer Price; and
- deferred consideration of up to \$17.5 million subject to certain performance hurdles and other conditions, payable equally in cash and shares effected by the conversion of convertible redeemable preference shares (CRPS).

B. Key features of the McGrath business model

TOPIC

WHICH INDUSTRIES DOES McGRATH OPERATE IN?

SUMMARY

McGrath primarily provides residential real estate services and mortgage broking services to the Australian residential real estate market.

In this Prospectus, residential real estate services refer to services provided including property sales, auctions and property management.

Residential real estate is Australia's largest and most valuable asset class, comprising over 9.5 million residential properties° valued at approximately \$5.9 trillion. 10 Key drivers of the market include population growth, property supply, property affordability, investor demand and macroeconomic conditions.

Participants in the mortgage broking industry are financial intermediaries that arrange and distribute mortgage products but are not the actual mortgage lenders.

Section 9 4 1

INFORMATION

FOR MORE

FOR MORE INFORMATION

Sections 2.1 and 2.2

Property Price Indexes: Eight Capital Cities 10 CoreLogic, "Housing and

9 ABS 6416.0 Residential

Economic Market Update", June 2015

SUMMARY

FOR MORE INFORMATION

HOW DOES McGRATH GENERATE INCOME?

McGrath generates income through its five business units.

c business units.

Company owned sales (71% of FY2016 pro forma segment EBITDA¹)

- The company owned sales business unit undertakes residential property sales on behalf of property vendors through its network of offices and Agents
- McGrath generates revenue by charging a sales commission to a property vendor upon successful sale of a property which is generally based on a percentage of the property's value
- Commissions are generally shared with McGrath's Agents in an agreed proportion

Company owned property management

(11% of FY2016 pro forma segment EBITDA1)

- The company owned property management business unit directly manages residential properties on behalf of owner clients
- Revenue for property management is generated through charging a commission to manage a property, being a percentage of the property's rental income
- McGrath is also paid a leasing fee upon successful letting of a property

Franchise services

(14% of FY2016 pro forma segment EBITDA1)

The franchise services business unit manages Franchise Offices that undertake both property sales and property management.

McGrath receives fees from its Franchisees that include:

- An initial grant fee on the issue of a franchise or on a franchise renewal
- An ongoing franchise fee based on a fixed percentage of the total sales commission paid on the sale of a property (Gross Commission Income) generated by the Franchisee
- An ongoing marketing fund contribution based on a fixed percentage of the Gross Commission Income generated by the Franchisee
- A fixed percentage of the Franchisees' property management fees

¹ Pro forma segment EBITDA calculated as total pro forma EBITDA including the impact of the Acquisition but excluding corporate costs

TOPIC	SUMMARY	FOR MORE INFORMATION
HOW DOES McGRATH GENERATE INCOME?	Mortgage broking (2% of FY2016 pro forma segment EBITDA¹) — McGrath's mortgage broking business unit operates under the name Oxygen Home Loans	Section 3.3
	 Oxygen Home Loans generates revenue through an up- front fee and an ongoing trailing commission based on the outstanding value of loans written 	
	Training and other services (1% of FY2016 pro forma segment EBITDA ¹)	
	 McGrath's training business organises a number of Australian residential real estate conferences and receives revenue from fees paid by attendees, exhibitors and sponsors 	
	 McGrath's dedicated auction service group generates revenue based on a fixed fee per auction 	
	¹ Pro forma segment EBITDA calculated as total pro forma EBITDA including the impact of the Acquisition but excluding corporate costs. ² Contributions may not sum to 100% due to rounding.	
WHERE ARE THE McGRATH GROUP'S OPERATIONS?	After completion of the Offer and the Acquisition, McGrath's network will consist of 75 offices (53 Franchise Offices and 22 Company Owned Offices) which operate in areas within Sydney, regional NSW, the ACT, Brisbane and regional Queensland. McGrath is in the process of establishing a presence in Victoria.	Section 3.4
WHAT IS McGRATH'S GROWTH STRATEGY?	McGrath has a strategy to continue its network growth and enhance its position as one of Australia's leading residential real estate services companies. Given its current scale relative to its market share, McGrath believes there is significant scope for it to expand within the current regions in which it operates, as well as enter new regions through attracting additional Franchisees and opening new Company Owned Offices. In addition, McGrath sees potential acquisition opportunities, which may include existing Franchisees as demonstrated by the Acquisition, or selectively participating in industry consolidation opportunities through the acquisition of other brands.	Section 3.8

C. Key strengths

select acquisitions.

TOPIC

SUMMARY

FOR MORE INFORMATION

LEADING AUSTRALIAN RESIDENTIAL REAL ESTATE SERVICES BRAND WITH AN EXPANDING BUSINESS FOOTPRINT McGrath is one of the leading residential real estate services brands in Australia with a strong market presence in NSW and the ACT, a growing presence in Queensland and is in the process of establishing a presence in Victoria.

In the year to 31 March 2015, McGrath's market share was estimated to be approximately 7.2% in NSW, 5.4% in the ACT, 1.3% in Queensland (by McGrath management) and 3.2% nationally by total value of properties sold. Given this current market position relative to its operational scale, McGrath believes there are multiple avenues to grow its business, operating footprint and earnings, through organic growth and

Section 3.5

SCALABLE, DIVERSE AND FLEXIBLE BUSINESS MODEL McGrath is an integrated residential real estate services business deriving revenue from a diverse range of activities including residential property sales, property management, mortgage broking, auction services and training.

McGrath operates a 'hybrid' business model, selling both through Company Owned Offices and Franchise Offices which assists in expanding the McGrath brand.

The Company Owned Offices' property management business directly manages approximately 7,396 properties and its home loan business, Oxygen Home Loans, was ranked number nine in the 2015 ranking of Australia's top mortgage brokerages published by industry magazine, The Adviser.¹²

McGrath believes it provides high quality agent support, training, and infrastructure which puts it in a strong position to leverage economies of scale as McGrath grows.

Continu 2.2

PREMIUM BRAND, BUSINESS MODEL AND CULTURE ATTRACTS AND RETAINS QUALITY FRANCHISEES AND AGENTS McGrath has attracted many high quality Franchisees, Agents and staff as a result of its brand, reputation, and its high performance culture. The franchise offering with large, exclusive geographic areas has also proven to be attractive to high quality franchise partners.

In addition, the top 50 performing sales Agents within the McGrath Network in FY2015 had an average tenure of approximately nine years.

The Offer will provide the opportunity for McGrath to further enhance its attractiveness to Agents and employees through the ability to offer listed equity to high performing Agents and staff.

Section 3.6

¹¹ McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential sales over time derived from CoreLogic Data

¹² The Adviser June 2015

SUMMARY

FOR MORE INFORMATION

ROBUST TRACK
RECORD OF GROWTH
AND FINANCIAL
PERFORMANCE WITH
STRONG FREE CASH
FLOW GENERATION

McGrath has demonstrated operational growth and strong performance since its establishment through varying market cycles. Testament to the success of McGrath's model has been its pro forma compound annual growth in property sales volumes of over 17% from CY2008 to CY2014. Since FY2009, the total number of offices in the McGrath Network has also grown from 16 to 75.

McGrath's business model allows for organic business growth (of franchises, Agents, managed properties and home loans) with relatively low capital expenditure, resulting in strong free cash flow generation.

Section 4

ATTRACTIVE
INDUSTRY DYNAMICS
WITH SIGNIFICANT
ORGANIC AND
CONSOLIDATION
GROWTH
OPPORTUNITIES

McGrath has plans in place that include growing its network through attracting new Franchisees, opening new Franchise Offices and Company Owned Offices and growing the number of Agents in the network. McGrath has plans in place to open 15 Franchise Offices and four Company Owned Offices in FY2016, including McGrath's first Franchise Offices in Victoria.

McGrath will also seek to continue to grow the number of properties managed by its Company Owned Offices and will focus on increasing the referral and conversion rates from its Agents to Oxygen Home Loans, its mortgage broking business.

In addition, the Australian residential real estate services industry is highly fragmented, providing McGrath with opportunities to potentially undertake strategic acquisitions given its scale and access to capital following the Offer. These opportunities may include acquisition of: existing McGrath Franchisees (as demonstrated by the Acquisition); firms with strong market share in a key target market; boutique brands or national operators.

Sections 2 and 3.8

ENTREPRENEURIAL AND EXPERIENCED MANAGEMENT TEAM WITH A MATERIAL INTEREST

McGrath has been built from the ground up by its founder, John McGrath, who is passionate about the business, its strategic direction and long term future growth. John McGrath has assembled, and is supported by, an experienced leadership team that have been with the business for a significant period of time and know their industry well. The senior leadership team have an average tenure of 8 years with McGrath and 15 years within the residential real estate services industry.

The Existing Shareholders, including John McGrath, will in aggregate retain a high level of ownership following the Offer, of approximately 46.3%.

Section 6.2

SUMMARY

FOR MORE INFORMATION

HIGH CALIBRE AND EXPERIENCED BOARD

McGrath has also assembled a high calibre and experienced Board led by its Chairman, David Mackay. The Board has a strong mix of complementary public company, real estate, brand, technology and operational skills to lead McGrath as a public company.

Section 6.1

D. Key risks

TOPIC

SUMMARY

FOR MORE INFORMATION

AUSTRALIAN RESIDENTIAL REAL ESTATE MARKET

McGrath generates the majority of its income from the Australian residential real estate market through commission revenue generated by Agents on the sale of properties. property management commissions and commissions on the arranging of mortgages. McGrath is therefore adversely affected by factors that reduce sales transaction volumes or sales prices in the Australian residential real estate market or, more specifically, the particular regions in which it operates. The Australian residential real estate market can be considered cyclical and typically is affected by changes in general economic conditions which are beyond McGrath's control. Some of the factors that can affect the sales volume and sales price of Australian residential real estate are set out in Section 2.3 and include housing affordability (in turn affected by income levels and interest rates), population growth, general economic growth, domestic investor demand, foreign investment and macroeconomic conditions. In addition, there may be particular factors that affect certain regions (such as lack of affordability driving movement between locations).

This Prospectus includes market forecasts produced by BIS Shrapnel in Section 2.4. Those forecasts are based on market and macroeconomic data and statistics that are inherently unpredictable and subject to uncertainty. Therefore, those markets may perform more poorly than forecast.

In addition, in response to certain regulatory changes by APRA, some banks have recently increased interest rates for residential property investors, some have increased required deposits and some have capped the amount that they are willing to lend to that class of property buyer. Collectively or individually, these measures could negatively impact lending demand from investors. There has also been speculation regarding potential changes to the Australian tax system in relation to negative gearing. If a change to the tax treatment of investment property losses was to occur, it may have a negative impact on residential property investment and therefore potential transaction volumes and values.

Sections 2.3, 2.4 and 5.2.1

SUMMARY

FOR MORE INFORMATION

INCREASED
COMPETITION AND
DISINTERMEDIATION

The Australian residential real estate services industry is subject to vigorous competition, based on factors including commission rates, service, innovation and the ability to provide the client with an appropriate range of real estate services in a timely manner.

McGrath's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors, or a failure by McGrath to position itself successfully to meet changing market conditions, customer demands and technology. Any changes in McGrath's competitive position or the competitive landscape may result in a decline in sales revenue and margins, which may have a material adverse effect on its future financial performance and position.

McGrath is also potentially exposed to disintermediation, whereby buyers and sellers are able to transact directly in a private sale without utilising the services of an agent.

The residential real estate services industry can also be considered to have relatively low barriers to entry, with there being a relatively low cost to establish a residential real estate services office. Agents of McGrath or Franchisees could potentially establish competing businesses in the areas in which they currently operate and have done so in the past.

Section 5.2.2

RELIANCE ON MCGRATH MANAGEMENT McGrath has a number of key staff who have deep industry knowledge, have spent a considerable period of time with McGrath and consequently are important to its business. The loss of key personnel could have a material adverse effect on McGrath's financial performance and financial position. McGrath may not be able to replace these personnel in a timely manner. Similarly, given McGrath has a focus on ongoing growth, there is a risk that it may not be able to recruit necessary personnel with the requisite skills in a timely manner. In particular, John McGrath founded the business, is directly involved in the business as its Chief Executive Officer and is

closely associated by clients with the business given its brand name. John McGrath is also involved in the recruitment and

retention of staff, Agents and Franchisees.

Section 5.2.3

FRANCHISE RISK

McGrath currently has approximately 53 franchise agreements in place with 31 Franchisees. The success of McGrath's business and its ability to grow relies on McGrath's ability to retain existing Franchisees and its ability to continue to attract new Franchisees. If McGrath is not able to retain the existing key Franchisees or attract new Franchisees, or if disputes arise with Franchisees, this could have an adverse impact on McGrath's business, operating and financial performance.

Section 5.2.4

TOPIC	SUMMARY	FOR MORE INFORMATION
ACQUISITION RISK	Acquisitions are considered an important part of McGrath's future strategy and McGrath therefore expects to acquire businesses from time to time. There can be no assurance that suitable opportunities for acquisition will arise, or that McGrath will be successful in realising the anticipated benefits and synergies of any businesses that it does acquire (including the Smollen Group). The ability to realise these benefits will depend in part on whether McGrath can efficiently integrate acquired businesses with its existing operations. The challenges of integrating and operating acquired businesses may be greater if McGrath acquires businesses that provide services outside McGrath's current geographic or service offering. In addition, there is a risk that McGrath will overestimate the value of acquired businesses and therefore overpay. With any acquisition there are other general risks which include risks relating to:	Section 5.2.5
	 due diligence, execution and liability risks; 	
	 disruption to the focus of management; and 	
	 loss of clients, agents or employees of the target business following completion. 	
RETENTION OF AGENTS	Agents are key to the success of McGrath's business. The majority of Agents are independent contractors and are able to leave McGrath at short notice and potentially join other agency networks or offices. The market for quality agents is also considered to be highly competitive.	Section 5.2.6
	The loss of key Agents could undermine McGrath's ability to operate its business to the current standard and scale.	
REPUTATION AND BRAND RISK	The success of McGrath is largely dependent on its reputation and branding. Maintaining the strength of the reputation and branding of McGrath and its underlying brands is integral to McGrath's ability to maintain relationships with existing customers, appeal to new customers, maintain revenue growth and attract key employees, Franchisees and Agents.	Section 5.2.7
	There is a risk that certain issues or events, including many of those outlined in Section 5, may adversely affect the reputation of McGrath or its associated brands, including through negative publicity.	

TOPIC	SUMMARY	FOR MORE INFORMATION
REGULATORY RISKS	In Australia, McGrath's business is primarily regulated by various Commonwealth, state and territory laws as outlined in Section 2.6. If McGrath does not meet regulatory requirements, it may suffer penalties. These penalties may include:	Section 5.2.8
	— fines;	
	 orders for compensation payments; and 	
	 cancellation or suspension of the authority to carry on business. 	
	Regulatory proceedings or findings against McGrath employees, Agents, Franchisees or licensees or general negligence or misconduct by those parties could result in regulatory sanctions and/or reputational or financial harm to McGrath. The training for members of McGrath's Network and the compliance processes that have been established in order to prevent such misconduct may not be sufficient to avoid it and the precautions taken to prevent and detect such activity may not be effective in all cases.	
	In addition, the regulatory framework may change. This could have an impact on the real estate services industry or McGrath's operations. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of McGrath.	
IT RISKS	McGrath is undertaking a number of IT system upgrades and is migrating its client relationship management system to a SAAS platform. There is a risk that these upgrades and migrations could have unforeseen issues that could adversely impact on McGrath's operations.	Section 5.2.9
	Part of these upgrades include establishment of common disaster recovery mechanisms to enable timely recovery in a business continuity scenario. McGrath is at risk of operational disruptions should a disaster or business continuity event occur before they are established.	
	McGrath transmits and receives personal, confidential and proprietary information by electronic means and information technology systems are by their nature susceptible to cyber attacks. Any security breaches or unauthorised access to information that McGrath holds could expose McGrath to claims from customers and reputational damage.	
OTHER RISKS	More detail on these risks and a number of other risks are outlined in Section 5, including risks relating to reputational damage, the mortgage broking industry and seasonal sales fluctuations.	Section 5
	In addition, Section 5.3 outlines a number of general investment risks.	

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E. Directors and key management

TOPIC	SUMMARY	FOR MORE INFORMATION
WHO ARE THE DIRECTORS OF McGRATH?	 David Mackay (Independent Chairman) Daniel Petre (Independent Non-Executive Director) Cass O'Connor (Non-Executive Director) John McGrath (Chief Executive Officer and Executive Director) McGrath intends to appoint an additional independent Director once identified following Listing 	Section 6.1
WHO ARE THE KEY MANAGEMENT OF McGRATH?	 John McGrath (Chief Executive Officer and Executive Director) Geoff Lucas (Chief Operating Officer) Paul Hauenschild (Chief Financial Officer) Matthew Lahood (Director of Sales) Maria Carlino (General Manager, Property Management Company Owned) Gary Vouris (General Manager, Franchise Services) Alan Hemmings (General Manager, Oxygen Home Loans) Danielle Molyneaux (General Manager, TRET) Karen Jacobs (Head of People and Culture) Annette Rose (Head of IT Services) Anthony Meaker (Chief Operating Officer, the Smollen Group) 	Section 6.2

F. Significant interests of key people and related party transactions

TOPIC

WHO ARE
THE EXISTING
SHAREHOLDERS AND
WHAT WILL THEIR
INTEREST IN McGRATH
BE AT COMPLETION OF
THE OFFER AND THE
ACQUISITION?

SUMMARY

FOR MORE INFORMATION

The ownership structure of McGrath before and after Completion of the Offer is shown below:

OWNERSHIP OF

Section 7.1.3

SHARES	McGrath immediately Before the offer and the acquisition		OWNERSHIP OF MCGRATH FOLLOWING THE OFFER AND THE ACQUISITION	
	QUANTITY (MILLION SHARES)	PERCENTAGE	QUANTITY (MILLION SHARES)	PERCENTAGE
John McGrath (CEO)	54.1	58.4%	36.3	27.0%
Geoff Lucas (COO)	8.5	9.2%	5.7	4.3%
Smollen Sellers	-	-	10.0	7.5%
Other existing minority Shareholders	30.1	32.4%	20.1	15.0%
Investors in the Offer	-	-	62.1	46.3%
Total	92.7	100.0%	134.2	100.0%

Note: Share numbers before the Offer incorporate the impact of a share split to be undertaken after the Prospectus Date. The Smollen Sellers, including Shane Smollen, will receive Shares and CRPS as part of the consideration for the Acquisition. If conversion of CRPS in full were to occur at the same price as the Offer Price, the CRPS could convert into approximately 4.2 million Shares at the relevant conversion date (representing approximately 3.1% of the issued capital in McGrath immediately after completion of the Offer and Acquisition).

FOR MORE

SUMMARY			FOR MORE INFORMATION
DIRECTOR	NUMBER OF SHARES HELD IMMEDIATELY FOLLOWING COMPLETION OF THE OFFER	PERCENTAGE SHAREHOLDING IMMEDIATELY FOLLOWING COMPLETION OF THE OFFER	Section 6.3.2
David Mackay	166,666	0.1%	
John McGrath	36,255,378	27.0%	
Cass O'Connor	95,238	0.1%	
Daniel Petre	166,666	0.1%	
directly or indirectly The shareholdings a issued to Non-Execu Directors and senio remuneration and f	through holdings by c bove include the NED utive Directors, as desc or management are er lees on commercial te	ompanies or trusts. Bonus Shares to be cribed in Section 6.3.2. Intitled to erms, including in	
Existing Shareholde subject to voluntary Section 7.1.5. In addition, 40% of	ers and by the Smolle y escrow arrangement the NED Bonus Share	n Sellers will be ts described in es will be escrowed	Section 7.1.5
Release. The CRPS (and any	Shares issued on con	version of CRPS) will	
Completion of the initial and one-off is	Offer. McGrath propossue of NED Bonus St	oses to provide an	Section 6.3
	Directors David Mackay John McGrath Cass O'Connor Daniel Petre Directors may hold to directly or indirectly The shareholdings as issued to Non-Executors and senior remuneration and for the case of senior in Section 6.3.4. All of the Shares hee Existing Shareholdes subject to voluntary Section 7.1.5. In addition, 40% of until the end of CY2 Release. The CRPS (and any be subject to escroon of the initial and one-off is	NUMBER OF SHARES HELD IMMEDIATELY FOLLOWING COMPLETION OF THE OFFER David Mackay 166,666 John McGrath 36,255,378 Cass O'Connor 95,238 Daniel Petre 166,666 Directors may hold their interests in securit directly or indirectly through holdings by controllings above include the NED issued to Non-Executive Directors, as described by the case of senior management are erremuneration and fees on commercial tenthe case of senior management, under the Section 6.3.4. All of the Shares held on Completion of Existing Shareholders and by the Smolle subject to voluntary escrow arrangement Section 7.1.5. In addition, 40% of the NED Bonus Share until the end of CY2016 and 60% until the Release. The CRPS (and any Shares issued on combe subject to escrow until 30 September There will be no controlling interest in MC Completion of the Offer. McGrath proportion of the Offer.	NUMBER OF SHARES HELD IMMEDIATELY FOLLOWING COMPLETION IMMEDIATELY FOLLOWING DIRECTOR OF THE OFFER COMPLETION OF THE OFFER David Mackay 166,666 0.1% John McGrath 36,255,378 27.0% Cass O'Connor 95,238 0.1% Daniel Petre 166,666 0.1% Directors may hold their interests in securities shown above directly or indirectly through holdings by companies or trusts. The shareholdings above include the NED Bonus Shares to be issued to Non-Executive Directors, as described in Section 6.3.2. Directors and senior management are entitled to remuneration and fees on commercial terms, including in the case of senior management, under the LTI Plan set out in Section 6.3.4. All of the Shares held on Completion of the Offer by the Existing Shareholders and by the Smollen Sellers will be subject to voluntary escrow arrangements described in Section 7.1.5. In addition, 40% of the NED Bonus Shares will be escrowed until the end of CY2016 and 60% until the date of FY2017 Release. The CRPS (and any Shares issued on conversion of CRPS) will be subject to escrow until 30 September 2018. There will be no controlling interest in McGrath on Completion of the Offer. McGrath proposes to provide an initial and one-off issue of NED Bonus Shares to the Non

G. Proposed use of funds and key terms and conditions of the Offer

TOPIC	SUMMARY	FOR MORE INFORMATION
WHAT IS THE OFFER?	The Offer is an invitation to apply for 61.7 million Shares that will in part be issued by McGrath Holdings and in part be sold by SaleCo at \$2.10 per Share. 13	Section 7.1
	The Offer is expected to raise approximately \$129.6 million. The Shares being offered under the Offer ¹⁴ will represent 46.0% of the Shares on issue on Completion of the Offer and completion of the Acquisition.	
	Shares issued to the Smollen Sellers in consideration for the Acquisition will also be issued under the Prospectus but do not form part of the Offer.	
WHO ARE THE ISSUERS OF THIS PROSPECTUS?	McGrath Holding Company Limited (to be renamed McGrath Limited following Completion of the Offer) (ABN 61 608 153 779) (McGrath Holdings)	Section 7.1.4
	McGrath SaleCo Limited (ABN 65 608 153 797) (SaleCo)	
WHAT IS McGRATH HOLDINGS?	McGrath Holdings is a newly incorporated company established to be the holding company of McGrath Operations from Settlement.	Section 9.1
WHAT IS SALECO?	SaleCo is a special purpose vehicle established to enable the Existing Shareholders to sell their investment in McGrath Holdings on Completion of the Offer.	Section 9.3

¹³ Excluding Shares issued under the Employee Award Offer and the NED Bonus Shares

¹⁴ Excluding Shares issued under the Employee Award Offer and the NED Bonus Shares

WHAT IS THE PROPOSED USE OF FUNDS RAISED PURSUANT TO THE OFFER?

SUMMARY

FOR MORE INFORMATION

Section 7.1.2

The Offer is expected to raise gross proceeds of approximately \$129.6 million. Funds raised in the Offer will be used for the following:

- \$64.2 million to the Existing Shareholders to partially realise their current investment in McGrath;
- \$15.9 million to repay all current and non-current McGrath debt to provide financial flexibility going forward;
- \$31.5 million to pay the initial cash consideration for the Acquisition;
- \$7.9 million to provide working capital; and
- \$10.1 million to pay the costs of the Offer and the Acquisition.

SOURCES OF FUNDS	\$ MILLION	%
Cash proceeds received from the issue of New Shares by McGrath Holdings	65.4	50.4%
Cash proceeds received from the sale of Shares by Existing Shareholders	64.2	49.6%
Total sources	129.6	100.0%

USE OF FUNDS	\$ MILLION	%
Payment of proceeds to Existing Shareholders	64.2	49.6%
Repayment of existing debt facilities ¹	15.9	12.3%
Payment of initial cash consideration for the Acquisition	31.5	24.3%
Working capital	7.9	6.1%
Payment of Offer transaction and Acquisition costs ²	10.1	7.8%
Total uses	129.6	100.0%

¹McGrath's estimate of debt facilities at Completion of the Offer. ²Comprises \$1.5 million of FY2016 costs related to the Acquisition and \$8.6 million of costs associated with the Offer. Costs associated with the Offer exclude \$0.8 million of non-cash costs which relate to new equity issued to staff and Non-Executive Directors.

TOPIC	SUMMARY	FOR MORE INFORMATION
WHAT WILL HAPPEN ON COMPLETION OF THE OFFER?	On Completion of the Offer, McGrath will issue Shares and SaleCo will sell Shares to investors under the Offer.	Sections 7.1.4
	McGrath will also issue Shares to the Smollen Sellers as part of the initial consideration for the Acquisition.	
	SaleCo will acquire the Shares it offers for sale from the Existing Shareholders prior to Completion of the Offer. The Existing Shareholders will have been issued those Shares when they transferred McGrath Operations to McGrath Holdings as the new holding company, shortly before the above steps take place.	
WHAT ARE THE CRPS?	The CRPS are four separate series of unlisted convertible redeemable preference shares to be issued by McGrath to the Smollen Sellers as part of the consideration for the Acquisition. The CRPS represent the scrip (i.e. non-cash) component of the deferred consideration. If the conditions for payment of deferred consideration are satisfied, the CRPS will convert into Shares on different dates.	Section 9.4.1
	The CRPS convert into a dollar value of Shares at the volume weighted average price on the date the Smollen Sellers become entitled to payment of the cash component of the relevant tranche of the deferred consideration). However, assuming all conditions and performance indicators are satisfied for the full payment of deferred consideration, the CRPS could convert into Shares representing approximately 3.1% of all Shares on issue immediately after Completion of the Offer and Acquisition if the appropriate market price at the relevant time was equal to the Offer Price. If the conditions for the payment of the deferred consideration are not satisfied, McGrath has the right to redeem the CRPS for a nominal sum.	
	On issue, the CRPS do not have any dividend rights or other rights to participate in the profits or assets of McGrath (other than to \$1.00 on a winding up). Only holders of Series A CRPS are entitled to such rights but only if, and with effect from the date on which, the Smollen Sellers become entitled to payment of the cash component of the first tranche of the deferred consideration.	
WILL THE SHARES BE QUOTED ON THE ASX?	McGrath will apply to ASX for admission to the official list of ASX and quotation of Shares on ASX under the code MEA within 7 days after the Prospectus Date. It is anticipated that quotation will initially be on a deferred settlement basis.	Section 7.10.1
	Completion of the Offer is conditional on ASX approving that application. If approval is not given within three months after such an application is made, the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	

TOPIC	SUMMARY	FOR MORE INFORMATION
WILL THE SHARES BE QUOTED ON THE ASX?	McGrath will apply to ASX for admission to the official list of ASX and quotation of Shares on ASX under the code MEA within 7 days after the Prospectus Date. It is anticipated that quotation will initially be on a deferred settlement basis.	Section 7.10.1
	Completion of the Offer is conditional on ASX approving that application. If approval is not given within three months after such an application is made, the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	
HOW IS THE	The Offer comprises:	Section 7.1.1
OFFER STRUCTURED/ WHO IS ELIGIBLE TO	— the Retail Offer consisting of the:	
PARTICIPATE IN THE OFFER?	— Broker Firm Offer;— Employee Award Offer; and	
	Priority Offer; and	
	 the Institutional Offer, which consists of an invitation to 	
	bid for Shares made to Institutional Investors. No general public offer of Shares will be made under the Offer. Members of the public wishing to apply for Shares under the Offer must do so through a Broker with a firm allocation of Shares.	
IS THE OFFER UNDERWRITTEN?	Yes. The Offer is fully underwritten by the Joint Lead Managers (except the Employee Award Offer).	Section 7.7
WHAT IS THE ALLOCATION POLICY?	The allocation of Shares between the Broker Firm Offer, Employee Award Offer, Priority Offer and the Institutional Offer is determined by agreement between McGrath and the Joint Lead Managers.	Section 7.2
	In relation to the Broker Firm Offer, Brokers will decide how they allocate firm stock among their eligible retail clients.	
	The Shares offered under the Employee Award Offer are New Shares and are sufficient to meet all applications made under the Employee Award Offer. Such applications will not impact the allocation of Shares under the Broker Firm Offer and the Institutional Offer.	
	The allocation of Shares among applications in the Priority Offer will be determined by McGrath in consultation with the Joint Lead Managers.	
	The allocation of Shares among applications in the Institutional Offer is determined by agreement between McGrath and the Joint Lead Managers.	

TOPIC	SUMMARY	FOR MORE INFORMATION
IS THERE ANY BROKERAGE COMMISSION OR STAMP DUTY PAYABLE BY APPLICANTS?	No brokerage, commission or stamp duty is payable by Applicants on Acquisition of Shares under the Offer.	Section 7.2
WHAT ARE THE TAX IMPLICATIONS OF INVESTING IN THE SHARES?	Given that the taxation consequences of an investment in the Shares will depend upon the investor's particular circumstances, it is the obligation of each investor to make their own enquiries concerning the taxation consequences of an investment in McGrath.	Section 9.8
	If you are in doubt as to the course you should follow, you should consult your tax adviser, accountant, financial adviser, stockbroker, lawyer or other professional adviser.	
	An overview of the tax treatment for Australian resident investors is included in Section 9.8.	
WHEN WILL I RECEIVE CONFIRMATION THAT MY APPLICATION HAS BEEN SUCCESSFUL?	Confirmations of successful Applications in the form of holding statements are expected to be mailed by standard post on or around 8 December 2015.	Section 7.2
WHAT IS McGRATH'S DIVIDEND POLICY?	The Directors intend to pay out between 40% and 60% of NPATA as a dividend commencing in FY2016.	Section 4.9
	It is intended that all future dividends will be franked to the maximum extent possible.	
	Directors forecast a fully franked dividend of approximately 4.5 cents per Share payable as a final dividend for the period from 4 December 2015 to 30 June 2016.	
	The level of payout ratio is expected to vary between periods depending on the factors outlined in Section 4.9 and, in particular, should strategic growth, acquisition or investment opportunities arise, it may result in a payout ratio in the future that is less than the range set out above.	
	No assurances can be given by any person, including the Directors, about the payment of any dividend or the level of franking on any such dividend.	

TOPIC	SUMMARY	FOR MORE INFORMATION
HOW CAN I APPLY FOR SHARES?	Applicants under the Broker Firm Offer should complete a Broker Firm Offer Application Form attached to or accompanying this Prospectus and follow the instructions of their Broker.	Sections 7.3.2 and 7.5.2
	Applicants under the Priority Offer and Employee Award Offer may apply for Shares by applying online at www.mcgrath.com.au.	
	The Joint Lead Managers have separately advised Institutional Investors of the application procedure under the Institutional Offer.	
	To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.	
CAN THE OFFER BE WITHDRAWN?	Yes. McGrath reserves the right not to proceed with the Offer at any time before the issue and transfer of Shares to Successful Applicants.	Section 7.9
	If the Offer does not proceed, Application Monies will be refunded.	
	No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	
WHERE CAN I FIND MORE INFORMATION ABOUT THIS PROSPECTUS OR THE OFFER?	Call the McGrath IPO Offer Information Line on 1300 880 732 (within Australia) and +61 1300 880 732 (outside Australia) from 8.30am to 5.30pm (Sydney time), Monday to Friday (excluding public holidays).	Section 7.2
	If you are unclear in relation to any matter or are uncertain as to whether McGrath is a suitable investment for you, you should consult with your accountant, financial adviser, stockbroker, tax adviser, lawyer or other professional adviser before deciding whether to invest.	
		-



75
McGrath Network offices

295,875
Buyers in the McGrath database





2. Industry overview

2.1 Introduction

McGrath primarily provides residential real estate and mortgage broking services to the Australian residential real estate market. This section provides an overview of:

- the Australian residential real estate services industry;
- the Australian residential real estate market; and
- the Australian residential mortgage broking industry,

focusing on relevant key industry trends and drivers.

This section also includes a summary of a report by BIS Shrapnel on historical and forecast residential real estate prices and sales volumes for the markets in which McGrath operates.

2.2 The Australian residential real estate services industry

2.2.1 Overview

In this Prospectus, residential real estate services refers to services provided to the residential real estate market including property sales, auctions and property management.

Australian residential property sales (directly or by auction) are generally undertaken on behalf of vendors by real estate agents such as those employed or contracted by McGrath and its Franchisees. These agents typically generate revenue by charging a commission that is based on a percentage of the price of each property sold, a flat fee or a combination of both. In general, real estate service providers benefit from both increased volumes of property sales and higher property prices, with sales volumes being typically the more important factor. McGrath estimates that approximately 95% of Australian residential property sales were conducted by agents in CY2014.15

Many participants in the residential real estate services industry also provide property management services on behalf of property owners. There is a natural relationship between property sales and property management as, in many instances, sales transactions lead to management opportunities and vice versa. Property management services can include marketing the property for lease, management of leases, property inspections, rent reviews, arranging repairs and maintenance, tenant relocations and finding new tenants.

15McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market volume of residential property sales over time based on CoreLogic Data.

The property management service provider is usually paid a management fee as a percentage of the rental income as well as other letting fees that result from the property being leased during the management term. A collection of property management rights managed by a real estate service provider is commonly referred to as a 'rent-roll'. Given the recurring cash flows they generate, there is a market for the sale of rent-rolls, with the major banks currently willing to lend funds secured against them.

2.2.2 Industry structure and size

The Australian residential real estate services industry is highly fragmented, comprising a number of established national and regional brands that generally operate franchise models and a large number of self-employed Agents and localised firms. Competitors vary by business model and geographic reach and may include:

- local operators with one office in a particular location;
- operators with more than one office owned by a particular company in a number of geographic locations;
- mid-size firms with a presence in multiple regions either via company owned or franchise offices;
- large firms with national or international reach predominantly operating franchise networks; and
- hybrids of the above structures.

As at 30 June 2013, the ABS estimated there were over 35,000 residential real estate service businesses operating in Australia. Approximately 62% of these businesses were sole proprietorships or partnerships without employees and 98% of real estate service businesses employed less than 20 staff. ¹⁶ In the 12 months to 31 March 2015, the 10 largest operators (including franchise networks) were estimated to account for only approximately 30% of the Australian market by sales value. ¹⁷

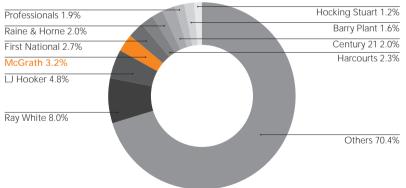


Chart 2.1 Australian residential real estate service market share data by sales value, 12 months to 31 March 2015

including Entries and Exits,
Jun 2009 to Jun 2013
McGrath management
estimates derived from

¹⁶ ABS 81650 Counts of

Australian Businesses,

Source: McGrath management estimates based on published sales where an agent was recorded derived by McGrath management. Total market value of residential property sales over time based on CoreLogic Data.

Note: Where an agent was not recorded, it is included in 'Other'.

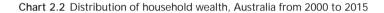
¹⁷ McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time based on CoreLogic Data.

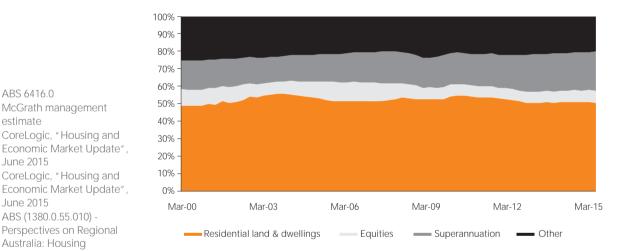
2.3 The Australian residential real estate market

2.3.1 Overview

Residential real estate is Australia's largest and most valuable asset class, comprising over 9.5 million residential properties¹⁸ (approximately 72% houses and 28% units¹⁹) with an estimated value of \$5.9 trillion as at 30 June 2015.²⁰ In comparison, the total value of Australian superannuation and Australian listed stocks was estimated at approximately \$2.0 trillion and \$1.7 trillion respectively.21

Property ownership has a strong tradition in Australia, being a widely held aspiration for many Australian citizens. Property ownership is estimated to account for more than half of all Australian household wealth. Over the past 15 years, both the level of property ownership and the contribution of residential land and dwellings to household wealth in Australia have remained relatively stable at around 70% and 50% respectively.²²





Source: ABS (October 2015)

Economic Market Update", June 2015 22 ABS (1380.0.55.010) -Perspectives on Regional Australia: Housing Arrangements - Home Ownership in Local Government Areas (July 2013)

¹⁸ ABS 6416.0

estimate

June 2015

¹⁹ McGrath management

²⁰ CoreLogic, "Housing and

²¹ CoreLogic, "Housing and

²³ McGrath management analysis derived from median price of residential property sales over time based on CoreLogic Data

²⁴ CoreLogic Data

²⁵ McGrath management estimate derived from total market value of residential property sales over time based on CoreLogic Data.

²⁶ McGrath management estimate derived from total market volume of residential property sales over time based on CoreLogic Data.

²⁷ CoreLogic Data

Australian residential real estate has experienced strong value growth supported by sustained population growth, low interest rates, increasing levels of disposable income and investor demand, as well as relatively stable macroeconomic conditions. The median Australian residential property price is estimated to have increased by a total of 188% between March 2000 and March 2015, equivalent to an annual compounding growth rate of 7.3%.23

In CY2014 there were estimated to be approximately 492,000 residential property sales.24 Based on a 2.0% commission rate, this would equate to over \$5.5 billion in sales commissions.²⁵ Average quarterly residential property sales in the 12 months to 31 March 2015 were approximately 119,000 per quarter, which was broadly in line with median quarterly sales over the past 15 years.26 Peak quarterly sales of approximately 170,000 were recorded in the September 2003 quarter.²⁷

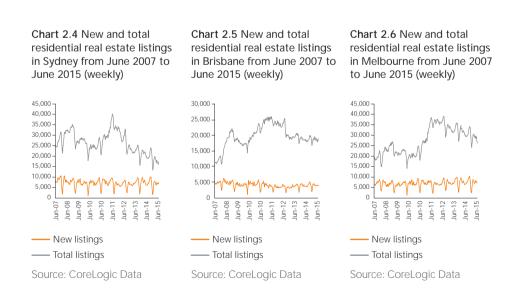
Chart 2.3 sets out the volume of residential property sales in the Australian market and the median sales price across the market between March 2000 and March 2015. The Chart indicates that there is not necessarily a clear relationship between sales prices and sales volumes.

\$500 500 400 \$400 300 \$300 ,000 200 \$200 100 \$100 0 Number of residential property sales (LHS) - Max - Min Median residential property sales price (\$) (RHS)

Chart 2.3 Australian quarterly residential property sales volumes and median sale prices from 2000 to 2015

Source: CoreLogic Data

A view of the current state of the market can be gained through examining residential real estate listing numbers, being the total number of properties listed for sale. Charts 2.4, 2.5 and 2.6 set out the new and total weekly listings for residential real estate markets in Sydney, Brisbane and Melbourne. As at June 2015, total listing numbers in Brisbane and Melbourne remain below peak 2012 levels, while Sydney's total listing numbers are below peak 2011 levels.



2.3.2 Key drivers of the Australian residential real estate market

The key drivers of the Australian residential real estate market include population growth, housing supply, housing affordability, investor demand and macroeconomic conditions.

Population growth

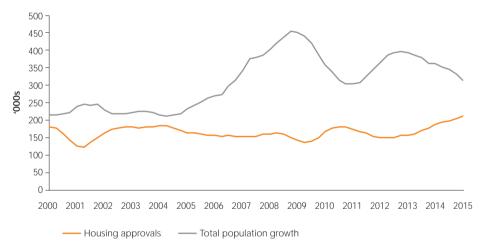
Population growth is a key driver of household formation, which in turn supports the underlying demand for property. Age structure, along with natural increase (births less deaths) and immigration (overseas and interstate) are the key drivers of population growth. In the five years to December 2014, Australia's population increased on average by approximately 352,000 or 1.6% per annum.²⁸ Since 2005, more than half of Australia's population growth has

been driven by net overseas migration.²⁹ New immigrants typically have a more immediate need for housing than existing residents.

Housing supply

Australian housing prices and the volume of residential property sales are impacted by supply, which is measured by the availability of existing housing stock (being the total number of houses and other dwellings available in a particular area) and the growth in stock through new housing approvals. Increases in prices are more likely in an environment where the level of population growth significantly exceeds increases in housing stock. As illustrated in Chart 2.7, population growth in Australia has significantly exceeded the level of housing approvals since 2005.





Source: ABS

Housing affordability

Demand for Australian residential real estate is driven by housing affordability, which affects the ability to purchase a property. Affordability is impacted by a number of factors including the value of the property, the availability of mortgage finance, the mortgage rate and the acquirer's level of income. In recent times, Australian affordability levels have been impacted by specific factors such as:

 record low interest rates and mortgage rates (at the date of the Prospectus, the interbank overnight cash rate is currently at the lowest point since the rates' inception³⁰ and the variable standard mortgage rate is at its lowest point since July 1968³¹);

²⁸ ABS 3101 AustralianDemographic Statistics²⁹ ABS 3101 Australian

Demographic Statistics

30 RBA F1.1 Interest rates and yields – money market

³¹ McGrath management estimate

- increasing levels of disposable income (average weekly earnings in Australia have risen consistently over the last 15 years³²); and
- higher property prices (median property prices in Australia are estimated to have increased at a CAGR of 7.3% between March 2000 and March 2015³³).

Housing affordability can be measured based on the ratio of household disposable income to interest payments on housing debt. The RBA estimates that this measure remained relatively stable in the 18 months to 31 March 2015 at approximately 14x while the ABS' capital city residential property price index increased approximately 12.7% over the same period. Australian housing affordability is estimated to be at the highest level it has been since June 2009 (13.9x) and before that, March 2004 (13.8x).³⁴

However, as noted in Section 2.4, housing is increasingly becoming less affordable in certain markets.

Investor demand

Demand from investors (non-occupier owners) is predominantly driven by residential property yields, expected rental growth and expected capital growth. These drivers, in turn, are impacted by the level of vacancies in the market. Vacancy rates refer to the proportion of properties which are vacant or unoccupied at a particular time.

Domestic investor demand has also been supported by certain Australian government policies. Negative gearing provides tax advantages for investment in rental properties, potentially encouraging investment in property rather than in other asset classes. There has been some commentary and speculation regarding potential changes to the Australian tax system in relation to negative gearing. If a change to the tax treatment of investment property losses was to occur, it may have a negative impact on residential property investment and therefore potential transaction volumes and values.

In addition, compulsory superannuation, the growth in self-managed superannuation funds and the ability of self-managed superannuation funds to borrow to acquire property have provided greater amounts of capital available for investment in residential property. As at 31 March 2015, real property accounted for approximately \$21.8 billion or 3.8% of total self-managed superannuation fund assets.³⁵

Another driver of investor demand has been the participation of foreign investors. The value of approved foreign investment in residential property in Australia has increased from an average of approximately \$6 billion annually during the 1990s to more than \$34.7 billion in FY2014.36 The appeal of Australian real estate for overseas investors has increased with the growing wealth in Asia and particularly China, an increasing propensity for Asian citizens to invest outside of Asia and recent declines in the Australian dollar against the U.S. dollar, particularly for those Asian countries with currencies that are informally pegged to the U.S. dollar.

The participation of foreign investors is weighted strongly towards new housing. In FY2014, approximately 78% of total foreign approvals lodged with FIRB were for new dwelling purchases, with the remaining 22% for established dwelling purchases.³⁷

Total investor demand has increased substantially over the past 20 years. This is illustrated by the significant growth in the proportion of residential investment mortgages in Australia from 19.6% of total credit outstanding in April 1995 to 34.6% in April 2015. In July 2015, the Australian Prudential Regulatory Authority (APRA) increased capital adequacy requirements for residential mortgage exposures for certain Authorised Deposit-taking Institutions (ADIs). The average risk weight on Australian residential mortgage exposures will increase from approximately 16% to at least 25%. Furthermore, APRA has recently flagged to ADIs that it will be paying close attention to lending to property

- ³² ABS 6302.0 Average Weekly Earnings
- ³³ McGrath management analysis derived from CoreLogic Data on median prices of residential property sales over time
- 34 RBA E2 Household Finances
 Ratio
- 35 ATO SMSF quarterly statistical table March 2015
- ³⁶RBA Foreign Investment in Residential Real Estate and FIRB annual report FY14
- ³⁷ RBA Foreign Investment in Residential Real Estate and FIRB annual report FY14

investors. ADIs that experience lending growth to residential property investors materially above a benchmark of 10% will be an important risk indicator for APRA supervisors in considering the need for further action. As a result of these regulatory changes, some banks have recently increased interest rates for

residential property investors, some have increased required deposits and some have capped the amount that they are willing to lend to this class of property buyer. Collectively or individually, these measures could negatively impact lending demand from investors.

-ending commitments (\$bn, quarterly) 150 50% (% of total) 120 40% mortgages 90 30% 20% 60 Investment 30 10% 0 0%

2009

Chart 2.8 Total lending commitments for Australian housing from 2000 to 2015

2006

Owner occupied housing (\$bn) (LHS) —— Investment housing (\$bn) (LHS)

Source: RBA D6 Lending Commitments - All Lenders

Percentage of investment mortgages (RHS)

2003

Macroeconomic conditions

2000

Australian macroeconomic conditions impact the residential real estate market primarily through their impact on other key drivers. The key macroeconomic factors that impact the residential real estate market include gross domestic product (GDP) growth, employment levels, inflation and consumer sentiment. Australia has experienced consistently positive GDP growth over the last 24 years, being the only developed economy in the world to have avoided a recession since 1991.38 The RBA expects GDP growth over the year to June 2016 to be in the range of 2% to 3% and 3% to 4% over the year to June 2017.³⁹ The unemployment rate at 30 June 2015 was 6.1% and is broadly

consistent with historical averages. Consumer price index (CPI) inflation for the June 2015 quarter was 1.5%⁴⁰ and sits below the RBA's inflation target of 2% to 3%, on average, over the cycle.⁴¹

2012

2015

2.3.3 Industry dynamics and trends

The Australian residential real estate market varies significantly by the size and dynamics of each state. Chart 2.9 depicts the relative size of each of the state markets and the average growth experienced in price and sales volumes in the five years to 31 March 2015.

³⁸ ABS 5206 'National Accounts' and OECD (2015), Quarterly GDP (indicator)

³⁹ RBA Statement on Monetary Policy, August 2015 – Economic Outlook

⁴⁰ ABS 6401 Consumer Price Index, Australia

⁴¹ RBA (2015)

Chart 2.9 Relative size of each state market, median property sales price growth and property sales volume growth from March 2010 to March 2015

ACT

2.7% p.a. Price growth

(5.9%) p.a. Sales volume growth

1.6% p.a. Share of national

SOUTH AUSTRALIA

1.1% p.a. Price growth

(1.1%) p.a. Sales volume growth

7.2% p.a. Share of national

NEW SOUTH WALES

5.6% p.a.

0.8%) p.a. Sales volume growth

31.8% p.a.

TASMANIA

0.0% p.a

(2.9%) p.a. Sales volume growth

2.1% p.a. Share of national

NORTHERN TERRITORY

2.0% p.a. Price growth

(1.9%) p.a. Sales volume growth

0.8% p.a. Share of national

VICTORIA

2.2% p.a. Price growth

(1.4%) p.a. Sales volume growth

24.9% p.a. Share of national

OUFFNSI AND

0.4% p.a. Price growth

(0.3%) p.a. Sales volume growth

22.1% p.a. Share of national

WESTERN AUSTRALIA

1.7% p.a. Price growth

(2.4%) p.a. Sales volume growth

9.4% p.a. Share of national

Source: Market Share: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time based on CoreLogic Data. Price Growth and Sales Volume Growth: McGrath management analysis derived from median price of residential property sales over time and total market volume of residential property sales over time based on CoreLogic Data.

Note

- price growth is 5 year CAGR from 31 March 2010 to 31 March 2015
- sales volume growth is 5 year CAGR from the twelve months to 31 March 2010 to the twelve months to 31 March 2015
- share of national is based on sales volume for the 12 months to 31 March 2015

2.4 BIS Shrapnel Market Report

In preparing this Prospectus, McGrath has commissioned a report by BIS Shrapnel, a leading provider of industry research and forecasting services, to examine the historical and forecast changes in residential prices and sales volumes in McGrath's key markets of NSW, the ACT, Queensland and the target market of Victoria. The Market Report was completed in October 2015.

This Section 2.4 provides a summary of the Market Report and all statements and charts within this Section 2.4 are attributed to BIS Shrapnel (other than the specific references to McGrath's view in the margin of each section). In preparing the Market Report on historical prices and sales, BIS Shrapnel has used information from individual state governments and private data providers as the key data sources (supplemented by information from sources such as the Real Estate Institutes of each relevant state). Many sales are not reported until after settlement. The data is therefore incomplete for any given period, for those sales recorded on that basis, where they have not settled within that period. For example, sales volumes for FY2015 are based on sales reported within that year. Expected sales volumes for FY2016 were modelled based on sales reported to 1 October 2015.

The forecasts included in the Market Report are based on BIS Shrapnel's assumptions regarding each market and the key drivers of residential housing sales volumes and prices in those markets, including national economic and demographic factors. Key assumptions for each market are set out below but key assumptions relating to all markets for FY2016 include:

- the national unemployment rate remains at or below 6.2%;
- the variable housing interest rate remains below 6%; and
- net overseas annual migration into Australia reduces to no less than 150,000 migrants in total.

2.4.1 NSW residential real estate market

The historical growth in volumes and prices for NSW houses and units from FY2005 to FY2015 and BIS Shrapnel's forecast for FY2016 is set out in Chart 2.10.

Chart 2.10 NSW house and unit sales volumes and median prices from FY2005-FY2016F



Source: BIS Shrapnel (October 2015)

McGrath's views on the Sydney market

Consistent with the Market Report, McGrath expects that Sydney residential real estate prices will continue to grow through 2016, but at a slower pace than in recent history because the market is close to its pricing growth peak.

Property sales volumes

Chart 2.10 indicates that house and unit sales volumes in NSW have increased between FY2005 and FY2015 at a CAGR of 3.4% per annum (comprising house sale volume growth of 2.9% per annum and unit sale volume growth of 4.3% per annum). The high sales volumes experienced in FY2009 and FY2010 were largely the result of increased first home owner grants that brought forward demand from those buyers.

FY2016 Sydney house sales volumes are expected to be the highest since FY2002 while growth in regional

areas of NSW is expected to exceed Sydney. Average house and unit sales volumes are expected to increase by approximately 5.0% and 2.2% respectively between FY2015 and FY2016.

House and unit sales volumes are expected to peak in FY2016 or FY2017 before declining in FY2018. However, any potential downturn in sales volumes is expected to be shallow, with the anticipated underlying shortage of housing stock in Sydney expected to provide volume support over the longer term.

Property prices

Over the period between FY2005 and FY2015, median house and unit sale prices increased at a CAGR of 6.1% per annum and 5.5% per annum, respectively. Median house sale prices also experienced strong pricing growth between FY2013 and FY2015 due to a combination of factors including a significant underlying lack of housing stock in Sydney as well as improved housing affordability as a result of record low interest rates.

House and unit prices are expected to peak in FY2016 before declining in FY2017 and FY2018. Strong pricing growth in FY2014, FY2015 and FY2016 will strain affordability in Sydney, resulting in stronger price growth in regional NSW.

The median house sales price is expected to grow by 7.3% from FY2015 to FY2016 as the current momentum in the market is maintained. However, despite record low interest rates, the 56% increase in median house prices between FY2012 and FY2015 has impacted affordability in the NSW market for residential buyers. Any price fall beyond FY2016 is expected to be shallow, with Sydney's lack of housing stock supporting prices.

Median unit sales prices are also expected to increase by 4.8% from FY2015 to FY2016. Rental yields for Sydney units are at historically low levels. Further price growth would continue to reduce yields if rental growth is slower than capital growth leading to the potential for price falls beyond FY2016, although some demand may move from the Sydney market into regional NSW.

Assumptions

The forecasts for the NSW market assume:

- rising house prices and deteriorating affordability in Sydney will cause the net interstate migration from NSW to increase to no more than 8,500 per annum by FY2018;
- gross state product growth increases to at least 2.8% in CY2015;
- population growth reduces to no lower than 90,000 per annum by FY2018 (from an estimated 109,300 in FY2015); and
- new house approvals rise to 27,200 and unit approvals to 31,400 in FY2016.

2.4.2 ACT residential real estate market

The historical growth in volumes and prices for ACT houses and units from FY2005 to FY2015 and BIS Shrapnel's forecast for FY2016 is set out in Chart 2.11.

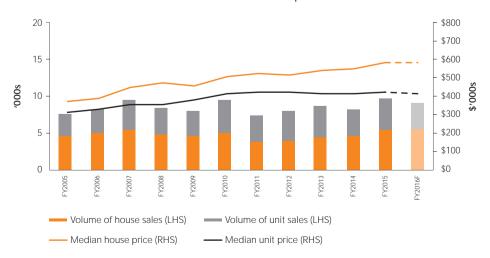


Chart 2.11 ACT house and unit sales volumes and median prices from FY2005-FY2016F

Source: BIS Shrapnel (October 2015)

McGrath's views on the Canberra market

McGrath considers that Canberra's house price stability has been largely underpinned by income levels. Currently McGrath expects that the unit market will not experience material price growth in the short term given the large number of building approvals during FY2014 and FY2015.

Property sales volumes

Chart 2.11 indicates that house and unit sales volumes in the ACT have increased between FY2005 and FY2015 at a CAGR of 2.5% per annum (comprising house sale volume growth of 1.7% per annum and unit sale volume growth of 3.8% per annum).

House sales volumes are forecast to increase by approximately 1.9% in FY2016, their highest level since FY2003. House sales volumes are forecast to remain around that level for another two years. This is attributed to first home buyer demand and low interest rates.

Between FY2015 and FY2016, unit sales volumes are expected to decline by 14.3% due to excess dwelling stock and weak local employment conditions.

Property prices

Over the period between FY2005 and FY2015, median house and unit sale prices increased at a CAGR of 4.7% per annum and 3.0% per annum respectively. In FY2014, median house sale prices were at peak levels, while unit sale prices were higher than the previous peak levels that were experienced in FY2011.

House sales price growth between FY2015 and FY2016 is expected to remain steady and unit sales prices are expected to decline by 2.4% due to oversupply in the unit market. An ongoing combination of low net immigration outflows and an increase in dwelling supply is expected to weigh on prices beyond FY2016.

Assumptions

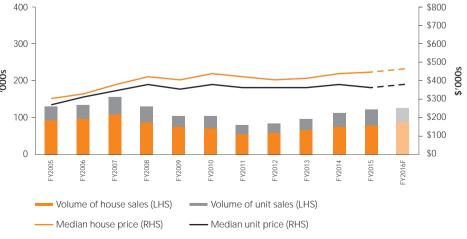
The forecasts for the ACT market assume:

- net migration into the ACT will continue through to FY2017 and start to trend upwards in FY2018;
- gross territory product growth increases to no less than 1.8% in CY2015:
- ACT population growth is no lower than 4,600 per annum over FY2016 to FY2018; and
- new house approvals rise to 1,500 per annum and other dwellings commencements slow to 1,400 per annum by FY2018.

2.4.3 Queensland residential real estate market

The historical growth in volumes and prices for Queensland houses and units from FY2005 to FY2015 and BIS Shrapnel's forecast for FY2016 is set out in Chart 2.12.

Chart 2.12 Queensland house and unit sales volumes and median prices from FY2005-FY2016F



Source: BIS Shrapnel (October 2015)

McGrath's views on the Brisbane market

McGrath believes the outlook for the South East Queensland housing market is positive due to factors such as an increased flow of Sydney and Melbourne buyers into the market, an improving tourism sector, the impact of a number of new infrastructure projects and a generally improving economy. McGrath considers there is potential weakness in the unit market with a possible oversupply in inner-city Brisbane.

Property sales volumes

Chart 2.12 indicates that house and unit sales volumes in Queensland peaked in FY2007, declined following the global financial crisis to a low-point in FY2011 and had partially recovered by FY2015. This partial recovery has predominantly been driven by South East Queensland, which experienced a larger decline in sales volumes in FY2011.

House and unit sales volumes in FY2016 are expected to be the highest since FY2008 but are expected to peak in FY2017. Growth in house sales volumes is predicated on underlying demand and new detached house approvals.

Average house sales volumes are expected to increase by approximately 7.8% while unit sales are expected to decline by 8.1% between FY2015 and FY2016. Rising vacancy rates are expected to impact unit sales volumes in this period, with variations in volumes across different areas within South East Queensland and regional Queensland.

Property prices

Over the period between FY2005 and FY2015, median house and unit sale prices increased at a CAGR of 4.2% per annum and 2.9% per annum, respectively. Median house and unit sale prices declined in FY2011 and FY2012, concurrent with reduced sales volumes in those years. Median house sale prices have since recovered, which is believed to have been assisted by low interest rates and a moderate lack of housing stock in the South East Queensland region. Median unit sale prices remain approximately 4.3% below the previous peak levels of FY2010.

House sale price growth in FY2016 is expected to be assisted by a continued stock shortage in South East Queensland. Unit sale prices are expected to be partly influenced by the performance of new apartment developments in inner Brisbane.

The median house sale price is expected to grow by 3.6% from FY2015 to FY2016 as the current momentum in the market is maintained. House price growth in South East Queensland is forecast to be 5.6% in FY2016 and is expected to outpace that of regional Queensland, as the latter is expected to be impacted by more subdued economic conditions as well as an emerging oversupply across many regional centres. Median unit sale prices are expected to grow by 3.5% from FY2015 to FY2016 and 5% in South East Queensland. Beyond FY2016, modest pricing growth for houses and units is expected in the near term, with a possible decline in unit prices.

Assumptions

The forecasts for the Queensland market assume:

- net interstate migration rises to at least 11,000 per annum to FY2018, while net overseas migration remains over 20,000 per annum;
- gross state product growth decreases to no lower than 1.1% CY2015:
- population growth declines to no lower than 60,000 per annum by FY2017; and
- total dwelling starts in South East Queensland reduce to no lower than 27,900 per annum by FY2018.

2.4.4 Victorian residential real estate market

The historical growth in sales volumes and prices for Victorian houses and units from FY2005 to FY2015 and BIS Shrapnel's forecast for FY2016 is set out in Chart 2.13.

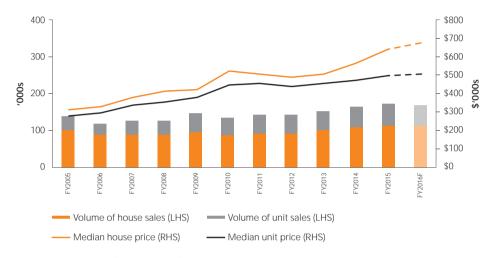


Chart 2.13 Victorian house and unit sales volumes and median prices from FY2005-FY2016F

Source: BIS Shrapnel (October 2015)

Property sales volumes

Chart 2.13 indicates that house and unit sales volumes in Victoria have grown steadily between FY2005 and FY2015 at a CAGR of 2.4% per annum (comprising house sale volume growth of 1.2% per annum and unit sale volume growth of 4.9% per annum). Sales volumes increased in FY2013 and this trend continued into FY2015.

House sales volumes are expected to rise modestly in FY2016, while unit volumes are expected to begin to decrease in FY2016.

Average house sales volumes in Victoria are expected to increase by approximately 2.6% between FY2015 and FY2016, while unit sales are expected to experience a decline of 10.2%. Low interest rates and moderate dwelling shortages are expected to continue to contribute to housing demand. House sales in regional

Victoria are expected to decrease in FY2016, although they will remain high in a long term context. There is evidence that an oversupply of units is also occurring in the Melbourne unit market given the introduction of new units at record levels while vacancy rates in inner Melbourne are rising.

Beyond FY2016, Melbourne's housing stock is expected to be oversupplied, while forecast rises in interest rates will result in volumes falling back to average historical volumes from FY2005 to FY2015.

Property prices

Over the period between FY2005 and FY2015, median house and unit sale prices increased at a CAGR of 7.4% per annum and 6.0% per annum respectively. Price increases are believed to have been assisted by low interest rates and a moderate lack of housing stock.

McGrath's views on the Melbourne market

Consistent with the Market Report McGrath anticipates price growth in the Victorian market. McGrath sees more likely growth in the Melbourne market than in Sydney, as a result of an increasing number of Sydney residents migrating to Melbourne for job opportunities and more affordable housing.

Price growth for houses is expected to reduce in FY2016 as sales activity is expected to plateau. Unit prices are expected to slow rapidly and decline as the supply in Melbourne increases.

The median house sales price in Melbourne is expected to grow by 4.9% from FY2015 to FY2016, which would be the peak level for this cycle. That is a lower growth rate than the 15.7% rise in FY2015 reflecting an expectation of a reduction in Melbourne's housing stock shortage and an emerging oversupply across many regional centres. Median unit sales prices in Melbourne are expected to experience a minimal rise of 0.9% from FY2015 to FY2016, based on an increase in supply of units, high vacancy and rent reductions in inner Melbourne, which progressively impacts middle and outer Melbourne regions. This trend is expected to result in house and unit price decreases beyond FY2016.

The level of affordability in Victoria does not indicate the likelihood of a major price reductions in the absence of a material rise in interest rates.

Assumptions

The forecasts for the Victorian market assume:

- the affordability ratio (being mortgage repayments as a proportion of household disposable income) for Melbourne rises to a long term high of at least 36.2% in FY2016;
- net Victorian migration falls to no lower than 48,500 per annum by FY2018;
- gross state product growth increases to no less than 2.8% in CY2015; and
- population growth declines from 103,800 in FY2015 to no lower than 90,800 per annum in FY2018.

2.5 The Australian residential mortgage broking industry

Mortgage brokers are financial intermediaries that arrange and distribute mortgage products but are not mortgage lenders. The role of a mortgage broker is to assist a client to select a loan and manage the process through to settlement. Mortgage brokers also assist borrowers in refinancing their current loans on improved terms where possible. Mortgage brokers generate revenue on the distribution of mortgages by charging a commission (which may be fixed or variable) to the lender for each mortgage that they arrange which may consist of:

- an upfront commission received from lenders paid as a percentage of the loan amount provided; and/ or
- a trailing commission received from lenders over the term of the loan, paid as a percentage of the outstanding balance on the loan.

A mortgage broker generally provides its customers with access to a wide range of lenders and mortgage products and operates independently of any particular lender. Mortgage brokers provide lenders with a broader distribution network without having to invest in physical infrastructure. In CY2014 it is estimated that approximately \$320 billion of residential mortgages were arranged, 42 with brokers accounting for approximately 50%⁴³ of those loans. Many mortgage brokers access mortgage products from multiple lenders through wholesale mortgage brokers rather than directly.

The Australian housing finance sector had approximately \$1.5 trillion in total loans outstanding as at 30 April 2015.⁴⁴ Chart 2.14 sets out the trend for growth in housing loans and indicates that, during the 15 years to 31 March 2015, the CAGR was 11.2% and the year on year quarterly growth rate has not been below 4.3%.⁴⁵

- ⁴²RBA D6 Lending Commitments
- ⁴³ MFAA's quarterly survey of leading mortgage brokers and aggregator – March 2015 report
- ⁴⁴ RBA D2 Lending and Credit Aggregates
- ⁴⁵McGrath management estimate

50

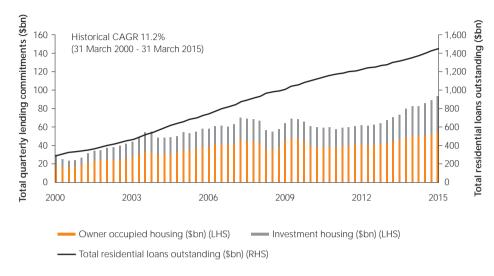


Chart 2.14 Australian housing – total outstanding loans from 2000 to 2015

Source: RBA D6 Lending Commitments

2.6 Regulatory and industry oversight

2.6.1 Franchising Code of Conduct

Real estate businesses with franchise offices are subject to Commonwealth legislation, which governs the relationship between franchisees and franchisors.

The Franchising Code of Conduct (Franchising Code) is a mandatory industry code established under the Competition and Consumer Act 2010 (Cth). The Franchise Code governs the relationship between franchisors and franchisees.

Under the Franchising Code, franchisors must provide a disclosure document to potential franchisees before they enter into a franchise agreement and to existing franchisees within four months after the end of each financial year.

The Franchising Code also sets out:

- the standard terms of franchise agreements; and
- the procedure for resolving any disputes arising in relation to the franchise agreement.

2.6.2 State-based real estate agent regulation

In NSW, the relevant legislation is the Property, Stock, and Business Agents Act 2002 (NSW). A corporation that carries on business as a real estate agency must hold a corporation's licence. A licensed corporation must have at least one director who also holds a real estate agent licence. The employee in charge of each place of business must hold a real estate agent licence for the proper supervision of the business and actions of employees. A person employed by a licensed corporation as a real estate salesperson must hold a real estate agent licence or a certificate of registration. NSW Fair Trading administers real estate agent licences.

In the ACT, the Agents Act 2003 (ACT) governs real estate agencies. An individual or corporation that carries on business as a real estate agent must be licensed. A licensed corporation must have at least one director who also holds a real estate agent licence. Access Canberra administers real estate agent licences.

In Queensland, the relevant legislation is the Property Occupations Act 2014 (Qld) and the Motor Dealers and Chattel Auctioneers Act 2014 (Qld). A real estate agent licence is required if a person undertakes buying, selling, exchanging or letting places of residence or land or interests in places of residence or land for reward. The Office of Fair Trading administers real estate agent licences and auctioneer licences.

In Victoria, the Estate Agents Act 1980 (Vic) regulates those who can work in the real estate industry. If a person buys, sells or manages real estate or a business on behalf of any other person, he or she must hold a real estate agent licence or be employed by a licensed real estate agency as an agent's representative. A licensed real estate agency must have a licensed real estate agent as "Officer in Effective Control". A licensed real estate agency that is a corporation must have at least one Director who is a licensed real estate agent. Consumer Affairs Victoria is responsible for licensing real estate agencies.

In NSW, ACT and Queensland, an auctioneers' licence is required if a person undertakes to sell land by auction.

The other Australian states and territories have similar regulatory frameworks in place to ensure real estate services are appropriately monitored and administered.

Recent regulatory changes

In NSW, there has been a recent amendment to the Property, Stock and Business Agents Act 2002 (NSW) that is designed to limit the practice of "under-quoting", where an agent makes a statement in the course of advertising that is less than the agent's true estimate selling price as recorded on the agency agreement. As a result of this amendment, real estate agents in NSW are:

- required to nominate a property's estimated sale price and cannot advertise a sale price below this estimate;
- required to keep a record of any quotes given by them in the marketing of a residential property; and
- restricted from publishing advertisements containing the phrases "offers over", "offers above" or any similar phrase.

Agents found to have breached these laws may be fined up to \$22,000 and potentially forefeit any fees or commission payable to them in the sale of a property. Additionally, if the Director-General of the Office of Fair Trading considers that conduct to be 'dishonest', they may disqualify that agent from holding a real estate agent licence.

2.6.3 Mortgage broking industry

In Australia, the mortgage broking industry is primarily regulated by ASIC and under the National Consumer Credit Protection Act 2009 (Cth) (NCCP Act). The NCCP Act regulates the activities of persons who engage in credit activities including providing credit assistance to a consumer and acting as an intermediary.

A mortgage broker business must hold an Australian credit licence (ACL), which authorises it to engage in certain credit activities. Individual brokers must themselves either hold an ACL or be a credit representative of a licensee (which may be a corporation). Brokers are subject to both the licence conditions that are imposed by ASIC and by the licensee obligations contained in the NCCP Act. Brokers are also responsible for certain conduct of persons who are nominated by them as their credit representatives.

Brokers' obligations under their ACL and the NCCP Act include requirements relating to competence, training and managing conflicts of interest as well as requirements to:

- have an internal dispute resolution process and be a member of an approved external dispute resolution scheme;
- hold a professional indemnity insurance policy;
- have adequate compliance arrangements and systems;
- do all things necessary to ensure that the credit activities are engaged in efficiently, honestly and fairly; and
- comply with the credit legislation.

The NCCP Act also sets out responsible lending obligations that apply to the licensee when credit assistance is provided to a consumer in relation to a credit contract. The responsible lending obligations include requirements to provide a credit guide to the consumer, to make reasonable inquiries about the consumer and to make a preliminary assessment of whether the proposed credit contract will be unsuitable for the consumer.

31
Oxygen brokers

617
Agents







3.1 Overview of McGrath

Founded in 1988 by John McGrath, McGrath has been established as one of the leading residential real estate service providers in Australia with a strong market presence in NSW and the ACT as well as a growing presence in Queensland. McGrath is also well advanced in establishing a presence in Victoria.

McGrath is an integrated residential real estate services business operating five business units that provide a range of services including residential property sales, property management, mortgage broking, auction services and real estate training. McGrath operates a hybrid business model consisting of Company Owned Offices and Franchise Offices.

McGrath has entered into a binding SPA with the Smollen Sellers to acquire the Smollen Group. Smollen Group is currently McGrath's largest Franchisee and comprises 10 offices across Sydney's North Shore, North West and Northern Beaches contracting 65 sales and 19 property management staff. The acquisition of the Smollen Group will complete shortly following Completion of the Offer.

After completion of the Offer and the Acquisition, McGrath will have 22 Company Owned Offices and 53 Franchise Offices.

3.2 History

A summary of key events in McGrath's history is set out in Chart 3.1.

Chart 3.1 McGrath history

CALENDAR YEAR	OFFICE NUMBERS (30 JUNE)	
2015	67	Expanded to 75 offices (November 2015)
		Acquisition of the Smollen Group
2013	53	Celebrated 25 years in the business
		Launched McGrath China desk to facilitate property transactions for Asian buyers
2011	38	1st time ranking BRW's Fast Growing Franchises at No. 24 for revenue growth and No. 11 for outlets
		Oxygen Home Loans named Australian Brokerage of the Year at 10th Annual Mortgage Awards
2010	33	McGrath entered the ACT market
2009	22	McGrath entered the QLD market
2006	9	First Franchise Office opened
2002	4	Oxygen Home Loans established
2000	3	McGrath Limited formed as an unlisted public company with external shareholders and board of directors
		Company's name changed to McGrath Estate Agents
		First AREC conference
1991	1	McGrath Goodhope becomes McGrath Partners Estate Agents
1988	1	McGrath Goodhope founded by John McGrath

Source: McGrath

3.3 Business operations

McGrath's business operations are summarised in Chart 3.2. Operations are managed by the Chief Executive Officer and Chief Operating Officer, who together form the "Office of the CEO". McGrath's management structure is shown in Section 6.2.

Chart 3.2 Overview of McGrath's operations

	Company Owned		Franchise Services	Mortgage Broking	Training and Other
BUSINESS UNITS	Sales	Property Management 11%			1%
FY2016 EBITDA CONTRIBUTION ¹	71%		14%	2%	
OVERVIEW	McGrath operates Company Owned Offices that provide high quality sales and property management services within its various operating	McGrath Company Owned Offices directly manage properties from which it derives management and leasing fees	McGrath partners with franchise groups who operate McGrath branded offices. Each office also provides high quality sales and property management	Oxygen Home Loans is a mortgage broker. It has a broad client base that services McGrath and non-McGrath generated referrals Generates up front and trailing revenue from each loan	Training McGrath organises and operates a number of industry leading residential real estate conferences in Australia Auction Services –
	locations Generates revenue by charging the vendors of residential property a commission for successfully selling a property		services. Franchise fees are largely consistent across the network		McGrath's team of 28 dedicated auctioneers conduct auctions for the network
KEY STATISTICS ²	Offices: 22 Agents: 269 FY2015 property sales: 4,954 FY2015 value of property sales: \$6.3 bn	Properties under management as at 30 June 2015: 6,897 Property managers: 59 Churn rate: ~18.5% ³	Offices: 53 Agents: 348 Property managers: ~100 FY2015 property sales: 6,036 Properties under management as at 30 June 2015: 15,003 FY2015 value of property sales: \$5.2 bn	Brokers: 31 FY2015 mortgages settled: 1,480 FY2015 value of mortgages settled: \$676 million Loans under management: \$2.0 bn	Australian Real Estate Conference (* AREC*) Australian Residential Property Management Conference (* ARPM*) Mastery
TOTAL McGRATH	75 Offices 617 Agents 31 Mortgage brokers	10,990 Number of FY2015 property sales \$11.6 bn Value of FY2015 property sales	1,480 FY2015 mortgages settled \$676 m FY2015 value of mortgages settled	295,875 Buyers in database 31,325 Printed 'McGrath' magazines distributed per month	
	159 Property managers	21,900 Properties under management as at 30 June 2015	\$2.0 bn Current loans under management		

Source: McGrath

¹ Includes the impact of the Acquisition; contributions may not sum to 100% due to rounding

² Data as at 10 November 2015 unless otherwise stated

³ Churn rate is defined as the total number of properties lost as a percentage of total properties managed each year and does not account for the addition of new properties





3.3.1 Company owned business units

After completion of the Offer and the Acquisition, McGrath will operate 22 Company Owned Offices that provide sales and property management services to its clients in their various operating locations.

McGrath believes that operating Company Owned Offices is important in differentiating McGrath from many other real estate groups in Australia. By owning and operating a large number of residential real estate businesses itself. McGrath is in a strong position to understand key factors and dynamics affecting the day to day residential real estate market. This ownership, knowledge and experience enables McGrath to assist its Franchisee partners and Agents in growing their businesses successfully. The senior management team, including representatives from the Company Owned Offices and the Office of the CEO, are directly involved in Franchisee interaction and support.

Company owned - sales business unit

McGrath's company owned sales business unit (including the Smollen Group) has approximately 269 Agents who undertake residential property sales on behalf of vendors from McGrath's Company Owned Offices. Each Company Owned Office is led by a sales manager, who is a non-selling executive providing assistance and support to the sales team. In FY2015, Agents in the Company Owned Offices (including the Smollen Group) sold approximately 4,954 properties valued at over \$6.3 billion.

Company Owned Office sales generate revenue for McGrath through the Agent charging a sales commission to the property vendor which is based on a percentage of the property's value. These commissions are on a success basis only, such that a commission is only charged once a property is sold. The total commission paid by the property vendor is known as Gross Commission Income (GCI). The majority of Agents are contractors and receive an agreed share of the GCI they generate with the remainder being retained by McGrath. McGrath's average gross commission percentage in its Company Owned Offices has remained relatively consistent over time, having varied by approximately 0.12% of sales prices over the five years to June 2015.

An example of the economics of a property sale undertaken by an Agent in a Company Owned Office is set out in Chart 3.3.

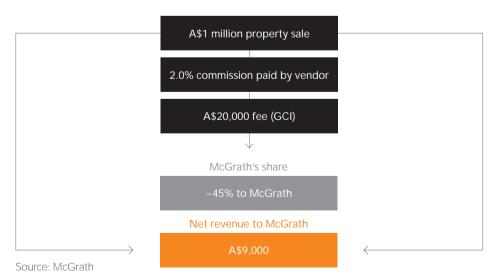


Chart 3.3 Example economics of a McGrath sale transaction - Company Owned Office

Note: Percentages and values are for illustrative purposes only; excludes other fees, taxes and concessions; commissions vary considerably depending on such factors as type, location and value of the property and actual results may vary

McGrath's Company Owned Office network has grown strongly over time. Including the impact of the Acquisition, property sales have grown by approximately 156% between FY2009 and FY2015 and Agent numbers have increased by approximately 114% over the same period.

Chart 3.4 Company Owned Office property sales volumes from FY2009 to FY2015

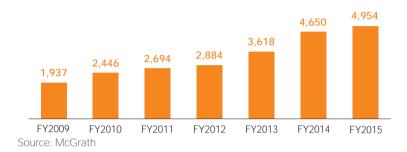


Chart 3.5 Company Owned Office Agent numbers from FY2009 to FY2015



Source: McGrath

McGrath will continue to grow its Company Owned Office network and plans to open 4 new offices in FY2016 in Newtown and Maroubra in Sydney and Robina and Paradise Point in Queensland.

The company owned sales business unit also manages a projects marketing business which markets projects for property developers. Property developers engage McGrath to sell apartments off the plan, typically with half of McGrath's sales commission paid on signing a sales contract and half on completion of the sale. Each project may apply to the Foreign Investment Review Board (FIRB) for approval to sell a nominated percentage of apartments to non-Australian residents. McGrath markets projects through both domestic and offshore channels, including via overseas 'conjunction' agents with whom it shares its sales commission.

Company owned – property management business unit

McGrath's company owned property management business unit provides a range of property management services for property owners, including:

- marketing properties for rent;
- lease preparation and execution;
- lease management;
- periodic inspections; and
- arrangement of general maintenance and repairs.

Revenue from property management services is generated through charging a commission to manage a property, being a fixed percentage of the property's rental income. In addition, McGrath is paid a leasing fee upon successful letting of the property, which is typically one to two weeks' rent. An example of the economics of a property management transaction undertaken in a Company Owned Office is set out in Chart 3.6.

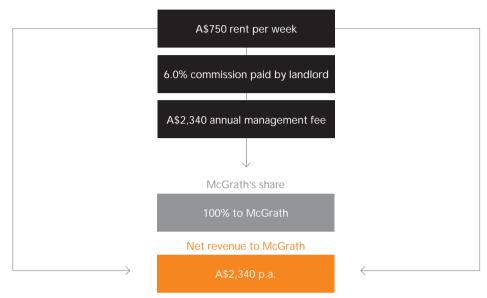


Chart 3.6 Example economics of a McGrath property management transaction
– Company Owned Office

Source: McGrath

Note: Percentages and values are for illustrative purposes only; excludes other fees, taxes and concessions; fees vary depending on such things as type, location and value of the property and actual results may vary

Following the Acquisition, McGrath will have approximately 59 property managers in its Company Owned Offices who manage approximately 7,396 properties. This 'rent-roll' is an important part of the McGrath business as it provides a level of recurring income and represents a pool of potential property sale opportunities if and when the properties are sold.

The number of properties managed by McGrath's Company Owned Offices has increased by approximately 90% since FY2012, as set out in Chart 3.7, and McGrath believes it can continue to grow its properties under management through both existing and new offices.

FY2014

FY2015



Chart 3.7 Number of properties under management from FY2012 to FY2015
- Company Owned Offices only

FY2013

Source: McGrath

FY2012

3.3.2 Franchise services

Following the Acquisition, McGrath will have partnerships with 31 franchise groups which operate 53 McGrath branded Franchise Offices. Each office provides sales and property management services. McGrath's Franchisees have approximately 348 Agents undertaking residential property sales and the Franchise Offices provide a means for McGrath to broaden its reach across markets in a capital efficient manner.

The franchise services business unit generates revenue through a number of fees including:

- an initial grant fee on the issue of a franchise or a franchise renewal:
- an ongoing franchise fee based on a fixed percentage of GCI generated by the Franchisee;

- an ongoing marketing fund contribution (based on a fixed percentage of GCI), to a marketing fund that McGrath is required to use for ongoing brand marketing; and
- a fixed percentage of the Franchisees' property management fees.

Including the impact of the Acquisition, in FY2015 McGrath Franchisees sold approximately 6,036 properties valued at over \$5.2 billion. The average gross commission percentage achieved by McGrath's Franchisees has remained relatively consistent over time, having varied by less than 0.1% of sales prices over the five years to June 2015. An example of the economics of a property sale and property management transaction undertaken by an Agent in a Franchise Office is set out in Chart 3.8 below.

Chart 3.8 Example economics of a sale and a property management transaction

– Franchise Office



Source: McGrath

Note: Percentages and values are for illustrative purposes only; excludes other fees, taxes and concessions; fees vary depending on such things as type, location and value of the property and actual results may vary

¹Includes franchise fee of 7% plus marketing fee of 1%

McGrath's franchise agreements are typically five years with an additional five year option exercisable by the Franchisee. Each franchise agreement provides the Franchisee with a Business Development Area (BDA), being a defined geographic area in which a Franchisee has an exclusive right to operate a McGrath branded office. These BDAs are relatively large which allows a Franchisee to grow its business in a meaningful way over time. Franchise agreements are discussed in more detail in Section 9.4.4.

McGrath believes that potential Franchisees are attracted to McGrath for a number of reasons, including:

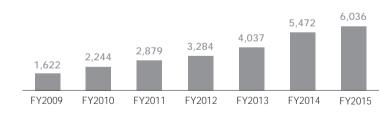
- the strength of the McGrath brand among customers;
- McGrath's strong reputation within the industry;
- the quality of McGrath's support services and systems; and
- the large and exclusive BDAs McGrath offers its Franchisees.

In addition to use of the McGrath brand, Franchisees are provided with a wide range of support services in areas such as marketing, training, technology and systems, as set out in Section 3.7. There is also a range of ongoing initiatives that McGrath has in place in order to retain the highest quality Franchisees, including:

- mentoring from John McGrath, Geoff Lucas and other key Executives;
- network performance coaches;
- the support of the General Manager,
 Franchise Services; and
- an annual principals' conference aimed at providing a platform to share ideas and best practice solutions and to inform Franchisees of the strategy for the overall network.

McGrath's franchise network has grown strongly since the first franchise was granted in 2006. Including the impact of the Acquisition, property sales grew by approximately 270% between FY2009 and FY2015 and Agent numbers increased by approximately 9 times over the same period. No McGrath Franchisee has elected not to renew its franchise agreement and move to another franchise network. The number of properties managed by McGrath's Franchise Offices has increased by over 6,000 properties since FY2012, as set out in Chart 3.11.

Chart 3.9 Franchise Office property sales volumes from FY2009 to FY2015



Source: McGrath

Chart 3.10 Franchise Office Agent numbers from FY2009 to FY2015





Chart 3.11 Number of properties under management from FY2012 to FY2015 - Franchise Offices only

Source: McGrath

McGrath plans to continue to grow the franchise network by attracting new Franchisees, and is in well advanced discussions with potential Franchisees to open Franchise Offices in FY2016 in areas in Melbourne, Sydney, Brisbane, the ACT, regional NSW and regional Queensland, as discussed in Section 3.8.1.

3.3.3 Mortgage broking

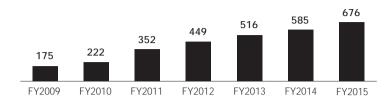
McGrath's Oxygen Home Loans mortgage broking business unit was launched in December 2002. Oxygen Home Loans was established to provide McGrath clients with a wide range of mortgage products sourced from various providers. Prior to Oxygen Home Loan's launch, McGrath had a referral relationship with a major Australian bank.

Oxygen Home Loans is involved in originating, broking and providing advice in relation to residential mortgages. It is an award winning broker with a broad client base and originates mortgages through McGrath Agents and Franchisees and also via its own brokers' relationships. Oxygen Home Loans was rated at number nine in the 2015 rating of Australia's top mortgage brokerages published by industry magazine, The Adviser.

Oxygen Home Loans has access to a wide range of mortgage products provided by over 30 lenders. It generates revenue through an upfront fee on provision of a loan and an ongoing trailing commission based on the outstanding value of loans written. The majority of Oxygen Home Loans' brokers are independent contractors and receive a fixed proportion of the commission they write. The revenue is also shared with the office to which the broker is allocated and in some cases. with internal referrers. McGrath retains the balance. Revenue is generally influenced by the average loan size written, broker productivity and early repayment rates.

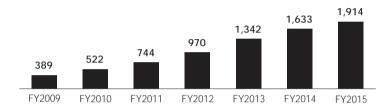
Oxygen Home Loans currently has 31 mortgage brokers in its network. Brokers are located at both Company Owned Offices and Franchise Offices to encourage cross-selling, with Franchisees required to provide office space for Oxygen Home Loans' brokers as part of their franchise agreement. In FY2015, Oxygen Home Loans brokers settled approximately \$676 million of loans and Oxygen Home Loans' currently has loans under management of approximately \$2.0 billion. The annual loans settled and loans under management have grown strongly over time, as demonstrated in Charts 3.12 and 3.13.

Chart 3.12 Oxygen Home Loans' total loan settlement value (\$ million) from FY2009 to FY2015



Source: McGrath

Chart 3.13 Oxygen Home Loans' loans under management (\$ million) from FY2009 to FY2015



Source: McGrath

As McGrath grows its network, it believes that Oxygen Home Loans represents a strong growth opportunity and that there is significant scope to increase broker numbers, improve broker productivity and increase the referral and conversion rate from the McGrath Network.

3.3.4 Training and other

Training

McGrath's training business, Total Real Estate Training (TRET) was established in 1996 to provide education and training services for the real estate industry in Australia and New Zealand. In addition to being a contributor to McGrath's financial performance, TRET allows McGrath to connect with a broad group of real estate industry participants, enabling it to benefit from the various opportunities those connections bring.

McGrath's training business organises a number of industry leading Australian residential real estate conferences, including:

- Australian Real Estate Conference (AREC);
- Australian Realty Property Management (ARPM); and
- Mastery.

These events involve presentations by a range of local and international experts and also exhibitors from a number of companies providing support services for the industry such as software, recruitment, marketing services, conveyancing, technology and data services.

AREC is the largest of the three events and is held annually over two days. The 2015 event had 20 presenters and over 60 exhibitors and attracted over 3,800 attendees.

TRET generates revenue through fees paid by attendees, sponsors and exhibitors.

Auction Services

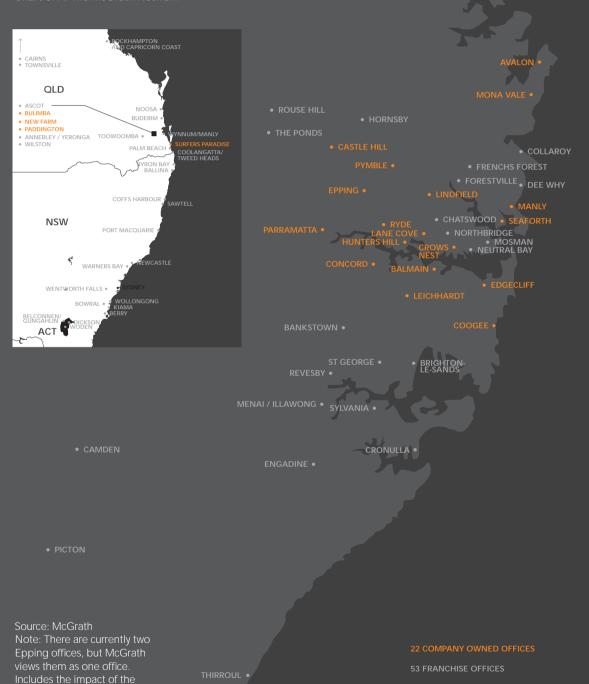
Where appropriate, McGrath views professional auction services as important in generating the best outcome for its selling clients. McGrath runs a dedicated auction services group that conducts auctions for the McGrath Network exclusively.

McGrath has a team of 28 auctioneers and generates revenue based on a fixed fee per auction.

3.4 Geographic coverage

McGrath's network consists of 75 offices (53 Franchise Offices and 22 Company Owned Offices including the impact of the Acquisition) and operates in Sydney, regional NSW, the ACT, Brisbane and regional Queensland, as set out in Chart 3.14.

Chart 3.14 The McGrath Network



McGrath believes that there are significant opportunities to grow its network through opening new Company Owned Offices, attracting new Franchisees or potentially through acquisitions, as set out in Section 3.8.

Tables 3.15 and 3.16 set out the suburbs with the largest residential real estate commission pools for Sydney and South East Queensland based on house and unit sales settled in the 12 months to May 2015. The McGrath Network covers 18 of these 20 suburbs and is expected to expand into a number of the suburbs it does not currently service as discussed in Section 3.8.1.

Table 3.15 Sydney suburbs with the largest residential real estate commission pools based on house and unit sales settled (12 months to May 2015)

Table 3.16 South East Queensland suburbs with the largest residential real estate commission pools based on house and unit sales settled (12 months to May 2015)

RANK	SUBURB	McGRATH PRESENCE	RANK	SUBURB	McGRATH PRESENCE
1	Mosman	Yes	1	Surfers Paradise	Yes
2	Castle Hill	Yes	2	Buderim	Yes
3	Vaucluse	Yes	3	Hope Island	Yes
4	Epping	Yes	4	Southport	Yes
5	Chatswood	Yes	5	Brisbane City	Yes
6	Randwick	Yes	6	New Farm	Yes
7	St Ives	Yes	7	Noosa Heads	Yes
8	Paddington	Yes	8	Robina	No*
9	Kellyville	Yes	9	Maroochydore	Yes
10	Manly	Yes	10	Paradise Point	No*

Source: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data and an assumed 2.0% sales commission rate. Total market value of residential property sales over time based on CoreLogic Data.

Note: * While these areas fall within current McGrath BDA's the Company has an intention to establish satellite Company Owned Offices directly in these areas in FY2016

3.5 Competitive landscape

In the NSW market, McGrath estimates it was the second largest agency network in the 12 months to 31 March 2015, measured by total value of properties sold with a market share of approximately 7.2%. The equivalent measures for the ACT, Queensland and the national market were 5.4%, 1.3% and 3.2% respectively.⁴⁶

Charts 3.17 to 3.20 set out the estimated market shares of McGrath and other major networks measured by total value of properties sold in NSW, the ACT, Queensland and Australia for the 12 months to 31 March 2015.

⁴⁶McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time derived from CoreLogic Data.

R&W 2.1%

Century 21 3.1%

Raine & Horne 3.6%

LJ Hooker 6.4%

McGrath 7.2%

Ray White 8.0%

Elders 1.4%

Professionals 1.5%

Belle Property 2.4%

First National 3.0%

Others 61.2%

Chart 3.17 NSW market share data in the 12 months to 31 March 2015

Source: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time based on CoreLogic Data. Note: Total market share is based on the total value of properties sold in the 12 months to 31 March 2015. Where an agent is not recorded, it is included in 'Other'

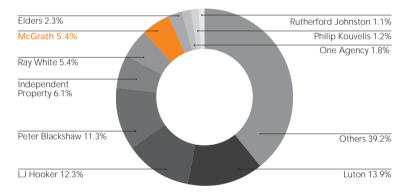


Chart 3.18 ACT market share data in the 12 months to 31 March 2015

Source: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time based on CoreLogic Data. Note: Total market share is based on the total value of properties sold in the 12 months to 31 March 2015. Where an agent is not recorded, it is included in 'Other'

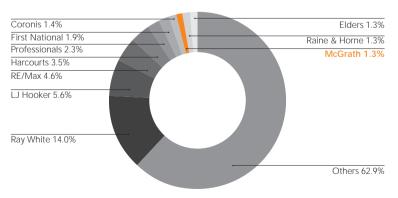


Chart 3.19 Queensland market share data in the 12 months to 31 March 2015

Source: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time based on CoreLogic Data. Note: Total market share is based on the total value of properties sold in the 12 months to 31 March 2015. Where an agent is not recorded, it is included in 'Other'

Barry Plant 1.6%
Raine & Horne 2.0%
Harcourts 2.3%
First National 2.7%
McGrath 3.2%

LJ Hooker 4.8%

Ray White 8.0%

Others 70.4%

Chart 3.20 Australian market share data in the 12 months to 31 March 2015

Source: McGrath management estimates based on published sales where an agent was recorded. Total market value of residential property sales over time based on CoreLogic Data.

Note: Total market share is based on the total value of properties sold in the 12 months to 31 March 2015. Where an agent is not recorded, it is included in 'Other'

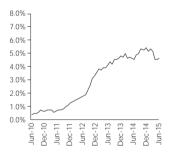
McGrath's market share in its key state markets of NSW, ACT and Queensland has grown significantly over time as the network has expanded and transaction levels increased.

Chart 3.21 NSW market share based on the total value of properties sold from June 2010 to March 2015 (six month rolling average)



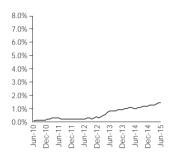
Source: McGrath management estimates based on published sales where an agent was recorded. Total market value of residential property sales over time based on CoreLogic Data.

Chart 3.22 ACT market share based on the total value of properties sold from June 2010 to March 2015 (six month rolling average)



Source: McGrath management estimates based on published sales where an agent was recorded. Total market value of residential property sales over time based on CoreLogic Data.

Chart 3.23 Queensland market share based on the total value of properties sold from June 2010 to March 2015 (six month rolling average)



Source: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time based on CoreLogic Data.

Chart 3.24 National market share based on the total value of properties sold from June 2010 to March 2015 (six month rolling average)

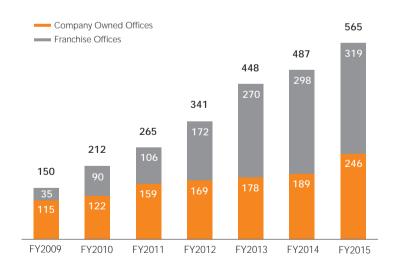


Source: McGrath management estimates derived from published sales in data available to McGrath management where an agent was recorded in that data. Total market value of residential property sales over time based on CoreLogic Data.

3.6 Agents

McGrath's network currently consists of a total of over 600 Agents in its Company Owned Offices and Franchise Offices. Growth in McGrath's Agent network is set out in Chart 3.25.

Chart 3.25 Number of McGrath Network Agents from FY2009 to FY2015

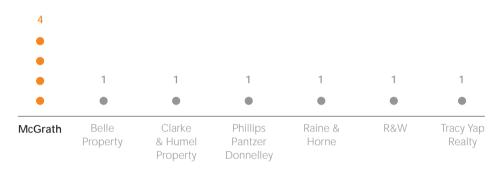


Source: McGrath

McGrath believes that its premium brand, business model and level of business and career support enables it to attract and retain high quality Agents.

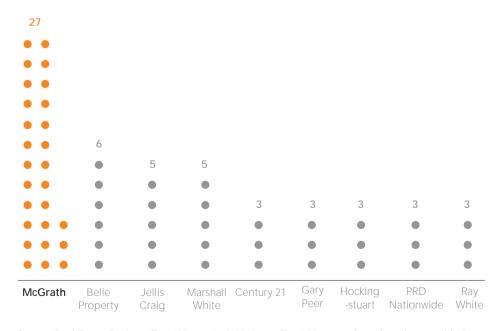
Real Estate Business, a trade magazine, publishes an annual, self-nominated rating of the top 100 agents in Australia with agents marked on a number of criteria including sales volume, number of sales and average sales price. In the 2015 ratings, four of the top 10 agents in NSW were McGrath Network Agents and 27 of the top 100 agents in Australia were part of the McGrath Network. On either measure, this was significantly greater than any of McGrath's competitors, as set out in Charts 3.26 and 3.27.

Chart 3.26 Number of Agents in Real Estate Business' top 10 agents in NSW in 2015



Source: Real Estate Business Top 100 Agents 2015. Top 100 agents based on data provided by over 300 top performing agents; agents were marked on a number of criteria including sales volumes, number of sales and average sales price.

Chart 3.27 Number of Agents in Real Estate Business' top 100 agents in Australia in 2015



Source: Real Estate Business Top 100 agents 2015. Note: Top 100 agents based on data provided by over 300 top performing agents; agents were marked on a number of criteria including sales volumes, number of sales and average sales price

The McGrath Network has a strong record of retaining its Agents. The top 50 Agents within the McGrath Network (based on FY2015 GCI) had an average tenure of approximately nine years with McGrath or its Franchisees, while the top 10 Agents had an average tenure of approximately 12 years.

McGrath Company Owned Offices undertake a rigorous process in attracting, selecting and recruiting Agents to ensure the performance and customer service quality of its Network is preserved. Following a structured interview process when using the internal recruitment capacity, all successful candidates participate in a 'Predictive Index Survey'. This process reveals motivation and behaviours both inside and outside the work place that can be benchmarked against the existing team to facilitate cultural fit, address skill gaps and drive future success. For externally recruited candidates, McGrath uses a range of strategies to ensure Agents are appropriate for the culture at McGrath.

McGrath has a range of ongoing initiatives for its Agents to maintain its high performance corporate culture and to assist in driving the success of its Agents. These include:

- ongoing mentoring by top performing Agents;
- unlimited and free access for all Agents to an extensive, and what McGrath believes to be, industry leading, training calendar as discussed in Section 3.7.3;
- seminars and forums hosted by John McGrath;
- an annual awards night to recognise achievements;
- family events;
- 'MAC Day' which involves bringing ideas for the business to management; and
- transfers of Agents between Franchise Offices.

3.7 Shared services

Following the Acquisition, McGrath will employ a team of approximately 60 people who provide shared support services for Franchisees and Agents at both Company Owned Offices and Franchise Offices.

McGrath believes that the level of support services that it provides across its network is one of the key reasons it is successful in attracting quality Agents and Franchisees.

3.7.1 Information Technology

Information technology is a critical component of the McGrath business and McGrath continues to invest in its technology to retain a competitive advantage for its Franchisees and Agents.

Website

McGrath's website provides information for current and potential owners and tenants. McGrath is in the process of renewing the website. Management expects the new site to be live during November 2015. The existing website had over 4.5 million visits in the 12 months to July 2015.

Sales

McGrath currently operates its property sales business on 'MARS', a proprietary platform developed in-house over the last 10 years. MARS provides comprehensive buyer and seller databases that underpin the listings process and customer engagement and relationship management. These databases supply listing information to the McGrath website and industry portals such as Domain.com.au and RealEstate.com.au and capture consumer marketing preferences (both directly and through the McGrath website). MARS also provides users with real time reporting capabilities that differentiates McGrath from its competitors and has been critical in enabling McGrath to provide what it believes to be a "best-in-class" sales reporting service to its Agents and Franchisees.

In order to ensure it continues to maintain and enhance the quality of its systems, McGrath has engaged PropertyIQ (a joint venture between CoreLogic and Macquarie Bank) to migrate from MARS to a 'Software As a Service' (SAAS) platform provided by Salesforce. The SAAS platform will provide more advanced functionality than MARS through enhanced data services, data integration and customer relationship features. This is intended to improve Agent productivity and increase sales through marketing automation and streamlining of business processes. It will provide staff and Agents with access to more detailed information and additional services through their mobile devices.

Importantly, the historical investment McGrath has made in MARS will increase the functionality it can achieve from the SAAS platform. Migration to the SAAS platform will be staged, commencing in February 2016, with completion scheduled for all offices by June 2016.

Property management

McGrath's property management business operates on 'REST Professional', an industry standard platform that provides comprehensive property management, holiday letting and trust accounting services. All record keeping, billing and accounting services are provided through integration with McGrath's implementation of 'JD Edwards' (an Oracle platform), supporting the internal finance operations of McGrath.

Ongoing innovation

McGrath plans to continue using IT innovation as a key competitive advantage, with ongoing projects including:

- the development of a new website;
- leveraging the Salesforce SAAS platform; and
- utilisation of collaboration tools and new media technologies to drive Agent productivity and customer engagement.

3.7.2 Marketing fund

McGrath operates a marketing fund which is a controlled fund established to provide approved brand marketing and associated goods and services to the McGrath Network. It is funded by marketing levies on all sales operations in the network

The marketing fund is required, over time, to expend its funds on the provision of marketing goods and services. As such, any surplus in a given period represents an obligation for expenditure in future periods. Any deficit represents expenditure that will need to be recovered in future periods. The monthly surplus or deficit is reflected in the balance sheet of McGrath and recognised as an asset or liability.

3.7.3 Training

McGrath encourages a culture of continuous learning and development in all McGrath offices. The suite of sales and marketing tools continues to evolve and new training programmes are developed to maintain a competitive edge for Franchisees, Agents and staff. Training includes courses for seller and buyer management, systems training, customer service and management.

Induction training helps with the transition to the McGrath systems and covers McGrath's culture, values and the resources available. It is the responsibility of Franchisees to ensure that their key personnel attend relevant McGrath induction and training programmes to ensure standards are met.

Franchisees are encouraged to attend programmes, seminars and/or meetings conducted by McGrath to cover minimum training requirements, as well as programmes to cover minimum training requirements for other members of the team.

3.7.4 China Desk

In 2013 McGrath launched the McGrath China desk in its Edgecliff office. The desk is a specialised service for Chinese buyers in the process of transacting

property in Australia. It provides services including basic translation of property information, explanation of property types and the buying process as well as connecting buyers with a range of Chinese speaking services to facilitate their acquisitions.

3.8 Growth strategy

Chart 3.28 and table 3.17 illustrate the growth in McGrath's network sales volumes and office and Agent numbers for FY2008 to FY2015 relative to the combined market sales volumes of NSW, ACT and Queensland over the same period and demonstrates that

McGrath has been able to grow its network and sales through varying market conditions.

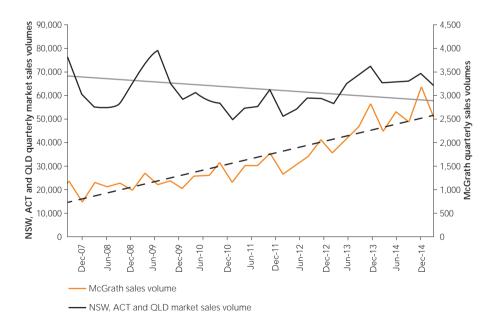
McGrath currently only operates in two states, and the ACT, leaving it with significant scope to expand geographically. Even within its existing states and territories of NSW, the ACT and Queensland, McGrath has relatively modest market share (by sales value) and there remains a number of areas where there are significant growth opportunities.

McGrath has well defined strategic plans for growth including the four key initiatives outlined below.

Table 3.17 McGrath Network offices and Agents from FY2008 to FY2015

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	
OFFICES	16	22	33	38	45	53	57	-
AGENTS	126	150	212	265	341	448	487	-

Chart 3.28 McGrath Network sales quarterly volumes versus total of NSW, ACT and Queensland market quarterly volumes from FY2008 to FY2015



Source: McGrath management analysis derived from Total market volume of residential property sales over time based on CoreLogic Data.

Note: Numbers of offices and Agents are year end figures.

3.8.1 Growing the office network

McGrath believes there are significant opportunities to grow its office network through opening new Company Owned Offices and Franchise Offices. Company Owned Offices are intended to be opened in specific locations where McGrath has strong local market knowledge. New Franchise Offices are intended to be opened outside of those geographic areas. In determining whether to open a Company Owned Office or Franchise Office in a particular location, McGrath takes into account factors such as:

- competitive dynamics of the market and the ability to support the office with non-selling management support;
- the availability of a quality Franchisee; and
- McGrath's ability to compete in an area without having an operating history there.

Growing the Franchise Office network McGrath will continue to grow its Franchise Office network over time, as it is a capital efficient means of expanding McGrath's reach and brand presence.

McGrath is in advanced discussions with potential Franchisees to open approximately 15 Franchise Offices in FY2016, the majority of which are in regions in which the McGrath Network currently operates, being metropolitan Sydney and Brisbane, regional NSW and Queensland and the ACT.

Of those potential new Franchise Offices, 4 to 6 are planned for inner urban areas of Melbourne. Victoria is the second largest residential real estate state market in Australia and McGrath currently has no presence in that state. In deciding to enter the Victorian market, McGrath has taken into account the particular dynamics of the market, most notably the prevalence of boutique independent brands. McGrath has elected to implement its market entry via Franchise Offices as it allows McGrath to use experienced operators in particular areas with established

reputations in those areas at the agent level. The offices will be opened in areas with similar characteristics to McGrath's core locations in Sydney and Brisbane and the proposed Victorian Franchisees are all established and successful operators in their respective areas.

McGrath is also considering expanding into other states, and into New Zealand over the longer term, given the similar dynamics to the Australian market.

Growing the Company Owned Office network

McGrath currently has plans to open four Company Owned Offices in FY2016 in Newtown and Maroubra in Sydney and Robina and Paradise Point in Queensland. McGrath has budgeted expenditure of \$2 million in FY2016 to achieve this plan. McGrath intends to continue to grow its Company Owned Office network beyond this over time. In particular, McGrath is considering complementing the initial group of Victorian Franchise Offices with a small number of large Company Owned Offices in Victoria. In addition to providing higher levels of revenue for McGrath, Company Owned Offices provide the opportunity to grow McGrath's rent-roll and provide an increase in annual recurring revenue.

3.8.2 Increasing Agent numbers per office

McGrath has a strong, ongoing focus on talent identification and the recruitment of Agents. Increasing Agent numbers is undertaken both through attracting existing agents from competitors, but also through internal talent development.

McGrath believes that the Offer will further enhance its ability to both attract and retain high performance Agents through the potential to offer listed equity to select Agents under McGrath's incentive plans.

3.8.3 Select acquisitions

McGrath believes that the Offer provides a significant opportunity for it to undertake select acquisitions to grow its network and the Acquisition is the first example of this. The Australian residential real estate services industry is highly fragmented and McGrath believes that there is the opportunity for it to participate in consolidation. In addition to expanding the scale of its operations, McGrath believes that there are economies of scale available in leveraging its existing systems and infrastructure across a larger network.

There are a range of acquisition alternatives that could be considered and might include the acquisition of:

- existing McGrath Franchisees, such as the Smollen Group;
- firms that have strong market share or client relationships in a key new or existing target market;
- firms with boutique brands; and
- national operators.

McGrath would also contemplate acquiring small businesses with rent rolls, which could involve a small group of sales Agents joining.

To date, McGrath has operated a single brand model, leveraging the strength of the brand it has established. There is the potential for McGrath to evolve into a multi-brand operator should it acquire brands with significant value in or across particular regions, or brands that service different segments of the market (for example 'super premium' or more affordable sectors). This may be especially relevant in regions where McGrath currently has no presence. In the longer term, McGrath could also consider acquisitions in adjacent industry sectors such as mortgage broking.

3.8.4 Growth in mortgage broking, training and other businesses

McGrath's network businesses provide a range of growth opportunities to increase its share of earnings. McGrath is planning to grow Oxygen Home Loans by increasing broker numbers, improving productivity and increasing the referral and conversion rate from McGrath Network sales. The opportunity for TRET is to increase the number of conferences and participants, while auction services are expected to grow as McGrath's sales operations expand.

1,480
Mortgages settled in FY2015

\$676 m
Value of mortgages settled in FY2015







4. Financial information

4.1 Introduction

This section contains a summary of the financial information for McGrath, which includes:

- the pro forma historical financial information for McGrath, comprising:
 - the pro forma historical consolidated statement of comprehensive income for the financial years ended 30 June 2013 (FY2013), 30 June 2014 (FY2014) and 30 June 2015 (FY2015) (Pro Forma Historical Income Statements);
 - the pro forma historical consolidated statement of cash flows for FY2013, FY2014 and FY2015 (Pro Forma Historical Cash Flows); and
 - the pro forma historical consolidated statement of financial position as at 30 June 2015 (Pro Forma Historical Balance Sheet),

(together, the Pro Forma Historical Financial Information); and

- the forecast financial information for McGrath, comprising:
 - the pro forma forecast consolidated statement of comprehensive income for the financial year ending 30 June 2016 (FY2016) (Pro Forma Forecast Income Statement);
 - the statutory forecast consolidated statement of comprehensive income for FY2016 (Statutory Forecast Income Statement);
 - the pro forma forecast consolidated statement of cash flows for FY2016 (Pro Forma Forecast Cash Flow); and

 the statutory forecast consolidated statement of cash flows for FY2016 (Statutory Forecast Cash Flow),

(together, the Forecast Financial Information).

The Pro Forma Historical Financial Information together with the Forecast Financial Information, forms the **Financial Information**.

The Financial Information has been reviewed by KPMG Financial Advisory Services (Australia) Pty Ltd (KPMG Transaction Services), whose Investigating Accountant's Report is contained in Section 8. Investors should note the scope and limitations of that report.

Also summarised in this section are:

- the basis of preparation and presentation of the Financial Information (refer to Section 4.2);
- key operating metrics (refer to Section 4.3.2);
- Management's discussion and analysis of the Financial Information (refer to Section 4.6);
- the Directors' best estimate general and specific assumptions and commentary underlying the Forecast Financial Information (refer to Section 4.7);
- the analysis of the key sensitivities in respect of the Forecast Financial Information (refer to Section 4.8);
- McGrath's proposed dividend policy (refer to Section 4.9).

The Financial Information in this section should also be read in conjunction with the risk factors set out in Section 5 and the other information contained in this Prospectus.

McGrath operates on a financial year ending 30 June, and all amounts within this section are for periods ending 30 June unless otherwise noted. All amounts disclosed in this Section are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$100,000. Rounding of figures provided in the Financial Information may result in some discrepancies between the sum of components and the totals outlined within tables and percentage calculations.

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview

McGrath Holdings was incorporated on 10 September 2015, but it has not and will not undertake any trading activities until Completion of the Offer by which time it will have acquired McGrath Operations.

McGrath Operations, which will become a subsidiary of McGrath Holdings shortly before Completion of the Offer, owns various subsidiaries that operate the business of McGrath. The FY2013, FY2014 and FY2015 financial statements of McGrath Operations have been audited by KPMG. KPMG issued unqualified audit opinions in respect of all periods.

In addition, on 3 October 2015, McGrath Operations entered into a binding SPA with the Smollen Sellers to acquire all of the issued capital in the Smollen Group (the Acquisition). The Smollen Group is a current franchisee of the McGrath Network that following the IPO will be purchased and converted into a company owned operation. As a franchisee of McGrath, the Smollen Group had historically represented a significant contributor of franchisee fee income reported in the audited financial statements of McGrath Operations. The key terms of the SPA are summarised in Section 9.4.1.

The Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all the disclosures, statements and comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act. McGrath Holdings' accounting policies relevant to the Financial Information are set out in Appendix A which have been consistently applied throughout the financial periods presented, including in relation to the financial information in respect of the Acquisition.

The Directors are responsible for the preparation and presentation of the Financial Information.

4.2.2 Preparation of Pro Forma Historical Financial Information

There are no historical consolidated financial statements for the newly incorporated McGrath Holdings, which will become the holding company of the McGrath group shortly prior to Completion of the Offer. McGrath Operations is the current holding company of the McGrath group.

The Pro Forma Historical Financial Information has been derived from the audited statutory consolidated financial statements of McGrath Operations for FY2013, FY2014 and FY2015 adjusted for certain pro forma transactions and/or other adjustments.

Pro forma adjustments have been made to reflect:

 the Acquisition as if it had taken place on 1 July 2012. The historical financial information of the Smollen Group has been extracted without adjustment from the special purpose financial statements of the Smollen Group with FY2013

and FY2014 subject to review and FY2015 subject to an audit by KPMG. KPMG issued unqualified review conclusions in respect of FY2013 and FY2014 and an unqualified audit opinion in respect of FY2015;

- the new capital structure and remuneration structure that will be in place following Completion of the Offer:
- the reversal of a payroll tax settlement made in FY2015 that related to years prior to FY2013;
- adjustments to reflect new public company costs; and
- the income tax expense adjustments to reflect the impact of the above pro forma adjustments.

The Pro Forma Historical Balance Sheet is based on the audited McGrath Operations balance sheet as at 30 June 2015, and is adjusted to reflect the Acquisition as if it had taken place on 30 June 2015 and the impact of the Offer.

An internal restructure will take place in connection with the IPO. This will result in a newly incorporated company, McGrath Holdings, becoming the holding company of the McGrath group.

The Directors elected to account for the restructure as a capital re-organisation rather than a business combination. In the Directors' judgement, the continuation of the existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure.

As such, the consolidated financial statements of the new McGrath Holdings group have been presented as a continuation of the pre-existing accounting values of assets and liabilities in McGrath Operations' financial statements.

In adopting this approach the Directors note that there is an alternate view that such a restructure undertaken for an IPO could be accounted for as a business combination that follows the legal structure of McGrath Holdings being the acquirer. If this view had been taken, the net assets of the McGrath group would have been increased to fair value by \$199.5 million, based on a market capitalisation at IPO of \$281.8 million, with consequential impacts on the profit and loss and statement of financial position.

An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

Refer to Sections 4.3.4, 4.5.2 and 4.4.1 respectively for reconciliations between:

- the statutory historical income statements for FY2013, FY2014 and FY2015 (Statutory Historical Income Statements) and the Pro Forma Historical Income Statements:
- the statutory historical cash flows for FY2013, FY2014 and FY2015 (Statutory Historical Cash Flows) and the Pro Forma Historical Cash Flows: and
- the statutory historical balance sheet as at 30 June 2015 (Statutory Historical Balance Sheet) and the Pro Forma Historical Balance Sheet.

The Pro forma Historical Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding what the underlying historical financial performance and cash flows of McGrath would have been had it operated as a consolidated entity on a basis consistent with the Forecast Financial Information.

Investors should note that past results are not an indication of future performance.

Acquisition – acquisition accounting With respect to the Acquisition, McGrath has performed a provisional assessment of the fair values of the assets and liabilities to be acquired. For the purposes of the Pro Forma Historical Balance Sheet, the assets and liabilities have been recorded at their provisional fair values based on the 30 June 2015 balance sheet of the Smollen Group and the terms of the SPA in relation to the specific assets and liabilities that will transfer with the business. In accordance with AASB 3 Business Combinations. all of the Smollen Group's identifiable assets, liabilities and contingent liabilities, including intangible assets, must be identified and valued, with the excess of the consideration paid over the provisional fair values allocated to goodwill. Under Australian Accounting Standards, McGrath has up to 12 months from the date of acquisition to complete its initial acquisition accounting. Any adjustment to the fair values, including associated tax adjustments, will have an equal and opposite impact on the provisional goodwill recorded on acquisition, and may impact future depreciation or amortisation values.

4.2.3 Preparation of Forecast Financial Information

The Forecast Financial Information has been prepared by the McGrath Directors with due care and attention, having regard to an assessment of present economic and operating conditions and a number of best estimate general and specific assumptions regarding future events as set out in Section 4.7.

The Forecast Financial Information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring and is not intended to be a representation that the assumptions will occur.

The Directors believe the best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from what is assumed in preparing the Forecast Financial Information and that this may have a material positive or negative effect on McGrath's actual financial performance or financial position. In addition, the assumptions on which the Forecast Financial Information are based by their nature are subject to significant uncertainties and contingencies, many of which will be outside the control of McGrath and the Directors and are not reliably predictable.

Accordingly, none of McGrath's Directors, McGrath's management, or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

Investors are advised to review the best estimate assumptions set out in Section 4.7 in conjunction with the sensitivity analysis set out in Section 4.8, the risk factors set out in Section 5, the notes relevant to the Pro Forma Historical Financial Information included in Sections 4.3, 4.4, 4.5 and 4.6 and all other information set out in this Prospectus.

The Forecast Financial Information is presented on both a statutory and pro forma basis. The Pro Forma Forecast Income Statement differs from the Statutory Forecast Income Statement as the Pro Forma Forecast Income Statement reflects the full year effect of the operating and capital structure that will be in place shortly before Completion of the Offer, the completion of the Acquisition for a full 12 months and excludes the transaction costs of the Offer and Acquisition. The Statutory Forecast Income Statement reflects only a part year of the new operating and capital structure from the Completion of the Offer, Acquisition forecast results from the expected date of completion being approximately 1 December 2015 and recognises the actual costs of the Offer and Acquisition to be incurred. Refer to Section 4.3.4 and 4.5.2 respectively for reconciliations between the Statutory Forecast Income Statement and the Pro Forma Forecast Income Statement, and the Statutory Forecast Cash Flow and the Pro Forma Forecast Cash Flow.

The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation of the Pro Forma Historical Financial Information.

4.2.4 Explanation of certain non-IFRS financial measures

McGrath uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as non-IFRS financial measures.

Although McGrath believes that these non-IFRS financial measures provide useful information about the financial performance of McGrath, they should be considered as supplements to the income statement measures that have been presented in accordance with Australian Accounting Standards and not as a replacement for them. Because these non-IFRS financial measures are not based on Australian Accounting Standards, they do not have standard definitions, and the way McGrath calculates these measures may differ from similarly titled measures used by other companies. Readers should therefore not place undue reliance on non-IFRS financial information.

The principal non-IFRS financial measures that are referred to in this Prospectus are as follows:

- Gross Profit is total revenue less cost of sales:
- EBITDA is earnings before interest, tax, depreciation and amortisation;
- EBIT is earnings before interest and tax; and
- NPATA refers to net profit after tax with non-tax effected amortisation of property management rights acquired added back.

Notes:

- ¹ Total revenue comprises sales commission income (net of relevant consultant Agents' commission), franchise fees, property management fees, mortgage broking income and training income as well as property marketing fees paid by vendor clients of the company owned sales business unit (which are substantially passed through to third parties with minimal impact on EBITDA). Over the last three years, vendor marketing has averaged approximately 30% of total revenue for the company owned sales business unit.
- ² Cost of sales relate to the direct costs of selling and leasing properties including payroll Agents' commissions, advertising and auctioneer fees.
- ³ Other expenses include rent and occupancy costs, marketing, communications and other administrative expenses.
- ⁴ Transaction costs in respect of the Offer are estimated to be \$9.5 million. Acquisition costs in relation to the Acquisition are estimated to be \$1.8 million. \$5.5 million of transaction costs in relation to the Offer will be expensed in the Statutory Forecast Income Statement with the remaining \$4.0 million capitalised in equity. \$0.3 million of Acquisition costs were expensed in FY2015 and a further \$1.5 million of acquisition costs will be expensed in the Statutory Forecast Income Statement.
- ⁵ Amortisation expense relates to the amortisation of property management rights acquired and the amortisation of internally developed software.
- 6 NPATA refers to net profit after tax with non-tax effected amortisation of property management rights acquired added back. If the tax effect of associated tax deductions was included it would reduce the disclosed NPATA by \$0.3 million in FY2013, \$0.5 million in FY2014, \$0.4 million in FY2015 and \$0.4 million in the FY2016 pro forma forecast.

4.3 Consolidated historical and forecast income statements

4.3.1 Overview

Set out below are McGrath's Pro Forma Historical Income Statements, the Pro Forma Forecast Income Statement and the Statutory Forecast Income Statement.

The Pro Forma Historical Income Statements and the Pro Forma Forecast Income Statement are reconciled to the respective Statutory Historical Income Statements and Statutory Forecast Income Statement in Section 4.3.4.

Table 4.1 Pro Forma Historical Income Statements, Pro Forma Forecast Income Statement and Statutory Forecast Income Statement

					PRO	
					FORMA	STATUTORY
YEAR END 30 JUNE	PRO FO	RMA HISTOR	ICAL	FORECAST	FORECAST	
\$ IN MILLIONS	NOTES	FY2013	FY2014	FY2015	FY2016	FY2016
Total revenue	1	77.3	101.2	122.3	141.0	125.2
Cost of sales	2	(32.1)	(39.5)	(46.1)	(49.8)	(43.8)
Gross Profit		45.2	61.7	76.2	91.2	81.4
Employee benefits expenses	5	(19.9)	(24.4)	(29.5)	(38.7)	(35.3)
Other expenses	3	(15.3)	(16.1)	(19.5)	(21.5)	(19.5)
Offer transaction and Acquisition costs	4	-	-	-	-	(7.0)
EBITDA		10.0	21.3	27.2	31.0	19.6
Depreciation		(1.4)	(1.5)	(1.5)	(1.9)	(1.7)
Amortisation	5	(2.6)	(2.5)	(3.2)	(3.5)	(2.6)
EBIT		6.0	17.2	22.5	25.6	15.3
Net finance costs		0.1	0.1	0.2	0.3	-
Net profit before tax		6.1	17.4	22.6	25.9	15.3
Tax expense		(1.9)	(5.4)	(6.9)	(7.7)	(5.2)
NPAT		4.2	12.0	15.7	18.2	10.1
Add: Acquired Property Management Rights Amortisation		1.8	2.3	2.6	2.9	1.9
NPATA	6	6.0	14.3	18.3	21.1	12.0

4.3.2 Key operating metrics

Table 4.2 provides a summary of McGrath's key historical financial and operating metrics for FY2013, FY2014 and FY2015 derived from the Pro Forma Historical Income Statements, and the forecast key financial and operating metrics for FY2016 derived from the Pro Forma Forecast Income Statement.

Table 4.2 Key operating metrics

PRO FORMA

YEAR END 30 JUNE	PRO FORMA HISTORICAL			FORECAST	
	NOTES	FY2013	FY2014	FY2015	FY2016
COMPANY OWNED SALES					
Number of offices at year end		18	18	22	26
Number of Agents at year end		178	189	246	306
Average number of Agents	1	179	189	224	274
Number of property sales		3,618	4,650	4,954	5,733
Value of property sales (\$ billion)		3.65	5.17	6.33	7.33
Average selling price (\$ thousand)		1,008	1,111	1,277	1,278
COMPANY OWNED PROPERTY MANAG	SEMENT				
Number of properties under management at year end		4,538	5,205	6,897	8,229
FRANCHISE SERVICES					
Number of offices at year end		35	39	45	60
Number of Agents at year end		270	298	319	409
Average number of Agents	1	233	282	301	360
Number of property sales		4,037	5,472	6,036	7,266
Value of property sales (\$ billion)		3.11	4.58	5.24	6.37
Average selling price (\$ thousand)		769	836	867	876
GROWTH RATES					
Revenue growth (%)			31%	21%	15%
EBITDA growth (%)			113%	28%	14%
EBIT growth (%)			189%	30%	14%
NPAT growth			187%	30%	16%
MARGINS					
EBITDA margin (% of total revenue)		13%	21%	22%	22%
EBIT margin (% of total revenue)		8%	17%	18%	18%
NPAT margin (% of total revenue)		5%	12%	13%	13%

Notes:

¹ Average based on the average number at each month end throughout the respective year.

4.3.3 Segment pro forma historical income statements and pro forma forecast income statement

McGrath groups its various business activities into the following reporting segments:

Company owned sales

This represents the company owned sales offices and the projects business for which McGrath earns sales commission on the sale of properties, and directly employs or contracts the Agents and employees.

Company owned property management

This represents the company owned property management business for which McGrath earns management fees from the properties under management and directly employs property managers.

Franchise services

This represents the franchise sales offices and franchise property management for which McGrath earns franchise fees

Other

This represents Oxygen Home Loans, auction services, training and events (TRET) and other services offered to the network. Corporate and head office costs include costs of the Board, Executives, finance and IT, which are not allocated to segments.

Table 4.3 below sets out segment pro forma historical revenue and EBITDA for FY2013, FY2014 and FY2015 and segment pro forma and statutory forecast revenue and EBITDA for FY2016.

Table 4.3 Pro forma historical and forecast segment revenue and EBITDA

				PRO	
				FORMA	STATUTORY
YEAR END 30 JUNE	PRO FO	ORMA HISTO	RICAL	FORECAST	FORECAST
\$ IN MILLIONS	FY2013	FY2014	FY2015	FY2016	FY2016
REVENUE					
Company owned sales	54.4	72.5	87.1	98.8	83.2
Company owned property management	11.0	12.9	15.6	19.6	17.3
Franchise services	5.1	7.2	9.4	10.7	12.1
Other operating segments	6.8	8.6	10.2	11.9	12.6
Total revenue	77.3	101.2	122.3	141.0	125.2
EBITDA					
Company owned sales	12.9	22.4	27.6	31.6	24.7
Company owned property management	2.8	3.1	4.0	5.1	4.6
Franchise services	3.3	5.1	5.8	6.3	7.7
Other operating segments	1.1	1.1	1.0	1.6	1.6
Corporate	(10.1)	(10.4)	(11.3)	(13.6)	(19.0)
Total EBITDA	10.0	21.3	27.2	31.0	19.6

Commentary on the annual movements in pro forma revenue and pro forma EBITDA by reporting segment is provided in the management discussion and analysis of the Pro Forma Historical Financial Information in Section 4.6 and the Forecast Financial Information in Section 4.7.

4.3.4 Pro forma adjustments to the Statutory Historical Income Statements and Statutory Forecast Income Statement

Table 4.4 below sets out the pro forma adjustments to historical and forecast statutory revenue, EBITDA and NPAT to reflect the full year impact of the operating and capital structure that will be in place following Completion of the Offer and completion of the Acquisition as if it had taken place on 1 July 2012.

Table 4.4 Pro forma adjustments to the Statutory Historical Income Statements and Statutory Forecast Income Statement

YEAR END 30 JUNE		Н	ISTORICAL	F	ORECAST
\$ IN MILLIONS	NOTES	FY2013	FY2014	FY2015	FY2016
REVENUE					
Statutory revenue		56.0	72.3	85.9	125.2
Pro forma impact of Acquisition	1	21.3	28.9	36.4	15.8
Pro forma revenue		77.3	101.2	122.3	141.0
NPAT					
Statutory accounts equivalent NPAT		4.5	9.3	7.0	10.1
Pro forma impact of Acquisition	1	2.8	7.4	11.3	4.9
Pro forma impact of payroll tax settlement	2	(0.2)	(0.1)	4.4	-
Pro forma impact of Offer transaction costs and Acquisition costs expensed	3	-	-	0.3	7.0
Pro forma impact of public company costs	4	(0.9)	(0.9)	(0.9)	(0.2)
Pro forma impact of new remuneration structures	5	(0.9)	(0.9)	(0.9)	(0.4)
Total pro forma adjustments impacting EBITDA		0.9	5.6	14.2	11.4
Pro forma impact of Acquisition on depreciation and amortisation	6	(1.9)	(2.1)	(2.5)	(1.1)
Pro forma impact of net finance costs	7	0.6	0.5	0.5	0.3
Tax effect of pro forma adjustments	8	0.1	(1.2)	(3.6)	(2.5)
Total pro forma adjustments impacting NPAT		(0.3)	2.8	8.6	8.1
Pro forma NPAT		4.2	12.0	15.7	18.2

Notes:

¹ The adjustments reflect the recognition of the Smollen Group's revenue and earnings for the entire period from 1 July 2012 to 30 June 2016, whereas under statutory reporting principles the Smollen Group's revenue and earnings will only be recognised from the date of completion of the Acquisition, which is expected to be shortly after Completion of the Offer. The pro forma adjustments include treating the Smollen Group as a company owned operation for the entire period as opposed to being a Franchisee of the McGrath Network. Therefore, the adjustments include two components being the recognition of the Smollen Group's revenue and earnings for the whole historical period, offset by the elimination of any franchise fees recognised in the historical period. Historical Smollen Group revenue and earnings have been extracted from the special purpose financial statements of the Smollen Group without adjustment, and the franchise fees reduction has been sourced from information contained from within the audited McGrath Operations Statutory Historical Income Statements.

- ² Adjustment to remove the impact of a payroll tax settlement and expense recognition made in FY2015 relating to prior periods and associated professional fees incurred. The adjustment removes the one-off expense recognised in FY2015 which does not relate to FY2015 and direct professional fees incurred relating to the matter (\$4.4 million) and allocates the net payroll tax expense to the period in which it was referable, being a net additional expense of \$0.2 million in FY2013 and \$0.1 million in FY2014, with the FY2015 expense base already including an appropriate payroll tax expense based on the settlement. The FY2013 and FY2014 pro forma expense bases have been increased to include the payroll tax expense based on McGrath's current understanding of its relevant payroll tax calculation, making expenditure recognised across both the historical and forecast periods consistent.
- ³ Adjustment to remove transaction costs incurred in respect of the Offer and Acquisition costs. Total transaction costs associated with the Offer are forecast to be \$9.5 million (including \$0.8 million of new equity issued to staff and Non-Executive Directors) and \$1.8 million of Acquisition costs. \$5.5 million of transaction costs in relation to the Offer are forecast to be expensed in the Statutory Forecast Income Statement with the remaining \$4.0 million directly attributable to the issue of new Shares under the Offer and capitalised in equity. \$0.3 million of Acquisition costs were expensed in FY2015 and a further \$1.5 million of Acquisition costs are forecast to be expensed in the Statutory Forecast Income Statement.
- ⁴ Adjustment reflects McGrath's estimate of the incremental annual costs that it will incur as a listed entity. These costs include Chairman and other Non-Executive Director remuneration, additional compliance costs, listing fees, share registry costs, investor relations, annual general meeting and annual report costs. The pro forma adjustment in FY2016 is to reflect a full-year impact of these additional costs, whereas the Statutory Forecast Income Statement includes these forecast costs from Completion of the Offer to 30 June 2016. FY2013, FY2014 and FY2015 have been adjusted to reflect a full year of public company costs as if McGrath had been a listed group from 1 July 2012.
- ⁵ Adjustment to reflect the impact of a new remuneration structures that will be in place post Completion of the Offer. The pro forma adjustment in FY2016 is to reflect a full-year impact of these additional remuneration costs whereas, the Statutory Forecast Income Statement only includes these forecast costs from Completion of the Offer to 30 June 2016. FY2013, FY2014 and FY2015 have been adjusted to reflect a full year of costs associated with the new remuneration structures consistent with FY2016 forecast amounts.
- 6 The adjustment reflects the recognition of the Smollen Group's depreciation and amortisation for the entire period from 1 July 2012 to 30 June 2016, whereas under statutory reporting principles the Smollen Group's depreciation and amortisation will only be recognised from the date of completion which is expected to be shortly after Completion of the Offer. McGrath has assessed the fair value of the property, plant and equipment and the property management rights acquired and has calculated depreciation and amortisation based on the fair value and McGrath's depreciation and amortisation rates.
- ⁷ The finance cost expense included in the Statutory Historical Income Statements has been removed and replaced with the full year finance cost (line fees) associated with the New Debt Facility (refer to Section 4.4.3 for details) as if it had been in place from 1 July 2012. McGrath will repay all debt following Completion of the Offer and therefore a nil debt position has been assumed across all the pro forma historical and forecast periods.
- ⁸ The income tax effect of the above adjustments assumes a tax rate of 30%, which is the Australian corporate tax rate, except for certain costs which are non-deductible.

4.4 Consolidated historical statement of financial position

4.4.1 Overview

The Pro Forma Historical Balance Sheet in Table 4.5 is based on the Statutory Historical Balance Sheet, adjusted for certain pro forma adjustments to reflect the impact of both the Acquisition and the Offer, as if they occurred at 30 June 2015.

The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being indicative of McGrath's view of its financial position upon Listing or at a future date.

 Table 4.5 Statutory Historical Balance Sheet and Pro Forma Historical Balance Sheet

\$ IN MILLIONS AS AT 30 JUNE 2015	NOTES	AUDITED STATUTORY ¹	IMPACT OF THE OFFER	ACQUISITIONS ²	PRO FORMA
CURRENT ASSETS					
Cash and cash equivalents	3	2.8	39.9	(33.0)	9.7
Trade and other receivables	4	22.0	(0.9)	(1.8)	19.3
Other		0.9	(0.2)	-	0.7
Total current assets		25.7	38.8	(34.8)	29.6
NON-CURRENT ASSETS					
Receivables		0.2	-	-	0.2
Property, plant and equipment		3.2	-	1.1	4.3
Intangible assets		8.6	-	15.6	24.2
Goodwill		0.3	-	57.1	57.4
Deferred tax assets		-	-	-	-
Total non-current assets		12.4	-	73.8	86.1
Total assets		38.1	38.8	38.9	115.8
CURRENT LIABILITIES					
Trade and other payables		11.7	-	(1.8)	9.9
Interest bearing loans and borrowings	5	0.6	(0.6)	-	-
Provisions		1.6	-	0.4	2.0
Current tax liabilities	6	1.3	(0.6)	-	0.7
Total current liabilities		15.1	(1.1)	(1.4)	12.6
NON-CURRENT LIABILITIES					
Other payables		-	-	17.5	17.5
Interest bearing loans and borrowings	5	6.4	(6.4)	-	-
Provisions		0.8	-	-	0.8
Deferred tax liabilities	7	1.5	(2.3)	3.4	2.6
Total non-current liabilities		8.6	(8.6)	20.9	20.9
Total liabilities		23.8	(9.8)	19.5	33.5
Net assets		14.3	48.5	19.5	82.3
EQUITY					
Contributed equity	8	6.3	63.3	22.2	91.9
Retained profits / (accumulated losses)	9	8.0	(14.8)	(2.8)	(9.6)
Total equity		14.3	48.5	19.5	82.3

Notes:

- ¹ Reflects the reported net assets of McGrath as at 30 June 2015 extracted from the McGrath Operations audited statutory consolidated balance sheet.
- ² Reflects both the Acquisition and the purchase of the remaining 50% of units in McGrath Auction Unit Trust.
- McGrath will acquire the Smollen Group shortly after Completion of the Offer. Under the terms of the SPA, assuming future milestones are reached, McGrath will pay up to \$70.0 million over three tranches in a mixture of cash and shares as explained in Section 9.4.1 of the Prospectus. Applying business combination accounting principles the pro forma net assets includes the preliminary fair value assessment of the assets and liabilities to be acquired based on the Smollen Group's 30 June 2015 audited special purpose financial statements. Specifically, property, plant and equipment of \$1.1 million, a property management rights intangible asset of \$15.6 million and goodwill of \$57.1 million has been recognised. A net working capital asset or net working capital liability acquired on completion will increase or decrease the purchase price respectively; however, the working capital adjustment will not affect the goodwill acquired. The pro forma net assets recognise an adjustment to remove \$1.8 million of the franchise fee receivable in McGrath Operations and the corresponding franchise fee payable in the Smollen Group as at 30 June 2015. The pro forma net assets also recognise deferred consideration of \$17.5 million, which is expected to be settled in the future by a combination of cash and shares assuming future milestones are reached.
- McGrath issued Shares equivalent to 1% of the contributed equity of McGrath as consideration
 for the acquisition of the McGrath Auction Unit Trust. Historically the McGrath Auction Unit
 Trust has been consolidated in the McGrath statutory financial statements and therefore the
 purchase has been accounted for directly in retained earnings.
- ³ Reflects the equity raised by the Offer (\$65.4 million), cash received from the Existing Debt Facility (\$9.0 million) to fund the FY2015 final and pre-IPO dividends and cash received from the repayment of Existing Shareholder Ioans (\$0.9 million). Offsetting this amount is the payment of the final FY2015 and pre-IPO dividends (\$11.0 million), payment of the transaction costs associated with the Offer (\$8.6 million), the net repayment of the Existing Debt Facility (\$15.9 million), the initial Acquisition cash consideration of \$31.5 million and \$1.5 million of acquisition costs for the Acquisition.
- ⁴ Adjustment to reflect the repayment of Existing Shareholder loans (\$0.9 million) and the elimination of the franchise fee receivable from the Smollen Group (\$1.8 million) with trade and other payables also reduced by the same amount.
- ⁵ Reflects the net draw down of the Existing Debt Facility (\$9.0 million) and the subsequent repayment of current and non-current interest bearing loans and borrowings as part of the Offer (\$15.9 million).
- ⁶ Reflects the reduction to the current tax liability (\$0.6 million) as a result of the deduction for transaction costs.
- ⁷ Reflects deferred tax assets of \$2.3 million arising as a result of the \$9.5 million transaction costs incurred. It is assumed that these costs are deductible to McGrath for tax purposes over five years with the first deduction of \$0.6 million being allowable in FY2016. A \$3.4 million deferred tax liability arises on the Acquisition representing the tax effect of the difference between the fair value and the tax cost base of the property management rights acquired.
- ⁸ The adjustment in relation to the Offer reflects the issue of \$65.4 million of new equity raised, \$0.8 million of new equity issued to staff and Non-Executive Directors less the capitalised costs of the Offer of \$4.0 million (\$2.8 million tax effected). The adjustment in relation to acquisitions includes \$1.2 million of equity issued for the acquisition of McGrath Auction Unit Trust and \$21.0 million of equity issued as the equity component for the Acquisition initial payment.
- ⁹ The decline in retained earnings represents the FY2015 and pre-IPO dividend (\$11.0 million), the impact of the transaction costs expensed as part of the Offer of \$5.5 million (\$3.8 million after tax), \$1.5 million of Acquisition costs expensed and the acquisition of the remaining units in McGrath Auction Unit Trust (\$1.2 million).

4.4.2 Indebtedness

Table 4.6 below presents the statutory and pro forma consolidated net indebtedness of McGrath as at 30 June 2015. The reported consolidated net indebtedness of McGrath Operations as at 30 June 2015 has been adjusted for the impact of the Offer and New Debt Facility to derive the pro forma consolidated net indebtedness of McGrath.

Table 4.6 Pro forma indebtedness as at 30 June 2015

	STATUTORY	
AS AT 30 JUNE 2015	30 JUNE 2015	PRO FORMA
\$ IN MILLIONS	(AUDITED)	30 JUNE 2015
Cash and cash equivalents	2.8	9.7
Current interest bearing loans and borrowings	(0.6)	-
Non-current interest bearing loans and borrowings	(6.4)	-
Net total (indebtedness) / working capital	(4.1)	9.7

On Completion of the Offer, McGrath will repay existing debt from proceeds of the Offer and McGrath will have a New Debt Facility of \$11.5 million which will be undrawn.

4.4.3 Description of New Debt Facility

Following Completion of the Offer, McGrath will repay its Existing Debt Facility using proceeds from the equity raising and is expected to have no debt outstanding on Completion of the Offer.

McGrath has also entered into a facility agreement with Macquarie Bank for a debt facility of \$11.5 million (New Debt Facility).

The New Debt Facility has a three year term expiring in November 2018 with interest payable on the last day of each month and a line fee calculated on the daily balance of the undrawn commitment.

The New Debt Facility has the following key financial covenants:

- Statutory EBITDA not less than \$9.0 million per annum, measured quarterly on a rolling 12 month basis;
- Weighted average remaining term for franchise agreements to not be less than 1.5 years measured quarterly on a rolling 12 month basis:
- Property management income to not fall by more than 5% per annum measured quarterly on a rolling 12 month basis; and
- Drawings including dividends not to exceed 100% of net profit after tax.

The facility incurs interest calculated at a rate being the aggregate of the relevant Bank Bill Swap Bid Rate (BBSY) plus a margin. The facilities are secured by registered first ranking fixed and floating charges over the assets of McGrath.

4.4.4 Liquidity and capital resources

Following Completion of the Offer, McGrath's principal sources of funds will be cash on its balance sheet, cash flow from operations and borrowings available under its New Debt Facility. McGrath expects that it will have sufficient funds available from the cash proceeds of the Offer, in addition to the cash and cash equivalents available from its ongoing operations, to meet its operational requirements and business needs during FY2016.

McGrath expects that its operating cash flows, together with undrawn facilities under its New Debt Facility, will position McGrath to grow its business and manage its capital position in order to achieve financial performance consistent with the Forecast Financial Information.

4.4.5 Contractual obligations and capital commitments

Table 4.7 summarises McGrath's contractual obligations and other commitments as at 30 June 2015 as if the Acquisition and Completion of the Offer had occurred as at 30 June 2015.

Table 4.7 Contractual obligations and commitments as at 30 June 2015

AS AT 30 JUNE 2015	PAYMEI	NTS DUE BY PER	IOD		
\$ IN MILLIONS	NOTES	TOTAL	<1 YEAR	1-5 YEAR(S)	>5 YEARS
Operating lease commitments	1	12.2	3.5	8.6	0.1
Capital expenditure commitments	2	-	-	-	-
Total		12.2	3.5	8.6	0.1

Notes:

¹ Represents the lease commitments related to leased business and sales office premises.

² There are no outstanding capital expenditure commitments as at 30 June 2015.

4.5 Consolidated historical and forecast cash flows

4.5.1 Overview

Table 4.8 sets out McGrath's Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flow and Statutory Forecast Cash Flow.

 ${\bf Table~4.8~Pro~Forma~Historical~Cash~Flows,~Pro~Forma~Forecast~Cash~Flow~and~Statutory~Forecast~Cash~Flow} \\$

						STATUTORY
YEAR END 30 JUNE		PRO FOI	RMA HISTOR	ICAL	FORECAST	FORECAST
\$ IN MILLIONS	NOTES	FY2013	FY2014	FY2015	FY2016	FY2016
EBITDA		10.0	21.3	27.2	31.0	19.6
Change in net working capital	1	(4.1)	(1.3)	(5.8)	(2.8)	(3.8)
Non-cash items in EBITDA	2	1.3	1.1	0.9	0.9	1.3
Net cash flow from operating activities before capital expenditure, financing and tax		7.2	21.1	22.2	29.0	17.0
Capital expenditure	3	(3.1)	(3.6)	(7.4)	(7.3)	(7.1)
Net cash flow before financing and tax	4	4.1	17.4	14.8	21.8	9.9
Net interest received / (paid)	5				0.3	-
Income tax paid	6				(8.3)	(5.6)
Loan repayments received	7				0.9	2.2
Loans granted	7				(0.2)	(0.6)
Proceeds from the Offer	8				-	65.4
Acquisition of Smollen Group	9				-	(31.5)
Proceeds from borrowings	10				-	9.8
Repayment of debt	10				-	(16.7)
Offer transaction costs capitalised	11				-	(3.9)
Net cash flow before dividends					14.4	29.0
Dividends and distributions paid	12				-	(11.1)
Net cash flow					14.4	17.9
Cash conversion ratio	13	72%	99%	82%	94%	87%

Notes:

- 1 Changes in net working capital primarily comprises movements in trade and other receivables, inventory, prepayments, trade and other payables and provisions.
- Non-cash items in EBITDA primarily reflects doubtful debts expense and share based payments relating to staff and Non-Executive Directors.
- ³ Capital expenditure includes acquisition of property management rights, investments in IT systems, software and hardware as well as the fit-out of new sales offices. The growth in capital expenditure in FY2015 and FY2016 is driven by the investment in new IT systems and the launch of new Company Owned Offices requiring fit-out.
- ⁴ The Pro Forma Historical Cash Flows have been presented before financing and taxation as McGrath's historical funding structure will be materially different following Completion of the Offer and is not a meaningful representation of McGrath's future cash flow profile.
- FY2016 pro forma interest is based on McGrath having no debt during FY2016 and instead having surplus cash earning interest. FY2016 statutory forecast includes net interest paid prior to Completion of the Offer under the Existing Debt Facility.
- ⁶ Income tax payable in the Statutory Forecast Cash Flow reflects management's estimate of tax payments relating to Statutory Forecast earnings. Pro forma tax payments assume that the Acquisition was in place for the entire year.
- ⁷ \$0.9 million Existing Shareholders loans will be repaid prior to the Completion of the Offer.
- 8 Proceeds of the Offer represent funds received from the issue of new Shares under the Offer.
- 9 Represents the initial cash payment in relation to the Acquisition.
- ¹⁰Cash flows associated with the drawdown and repayment of the Existing Debt Facility have been excluded from the pro forma cash flow. The Statutory Forecast Cash Flow reflects additional drawings and repayments from 1 July 2015 until Completion of the Offer.
- ¹¹Total transaction costs of \$9.5 million are forecast to be incurred as part of the Offer (excluding Acquisition related costs) and have been excluded from pro forma cash flows. \$4.0 million of the transaction costs are capitalised to equity (of which \$3.9 million are paid for in FY2016) with the remaining \$5.5 million expensed to the income statement and therefore included within Statutory Forecast EBITDA.
- ¹² No interim dividend is forecast in FY2016. \$11.1 million dividends paid represents the FY2015 final dividend, \$0.1 million McGrath Auctions Unit Trust distribution and pre-IPO dividends paid to Existing Shareholders.
- ¹³Cash conversion ratio is the net cash flow from operating activities before investing activities, financing activities, dividends and tax as a percentage of EBITDA.

4.5.2 Pro forma adjustment to the Statutory Historical Cash Flows and Statutory Forecast Cash Flow

Tables 4.9 and 4.10 below sets out the adjustments to the Statutory Historical Cash Flows and Statutory Forecast Cash Flow to derive the Pro Forma Historical Cash Flows and the Pro Forma Forecast Cash Flow, respectively.

Table 4.9 Pro forma adjustments to the Statutory Historical Cash Flows

YEAR END 30 JUNE		HISTORICAL			
\$ IN MILLIONS	NOTES	FY2013	FY2014	FY2015	
Statutory net cash flow from operating activities before capital expenditure, financing and tax		5.6	12.6	12.2	
Pro forma impact of Acquisition	1	2.8	6.3	9.3	
Pro forma impact of payroll tax assessment	2	(0.2)	3.1	1.2	
Pro forma impact of Offer transaction costs and Acquisition costs	3	-	-	0.4	
Pro forma impact of public company costs	4	(0.9)	(0.9)	(0.9)	
Pro forma net cash flow from operating activities before capital expenditure, financing and tax		7.2	21.1	22.2	

Notes:

- ¹ Represents the additional cash flow that would have been received if the Acquisition had occurred on 1 July 2012. The adjustment reflects the EBITDA of the Smollen Group adjusted for net working capital movements in the Smollen Group balance sheet. The historical Smollen Group cash flows have been extracted from the reviewed FY2013 and FY2014 and audited FY2015 special purpose financial statements.
- ² Adjustment to remove the cash flow impact of a payroll tax settlement made in FY2015 relating to prior periods and associated professional fees incurred in FY2013, FY2014 and FY2015. The adjustment removes the one-off net cash payments in FY2014 and FY2015 and allocates the payroll tax to the period in which it was referable, being \$0.3 million in FY2013 and \$0.5 million in FY2014. FY2013, FY2014 and FY2015 have been adjusted to reflect the payroll tax treatment consistently across the periods.
- ³ Adjustment to remove the cash flow impact of the transaction costs paid in respect of the Offer and Acquisition costs. \$0.4 million transaction costs associated with the Offer and Acquisition costs were paid in FY2015.
- ⁴ Adjustment reflects McGrath's estimate of the incremental annual costs that it will incur as a listed entity. FY2013, FY2014 and FY2015 have been adjusted to reflect a full year of public company costs paid as if McGrath had been a listed group from 1 July 2012.

Table 4.10 Pro forma adjustments to the Statutory Forecast Cash Flow

YEAR END 30 JUNE		FORECAST
\$ IN MILLIONS	NOTES	FY2016
Statutory net cash flow		17.9
Pro forma impact of Acquisition	1	5.8
Pro forma impact of Offer transaction costs and Acquisition costs	2	10.1
Pro forma impact of public company costs	3	(0.2)
Net finance costs	4	0.3
Income tax paid	5	(2.7)
Shareholder loan repayments	6	(0.9)
Acquisition cash consideration	7	31.5
New equity raised	8	(65.4)
Net repayment of Existing Debt Facility	9	6.9
FY2015 final and pre-IPO dividends	10	11.1
Pro forma net cash flow		14.4

Notes:

- Represents the additional net operating cash flow inclusive of capital expenditure assuming the Acquisition was in place for the full twelve months during FY2016. The Statutory Forecast Cash Flow Statement assumes the Acquisition occurs at Completion of the Offer.
- Offer transaction and Acquisition costs forecast to be incurred in respect of the Offer and Acquisition costs are excluded from the pro forma net cash flow. Of the total transaction costs incurred in respect of the Offer and Acquisition costs of \$9.5 million and \$1.8 million, respectively, \$8.6 million of Offer transaction costs and \$1.5 million of Acquisition costs are forecast to be paid in cash in FY2016 and have been excluded from pro forma cash flows, with the remainder paid in FY2015
- ³ Public company costs adjustment reflects McGrath's estimate of the incremental annual costs that it will incur as a listed entity. The adjustment in FY2016 is to reflect a full-year impact of these additional costs. The Statutory Forecast Income Statement includes these forecast costs from Completion of the Offer to 30 June 2016.
- 4 Net finance costs adjustment reflects the full year impact on interest income and interest expense as if the excess cash raised in connection with the Offer had taken effect on the opening balance as at 1 July 2015.
- ⁵ Adjustment to reflect the additional income tax forecast to be paid due to FY2016 pro forma income being higher than FY2016 statutory forecast income.
- 6 \$0.9 million Existing Shareholders loans will be repaid prior to the Completion of the Offer. The Pro Forma Forecast Cash Flow Statement excludes the repayment of the Existing Shareholders loans.
- Represents the initial cash payment in relation to the Acquisition of \$31.5 million. The actual cash payment will be adjusted for a working capital adjustment to be determined at Completion of the Offer.
- 8 New equity raised adjustment reflects the \$65.4 million cash flow from the issue of new Shares under the Offer. The Pro Forma Cash Flow excludes the proceeds from the equity raise.
- 9 Net repayment of Existing Debt Facility represents cash flows associated with the drawdown and repayment of the Existing Debt Facility which have been excluded from the pro forma cash flow as there is no debt forecast on Completion of the Offer.
- 10 \$11.1 million dividends paid represents a combination of the FY2015 final dividend, \$0.1 million McGrath Auctions Unit Trust distribution and pre-IPO dividends paid to Existing Shareholders. There is no dividend assumed to be paid in FY2016 on a pro forma basis.

4.6 Management discussion and analysis of the Pro Forma Historical Financial Information

4.6.1 General factors affecting the operating results of McGrath

Section 4.6.1 includes a discussion of the key factors that affected McGrath's operating and financial performance in FY2013, FY2014 and FY2015 and which McGrath expects may affect McGrath's operating and financial performance over the period of the Forecast Financial Information.

The discussion of the key factors is intended to provide a brief summary only and does not detail all factors that affect McGrath's historical operating and financial performance, nor everything that may affect McGrath's operations and financial performance in the future.

Revenue

McGrath derives revenue largely through the following means:

1. Company owned sales

McGrath earns a percentage commission from vendors on the sale of real estate (net of relevant consultant Agents' commission) as well as property marketing fees paid by vendor clients of the company owned sales business unit. The key drivers of revenue are the number of sales offices, the number of sales Agents, the productivity of sales Agents, volume of property sales, commission rates charged and the sales price of properties.

2. Company owned property management

McGrath earns property management fee income for managing rental properties for landlords. McGrath generates revenue by charging a percentage of rent collected and letting fees. The key drivers of revenue are the number of properties under management and the rental amount charged.

3. Franchise services

McGrath provides Franchise Offices with the ability to use the McGrath brand, as well as providing marketing, IT and training services. McGrath generates revenue by charging Franchisees a percentage of the commission income earned on the sale of real estate and a percentage of the property management income earned by the Franchisee. The key drivers of revenue are the number of Franchise Offices. the number of sales Agents, the productivity of sales Agents, volume of property sales, commission rates charged, the sales price of properties and the number of properties under management.

4. Other operating segments:

a. Oxygen Home Loans provides mortgage broking services and generates upfront and trail commission revenue on each loan. The key drivers of revenue are the number of brokers, the number and size of loans settled and the loan book size upon which the trail commission is earned.

b. Total Real Estate Training – McGrath derives revenue from ticket sales and sponsorships for its major training events for the real estate industry. The key drivers of revenue are the number and size of events and ticket pricing.

Operating expenses

Key operating expense categories for McGrath include:

- Cost of sales includes direct costs of selling the property including payroll Agents' commissions plus advertising and auctioneer fees;
- Employee benefits expense
 salaries, wages and other employment related costs; and
- Other expenses include office lease and occupancy costs, communications (printing, postage, stationery and telephone) other administrative expenses (e.g. recruitment, travel and IT) and costs associated with being a listed entity.

Depreciation and Amortisation

Depreciation is a non-cash item that relates to the depreciation of McGrath's plant and equipment and leasehold improvements over the useful life.

Amortisation is a non-cash item and is comprised of amortisation of property management rights that have been acquired and amortisation of internally developed software. Historically the amortisation expense is primarily related to the amortisation of property management rights which is amortised on a 15% diminishing value basis.

McGrath's accounting policies with regards to the calculation of depreciation and amortisation are set out in Appendix A.

Working capital

Working capital includes trade and other receivables, prepayments, trade and other payables and provisions. Over the course of a full financial year, McGrath will typically experience movements in working capital in line with earnings growth and reflective of its standard trading terms with its customers, Franchisees and suppliers.

- Company owned sales commission income is paid on settlement which is typically six weeks after exchange of the property. Settlement periods can vary. Commission income in relation to project sales is paid 50% on exchange and 50% on settlement, which, dependent on project specifics, is typically 18 to 24 months post exchange;
- Company owned property management fees are received typically on a monthly basis;
- Franchise services fees are received monthly and payable based on the underlying Franchisee's cash receipts;
- Rental payments are made in accordance with the relevant lease agreement; and
- Payroll is paid to salaried staff monthly and Agents are paid either monthly or bi-monthly.

Capital expenditure

McGrath's capital expenditure relates to the acquisition of property management rights, investments in IT systems, software and hardware as well as the fit-out of new sales offices.

4.6.2 Management discussion and analysis: Pro forma FY2014 compared to pro forma FY2013

Table 4.11 Selected pro forma segment revenue and EBITDA: FY2013 and FY2014

YEAR END 30 JUNE	PRO FORMA	HISTORICAL			
\$ IN MILLIONS	FY2013	FY2014	VARIANCE	%	
REVENUE					
Company owned sales	54.4	72.5	18.1	33%	
Company owned property management	11.0	12.9	1.9	17%	
Franchise services	5.1	7.2	2.1	41%	
Other operating segments and eliminations	6.8	8.6	1.8	26%	
Total revenue	77.3	101.2	23.9	31%	
EBITDA					
Company owned sales	12.9	22.4	9.5	74%	
Company owned property management	2.8	3.1	0.3	11%	
Franchise services	3.3	5.1	1.8	55%	
Other operating segments	1.1	1.1	-	0%	
Corporate	(10.1)	(10.4)	(0.3)	3%	
Total EBITDA	10.0	21.3	11.3	113%	

Pro forma Revenue

Between FY2013 and FY2014 pro forma revenue increased by 31% to \$101.2 million from \$77.3 million.

Company owned sales

Revenue increased by 33% to \$72.5 million primarily driven by an increase in the total number of property sale transactions of 29% to 4,650 compared to 3,618 in FY2013. During FY2014, 11 additional Agents were recruited and no new offices were opened. There were two new offices opened in FY2013 that had a full year revenue impact in FY2014. McGrath had 18 Company Owned Offices at the end of FY2014.

Total property sales transaction value rose by 42% to \$5.17 billion in FY2014 compared to \$3.65 billion in FY2013. The increase in transaction value was driven by the abovementioned higher transaction volumes, improved Agent productivity and an increase in the average price of properties sold from \$1,008,000 in FY2013 to \$1,111,000 in FY2014, an increase of 10%.

Offices that increased their revenue by greater than \$1 million in FY2014 included Crows Nest / Lane Cove, Pymble, Lindfield, Edgecliff, Leichhardt and Mona Vale / Avalon.

Company owned property management Revenue increased by 17% in FY2014, primarily driven by a net increase in properties under management of 15% to 5,205 by the end of FY2014.

Franchise services

Revenue increased by 41% to \$7.2 million in FY2014 driven primarily by the increase in the total number of property sale transactions by 36% to 5,472 compared to 4,037 in FY2013. Six new Franchise Offices opened during the course of FY2013 and an additional four Franchise Offices opened throughout FY2014, giving a total number of Franchise Offices at the end of FY2014 of 39.

Total franchise property sales transaction value rose by 47% to \$4.58 billion in FY2014 compared to \$3.11 billion in FY2013. The increase in transaction value was driven by the full year impact of the six offices opened in FY2013 and four offices opened in FY2014, an increase in average Agents from 233 in FY2013 to 282 in FY2014, combined with the higher transaction volumes, improved Agent productivity and a 9% increase in the average price of properties sold from \$769,000 in FY2013 to \$836,000 in FY2014.

Other operating segments

Growth in revenue was predominantly driven by the Total Real Estate Training and Oxygen Home Loans businesses. Ticket sales for the Australasian Real Estate Conference increased by 45%, being the dominant contributor to a \$0.8 million increase in revenue for Total Real Estate Training between FY2014 and FY2013. Oxygen Home Loans increased loan settlements by \$68.6 million (or 13%) to \$585.0 million generating a 6% increase in fee revenue to \$1.4 million.

Pro forma EBITDA

Pro forma EBITDA in FY2014 was \$21.3 million representing an increase of \$11.3 million (or 113%) compared to \$10.0 million in FY2013. The main contributor to the increase at an EBITDA level. was company owned sales increasing EBITDA by \$9.5 million in FY2014. This was driven by the 33% increase in company owned sales revenue as outlined above. This was partially offset by a \$0.3 million increase in corporate service related costs to support the expanding business and a \$1.5 million increase in IT network costs (included in other operating segments) associated with IT development. The growth in revenue relative to the operating cost base drove an increase in the pro forma EBITDA margin (as a % of total revenue) from 13% in FY2013 to 21% in FY2014.

Table 4.12 Selected pro forma historical cash flows: FY2013 and FY2014

YEAR END 30 JUNE	PRO FORMA HISTORICAL			
\$ IN MILLIONS	FY2013	FY2014	VARIANCE	%
EBITDA	10.0	21.3	11.3	113%
Change in net working capital	(4.1)	(1.3)	2.8	-69%
Non-cash items in EBITDA	1.3	1.1	(0.3)	-19%
Net cash flow from operating activities before capital expenditure, financing and tax	7.2	21.1	13.8	192%
Capital expenditure	(3.1)	(3.6)	(0.6)	18%
Net cash flow before financing and tax	4.1	17.4	13.3	320%

Net cash flow from operating activities before capital expenditure, financing and \tan

The increase in net cash flow from operating activities to \$21.1 million in FY2014 compared to \$7.2 million in FY2013 is predominantly due to a 113% increase in proforma EBITDA and a reduction in cash outflows from working capital movements in FY2014 resulting from an increase in trade receivables offset by a similar increase in trade and other payables.

Net cash flow before financing and tax

Capital expenditure in FY2014 of \$3.6 million was predominantly driven by software development costs and fitouts of Company Owned Offices. Capital expenditure in FY2013 was mainly related to the fitout and acquisition of property management rights in relation to the opening of the Bulimba office.

4.6.3 Management discussion and analysis: Pro forma FY2015 compared to pro forma FY2014

Table 4.13 Selected pro forma segment revenue and EBITDA: FY2014 and FY2015

YEAR END 30 JUNE \$ IN MILLIONS	PRO FORMA HISTORICAL			
	FY2014	FY2015	VARIANCE	%
REVENUE				
Company owned sales	72.5	87.1	14.6	20%
Company owned property management	12.9	15.6	2.7	21%
Franchise services	7.2	9.4	2.2	31%
Other operating segments and eliminations	8.6	10.2	1.6	19%
Total revenue	101.2	122.3	21.1	21%
EBITDA				
Company owned sales	22.4	27.6	5.2	23%
Company owned property management	3.1	4.0	0.9	29%
Franchise services	5.1	5.8	0.7	14%
Other operating segments	1.1	1.0	(0.1)	-9%
Corporate	(10.4)	(11.3)	(0.9)	9%
Total EBITDA	21.3	27.2	5.9	28%

Pro forma Revenue

Between FY2014 and FY2015 pro forma revenue increased by 21% to \$122.3 million from \$101.2 million.

Company owned sales

Increased by 20% to \$87.1 million driven by the total number of property sale transactions increasing by 7% to 4,954 compared to 4,650 in FY2014.

Total property sales transaction value rose by 22% to \$6.33 billion in FY2015 compared to \$5.17 billion in FY2014. The increase in transaction value was driven by the continued increase in the number of sales in existing offices, the opening of new offices and an increase of 57 Agents during FY2015. New offices were opened in Concord, New Farm, Manly, Seaforth and Ryde. In addition, the scale of the Epping office was increased substantially partway through

FY2015. The Manly and Seaforth offices were converted from Franchise Offices to Company Owned Offices and the Palm Beach office was closed part way through FY2015. At the end of FY2015, McGrath operated 22 Company Owned Offices.

The average price of properties sold also increased from \$1,111,000 in FY2014 to \$1,277,000 in FY2015, an increase of 15%. Company Owned Offices that increased their FY2015 revenue by greater than \$1 million included Edgecliff, Surfers Paradise, Parramatta, Epping and Lindfield.

Company owned property management

Revenue increased by 21% to \$15.6 million in FY2015 from \$12.9 million in FY2014. This was primarily driven by a net increase in properties under management of 1,692 (consisting of 1,132 organic net gains, and 560 acquired net gains mainly in Epping and Ryde) to 6,897 by the end of FY2015.

Franchise services

Revenue increased by 31% to \$9.4 million in FY2015 primarily driven by the full year impact of the four new Franchise Offices that opened in FY2014 and six new Franchise Offices rolled out throughout FY2015. The total number of property sale transactions increased by 10% to 6,036 compared to 5,472 in FY2014.

Total franchise property sales transaction value rose by 14% to \$5.24 billion in FY2015 compared to \$4.58 billion in FY2014. Average number of Agents increased from 282 in FY2014 to 301 in FY2015, mainly driven by the net addition of six new offices in the franchise network. The average price of properties sold increased by 4% from \$836,000 in FY2014 to \$867,000 in FY2015.

Other operating segments

Growth in revenue was primarily driven by the continued growth in the Total Real Estate Training and Oxygen Home Loans businesses. Ticket sale increases for the Australasian Real Estate Conference in FY2015 and an additional event, 'Mastery' together contributed to a \$1.1 million increase in revenue for Total Real Estate Training between FY2014 and FY2015. Oxygen Home Loans increased loan settlements by \$90.8 million (or 16%) to \$675.9 million leading to a 9% increase in revenue to \$1.6 million.

Pro forma EBITDA

Pro forma EBITDA in FY2015 was \$27.2 million representing an increase of 28% compared to \$21.3 million in FY2014. The increased pro forma EBITDA was mainly driven by a \$5.2 million (23%) increase in company owned sales pro forma EBITDA. The pro forma EBITDA margin (as a % of total revenue) increased marginally from 21% in FY2014 to 22% in FY2015.

Corporate services costs increased by \$0.9 million representing additional overhead to support the expanded scale of operations.

Table 4.14 Selected pro forma historical cash flows: FY2014 and FY2015

YEAR END 30 JUNE	PRO FORMA	HISTORICAL		
\$ IN MILLIONS	FY2014	FY2015	VARIANCE	%
EBITDA	21.3	27.2	5.9	28%
Change in net working capital	(1.3)	(5.8)	(4.5)	349%
Non-cash items in EBITDA	1.1	0.9	(0.2)	-18%
Net cash flow from operating activities before capital expenditure, financing and tax	21.1	22.2	1.2	5%
Capital expenditure	(3.6)	(7.4)	(3.8)	105%
Net cash flow before financing and tax	17.4	14.8	(2.6)	-15%

Net cash flow from operating activities before capital expenditure, financing and tax

Net cash flow from operating activities of \$22.2 million in FY2015 compared to \$21.1 million in FY2014 is predominantly due to a 28% increase in pro forma EBITDA offset by a \$5.8 million cash outflow from working capital in FY2015 driven by an increase in trade and other receivables as a result of the increased revenue generated by McGrath.

Net cash flow before financing and tax

Capital expenditure in FY2015 of \$7.4 million was driven predominantly by capitalised fit-out costs for the four new Company Owned Offices (\$1.2 million), the continued investment in software development (\$2.3 million) and the acquisition of property management rights (\$2.6 million).

4.7 Forecast Financial Information

In preparing the Forecast Financial Information, McGrath has applied assumptions relating to the key factors influencing the financial performance of McGrath. These assumptions are set out below as general and further specific best estimate assumptions. The assumptions below are a summary only and do not represent all factors that will affect McGrath's Forecast Financial Information. The assumptions below are intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and McGrath makes no representation that the assumptions will occur, or that the assumptions below are exhaustive.

In preparing the Forecast Financial Information, McGrath has had regard to the trading performance of McGrath up until 30 September 2015.

The assumptions set out below should be read in conjunction with the management discussion and analysis of the Pro Forma Historical Financial Information set out in Section 4.6, sensitivity analysis set out in Section 4.8,

the Risk Factors set out in Section 5, the Investigating Accountant's Report set out in Section 8 and other information in this Prospectus.

4.7.1 General assumptions

In preparing the Forecast Financial Information, the following best estimate general assumptions have been adopted by the Directors:

- No material change in the competitive and operating environment in which McGrath operates;
- No significant deviation from current market expectations of global or local Australian economic conditions (including financial market stability) relevant to McGrath:
- No material changes in Commonwealth, State or local government legislation (including tax legislation), regulatory requirements or government policy that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of McGrath;
- No material changes in applicable
 Australian Accounting Standards
 or other mandatory professional
 reporting requirements or the
 Corporations Act, which have a
 material impact on McGrath's
 financial performance, financial
 position, accounting policies,
 financial reporting or disclosure;
- Other than disclosed, no material business or office acquisitions or disposals by McGrath;
- No material industrial or employee relations disputes, strikes, acts of terrorism or other disturbances, environmental costs or legal claims which have a material impact on McGrath;
- Key personnel, particularly the senior management team, are retained and McGrath maintains its ability to recruit and retain required Agents and personnel;

- No change in McGrath's capital structure other than as set out in, or contemplated by, this Prospectus;
- No material amendment to any material agreement or arrangement relating to McGrath's business other than as set out in, or contemplated by, this Prospectus;
- Completion of the Acquisition on the time scale currently anticipated;
- None of the risks listed in Section 5 eventuate, or if they do, none of them have a material adverse impact on the operations of McGrath; and
- Completion of the Offer proceeds in accordance with the timetable set out in the important dates on page 9 of this Prospectus.

4.7.2 Specific assumptions

In preparing the Forecast Financial Information, the following best estimate specific assumptions have been adopted by the Directors:

4.7.2.1 Revenue assumptions

The Forecast Financial Information is based on the following key revenue assumptions:

- Company owned sales revenue is forecast on an office by office basis, and an Agent by Agent basis, taking into account recent and anticipated changes in a number of local and industry specific factors including:
 - Total number of offices by the year end of 26 assumes a forecast four new office openings in FY2016;
 - Net new Agent growth including new office openings is 60 by the end of FY2016;
 - Average sales commission rate forecast is consistent with the FY2015 rates;

- Volume of property sale transactions includes a forecast average volume growth of 1% in NSW & ACT, and 3% in QLD, adjusted for the impact of any newly opened locations or specific local market considerations:
- Average price of properties sold includes an assumed average price growth of 3% in NSW & ACT, and 5% in the areas in which McGrath operates in South East Queensland, adjusted for the impact of any newly opened locations or specific local market; and
- Current trading performance.
- Company owned property
 management revenue is forecast
 based on the number of properties
 under management and assumed
 average net gains in properties
 under management:
 - New properties under management gained during FY2016 is forecast to be

 1,332 (average 111 per month) which is higher than the total organic net gains experienced in FY2015. This reflects the continuation of organic property management growth rates experienced in the second half of FY2015 associated with an additional investment in business development resources;
 - No property management rights acquisitions are assumed in FY2016;
 - Average annual management fee commission rate forecast in FY2016 is consistent with the FY2015 rates; and
 - Weekly rent of underlying properties under management is forecast at an average rate consistent with FY2015 levels.

- Franchise services revenue is forecast on an office by office basis taking into account recent and anticipated changes in a number of factors including:
 - 60 Franchise Offices by the end of FY2016, therefore representing 15 new office openings. As at November 2015, 8 new office openings have occurred and a further 2 franchise agreements have been executed with a portfolio of other potential locations in advanced stages of discussion;
 - The average franchise fee charged as a percentage of gross commission income and property management fees is assumed to be consistent with FY2015:
 - Net new Agent growth including new office openings is forecast at 90 Agents by the end of FY2016;
 - Volume of property sale transactions includes an assumed average volume growth of 1% in NSW & ACT, and 3% in QLD; and
 - Average price of properties sold includes an assumed average price growth of 3% in NSW & ACT, and 5% in QLD.
- Other operating segments revenue primarily represents:
 - Total Real Estate Training
 has forecast a 5% increase in
 FY2016 revenue with three
 main events planned in FY2016
 consistent with FY2015; and
 - Oxygen Home Loans business assumes the number of loan settlements increases by 9% and total loan value is forecast to increase 17% in FY2016.

Cost of sales

Cost of sales includes direct cost of selling the property including payroll Agents' commissions, advertising and auctioneer fees. The margin achieved in FY2016 is forecast to improve slightly due to new Agents forecast at an overall average lower commission share.

Operating costs

The Forecast Financial Information is based on the following key operating cost assumptions:

- Employment costs are forecast based on current corporate and office headcount, allowing for an annual increase in wages allowing for CPI increases and new positions during FY2016. New headcount is driven by the expanding Company Owned Office and Franchise Office footprint; and
- Other expenses (excluding occupancy costs) are forecast to increase by CPI in FY2016.
 Occupancy costs are based on McGrath's known operating lease commitments for FY2016 including the contracted rental escalations during the period and will further increase from FY2015 as a result of the four new office openings.

Depreciation and amortisation

Depreciation of property, plant and equipment and amortisation of intangibles is forecast based on the existing useful life profile, with any new capital expenditure during FY2016 depreciated or amortised over the useful life in accordance with McGrath's accounting policies. Depreciation and amortisation is forecast to increase in FY2016 as a result of the office growth profile and the implementation of new IT systems.

Net finance costs

The statutory and pro forma net interest expense in FY2016 has been forecast based on the expected cash and debt positions through the period. Finance costs are forecast based on the line fee incurred on the New Debt Facility as set out in Section 4.4.3. The New Debt Facility is not forecast to be utilised in FY2016. Interest income is forecast based on current interest rates available to McGrath.

Income tax expense

The forecast tax expense is based on the corporate tax rate of 30% in Australia. McGrath's pro forma effective tax rate is expected to be approximately 30% in FY2016.

Working capital

The Forecast Financial Information is based on the following working capital assumptions:

- standard trading terms with customers and Franchisees; and
- management's expectations on the timing of payments.

McGrath is forecast to experience more minor movements in working capital when compared with FY2015 which included a larger franchise receivable than other years.

Capital expenditure

The Forecast Financial Information is based on the following capital expenditure assumptions:

- expected new Company Owned Office fit out costs priced at the costs incurred on comparable office openings in the past;
- payments regarding the purchase of property management rental rights previously entered into during FY2015; and
- planned program of works related to IT infrastructure and systems software development.

4.7.3 Management discussion and analysis: Pro forma FY2016 compared to pro forma FY2015

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Table 4.15 Selected pro forma segment revenue and EBITDA: FY2015 and FY2016

YEAR END 30 JUNE	PRO FORMA HISTORICAL	PRO FORMA FORECAST		
\$ IN MILLIONS	FY2015	FY2016	VARIANCE	%
REVENUE				
Company owned sales	87.1	98.8	11.7	13%
Company owned property management	15.6	19.6	4.0	26%
Franchise services	9.4	10.7	1.3	14%
Other operating segments and eliminations	10.2	11.9	1.7	17%
Total revenue	122.3	141.0	18.7	15%
EBITDA				
Company owned sales	27.6	31.6	4.0	14%
Company owned property management	4.0	5.1	1.1	28%
Franchise services	5.8	6.3	0.5	9%
Other operating segments	1.0	1.6	0.6	60%
Corporate	(11.3)	(13.6)	(2.3)	20%
Total EBITDA	27.2	31.0	3.8	14%

Pro forma Revenue

Between FY2015 and FY2016 pro forma revenue is forecast to increase by 15% to \$141.0 million from \$122.3 million.

Company owned sales

Revenue is forecast to increase by 13% to \$98.8 million primarily driven by the full year impact of the new or significantly expanded offices (Concord, New Farm, Manly, Seaforth, Epping and Ryde) in FY2015 and growth in projects property sales supported by signed agency agreements that are in place. New offices in Paradise Point, Newtown, Maroubra and Robina are assumed to open in FY2016, however these are forecast to have a minimal impact on FY2016 pro forma revenue (\$1.3 million).

Total number of property sale transactions is forecast to increase by 16% to 5,733 compared to 4,954 in FY2015. Total property sales transaction value is forecast to rise by 16% to \$7.33 billion in FY2016 compared to \$6.33 billion in FY2015. The increase in transaction value is predominantly driven by the full year impact of new and significantly expanded offices and new Agents recruited in FY2015. Average Agent numbers are forecast to increase from 224 in FY2015 to 274 in FY2016. The average price of properties sold is forecast to be \$1,278,000 in FY2016 in line with the \$1,277,000 average price of properties sold in FY2015.

Company owned property management

Revenue is forecast to increase by 26% to \$19.6 million in FY2016 from \$15.6 million in FY2015 driven by a forecast net increase in properties under management of 1,332 (or 19%) to 8,229 in FY2016 coupled with the full year impact of FY2015 net gains of 1,692 which were acquired throughout the year.

Franchise services

Revenue is forecast to increase by 14% to \$10.7 million in FY2016 primarily driven by the full year impact of the six new Franchise Offices opened during FY2015 and 15 new Franchise Offices assumed to be rolled out throughout FY2016. The total number of property sale transactions is forecast to increase by 20% to 7,266 compared to 6,036 in FY2015.

Total franchise property sales transaction value is forecast to increase by 22% to \$6.37 billion in FY2016 compared to \$5.24 billion in FY2015. Average number of Agents is forecast to increase from 301 in FY2015 to 360 in FY2016, mainly driven by the addition of new offices in the franchise network. The average price of properties sold is forecast to be \$876,000 in FY2016, broadly in line with FY2015.

Pro forma EBITDA

Pro forma EBITDA in FY2016 is forecast to be \$31.0 million representing an increase of 14% compared to \$27.2 million in FY2015, primarily driven by the revenue growth factors outlined above, offset by a forecast \$2.3 million increase in corporate services costs representing additional overhead to support the expanded operations and the costs of being a listed entity.

Forecast pro forma EBITDA margin (as a % of total revenue) of 22% in FY2016 is in line with FY2015.

Table 4.16 Selected pro forma cash flows: FY2015 and FY2016

YEAR END 30 JUNE	PRO FORMA HISTORICAL	PRO FORMA FORECAST		
\$ IN MILLIONS	FY2015	FY2016	VARIANCE	%
EBITDA	27.2	31.0	3.8	14%
Change in net working capital	(5.8)	(2.8)	3.0	-52%
Non-cash items in EBITDA	0.9	0.9	-	0%
Net cash flow from operating activities before capital expenditure, financing and tax	22.2	29.0	6.8	31%
Capital expenditure	(7.4)	(7.3)	0.2	-2%
Net cash flow before financing and tax	14.8	21.8	7.0	47%

Net cash flow from operating activities before capital expenditure, financing and tax

The increase in net cash flow from operating activities to \$29.0 million in FY2016 compared to \$22.2 million in FY2015 is primarily due to a 14% increase in pro forma EBITDA as well as a \$3.0 million higher working capital balance in FY2015 arising from additional trade debtors and other receivables.

Net cash flow before financing and tax

Capital expenditure in FY2016 of \$7.3 million is primarily driven by:

- IT infrastructure and systems software development capital expenditure of \$3.3 million;
- new Company Owned Office fit out costs of \$2.1 million related to new offices forecast in Newtown, Paradise Point, Maroubra and Robina;
- purchase of a new office premises of \$1.2 million; and
- contracted cash outflow related to FY2015 property management rights acquired of \$0.5 million.

4.8 Sensitivity analysis

The Forecast Financial Information included in Section 4.3 and Section 4.7 is based on a number of estimates and assumptions as described in Sections 4.7.1 and 4.7.2. These assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of McGrath, its Directors and management, and based upon assumptions with respect to future business developments, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus should be expected.

To assist investors in assessing the impact of these assumptions on the forecasts, set out below in Table 4.17 is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that

may be experienced. For the purpose of the analysis below, the impact of the changes in key assumptions is expressed relative to the FY2016 pro forma forecast EBITDA and NPAT of \$31.0 million and \$18.2 million, respectively. The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on the forecast. In practice, changes in variables may offset each other or be additive, and it is likely that McGrath would respond to any adverse change in one variable by seeking to minimise the net effect on McGrath's EBITDA and NPAT.

Table 4.17 Sensitivity analysis on forecast Pro Forma NPAT for FY2016

		IMPACT ON PRO FORMA EBITDA FOR	IMPACT ON PRO FORMA NPAT FOR
ASSUMPTION	INCREASE / DECREASE	FY2016	FY2016
		\$ MILLION	\$ MILLION
Average sales price ¹	+ / - 5%	+ / - 2.72	+ / - 1.90
Number of property sales ¹	+ / - 5%	+ / - 2.72	+ / - 1.90
Total corporate costs	+ / - 5%	+ / - 0.69	+ / - 0.48

Notes:

¹ Includes the impact of both company owned and franchise sales on McGrath.

4.9 Dividend policy

The payment of a dividend by McGrath is at the discretion of the Board and will be a function of a number of factors, including the general business environment, the operating results, cash flow and the financial condition of McGrath, future funding requirements including the number of new offices to be opened in the following year, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by McGrath and any other factors the Board may consider relevant.

It is intended that all future dividends will be franked to the maximum extent permissible by reference to the McGrath tax consolidated group's franking account.

It is the current intention of the Board to target a payout ratio of between 40% and 60% of McGrath's NPATA. However the level of payout ratio may vary between periods depending on the factors above.

It is the current intention of the Board to pay dividends in respect of half years ending December and final dividends in respect of full years ending in June each year. It is anticipated interim dividends will be paid in March and final dividends will be paid in September following the relevant financial period.

The expectation that these dividends will be fully franked reflects the underlying assumptions on which the Forecast Financial Information is based. Any changes in these assumptions may impact the franking credits attached to such dividends.

No assurance can be given by any person, including the Directors, about the payment of any dividend or the level of franking credits attaching to any such dividend.

No interim dividend is assumed in the FY2016 forecast. Subject to the forecasts being achieved, the target dividend payout ratio of 40% to 60% and other relevant factors including those described above, the final dividend for the period from 4 December 2015 to 30 June 2016 is forecast to be approximately 4.5 cents per Share, fully franked. This dividend is expected to be paid in September 2016.

\$2 bn

Value of loans under management

\$11.6 bn

Value of FY2015 property sales







5.1 Introduction

McGrath is subject to various risk factors. Some of these are specific to its business activities. Others are of a more general nature. Individually, or in combination, these risk factors may affect the future operating and financial performance of McGrath, its investment returns and the value of an investment in the Shares. Each of the risks set out below could, if they eventuate, have a material adverse impact on McGrath's business, financial condition and results of operations.

Investors should be aware that this Section 5 does not purport to list every risk that may be associated with an investment in the Shares now or in the future. The occurrence of, or consequences of, some of the risks described in this Section 5 are partially or completely outside of the control of McGrath, its Directors and its management team. This Section 5 should be read in conjunction with other information disclosed in this Prospectus. There can be no guarantee that McGrath will achieve its stated objectives or that any forward looking statements or forecasts will eventuate.

The selection of risks has been based on the assessment of a combination of the probability of the risk occurring, the ability to mitigate the risk and the impact of the risk if it did occur. That assessment is based on the knowledge of the Directors as at the Prospectus Date, but there is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge.

Before applying for Shares, investors should satisfy themselves that they have a sufficient understanding of these matters and should consider whether Shares are a suitable investment for them, having regard to their own investment objectives, financial circumstances and taxation position. If investors are unclear in relation to any matter or are uncertain as to whether McGrath is a suitable investment for them, they should seek professional guidance from their accountant, financial adviser, stockbroker, tax adviser, lawyer or other professional adviser before deciding whether to invest.

5.2 Risks specific to an investment in McGrath and the industry in which it operates

5.2.1 Australian residential real estate market

McGrath generates the majority of its income from the Australian residential real estate market through commission revenue generated by Agents on the sale of properties, property management commissions and commissions on the arranging of mortgages. McGrath is therefore adversely affected by factors that reduce transaction volumes or sales prices in the Australian residential real estate market or, more specifically, the particular regions in which it operates. The Australian residential real estate market can be considered cyclical and typically is affected by changes in general economic conditions which are beyond McGrath's control. Some of the factors that can affect the volume and sales price of Australian residential real estate are set out in Section 2.3 and include housing affordability (in turn affected by income levels and interest rates), population growth, general economic growth, domestic investor demand and foreign investment. In addition, there may be particular factors that affect certain regions.

This Prospectus includes market forecasts produced by BIS Shrapnel in Section 2.4. Those forecasts are based on market and macroeconomic data and statistics that are inherently unpredictable and subject to uncertainty. Therefore, those markets may perform more poorly than forecast.

In particular, in response to certain regulatory changes by APRA, some banks have recently increased interest rates for residential property investors, some have increased required deposits and some have capped the amount that they are willing to lend to this class of property buyer. Collectively or individually, these measures could negatively impact lending demand from investors. There has also been commentary and speculation regarding potential changes to the Australian tax system in relation to negative gearing. If a change to the tax treatment of investment property losses was to occur, it may have a negative impact on residential property investment and therefore potential transaction volumes and values.

Investment by offshore investors, particularly those from Asia, is an increasingly important source of demand for Australian residential real estate. Any regulatory restrictions on inbound foreign investment may therefore have a negative impact on the sales volumes and prices of Australian residential property.

The forecast financial position of McGrath as set out in Section 4 assumes certain economic and industry conditions including the number of transactions, average commission rates, vacancy rates, levels of rent and other economic factors. McGrath's financial performance may be adversely impacted if the actual economic and industry conditions differ from the assumptions as set out in Section 4.

5.2.2 Increased competition and disintermediation

The residential real estate services industry is subject to vigorous competition, based on factors including commission rates, service, innovation and the ability to provide the client with an appropriate range of real estate services in a timely manner.

If the actions of McGrath's competitors or potential competitors become more effective, its financial performance or operating margins could be adversely affected or McGrath may be unable to compete successfully. For example, McGrath's competitors might adopt more aggressive strategies to capture market share. Such occurrences may negatively affect McGrath's planned growth and market share.

McGrath's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors, or a failure by McGrath to continue to position itself successfully to meet changing market conditions, customer demands or technology. Any changes in McGrath's competitive position or the competitive landscape may result in a decline in sales revenue and margins, which may have a material adverse effect on its future financial performance and position.

McGrath is also potentially exposed to disintermediation, whereby buyers and sellers are able to transact directly in a private sale without utilising the services of an Agent. Although to date in Australia the level of private sales is believed to be low, the volume of private sales may increase due to factors such as improvements in technology and the establishment or growth of websites that allow such sales. A significant increase in the level of private sales and a corresponding decrease in the level of Agent sales may have an adverse effect on McGrath's future financial performance and position.

The residential real estate services industry can also be considered to have relatively low barriers to entry, with there being a relatively low cost to establish a residential real estate services office. Agents engaged by McGrath or Franchisees could potentially establish competing businesses in the areas in which they currently operate and have done so in the past.

5.2.3 Reliance on McGrath management

McGrath has a number of key staff who are important to its business. The loss of key personnel could have a material adverse effect on McGrath's financial performance and financial position. McGrath may not be able to replace those personnel in a timely manner. Similarly, given McGrath has a focus on ongoing growth, there is a risk that it may not be able to recruit necessary personnel with the requisite skills in a timely manner.

In particular, John McGrath founded the business, is directly involved in the business as its Chief Executive Officer and is closely associated by customers with the business given its brand name. John McGrath is also important for the recruitment and retention of staff, Agents and Franchisees.

John McGrath's employment with McGrath may be terminated at any time with 12 months' notice at either McGrath's or John McGrath's discretion. Upon termination. John McGrath will be subject to a restraint of trade for a maximum of three years. During the restraint period, John McGrath is prohibited from taking certain actions that would cause him to be in competition with McGrath's business. During that period he is also prohibited from carrying out any work for any entity that is engaged in the buying, selling, managing or leasing of commercial or residential property. However it is possible that a court may not enforce that restraint of trade.

5.2.4 Franchise risk

McGrath currently has approximately 53 franchise agreements in place with 31 Franchisees. The success of McGrath's business and its ability to grow relies on McGrath's ability to retain existing Franchisees and its ability to continue to attract new Franchisees. If McGrath is not able to retain the existing key Franchisees, or attract new Franchisees, this could have an adverse impact on McGrath's business, operating and financial performance.

Franchisees may leave the McGrath Network and join another franchise network or commence their own operations. In addition to reducing McGrath's franchise revenue, this may also result in the exit of McGrath from a particular area and/ or an increase in competition in areas in which McGrath operates currently.

The reliance of McGrath on a Franchise Office network also causes risks for McGrath in the management and administration of numerous and geographically diverse Franchise Offices. Formal franchise agreements govern the relationship between McGrath and the Franchisee during the term of the franchise, which generally have an initial term of five years, as outlined in Section 9.4.4. Over time, disagreements or disputes may occur between the parties over material terms of the agreement (including fees, performance of obligations, services provided by McGrath or business restraints). Poor performance by the franchise network, individual Franchisees or disputes with Franchisees may have an adverse impact on McGrath's financial performance and could cause harm to the reputation of the McGrath brand.

5.2.5 Risks related to McGrath's Acquisitions

Targeted acquisitions are considered an important part of McGrath's future strategy and McGrath therefore expects to acquire businesses from time to time. There can be no assurance that McGrath will be successful in realising the anticipated benefits and synergies of any businesses that it acquires (including the Smollen Group). The ability to realise these benefits will depend in part on whether McGrath can efficiently integrate acquired businesses with its existing operations. The challenges of integrating and operating acquired businesses may be greater if McGrath acquires businesses that provide services outside McGrath's current geographic or service offering. In addition, there is a risk that McGrath will overestimate the value of acquired businesses and therefore overpay. These factors may adversely impact McGrath's financial performance.

Following completion of the Acquisition, the Smollen Group's future performance and integration with McGrath will depend on, to a large extent, the efforts and abilities of its senior management team to effect a successful transition. Shane Smollen will assist in leading that transition and has entered into a one year consultancy agreement with McGrath. However, the loss of Shane Smollen, particularly during the transition period, may have a material adverse impact on the Smollen Group's transition and, consequently, McGrath's operating and financial performance.

5.2.6 Retention of Agents

McGrath's Agents are key to the success of its business. The majority of Agents are independent contractors and are able to leave McGrath at short notice and potentially join other agency networks or offices. The market for quality agents is also considered highly competitive.

The loss of key Agents could undermine McGrath's ability to operate its business to the current standard and scale. These occurrences may have a material adverse impact on McGrath's revenue and profitability. The departure of a number of key Agents simultaneously or over a short period of time could have a particularly material adverse effect on McGrath's financial position and performance.

5.2.7 Reputation and brand risk

The success of McGrath is largely dependent on its reputation and branding. Maintaining the strength of the reputation and branding of McGrath and its underlying brands is integral to McGrath's ability to maintain relationships with existing customers, appeal to new customers, maintain revenue growth and attract key employees, Franchisees and Agents.

There is a risk that certain issues or events, including many of those outlined in this section, may adversely affect the reputation of McGrath or its associated brands, including through negative publicity. Factors which undermine the strength of McGrath's reputation and brands may result in customers ceasing to demand services from McGrath, reduce McGrath's ability to retain and attract Franchisees and Agents, and may have a negative impact on McGrath's competitiveness, growth and profitability.

5.2.8 Regulatory risks

In Australia, McGrath's business is primarily regulated by various Commonwealth, state and territory laws as outlined in Section 2.6. If McGrath does not meet regulatory requirements, it may suffer penalties. These penalties may include:

- fines:
- compensation; and
- cancellation or suspension of authority to carry on business.

In addition, the regulatory framework may change. This could have an impact on the residential real estate services industry or McGrath's operations. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of McGrath.

Regulatory proceedings or findings against McGrath employees, Agents, Franchisees or licensees or general negligence or misconduct by those parties could result in regulatory sanctions and/or reputational or financial harm to McGrath. While McGrath has put in place extensive training for members of its network and compliance processes have been established in order to prevent such misconduct, it is not always possible to avoid it and the precautions taken to prevent and detect such activity may not be effective in all cases.

5.2.9 Information technology risk

Migration risk

McGrath is dependent on its information technology systems and relationships with service providers. Interruptions, failure or delay in the provision of services could severely impact the business operations of McGrath as well as damaging their reputations.

McGrath is undertaking a number of system upgrades, including the engagement of PropertylQ to migrate MARS to a SAAS platform. There is a risk that these upgrades and migration to the new SAAS platform could have unforeseen issues which could adversely impact on McGrath's operations.

Disaster recovery risk

McGrath is in the process of establishing a new common disaster recovery mechanism for its information technology systems to enable timely recovery for any business continuity failures. Any operational disruptions before the establishment of those updated disaster recovery mechanisms would have a serious impact on normal business operations across the entire McGrath Network.

Security breaches and cyber attacks

McGrath transmits and receives personal, confidential and proprietary information by electronic means and therefore relies on the secure processing, storage and transmission of such information. By their nature, information technology systems are susceptible to cyber attacks. Security breaches may involve unauthorised access to McGrath's networks, systems and databases, exposing financial, proprietary and personal user information. It is possible that the measures taken by McGrath to protect its proprietary information and the private information of its customers may not be sufficient to prevent unauthorised access to, or disclosure of, such information.

Any accidental or deliberate security breaches or other unauthorised access to McGrath's information technology systems or customer information may subject McGrath to reputational damage, a loss of confidence in the services it provides, claims by customers, loss of customers, a disruption of services to customers, legal action and regulatory scrutiny.

5.2.10 Mortgage broking risks Regulatory risks

The mortgage broking industry can be considered to be more heavily regulated than the residential real estate services industry. Further regulatory changes to the mortgage broking industry could result in a greater regulatory compliance burden for McGrath which could increase McGrath's cost base or the manner in which it operates and therefore have an adverse effect on McGrath's profitability.

Mortgage brokers may be adversely affected by a change in the wholesale lending market

The capacity of lenders to continue providing lending products and services to mortgage brokers may be affected by a change in the wholesale lending market. A change in the wholesale lending market may mean that lenders are no longer able or willing to provide these products or services, which may adversely affect Oxygen Home Loans.

Reliance on lender panel

Oxygen Home Loans' strategy is not to provide loan products itself but rather to use a range of lenders to provide a selection of loan products. This approach leaves Oxygen Home Loans open to a risk of default or termination by the relevant lender panel members. In such a case Oxygen Home Loans may consider it necessary to add replacement lenders to its panel.

Lenders may choose to reduce their reliance on mortgage brokers. For instance, lenders may seek to develop or utilise distribution channels which compete with mortgage brokers.

Oxygen Home Loans generates its income from origination and trailing commissions. McGrath's financial results could be materially impacted if lenders seek to reduce these rates. Oxygen Home Loans relies on members of its lender panel to perform services related to the loan administration process, including appraisals, credit reference checking and title searches. Any interruptions or delays in the provision of these services may cause delays in the processing and closing of loans for its customers.

If Oxygen Home Loans is unsuccessful in managing the timely delivery of these services Oxygen Home Loans may also experience customer dissatisfaction and its business could be adversely affected.

5.2.11 Publicly listed environment risk

McGrath's transition from an unlisted company to a listed public company will result in changes in the way McGrath operates in respect of financial management and reporting, corporate governance and general operating requirements. An inability to adequately manage and resource this change or to properly identify key compliance or commercial risks may have a material adverse impact on McGrath's business.

McGrath also believes that it differentiates itself from its competitors partly through the business culture it has established. Any change to this culture brought about by the transition to a listed public company may therefore have a material adverse impact on McGrath's business.

5.2.12 Seasonal revenue variations may change

McGrath's revenue cycles have historically demonstrated seasonality. McGrath's revenue has historically demonstrated a level of seasonality with peak revenue periods being September through to November and March through to April. Overall revenue is typically equal in the first and second halves. There can be no assurance that the historical seasonality trends will continue in the future.

5.2.13 Existing Shareholders retain a significant stake in McGrath post-Listing

Following Completion, the Existing Shareholders will hold 46.3% of the issued capital of McGrath.

The interests of the Existing Shareholders may differ from the interests of McGrath and the Shareholders who acquire Shares under the Offer. Also, while they hold a large stake in McGrath, these Shareholders may be able to influence whether a takeover or similar offer for the Shares is successful.

In addition, 62.1 million Shares held by Existing Shareholders, representing 46.3% of the issued capital of McGrath, will be subject to escrow restrictions (subject to certain exceptions, see Sections 7.1.5 and 9.4.5 for more details). There will be no restrictions on the sale of any escrowed Shares on and from the date on which those escrow restrictions are released in accordance with the terms of the relevant restriction, or sooner, in the event an exception to the restriction is available.

Following the end of the relevant escrow period, a significant sale of Shares by some or all of the Existing Shareholders, or the other Escrowed Shareholders, or the perception that such sales have occurred or might occur, could adversely affect the price of Shares.

Alternatively, the absence of any sale of Shares by the Existing Shareholders may cause or contribute to a diminution in the liquidity of the market for the Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares. It is important to recognise that Shareholders may receive a market price for their Shares that is less than the price that Shareholders paid.

5.2.14 Litigation risk

In the ordinary course of its business, McGrath is subject to the risk of litigation and other disputes with its customers, employees, Franchisees, Agents, tenants, lessors, bodies corporate, regulators, competitors and other third parties. Proceedings may result in high legal costs, adverse monetary judgements and/or damage to McGrath's reputation, which could have an adverse effect on the financial position and performance of McGrath's business.

5.2.15 McGrath may not be able to secure future debt funding on acceptable terms

McGrath's debt facilities will require refinancing in the future and McGrath may seek additional debt finance in the future to support growth. The terms which debt financiers are willing to offer in the future may depend on macroeconomic conditions at the time, the tenor of the facilities, the performance of McGrath and the risks associated with the proposed use of funds. McGrath is subject to the risk that it may not be able to refinance its existing or future bank facilities as and when they fall due, or that the terms available to McGrath on refinancing will not be as favourable as the terms of its existing or future bank facilities. An inability for McGrath to secure debt funding on reasonable terms in the future could constrain growth and could adversely impact McGrath's operating and financial performance.

5.2.16 Risk of Shareholder dilution

In the future, McGrath (or its subsidiaries) may elect to issue Shares in connection with fundraisings, including raising proceeds, for acquisitions McGrath may decide to make. While McGrath (and its subsidiaries) will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and fundraisings. As described in Section 9.4.1. McGrath has agreed to issue CRPS which may convert into Shares on specified milestone dates. Any such conversion will dilute the holdings of other Shareholders.

5.3 General risks of an investment in McGrath

5.3.1 Price of Shares

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the price at which the Shares are being offered under this Prospectus. There is no assurance that the price of the Shares will increase following the quotation on the ASX, even if McGrath's earnings increase. Some of the Shares which may affect the price of the Shares include:

- fluctuations in the domestic and international market for listed securities;
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- inclusion in or removal from market indices:
- the nature of the markets in which McGrath operates; and
- general operational and business risks.

Other factors which may negatively affect investor sentiment and influence an investment in McGrath specifically or the stock market more generally include acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events.

5.3.2 Trading in Shares may not be liquid

Once the Shares are quoted on the ASX, there can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

5.3.3 Exposure to changes in tax rules or their interpretation

Tax rules or their interpretation or application in relation to the operations of McGrath or its Franchisees may change. In particular, both the level and basis of taxation may change.

In addition, from time to time the Australian Taxation Office and state revenue offices also review the tax treatment of transactions entered into by McGrath. Any actual or alleged failure to comply with, or any change in the application or interpretation of tax rules applied in respect of such transactions, could increase its tax liabilities or expose it to legal, regulatory or other actions.

In addition, an investment in the Shares involves tax considerations which may differ for each Shareholder. Each prospective Shareholder is encouraged to seek professional tax advice in connection with any investment in McGrath.

5.3.4 Force majeure events

Events may occur within or outside Australia that could impact upon the global and Australian economies, the operations of McGrath and the price of the Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or manmade events or occurrences that can have an adverse effect on the demand for McGrath's services and its ability to conduct business.

McGrath has a limited ability to insure against some of the risks mentioned above.

5.3.5 Asset impairment risk

Under AIFRS, McGrath is required to review the carrying value of its assets annually or whenever there is an indication of impairment. If there is any indication of impairment, then the assets recoverable amount is estimated. Changes in assumptions underlying the recoverable amount of certain assets of McGrath as a result of deteriorating market conditions or increasing cost of capital could result in an impairment of such assets, which may have a material adverse effect on the financial performance and position of McGrath.

5.3.6 Possible changes in Australian Accounting Standards

Australian Accounting Standards are set by the AASB and are outside the control of McGrath, its Directors and senior management. The AASB may introduce new or refined Australian Accounting Standards, which may affect future measurement and recognition of items in the statement of profit or loss and statement of financial position.

Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial condition and financial performance reported in McGrath's consolidated financial statements.

21,900
Properties under management as at 30 June 2015

10,990

Number of property sales in FY2015







6. Key people, interests and benefits

6.1 Board of Directors





David Mackay Independent Chairman

David Mackay has extensive Australian and international retail and consumer goods experience.

David was previously the Chief Executive Officer and President of Kellogg Company and was also a member of Kellogg Company's board and the company's global leadership team.

David was a non-Executive Director of Woolworths Limited (2012 to October 2015), an independent Director and non-Executive Chairman of Beam, Inc (2011 to April 2014), Managing Director of Sara Lee Bakery in Australia (1992 to 1998) and a former Director and Board Member of the Grocery Manufacturers of Australia, the Australian Food Council, the Industry Affairs Council of the Grocery Manufacturers of America, the Executive Committee of the Biscuit and Cracker Manufacturers' Association and a member of the Global Consumer Goods Forum. Mr Mackay is a Director of Fortune Brands Home & Security Inc. (since 2011) and Keurig Green Mountain, Inc. (since 2012).

Daniel PetreIndependent Non-Executive Director

Daniel Petre has over 25 years of experience in Australia's technology industry having founded AirTree Ventures, ecorp Pty Ltd and netus Pty Ltd.

Daniel has held leadership positions in technology based businesses, including working at Microsoft's headquarters in the U.S. Daniel has served on a range of not for profit boards and is currently on the Board of The Garvan Institute of Medical Research and the Sydney Theatre Company amongst other advisory roles.

Daniel has previously sat on the Board of Nine Entertainment Company Holdings Ltd (2010 to 2011), Publishing and Broadcasting Limited (1997 to 2001) and was the Chairman of ecorp (1997 to 2001).

Daniel holds a Bachelor of Science with majors in Computer Science and Statistics from UNSW, an MBA from the University of Sydney and an Hon DBus from UNSW.

Daniel is also a GAICD (Graduate of the Australian Institute of Company Directors).





Cass O'Connor
Non-Executive Director

Cass O'Connor has been involved in the public and private markets for 30 years, as an equities research analyst, investment banker (Turnbull and Partners, Goldman Sachs (Australia) LLC and Carnegie Wylie), private equity investor and board Director.

Cass was appointed as non-Executive Director of McGrath Operations in August 2000.

Cass is currently a non-Executive Director of ASX listed Prime Media Group Limited and PS&C Limited, and unlisted Goalpost Pictures Pty Ltd, among other entities. She has previously served on the boards of Bundanon Trust (2011 to 2015), Lifetime Care and Support Authority of NSW (2006 to 2012), Motor Accidents Authority of NSW (2010 to 2012), WorkCover Authority of NSW (2011 to 2012) and other government and private sector entities.

Cass holds a Bachelor of Business from UTS and is a GAICD.

John McGrath
Chief Executive Officer and Executive
Director

John McGrath founded McGrath in 1988 and has over 30 years of experience in the Australian residential real estate industry.

John is a non-Executive Director of REA Group Ltd and the South Sydney Football Club.

In 2008, he was honoured with the Woodrow Weight OBE lifetime achievement award from the Real Estate Institute of New South Wales.

The Board intends to appoint one additional independent Non-Executive Director.

6.2 Senior management

Chart 6.1 McGrath's management structure



NAME

EXPERTISE, EXPERIENCE AND QUALIFICATIONS

John McGrath

Chief Executive Officer and Executive Director See Section 6.1 for details.

Geoff LucasChief Operating Officer

Geoff Lucas joined McGrath in January 2009.

Geoff has over 25 years of commercial experience with a background in accounting, finance and services industries.

Prior to joining McGrath, Geoff was the CEO of Credit Corp Group Limited, Managing Director of St Malo Australia, Finance Director of software house CABS Pty Ltd, Finance Director for Travel wholesaler The Tour Company Pty Ltd and held a senior finance role at Qantas Airways Limited.

Geoff is experienced in Executive management, corporate advice, mergers and acquisitions, capital raisings and establishing international businesses.

Geoff holds a Bachelor of Commerce, is a CPA and FAICD.

NAME	EXPERTISE, EXPERIENCE AND QUALIFICATIONS
Paul Hauenschild	Paul Hauenschild joined McGrath in 2006 as Finance Manager.
Chief Financial Officer	Paul was appointed CFO in July 2008 and shortly after, Company Secretary.
Officer	Prior to joining McGrath, Paul was a financial controller at NYK Logistics (TSE listed) working in both Australia and the UK.
	Paul holds a Bachelor of Business Administration, Accounting and Finance from UTS and is a CPA.
	Paul is currently completing a Graduate Diploma of Applied Corporate Governance at the Governance Institute of Australia.
Matthew Lahood	Matthew Lahood has been with McGrath for over 19 years.
Director of Sales	Matthew has over 25 years of experience in the Australian residential real estate industry.
	Prior to being the Director of Sales, Matthew was a high performing sales agent in the Eastern Suburbs of Sydney.
	Matthew is responsible for the market entry strategies and management of 12 Company Owned Offices and approximately 250 people.
Maria Carlino General Manager, Property	Maria Carlino joined McGrath in 2009 as General Manager of the company owned property management business. Maria has over 25 years of experience in the real estate industry as a high performer and real estate agency business owner.
Management Company Owned	Maria is responsible for the management and growth strategies of the rental portfolio and team across all Company Owned Offices.
	Maria holds a real estate licence and is licensee in charge.
Gary Vouris	Gary Vouris has been the General Manager, Franchise Services for 5 years.
General Manager, Franchise Services	Gary was previously the COO/CFO of McGrath.
	Gary oversees the operations of 53 McGrath Franchise Offices.
	Prior to joining McGrath, Gary was CFO of the Australian Turf Club for 15 years.
	Gary holds a Bachelor of Business and is a CPA.
Alan Hemmings	Alan Hemmings has been the General Manager, Oxygen Home Loans for 2 years.
General Manager, Oxygen Home Loans	Prior to joining McGrath, Alan worked for St George Bank and the Commonwealth Bank of Australia for over 15 years.
LUAIIS	Alan has 8 years of experience in Third Party Distribution with St George Bank across mortgages and personal loans. Prior to leaving St George, Alan was State Manager, Third Party, responsible for running sales teams to achieve targets of \$4 billion in residential mortgage sales via brokers.

NAME

EXPERTISE, EXPERIENCE AND QUALIFICATIONS

Danielle Molyneaux General Manager, TRET

Danielle Molyneaux has over 19 years of experience in events management.

Danielle has been General Manager, TRET since June 2014 and joined TRET in March 2012.

Prior to joining McGrath, Danielle has held various roles including events and sponsorship manager for the Australian & New Zealand Institute of Insurance & Finance, campaign manager for AMP Capital and conference manager for the MFAA Mortgage and Finance Association.

Karen Jacobs Head of People and Culture

Karen Jacobs has been with McGrath for over 2.5 years.

Karen is an experienced HR Executive with over 25 years of commercial experience across a range of customer centric industries including airlines, retail, wholesale, hospitality, sales and real estate.

Karen has extensive business ownership experience.

Prior to joining McGrath, Karen worked at auctionWORKS Australia Pty Ltd, Sarah Lorden Real Estate, Qantas Airways Limited, Lexus Australia, a division of Toyota Motor Corporation Australia Limited and Info People.

Annette Rose Head of IT Services

Annette Rose joined McGrath as Head of IT Services in February 2015.

Annette has 20 years of experience in programme management of business and technology initiatives across financial services and telecommunications including key roles as a founding member of financial services start-up business Egg Plc in the UK (Prudential Plc) and UBank (National Australia Bank) in Australia where she was most recently accountable for the customer service centre and homeloan operations. Annette has also worked for the NBN Co Ltd.

During 15 years spent in the UK, Annette led the integration of the Mercury Asset Management business into Merrill Lynch and implemented contactless gift and travel money cards for Barclays Bank Plc.

Anthony Meaker Chief Operating Officer of the Smollen Group

Anthony Meaker has been with the Smollen Group for over five years.

Anthony is an experienced manager with commercial experience in a range of industries including real estate, mining, sport and chartered accounting.

Prior to joining the Smollen Group, Anthony was Chief Operating Officer of Ray White NSW, General Manager of a mining equipment business, Wieland Equipment Pty Ltd, Operations Manager at Sydney Organising Committee For The Olympic Games (SOCOG), and Manager at Deloitte.

Anthony holds a Real Estate Licence and is an accredited auctioneer.

Anthony holds a Bachelor of Economics, MBA (Exec) and is a Chartered Accountant.

6.3 Interests and benefits

This Section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of McGrath; or
- underwriter to the Offer or financial services licensee named in the Prospectus as a financial services licensee involved in the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of McGrath:
- property acquired or proposed to be acquired by McGrath in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of McGrath or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

6.3.1 Interests of advisers

McGrath has engaged the following professional advisers:

- Allen & Overv has acted as Australian legal adviser (other than in respect of taxation matters) to McGrath in relation to the Offer. McGrath has paid, or agreed to pay, \$580,000 (excluding disbursements and GST) for those services. Allen & Overy has also advised on related refinancing and mergers and acquisitions matters. McGrath has paid, or agreed to pay, \$455,000 (excluding disbursements and GST) for these services. Further amounts may be paid to Allen & Overy in accordance with its normal timebased charges:
- Bell Potter and J.P. Morgan have acted as Joint Lead Managers to the Offer. McGrath has paid, or agreed to pay, the Joint Lead Managers the fees described in Section 9.4.2 for these services;
- KPMG Transaction Services has acted as Investigating Accountant and has prepared the Investigating Accountant's Report and has performed work in relation to due diligence enquiries.
 McGrath has paid, or agreed to pay, up to \$1,160,000 (excluding disbursements and GST) for the above services up until the Prospectus Date;
 - Luminis Partners has acted as financial adviser in relation to the Offer. McGrath has paid or agreed to pay Luminis Partners up to \$500,000 (excluding disbursements and GST) in connection with general advisory work, including in relation to the Offer. Luminis Partners is also entitled to (a) a fee equal to 0.35% of the enterprise value of McGrath on the close of the first day of trading of Shares on ASX; and (b) a fee of \$350,000 in relation to, and subject to completion of, the Acquisition (both of which are exclusive of GST and disbursements);

- BIS Shrapnel has provided information on the residential real estate market to McGrath in connection with the Offer and has prepared the Market Report. McGrath has paid, or agreed to pay, approximately \$31,000 (excluding disbursements and GST) for these services:
- CoreLogic has provided information on the residential real estate market and industry to McGrath in connection with the Offer. McGrath has paid, or agreed to pay, approximately \$18,000 (excluding disbursements and GST) for these services.

Other than as otherwise stated, these amounts, and other expenses of the Offer, will be paid by McGrath out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.

6.3.2 Directors interests and remuneration

Chief Executive Officer and Executive Director

McGrath has entered into an employment contract with John McGrath to govern his employment with McGrath. John is employed in the position of CEO and Executive Director of McGrath (refer to Section 6.3.3 for further details).

Non-Executive Director remuneration

Under the Constitution, the Board may decide the total amount paid to each Director as remuneration for their services as a Director of McGrath. However, under the ASX Listing Rules, the total amount paid to all Directors for their services must not exceed in aggregate in any financial year the amount fixed by McGrath's general meeting. This amount has been fixed by McGrath at \$600,000. Annual Directors' fees currently agreed to be paid by McGrath are \$175,000 in cash to the Chairman (David Mackay), and \$100,000 in cash to each of the other Non-Executive Directors.

In addition, the Chairman of the Audit and Risk Committee as well as the Chairman of the Remuneration and Nomination Committee will be paid \$25,000 annually. The remuneration of Directors must not include a commission on, or a percentage of, profits or operating revenue. All Directors' fees are inclusive of statutory superannuation.

Deeds of access, insurance and indemnity for Directors

McGrath has entered into deeds of access, insurance and indemnity with each Director which contain rights of access to certain books and records of McGrath.

Under the Constitution, McGrath is required to indemnify all Directors and officers, past and present, against all liabilities allowed under law. Under the deed of access, insurance and indemnity, McGrath indemnifies parties against all liabilities to another person that may arise from their position as an officer of McGrath or its subsidiaries to the extent permitted by law. The deed stipulates that McGrath will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

Under the Constitution, McGrath may arrange and maintain Directors' and officers' insurance for its Directors to the extent permitted by law and under the deed of access, insurance and indemnity, McGrath must obtain lifetime insurance cover for each Director.

Other information about Directors' interests and benefits

Directors will be reimbursed for reasonable travel and other expenses incurred in attending to McGrath's affairs.

Non-Executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not within the normal role of a Director of McGrath or a subsidiary.

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

Chapter 2E of the Corporations Act prohibits a company from giving a financial benefit to a related party (including any Director) without the prior approval of its members by ordinary resolution.

Directors' Shareholdings

Directors are not required under the Constitution to hold any Shares. The Directors' interests in Shares in McGrath immediately prior to and following Completion of the Offer are set out in table 6.1 below.

Table 6.1 Directors' shareholdings

			NUMBER	PERCENTAGE
	NUMBER	PERCENTAGE	OF SHARES	SHAREHOLDING
	OF SHARES	SHAREHOLDING	IMMEDIATELY	IMMEDIATELY
	IMMEDIATELY PRIOR	IMMEDIATELY PRIOR	FOLLOWING	FOLLOWING
DIRECTOR	TO COMPLETION	TO COMPLETION	COMPLETION	COMPLETION
David Mackay	-	-	166,666	0.1%
John McGrath	54,112,504	58.4%	36,255,378	27.0%
Cass O'Connor	-	-	95,238	0.1%
Daniel Petre	-	-	166,666	0.1%

Directors may hold their interests in Shares above directly or indirectly through holdings by companies or trusts.

NED Bonus Shares

As part of the Non-Executive Directors' initial remuneration, McGrath has also agreed to issue free bonus Shares to match, on a dollar for dollar basis up to \$100,000, the number of Shares issued to those Non-Executive Directors under the Offer. Each of the Non-Executive Directors has confirmed that they intend to acquire at least \$100,000 worth of Shares. These NED Bonus Shares are included in Table 6.1, above and will be subject to the voluntary escrow arrangements described in Section 7.1.5.

Related party arrangements

The issue of the NED Bonus Shares will occur only once and is being provided as remuneration for the services and responsibilities of those Non-Executive Directors before and during the IPO.

6.3.3 Executive remuneration

Chief Executive Officer and Executive Director

John McGrath is employed in the position of CEO and has entered into an employment contract with McGrath.

Details regarding the terms of employment of the CEO, John McGrath, are set out below.

TERM	DESCRIPTION
TOTAL FIXED REMUNERATION	John McGrath will receive annual fixed remuneration of \$651,533 (inclusive of superannuation) and any other non-cash benefits.
SHORT TERM INCENTIVE (STI)	In addition to his annual fixed remuneration, John is entitled to a short term incentive (STI) opportunity.
	For the year ending 30 June 2016, John will be entitled to a target STI opportunity of \$325,767, subject to meeting performance hurdles based on financial KPIs and individual goals determined by the Board.
	The key terms of the STI Plan are set out in Section 6.3.4 below.
LONG TERM INCENTIVE (LTI)	John is entitled to participate in McGrath's new LTI arrangements that will be granted under the LTI Plan rules described below. Since John has a significant shareholding in McGrath, he would be taxed in the year in which any Performance Rights are granted to him. Accordingly, at the time of Listing, McGrath intends to grant notional Performance Rights with a total face value of \$250,000 to John under the LTI Plan which will vest if performance targets and other terms of the LTI Plan set out in Section 6.3.4 are met. The number of notional rights will be determined by dividing \$250,000 by the Offer Price.
	If the performance hurdles are met and the notional Performance Rights vest, John McGrath will receive a cash payment equal to the number of notional Performance Rights multiplied by the share price at the time of vesting.
TERMINATION	John's employment may be terminated by either party upon giving 12 months' notice. McGrath can elect to make a payment in lieu of all or part of the notice period. McGrath may terminate John's employment immediately and without notice in certain circumstances, including for committing a material breach of his employment agreement or serious misconduct.
	All payments on termination will be subject to the termination benefits limits of the Corporations Act.
RESTRAINT	Upon the termination of John McGrath's employment contract, he will be subject to a restraint of trade period of 3 years.
	During the restraint of trade period, John must not:
	 carry on or otherwise be concerned with or interested in any business in competition with McGrath's business;
	 obtain or apply for regulatory licences, permits or privileges that would permit him to carry on or otherwise be concerned with or interested in any business in competition with McGrath's business; or
	 carry out any work for any entity engaged in the buying, selling, managing or leasing of commercial or residential property.
	McGrath may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

Chief Operating Officer

Geoff Lucas is employed in the position of COO and has entered into an employment contract with McGrath.

TERM	DESCRIPTION		
TOTAL FIXED REMUNERATION	Geoff will receive annual fixed remuneration of \$551,553 (inclusive of superannuation) and any other non-cash benefits.		
SHORT TERM INCENTIVE (STI)	In addition to his annual fixed remuneration, Geoff is entitled to an STI opportunity.		
	For the year ending 30 June 2016, Geoff will be entitled to a target STI opportunity of \$275,777, subject to meeting performance hurdles based on financial KPIs and individual goals determined by the Board.		
	The key terms of the STI Plan are set out in Section 6.3.4 below.		
LONG TERM INCENTIVE (LTI)	Geoff is entitled to participate in McGrath's new LTI arrangements that will be granted under the LTI Plan rules described below. At the time of Listing, McGrath intends to grant Performance Rights with a total face value of \$175,000 to Geoff under the LTI Plan which will vest if performance targets and other terms of the LTI Plan set out in Section 6.3.4 are met. The number of rights will be determined by dividing \$175,000 by the Offer Price.		
TERMINATION	Geoff may terminate his employment contract by giving 12 months' notice in writing.		
	All payments on termination will be subject to the termination benefits cap of the Corporations Act.		
RESTRAINT	Upon the termination of Geoff's employment contract, he will be subject to a restraint of trade period of 12 months.		
	During the restraint of trade period, Geoff must not:		
	 carry on or otherwise be concerned with or interested in any business in competition with McGrath's business; or 		
	 obtain or apply for regulatory licences, permits or privileges that would permit him to carry on or otherwise be concerned with or interested in any business in competition with McGrath's business. 		
	McGrath may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.		

Chief Financial Officer

Paul Hauenschild is employed in the position of CFO and has entered into an employment contract with McGrath.

TERM	DESCRIPTION
TOTAL FIXED REMUNERATION	Paul will receive annual fixed remuneration of \$238,485 (inclusive of superannuation) and any other non-cash benefits.
SHORT TERM INCENTIVE (STI)	In addition to his annual fixed remuneration, Paul is entitled to an STI opportunity.
	For the year ending 30 June 2016, Paul will be entitled to a target STI opportunity of \$119,243, subject to meeting performance hurdles based on financial KPIs and individual goals determined by the Board.
	The key terms of the STI Plan are set out in Section 6.3.4 below.
LONG TERM INCENTIVE (LTI)	Paul is entitled to participate in McGrath's new LTI arrangements that will be granted under the LTI Plan rules described below. At the time of Listing, McGrath intends to grant Performance Rights with a total face value of \$100,000 to Paul under the LTI Plan which will vest if performance targets and other terms of the LTI Plan set out in Section 6.3.4 are met. The number of rights will be determined by dividing \$100,000 by the Offer Price.
TERMINATION	Paul may terminate the employment contract by giving three months' notice in writing. McGrath may terminate the employment contract by giving three months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other circumstances warranting summary dismissal, McGrath may terminate Paul's employment contract immediately by notice in writing and without payment in lieu of notice. All payments on termination will be subject to the termination benefits cap of the Corporations Act.
RESTRAINT	Upon the termination of Paul's employment contract, he will be subject to a restraint of trade period of 12 months.
	McGrath may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

Other senior Executives

McGrath's other senior Executives are employed under individual Executive services agreements or individual contractor arrangements. These establish:

- total compensation, which includes for employees, a base salary and superannuation contribution to a fund of the individual's election;
- variable notice and termination provisions of up to six months;
- restraint and confidentiality provisions; and
- for employees, leave entitlements in accordance with the applicable legislation.

6.3.4 Incentive arrangements

McGrath is establishing a long term incentive plan (LTI Plan) to assist in the motivation, retention and reward of senior management. The LTI Plan is designed to align the interests of Executives and senior management with the interests of Shareholders by providing an opportunity for the participants to receive an equity interest in McGrath.

STI Plan

Certain employees are entitled to participate in the McGrath's STI Plan. The amount of the award under the STI Plan to which each participant may become entitled (if any) will be determined by the Board and the senior management team (as appropriate) based on achievement against set performance targets.

Each year performance will be measured for the 12 month period ended 30 June. Participants will need to be employed and not under notice of resignation or termination until as least 30 June of the relevant year to be eligible for an STI award, except in good leaver cases including retirement or bona fide redundancy, where some or all of the payment may be made at the discretion of the Board and senior management team (as appropriate).

2016 STI award

Awards to certain members of senior management, including the CEO, for the period 1 July 2015 to 30 June 2016 have been made under the STI Plan on the terms set out below.

The CEO and certain members of the senior management team will be entitled to an STI award up to a maximum percentage of their annual fixed remuneration (the maximum amount may differ between individuals, but not exceed 50% of total fixed remuneration).

For the 2016 STI award, the amount of the STI award each participant may become entitled to (if any) will be determined by the Board and senior management team (as appropriate) based on achievement against the following set of performance targets:

- 50% of the STI award will be subject to an EBITDA target (EBITDA Component);
- 50% of the STI award will be based on the achievement of specified strategic objectives (Strategic Component).

EBITDA Component

In order for the EBITDA Component to be payable, a threshold target must be satisfied as determined by the Board. Where below-threshold EBITDA is achieved, no EBITDA Component is payable. Where the threshold target is met, 50% of the EBITDA Component will be payable, rising to 100% of the EBITDA Component, on a pro rata basis, where the stretch EBITDA target determined by the Board has been met.

Strategic Component

The Strategic Component of the STI will be measured according to the achievement of strategic objectives as determined and assessed by the Board.

The LTI Plan

The rules of the LTI Plan (**Plan Rules**) will provide the framework under which the LTI Plan and individual grants will operate.

The key features of the LTI Plan are outlined in the table below.

ELIGIBILITY

Offers may be made at the Board's discretion to employees of McGrath or its related bodies corporate or any other person that the Board determines to be eligible to receive a grant under the LTI Plan.

TYPES OF SECURITIES

The Plan Rules provide flexibility for McGrath to grant one or more of the following securities as incentives, subject to the terms of individual offers:

- performance rights
- options
- restricted shares

Performance rights are a right to receive a Share for no consideration when certain performance hurdles have been met.

Options are a right to receive a Share when certain performance hurdles have been met on payment of the exercise price specified at the time of grant of the options.

Restricted shares are fully paid ordinary shares subject to a restriction on sale and that may be forfeited if certain performance hurdles are not met.

Unless otherwise specified in an offer document, the Board has the discretion to settle performance rights or options with a cash equivalent payment.

OFFERS UNDER THE LTI PLAN

The Board may make offers at its discretion and any offer documents must contain the information required by the Plan Rules. The Board has the discretion to set the terms and conditions on which it will offer performance rights, options and restricted shares in individual offer documents.

The Board is under no obligation to make an offer of any securities.

Offers must be accepted by the employee and can be made on an opt-in or opt-out basis. McGrath intends to make opt-out offers.

CONSIDERATION PAYABLE

Unless the Board determines otherwise, no payment is required for a grant of a performance right, option or restricted share under the LTI Plan.

VESTING

Vesting of performance rights, options and restricted shares under the LTI Plan is subject to any vesting or performance conditions determined by the Board and specified in the offer document.

Options must be exercised by the employee and the employee is required to pay the exercise price before Shares are allocated.

Subject to the Plan Rules and the terms of the specific offer document, any performance rights, options or restricted shares will either lapse or be forfeited if the relevant vesting and performance conditions are not satisfied.

CESSATION OF EMPLOYMENT

The Plan Rules provide the Board with a broad discretion in relation to the treatment of performance rights, options and restricted shares on cessation of employment. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated if the participating employee ceases employment and that generally the offer will provide that on cessation of employment the performance rights, options or restricted shares will continue on the terms as granted unless the Board determines otherwise.

The Plan Rules specifically provide that the Board is prohibited from providing a benefit that would cause McGrath to be in breach of Part 2D.2 of the Corporations Act insofar as it would relate to a termination benefit.

CLAWBACK

The Plan Rules provide the Board with broad clawback powers if, among other things, the participant has acted fraudulently or dishonestly, engaged in gross misconduct or has acted in a manner that has brought McGrath or its related bodies corporate into disrepute, or there is a material financial misstatement, or McGrath is required or entitled under law or company policy to reclaim remuneration from the participant, or the participant's entitlements vest as a result of the fraud, dishonesty or breach of obligations of any other person and the Board is of the opinion that the incentives would not have otherwise vested.

CHANGE OF CONTROL

The Board may determine that none, all or a specified number of a participant's performance rights, options or restricted shares will vest or cease to be subject to restrictions on a change of control event in accordance with the Plan Rules.

OTHER TERMS

The LTI Plan contains customary and usual terms for dealing with administration, variation, suspension and termination of the LTI Plan.

The 2016 LTI award under the LTI Plan

The key terms of the proposed 2016 LTI award are summarised in the table below:

PARTICIPANTS

Awards will initially be granted to the CEO and other members of senior management of McGrath who are invited by the Board to participate.

GRANT DATE AND TIMING OF FUTURE OFFERS

The LTI award will be made at or shortly after the time of the initial listing of McGrath. Any future grants will be at the discretion of the Board and subject to any requirements for Shareholder approval.

GRANT OF PERFORMANCE RIGHTS AND EQUIVALENT

The LTI award to participants other than the CEO will comprise performance rights over Shares in McGrath (**Performance Rights**).

Since the CEO has a significant shareholding in McGrath, the grant of performance rights will not be financially effective. Accordingly, the CEO will be granted the notional equivalent of a performance right that will be paid in cash if the performance hurdles are subsequently met.

GRANT OF PERFORMANCE RIGHTS AND EQUIVALENT The value of Performance Rights granted will be a percentage of the participant's total fixed remuneration. The number of performance rights will be that value divided by the face value of the share price at the time of grant and will be issued to the participant for nil consideration.

The notional equivalent for the CEO will be determined in the same way.

PERFORMANCE CONDITIONS, PERFORMANCE PERIOD AND VESTING Performance Rights will vest subject to the satisfaction of performance conditions.

The performance period of the LTI will generally be 3 years. The 2016 LTI award will be subject to a performance period commencing on the date of the initial Listing of McGrath and ending on 30 June 2018 (**Performance Period**). The performance conditions must be satisfied in order for the Performance Rights to vest.

The performance conditions may include market or non-market hurdles and will be determined by the Board.

Any Performance Rights or notional Performance Rights that remain unvested at the end of the Performance Period will lapse immediately.

RIGHTS ASSOCIATED WITH PERFORMANCE RIGHTS

The Performance Rights do not carry dividends or voting rights prior to vesting. Similarly the notional Performance Rights do not carry any other entitlements other than the payment of a cash equivalent to the value of the Performance Rights if the performance hurdles are met.

RESTRICTIONS ON DEALING

The participant must not sell, transfer, encumber, hedge or otherwise deal with Performance Rights.

Unless the Board determines otherwise, the participant will be free to deal with the Shares allocated on vesting of the Performance Rights, subject to the requirements of McGrath's Securities trading policy.

CESSATION OF EMPLOYMENT

If the participant ceases employment for cause, resigns, or their emploment is terminated by mutual agreement with McGrath, unless the Board determines otherwise, any unvested Performance Rights or notional Performance Rights will automatically lapse.

Generally, if the participant ceases employment for any other reason, all of their unvested Performance Rights will remain on foot and subject to the original performance condition. However, the Board retains discretion to determine that some or all of the Performance Rights will lapse.

CHANGE OF CONTROL

In a situation where there is likely to be a change of control of McGrath, the Board has the discretion to determine whether some, none or all of the Performance Rights will vest.

6.3.5 High performing Agents

McGrath is focused on attracting and retaining Agents who perform at the highest level or who aspire to reach that level. As an integrated Australian residential real estate services business that is a listed public company, McGrath will be in a position to differentiate itself from its competitors and provide its high performing Agents the opportunity to have a real interest in and ownership of McGrath.

At the board's discretion, the high performing Agents who achieve more than a specified GCI threshold in FY2016 will be invited to purchase a specified number of Shares at the Offer Price.

McGrath will provide the eligible high performing Agents with a limited recourse loan to acquire Shares. The interests of the Agents will be closely aligned to the shareholders of McGrath as they will be highly motivated to help McGrath grow its business, dividends and share price.

For example, if an Agent qualifies and is offered the opportunity to purchase Shares valued at \$100,000 at the Offer Price, McGrath will give the Agent a limited recourse loan to fund this purchase. Provided the Agent stays with McGrath for 3 years, they will receive dividends and enjoy any share price growth.

If the Agent leaves the network before the end of 3 years, they will lose the Shares as payment for the loan.

6.4 Corporate governance

This Section 6.4 explains how the Board will oversee the management of McGrath's business. The Board is responsible for the overall corporate governance of McGrath. The Board monitors the operational and financial position and performance of McGrath and oversees its business strategy including approving the strategic goals of McGrath and considering and approving an annual business plan, including a budget. The Board is committed to maximising performance, generating financial returns and greater value for Shareholders, and sustaining the growth and success of McGrath. In conducting McGrath's business with these objectives, the Board seeks to ensure that McGrath is properly managed to protect and enhance Shareholder interests, and that McGrath, and its Directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing McGrath including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for McGrath's business and which are designed to promote the responsible management and conduct of McGrath.

The main policies and practices adopted by McGrath, which will take effect from Listing, are summarised below. In addition, many governance elements are contained in the Constitution. The McGrath code of conduct outlines how McGrath expects Directors and personnel to behave and conduct business in a range of circumstances. In particular, the code requires awareness of, and compliance with, laws and regulations relevant to McGrath's operations, including occupational health and safety, risk management, privacy and employment and diversity practices. Details of McGrath's key policies and practices and the charters for the Board and each of its committees are available at www.mcgrath.com.au.

McGrath is seeking a listing on ASX. The ASX Corporate Governance Council has developed and released its Corporate Governance Principles and Recommendations for Australian listed entities (ASX Recommendations) in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptive and are guidelines. However, under the ASX Listing Rules, McGrath will be required to provide a statement in its annual report disclosing the extent to which it has followed the recommendations in the reporting period. Where McGrath does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. McGrath intends to comply with all of the ASX Recommendations with effect from its Listing other than ASX Recommendations 2.4 and 4.1:

- ASX Recommendation 2.4 provides that the majority of the board of a listed entity should be independent Non-Executive Directors. With effect from Listing, two of the four members of the Board (including the Chairman) will be independent Non-Executive Directors. The Board will also comprise an additional Non-Executive Director (Cass O'Connor) and an Executive Director and CEO (John McGrath) who, having regard to the ASX Recommendations, are not considered to be independent. Cass O'Connor is not considered to be independent solely because she has been a Director of McGrath for a period of just over 15 years. However, the Board believes that her significant experience and skills will be highly valuable. Further information regarding the independence of Directors and the composition of the Board is set out in section 6.4.1 below.
- ASX Recommendation 4.1 provides that the board of a listed entity should have an audit committee which is chaired by an independent

Director, who is not the chair of the board. With effect from Listing, Cass O'Connor will be the Chair of the Audit and Risk Committee. The Board is of the view that Cass' skills and extensive experience make her the best candidate for the role. The Board is also confident that Cass will provide the independent judgement needed to oversee the corporate reporting process.

The Board intends to appoint a suitable additional Independent Director in the near future and, at the end of Cass O'Connor's current tenure as Chair of the Audit and Risk Committee, the subsequent chair will be required to be an independent Director. At that time McGrath will comply with all of the ASX Recommendations.

6.4.1 The Board of Directors

On Listing, the Board of Directors will comprise two independent Non-Executive Directors (including the Chairman), one Non-Executive Director and the CEO.

Detailed biographies of the Board members are provided in Section 6.1.

The Board considers an Independent Director to be a Non-Executive Director who is not a member of McGrath's management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of their judgment. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

The Board charter sets out guidelines and thresholds of materiality for the purpose of determining the independence of Directors in accordance with the ASX Recommendations and has adopted a definition of independence that is based on the definition set out in the ASX Recommendations.

The Board considers thresholds

of materiality for the purpose of determining 'independence' on a caseby-case basis, having regard to both quantitative and qualitative principles. Without limiting the Board's discretion in this regard, the Board has adopted the following guidelines:

- the Board will consider a holding of 5% or more of the Shares of McGrath to be material:
- the Board will consider an affiliation with a business which accounts for less than 5% of the relevant base to be immaterial for the purpose of determining independence.
 Where this threshold is exceeded, the materiality of the particular circumstance with respect to the independence of the particular Director will be reviewed by the Board; and
- the Board will qualitatively consider whether a Director's length of tenure, interest, business or relationship could materially interfere with the Director's ability to act in the best interests of McGrath.

The Board considers that David Mackay and Daniel Petre are Independent Directors.

As noted above, John McGrath and Cass O'Connor are not considered under the ASX Recommendations to be independent.

6.4.2 Board charter

The Board considers that strong and effective corporate governance can add to McGrath's performance, create value for Shareholders, and engender investor confidence. To that end, it has adopted a written charter to provide a framework for the effective operation of the Board. The charter provides that the Board:

- considers and approves the strategy of McGrath;
- adopts an annual budget, monitors financial performance (including approving the annual and half year financial statements and reports) and approves major investments and monitors the return on those investments;

- monitors the adequacy, appropriateness and operation of internal controls including reviewing and approving McGrath's compliance systems and corporate governance principles;
- ensures that McGrath provides continuous disclosure of information to the investment community, and that Shareholders have available all information they reasonably require to make informed assessments of McGrath's prospects;
- monitors significant business risks, reviews how they are managed and monitors the conduct of the relationship with key regulators to ensure McGrath's obligations are being met;
- determines delegations to committees, subsidiary boards and management and approves transactions in excess of delegated levels;
- appoints and reviews the performance of the CEO including overseeing the remuneration, development and succession planning for the CEO and other management, and ensuring that appropriate human resource management systems are in place;
- assesses its own performance and that of individual Directors and selects and appoints new Directors;
- considers, approves and endorses major policies of the organisation including a code for ethical behaviour and social responsibility;
- oversees the implementation of appropriate work health and safety systems; and
- ensures that McGrath's reputation is protected and enhanced.

6.4.3 Board Committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities.

The Board has established the Audit and Risk Committee and the Remuneration and Nomination Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of McGrath, relevant legislative and other requirements, and the skills and experience of individual Directors.

Audit and Risk Committee

Under its charter, this committee must have at least 3 members, a majority of whom must be independent Directors. Currently, Cass O'Connor, David Mackay and Daniel Petre are members of this committee. Cass O'Connor is Chairman of the committee. At the end of Cass O'Connor's term as Chair, the Chairman of this committee will also be required to be an independent Director.

The primary roles of this committee include:

- exercising oversight over the compliance of the financial statements with the requirements of the Corporations Act and any other mandatory professional reporting requirements, statutory reporting requirements, making informed decisions regarding accounting and regulatory policies, judgements, practices and disclosures:
- reviewing the scope and results of internal audit reviews and external audits:
- assessing the effectiveness of McGrath's internal controls;
- assessing the effectiveness of McGrath's internal audit functions in carrying out the responsibilities of their charters; and
- focusing appropriate attention on McGrath's risk management framework.

Under the committee's charter, it is the policy of McGrath that its external auditing firm must be independent of it. The committee will review and assess the independence of the external auditor on an annual basis.

Remuneration and Nomination Committee

Under its charter, this committee must have at least 3 members, a majority of whom (including the chairman) must be Independent Directors. Currently, David Mackay, Cass O'Connor and Daniel Petre are members of this committee. Daniel Petre is Chairman of the committee.

The main functions of the committee are:

- to ensure that McGrath's remuneration approach is aligned with shareholder interests and allow McGrath to attract, motivate and retain its staff to enhance McGrath's performance in a manner that supports its long term financial soundness;
- to assist the Board to provide appropriate corporate governance by identifying the mix of skills and individuals required in Directors to ensure that the Board is composed of Directors who can contribute to the successful oversight and stewardship of McGrath and discharge their duties under the law diligently and efficiently; and
- to assist and advise the Board on the following nomination related matters:
 - Director selection and appointment practices;
 - Board composition; and
 - succession planning for the Board and senior Executives.

to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Shareholders as a whole.

6.4.4 Policies

Diversity policy

McGrath has adopted a diversity policy, which sets out its commitment to diversity and inclusiveness in the workplace. The diversity policy provides a framework to help McGrath achieve its diversity goals while creating a commitment to a diverse work environment where staff consider they are treated fairly and with respect while feeling accountable and responsible for the reputation and performance of McGrath. The Board will oversee implementation of the diversity policy and assess progress in achieving its objectives.

Continuous disclosure policy

Once listed, McGrath will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, McGrath will be required to disclose to ASX any information concerning McGrath which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. McGrath is committed to observing its disclosure obligations under the ASX Listing Rules and Corporations Act.

McGrath has adopted a policy to take effect from Listing which establishes the procedures which are aimed at Directors and management being aware of and fulfilling their obligations in relation to the timely disclosure of material price-sensitive information. Under the disclosure policy, the Board will be responsible for managing McGrath's compliance with its continuous disclosure obligations.

Securities trading policy

McGrath has adopted a written policy to take effect from Listing for buying, selling or otherwise dealing in securities. The policy is intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act and to establish a best practice procedure in relation to dealings in Shares by Directors and officers of the McGrath group (including the CEO), all direct reports to the CEO or COO and their direct reports, Franchisees of the McGrath group and any other personnel designated by the Board (and their closely related parties) (Relevant Persons).

Relevant Persons will not be permitted to deal in Shares during the following blackout periods:

- the period from one month before the close of trading on ASX at the end of each half year and full year until the close of trading on the day following the announcement to ASX of the half year or full year results (as applicable); and
- any other period that the Board specifies from time to time.

Outside of these periods, Relevant Persons must receive clearance for any proposed dealing in Shares. In all instances, buying or selling Shares is not permitted at any time by any person who possesses price-sensitive information. Any dealing in Shares by Relevant Persons pursuant to a margin lending arrangement is not permitted. Relevant Persons are permitted to hedge Shares in limited circumstances.

Code of conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a formal code of conduct, to take effect from Listing, to be followed by all personnel and officers.

The key aspects of this code are to:

- act with honesty, integrity and fairness and in the best interests of McGrath, and in the reasonable expectations of McGrath's Shareholders;
- act in accordance with all applicable laws, regulations, policies and procedures;
- have responsibility and accountability for individuals for reporting and investigating reports of unethical practices; and
- use McGrath's resources and property properly.

The code of conduct sets out McGrath's policies on various matters including ethical conduct, business conduct, compliance, privacy, security of information, bribery and corruption, financial integrity and conflicts of interest.

Communications with Shareholders

The Board's aim is to provide Shareholders with sufficient information to assess the performance of McGrath and to inform them of major developments affecting the state of affairs of McGrath relevant to Shareholders in accordance with and subject to all applicable laws. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and publishing information on McGrath's website, www. mcgrath.com.au.

In particular, McGrath's website will contain information about it, including media releases, key policies and the terms of reference of its Board committees. It is intended that all relevant announcements made to the market and any other relevant information will be posted on McGrath's website as soon as they have been released to ASX.



159

Number of McGrath property managers in FY2015

31,325

Printed McGrath magazines distributed per month





7. Details of the Offer

7.1 Description of the Offer

This Prospectus relates to the Offer of up to 62.1 million Shares, comprising the sale of 30.6 million Shares by SaleCo and the issue of up to 31.5 million New Shares by McGrath Holdings. The total number of Shares on issue at the Completion of the Offer, assuming all Eligible Employees take up their full entitlements under the Employee Award Offer, will be 134.2 million. 62.1 million of these Shares will be held by Existing Shareholders and subject to voluntary escrow agreements described in Section 7.1.5. All Shares will rank equally with each other.

The Offer (other than the Employee Award Offer) has been fully underwritten by the Joint Lead Managers. A summary of the Underwriting Agreement, including the events which would entitle the Joint Lead Managers to terminate the Underwriting Agreement, is set out in Section 9.4.2.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.1 Structure of the Offer

The Offer comprises:

- the Retail Offer consisting of the:
 - Broker Firm Offer, which is only open to Australian resident investors who are not Institutional Investors and who have received a firm allocation of Shares from a Broker;
 - Employee Award Offer, which is only open to Eligible Employees nominated by McGrath; and
 - Priority Offer, which is only open to Eligible Employees nominated by McGrath; and

 the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors in Australia, New Zealand and certain other overseas jurisdictions.

No general public offer of Shares will be made under the Offer.

The allocation of Shares between the Broker Firm Offer, Priority Offer, Employee Award Offer and the Institutional Offer will be determined by the Joint Lead Managers by agreement with McGrath, having regard to the allocation policy described in Section 7.3.5 and Section 7.6.2. All Shares will rank equally with each other.

7.1.2 Purpose of the Offer and use of proceeds

The purpose of the Offer is to:

- achieve a listing on the ASX to broaden McGrath's shareholder base and provide a liquid market for its Shares;
- provide an opportunity for Existing Shareholders to partially realise their investment;
- provide an improved capacity to attract and retain quality Agents and staff through short and long term employee incentive programmes;
- fund the initial consideration for the Acquisition; and
- provide additional financial flexibility for McGrath to pursue growth opportunities and improve access to capital markets.

The Offer is expected to raise approximately \$129.6 million.

The table below sets out in detail the use of the proceeds raised from the Offer:

Table 7.1 Sources and uses of funds

SOURCES OF FUNDS	\$ MILLION	%	USE OF FUNDS	\$ MILLION	%
Cash Proceeds received from the issue of New Shares by McGrath	65.4	50.4%	Payment of proceeds to Existing Shareholders	64.2	49.6%
Holdings			Repayment of	15.9	12.3%
Cash proceeds received from the sale of Shares by Existing Shareholders	64.2	49.6%	existing debt facilities ⁴⁷		
			Payment of initial cash consideration for the Acquisition	31.5	24.3%
Total sources	129.6	100.0%	Working capital	7.9	6.1%
			Payment of Offer, transaction and Acquisition costs ⁴⁸	10.1	7.8%
			Total uses	129.6	100.0%

7.1.3 Shareholder structure

The details of the ownership of McGrath Shares as at the Prospectus Date and of the expected ownership of the Shares at the Completion of the Offer are shown in the table below:

OWNERSHIP OF MCGRATH

OWNERSHIP OF MCGRATH

IMMEDIATELY FOLLOWING

Table 7.2 Shareholders

	IMMEDIATELY BEFORE THE OFFER AND THE ACQUISITION		THE OFFER AND THE ACQUISITION	
	EXISTING SHARES (MILLION)	%	SHARES (MILLION)	%
John McGrath (CEO)	54.1	58.4%	36.3	27.0%
Geoff Lucas (COO)	8.5	9.2%	5.7	4.3%
Smollen Sellers	-	-	10.0	7.5%
Other existing minority Shareholders	30.1	32.4%	20.1	15.0%
Investors in the Offer ⁴⁹	-	-	62.1	46.3%
Total	92.7	100.0%	134.2	100.0%

⁴⁷McGrath's estimate of debt facilities at Completion of the Offer.

Note: Share numbers before the Offer and the Acquisition incorporate the impact of a share split to be undertaken after the Prospectus Date.

The Smollen Sellers, including Shane Smollen, will receive Shares and CRPS as part of the consideration for the Acquisition. If conversion of CRPS in full were to occur at the same price as the Offer Price, the CRPS could convert into approximately 4.2 million Shares at the relevant conversion date (representing approximately 3.1% of the issued capital in McGrath immediately after completion of the Offer and Acquisition).

⁴⁸ Comprises \$1.5 million of FY2016 acquisition costs related to the Acquisition and \$8.6 million of costs associated with the Offer. Costs associated with the Offer exclude \$0.8 million of non-cash costs which relate to new equity issued to staff and Non-Executive Directors.

⁴⁹ Includes \$0.8 million of new equity issued to staff and Non-Executive Directors.

7.1.4 Formation of the McGrath group and Completion of the Offer

McGrath Holdings will become the new holding company for McGrath following Completion of the Offer. Before Completion of the Offer, the following key steps will occur:

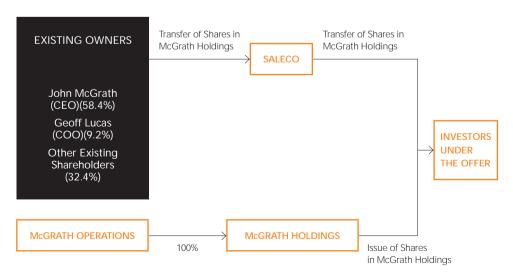
- McGrath Holdings will acquire McGrath Operations from the Existing Shareholders.
 The Existing Shareholders will receive Shares in McGrath Holdings as consideration;
- Existing Shareholders will transfer certain shares held by them in McGrath Holdings to SaleCo (other than Shares to be retained by the Existing Shareholders);
- SaleCo will sell these Shares and McGrath Holdings will issue new Shares to investors under the Offer; and
- proceeds received will be dealt with as described in Section 7.1.2.

McGrath Holdings will acquire McGrath Operations from the Existing Shareholders pursuant to deed polls entered into by those entities. If the offers under the deed poll are accepted by McGrath Holdings, it will issue Shares to the Existing Shareholders in consideration for that acquisition in the same proportion that the Existing Shareholders hold in McGrath Operations (as described in Figure 7.3 below). The offers under the deeds poll are expressed to be irrevocable and in favour of McGrath Holdings and McGrath Operations and completion is conditional on the ASX confirming on terms acceptable to McGrath both its admission to the Official List and quotation of Shares on ASX.

Following the above, the Existing Shareholders will transfer certain Shares in McGrath Holdings (other than Shares to be retained by Escrowed Shareholders and subject to voluntary escrow arrangements described in Section 7.1.5), free from encumbrances and third-party rights, to SaleCo pursuant to deeds poll entered into by those entities. The price payable by SaleCo for these Shares is the Offer Price. These deeds poll are expressed to be irrevocable and in favour of McGrath Operations and SaleCo, and are subject to a similar condition referred to above.

The Shares which SaleCo acquires from the Existing Shareholders will be transferred to successful applicants under the Offer.





7.1.5 Escrow arrangements

Shares held on Completion of the Offer that will be subject to voluntary escrow arrangements are set out below:

Table 7.4 Summary of escrowed Shareholders

SHAREHOLDERS	NUMBER OF SHARES	ESCROW PERIOD
John McGrath (CEO)	36,255,378	Until FY2017 Release
Geoff Lucas (COO)	5,717,194	Until FY2017 Release
Other Existing Shareholders	20,136,924	Until FY2017 Release
David Mackay	19,048	Until end of CY2016
	28,571	Until FY2017 Release
Cass O'Connor	19,048	Until end of CY2016
	28,571	Until FY2017 Release
Daniel Petre	19,048	Until end of CY2016
	28,571	Until FY2017 Release
Shane Smollen	7,500,000	Until 30 September 2017
Other Smollen Sellers	2,500,000	Until 30 September 2017
Total	72,252,353	-

All of the Shares held at Completion of the Offer by the persons described in Table 7.4 above (being the Escrowed Shareholders), excluding any Shares acquired by them under the Offer (if any), will be subject to voluntary escrow arrangements which prevent them from disposing their escrowed Shares for the period specified in Table 7.4 subject to the early release exceptions set out below. The restriction on 'disposing' is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Shares, encumbering or granting a security interest over the Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control of any of the Shares or agreeing to do any of those things.

All of the Escrowed Shareholders may be released early from these escrow obligations to enable:

- the Escrowed Shareholder to accept an offer under a takeover bid in relation to its Shares if at least half of the holders of the Shares which are the subject of the bid that are not held by the Escrowed Shareholders have accepted the takeover bid (except that the Escrowed Shareholders agree that their escrow obligations will continue to apply to the escrowed Shares where the takeover bid does not become unconditional); or
- the Shares held by the Escrowed Shareholder to be transferred or cancelled as part of a scheme of arrangement under Part 5.1 of the Corporations Act.

During the escrow period, the Escrowed Shareholders whose Shares are subject to escrow may deal in any of their Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction).

The CRPS and any Shares issued on conversion of the CRPS are also subject to escrow until 30 September 2018.

7.1.6 Corporate, financial and other information about McGrath

Details of McGrath's formation, registration and tax status, along with information regarding the McGrath group's corporate structure and the acquisitions from the Existing Shareholders, are set out in Section 9.

McGrath's pro forma balance sheet as at 30 June 2015, including details of the pro forma adjustments, is set out in Section 4.

McGrath's capitalisation and indebtedness as at 30 June 2015, before and following Completion of the Offer, is set out in Section 4.

The Directors believe that, on Completion of the Offer, McGrath will have sufficient working capital available to carry out its stated business objectives.

7.2 Terms and conditions of the Offer

TOPIC	SUMMARY
WHAT IS THE TYPE OF SECURITY BEING OFFERED?	Shares (being fully paid ordinary shares in McGrath Holdings).
WHAT ARE THE RIGHTS AND LIABILITIES ATTACHED TO THE SECURITY BEING OFFERED?	A description of the Shares, including the rights and liabilities attaching to these, is set out in Section 7.11 below.
WHAT IS THE CONSIDERATION PAYABLE FOR EACH SECURITY BEING OFFERED?	The Offer Price is \$2.10 per Share.
WHAT IS THE RETAIL OFFER PERIOD?	The key dates, including details of the Offer period, are set out in the Key Offer Information at the front of this Prospectus.
	No Shares will be issued on the basis of this Prospectus later than the expiry date of 13 months after the Prospectus Date.
WHAT ARE THE CASH PROCEEDS TO BE RAISED?	Approximately \$129.6 million will be raised if the Offer proceeds.
IS THE OFFER UNDERWRITTEN?	The Joint Lead Managers have fully underwritten the Offer, other than the Employee Award Offer. Details are provided in Sections 7.7 and 9.4.2.

TOPIC

SUMMARY

WHAT IS THE MINIMUM AND MAXIMUM APPLICATION SIZE UNDER THE BROKER FIRM OFFER? Applications under the Broker Firm Offer and Priority Offer must be for a minimum of \$2,000 worth of Shares and in multiples of \$500 worth of Shares thereafter.

McGrath and the Joint Lead Managers reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for, in their absolute discretion.

WHAT IS THE ALLOCATION POLICY?

The allocation of Shares between the Broker Firm Offer, the Employee Award Offer, the Priority Offer and the Institutional Offer was determined by the Joint Lead Managers in agreement with McGrath, having regard to the allocation policy outlined in Section 7.6.2.

With respect to the Broker Firm Offer, it will be a matter for the Brokers to determine how they allocate Shares among their eligible retail clients, and they (and not McGrath or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares.

The allocation of Shares under the Institutional Offer was determined by the Joint Lead Managers by agreement with McGrath.

The Broker Firm Offer, the Employee Award Offer, the Priority Offer and Institutional Offer are not open to investors in the United States.

For further information on the:

- Broker Firm Offer, see Section 7.3;
- Employee Award Offer, see Section 7.4;
- Priority Offer, see Section 7.5; and
- Institutional Offer, see Section 7.6.

WHEN WILL I RECEIVE CONFIRMATION THAT MY APPLICATION HAS BEEN SUCCESSFUL? It is expected that initial holding statements will be dispatched by standard post on 8 December 2015.

Refunds (without interest) to applicants who make an application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies, will be made as soon as practicable after settlement of the Offer.

WILL THE SHARES BE LISTED?

McGrath will apply within seven days of the Prospectus Date for admission to the official list and quotation of the Shares on ASX under the code "MEA".

Completion of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest, as soon as practicable in accordance with the requirements of the Corporations Act.

McGrath will be required to comply with the ASX Listing Rules, subject to any waivers obtained by McGrath from time to time.

ASX takes no responsibility for this Prospectus or the investment to which it relates.

The fact that ASX may admit McGrath to the ASX official list is not to be taken as an indication of the merits of McGrath or the Shares offered.

TOPIC SUMMARY WHEN ARE THE It is expected that trading of the Shares on ASX will commence on or about 7 SHARES EXPECTED TO December 2015, initially on a deferred settlement basis. COMMENCE TRADING? Trading will be on a deferred settlement basis until McGrath has advised ASX that holding statements have been despatched to Shareholders. Normal settlement trading is expected to commence on or about 9 December 2015. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk, McGrath, SaleCo, the Joint Lead Managers and the Existing Shareholders disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by the McGrath Offer Information Line, on 1300 880 732 (toll free within Australia) or +61 1300 880 732 (outside Australia) from 8.30am to 5.30pm (Sydney time) Monday to Friday, by a Broker or otherwise. ARF THERE Yes. Details are provided in Section 7.1.5. ANY ESCROW ARRANGEMENTS? HAS AN ASIC RELIEF Yes. Details are provided in Section 9.6. OR ASX WAIVER BEEN **OBTAINED OR BEEN RELIED ON?** ARE THERE ANY TAX Refer to Section 9.8. CONSIDERATIONS? IS THERE ANY No brokerage, commission or stamp duty is payable by Applicants on BROKERAGE, acquisition of Shares under the Offer. See Section 9.4.2 for details of various fees COMMISSION payable by McGrath to the Joint Lead Managers. OR STAMP DUTY CONSIDERATIONS? WHAT SHOULD I DO Please call the McGrath IPO Offer Information Line on 1300 880 732 (toll free WITH ANY ENQUIRIES? within Australia) or +61 1300 880 732 (outside Australia) from 8.30am until 5.30pm (Sydney time) Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether McGrath is a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, tax adviser, lawyer or other professional adviser before deciding whether to invest.

7.3 Broker Firm Offer

7.3.1 Who may apply

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. If you have been offered a firm allocation of Shares by a Broker, you will be treated as an applicant under the Broker Firm Offer in respect of that allocation. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

7.3.2 How to apply

Applications for Shares may only be made on a Broker Firm Offer Application Form attached to or accompanying this Prospectus or in its electronic copy form which may be downloaded in its entirety from www. mcgrath.com.au. If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received an invitation to participate. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the Broker Firm Offer Application Form.

By making an Application, you declare that you were given access to this Prospectus (or any replacement Prospectus), together with a Broker Firm Offer Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The minimum Application under the Broker Firm Offer is \$2,000 (equivalent to 953 Shares) worth of Shares and in multiples of \$500 (238 Shares) thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. However, McGrath and the Joint Lead Managers reserve the right to aggregate any Applications

which they believe may be multiple Applications from the same person or reject or scale back any Applications in the Broker Firm Offer. McGrath may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

Applicants under the Broker Firm Offer must lodge their Broker Firm Offer Application Form and Application Payment with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Broker Firm Offer Application Forms to the Share Registry.

The Broker Firm Offer opens on 23 November 2015 and is expected to close on 2 December 2015. McGrath and SaleCo with the consent of the Joint Lead Managers may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Broker for instructions.

7.3.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions received from their Broker. Application Monies will be held on trust for applicants until the issue of Shares to Successful Applicants. Application Monies will be refunded if the Offer is withdrawn and/ or cancelled, or ASX does not grant permission for Shares to be quoted within three months after the date of the Prospectus Date. No interest will be payable on refunded amounts.

McGrath reserves the right to decline any Application in whole or in part, without giving any reason. Applicants under the Broker Firm Offer whose

Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Amount by the Offer Price. Where the Offer Price does not divide evenly into the Application Amount, the number of Shares to be allocated will be determined by the Applicant's Broker. Your Application Monies should be for the entire Application Amount.

Cheque(s) or bank draft(s) must be in Australian dollars and drawn on an Australian branch of an Australian bank, must be crossed 'Not Negotiable' and must be made payable in accordance with the directions of the Broker from whom the Applicant received a firm allocation.

Applicants should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque(s) or bank draft(s). If the amount of your cheque(s) or bank draft(s) for Application Monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on your Broker Firm Offer Application Form, you may be taken to have applied for such lower dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Broker Firm Offer Application Form) or your Application may be rejected.

7.3.4 Acceptance of Applications

An Application in the Broker Firm Offer is an offer by an Applicant to McGrath and SaleCo to acquire Shares in the amount specified on the Broker Firm Offer Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement Prospectus) and the Broker Firm Offer Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted by McGrath and the Joint Lead Managers in respect of the full number of Shares specified in the Broker Firm Offer Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

7.3.5 Broker Firm Offer allocation policy

The allocation of firm stock to Brokers will be determined by the Joint Lead Managers, by agreement with McGrath.

Shares which have been allocated to Brokers for allocation to their Australian resident retail clients will be issued to the Applicants who have received a valid allocation of Shares from those Brokers (subject to the right of McGrath, SaleCo and the Joint Lead Managers to reject or scale back Applications which are for more than \$300,000, or which are from persons whom they believe may be institutional investors). It will be a matter for those Brokers how they allocate Shares among their retail clients, and they (and not McGrath, SaleCo or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received an allocation from them, receive the relevant Shares.

7.3.6 Announcement of final allocation policy in the Broker Firm Offer

McGrath expects to announce the final allocation policy under the Broker Firm Offer on or about 4 December 2015. Applicants in the Broker Firm Offer will be able to call the McGrath IPO Offer Information Line on 1300 880 732 (within Australia) or +61 1300 880 732 (outside Australia) from 8.30am to 5.30pm (Sydney Time), Monday to Friday (excluding public holidays), from 4 December 2015 to confirm their allocations. Applicants under the Broker Firm Offer will also be able to confirm their firm allocation through the Broker from whom they received their allocation.

Holding statements are expected to be despatched on or around 8 December 2015. If you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the McGrath Offer Information Line or confirmed your allocation through a Broker.

7.4 Employee Award Offer

All Eligible Employees are entitled to participate in the Employee Award Offer. Eligible Employees are all permanent full-time and permanent part-time employees of the McGrath group in Australia who have been employed by the McGrath group for at least 12 months as at 5.00pm Sydney time on the date of issue and allotment of Shares under the Offer (McGrath Group Employees). Eligible Employees also include contractor Agents and permanent full-time and permanent part-time employees of contractor Agents who have been engaged by McGrath for at least 12 months as at 5.00pm Sydney time on the date of issue and allotment of Shares under the Offer (Contractor Employees).

Eligible Employees will be offered the opportunity to apply for Shares with an aggregate value of up to \$1,000 for no consideration payable to McGrath.

This Employee Award Offer is designed to take advantage of the income tax exemption for discounts up to \$1,000 available under Division 83A of the Income Tax Assessment Act 1997 (ITAA).

McGrath Group Employees who accept the offer and whose adjusted taxable income for the year ending 30 June 2016 is less than \$180,000 will be exempt from tax on the value of the Shares they receive. Those Shares should be treated as capital assets of the McGrath Group Employees and will be subject to tax on their disposal under the capital gains tax regime of the ITAA.

The Shares will be restricted from sale to the earlier of three years from grant or cessation of the employment of the McGrath Group Employee.

Contractor Employees who accept the Employee Award Offer are not eligible for the tax exemption and, therefore, their Shares will not be subject to restrictions from sale. The Contractor Employees who accept the Employee Award Offer will be liable for tax on the value of the Shares issued to them. They will be taxed at their marginal rate of tax on the aggregate value of Shares on assessment of their tax return for FY2016.

A separate offer letter, together with access to this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Award Offer. Eligible Employees should read the separate offer letter and this Prospectus carefully and in their entirety before deciding whether to apply under the Employee Award Offer, including the summary of Australian tax issues contained in the Offer letter. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, tax adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

7.5 Priority Offer

7.5.1 Who may apply

The Priority Offer is open to selected investors who have received an invitation to participate in the Priority Offer.

7.5.2 How to apply

If you have received an invitation to participate in the Priority Offer and you wish to apply for Shares under the Priority Offer, you should follow the instructions on your personalised invitation to apply.

The minimum application under the Priority Offer is \$2,000 worth of Shares and in multiples of \$500 thereafter.

By making an application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or

the complete and unaltered electronic version of this Prospectus.

7.5.3 How to pay

Applicants under the Priority Offer must pay their Application Monies in accordance with instructions on their personalised invitation. For more details, prospective Applicants should contact the McGrath IPO Offer Information Line on 1300 880 732.

Application Monies must be received by the Share Registry by no later than 5:00 pm Sydney time on Wednesday 2 December and it is your responsibility to ensure that this occurs. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. Neither McGrath, SaleCo nor the Joint Lead Managers take any responsibility for any failure to receive Application Monies before the Priority Offer closes arising as a result of, among other things, delays in processing of payments by financial institutions.

7.5.4 Priority Offer allocation policy

Priority Offer Applicants will receive a guaranteed allocation of Shares in the amount notified on their Priority Offer Invitation or such lesser amount validly applied for. Beyond this, the allocation of stock to Applicants under the Priority Offer will be determined by McGrath, in consultation with the Joint Lead Managers.

7.6 Institutional Offer

7.6.1 Invitations to bid

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Joint Lead Managers have separately advised Institutional Investors of the application procedures for the Institutional Offer. Offers and acceptances in the Institutional Offer are made under this Prospectus and are at the Offer Price per Share.

7.6.2 Institutional Offer allocation policy

The allocation of Shares among applicants in the Institutional Offer was determined the Joint Lead Managers by agreement with McGrath. The Joint Lead Managers, in consultation with McGrath, have absolute discretion regarding the basis of allocation of Shares among other Institutional Investors and there is no assurance that any such Institutional Investor will be allocated any Shares, or the number of Shares for which it has bid.

The allocation policy for the Institutional Offer was influenced by a number of factors including:

- the number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- McGrath's desire for an informed and active trading market following Listing;
- McGrath's desire to establish a wide spread of institutional shareholders:
- overall level of demand from Brokers under the Broker Firm Offer, and Institutional Offer;
- the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long-term Shareholders; and
- other factors that McGrath and the Joint Lead Managers considered appropriate.

7.7 Underwriting arrangements

The Offer is fully underwritten. The Joint Lead Managers, SaleCo and McGrath Operations have entered into an underwriting agreement under which the Joint Lead Managers have been appointed as arrangers and managers and underwriters to the Offer. The Joint Lead Managers agree, subject to certain conditions and termination events, to underwrite Applications for all Shares under the Offer (other than the Employee Award Offer) in

equal proportions. The underwriting agreement sets out a number of circumstances under which the Joint Lead Managers may terminate the agreement and the underwriting obligations. A summary of certain terms of the agreement and underwriting arrangements, including the termination provisions, is provided in Section 9.4.2.

7.8 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States, and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered or sold, directly or indirectly, in the United States except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws.

Each Applicant in the Retail Offer, and each person to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

 it understands that the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities law of any state of the United States and may not be offered, sold, or resold in the United States, except in a transaction exempt from, or not subject to, registration under the U.S. Securities Act and any other applicable securities laws;

- it is not in the United States;
- it has not and will not send the Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration under the U.S. Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

Each applicant under the Institutional Offer will be required to make certain additional representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7.9 Discretion regarding the Offer

McGrath may withdraw the Offer at any time before the issue of Shares to Successful Applicants under the Retail Offer and Institutional Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

McGrath, SaleCo and the Joint Lead Managers also reserve the right to extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant fewer Shares than the amount applied or bid for.

7.10 ASX listing, registers and holding statements

7.10.1 Application to the ASX for listing of McGrath and quotation of Shares

McGrath will apply for admission to the official list of ASX and quotation of the Shares on ASX within 7 days after the Prospectus Date. McGrath's ASX code is expected to be "MEA".

McGrath will be required to comply with ASX Listing Rules, subject to any waivers obtained by McGrath from time to time.

7.10.2 CHESS and Issuers sponsored holdings

McGrath will apply to participate in ASX's Clearing House Electronic Subregister System (CHESS) and will comply with ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, being an electronic CHESS subregister or an issuer sponsored subregister.

For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (HIN) for CHESS holders or, where applicable, the Securityholder Reference Number (SRN) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. McGrath and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.11 Summary of rights and liabilities attaching to Shares and other materials provisions of the Constitution

7.11.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, ASX Listing Rules and general law. A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that McGrath is admitted to the official list of ASX.

7.11.2 Meeting of members

Each Shareholder is entitled to receive notice of, and to attend and vote at, general meetings of McGrath and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and ASX Listing Rules.

7.11.3 Voting at a general meeting

At a general meeting of McGrath, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Share held.

7.11.4 Dividends

The Board may from time to time resolve to pay dividends to Shareholders and fix the amount of the dividend, the time for determining entitlements to the dividend and the timing and method of payment. For further information in respect of McGrath's proposed dividend policy, see Section 4.9.

7.11.5 Transfer of Shares

Subject to the Constitution, Shares may be transferred by a proper transfer effected in accordance with ASX Settlement Operating Rules, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

The Board may refuse to register a transfer of Shares where permitted to do so under the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board must refuse to register a transfer of Shares when required by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

7.11.6 Issue of further shares

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules and any rights and restrictions attached to a class of Shares, McGrath may issue, or grant options in respect of further Shares on such terms and conditions as the Directors resolve.

7.11.7 Preference shares

McGrath may issue preference shares including preference shares which are liable to be redeemed or convertible to ordinary shares. The rights attaching to those are set out in the Constitution unless other rights have been approved by special resolution.

7.11.8 Winding up

If McGrath is wound up, then subject to any rights or restrictions attached to a class of Shares, any surplus must be divided among McGrath's members in the proportions which the amount paid and payable (including amounts credited) on the Shares of a member is of the total amount paid and payable (including amounts credited) on the Shares of all members of McGrath.

7.11.9 Sale of non-marketable parcels

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, McGrath may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

7.11.10 Share buy-backs

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, McGrath may buy back Shares in itself on terms and at times determined by the Board.

7.11.11 Variation of class rights

Subject to the Corporations Act and the terms of issue of a class of Shares, the rights attaching to any class of Shares may be varied or cancelled:

- with the consent in writing of the holders of three quarters of the issued Shares included in that class; or
- by a special resolution passed at a separate meeting of the holders of those Shares.

In either case, the holders of not less than 10% of the votes in the class of Shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such a variation or cancellation.

7.11.12 Reduction of share capital

Subject to the Constitution, Corporations Act and ASX Listing Rules, McGrath may reduce its share capital in any way permissible by the Corporations Act.

7.11.13 Proportional takeover provisions

The Constitution contains provisions for Shareholder approval to be required in relation to any proportional takeover bid.

These provisions will cease to apply unless renewed by special resolution of the Shareholders in general meeting by the third anniversary of the date of the Constitution's adoption.

7.11.14 Dividend reinvestment plans

The Constitution authorises the Directors, on any terms and at their discretion, to establish a dividend reinvestment plan (under which any member may elect that the dividends payable by McGrath be reinvested by a subscription for securities).

7.11.15 Employee plans

The Directors may implement an employee share plan for officers or employees of McGrath on such terms and conditions as they think fit. Further details about McGrath's short term incentive arrangements, long term incentive arrangements and any other programmes are contained in Section 6.3.4.

7.11.16 Directors appointment and removal

Under the Constitution, the minimum number of Directors that may comprise the Board is three and the maximum is fixed by the Directors but may not be more than 10 unless the Shareholders pass a resolution varying that number. Directors are elected at annual general meetings of McGrath. Retirement will occur on a rotational basis so that any Director who has held office for three or more years or three or more annual general meetings (excluding any managing director) faces re-election. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of McGrath.

7.11.17 Directors voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter.

7.11.18 Variation of the Constitution

The Constitution can only be amended by special resolution passed by at least three quarters of the votes cast by Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of McGrath. McGrath must give at least 28 days' written notice of a general meeting of McGrath.

7.11.19 Directors' and officers' indemnity

McGrath, to the extent permitted by law:

 indemnifies each Director against any liability incurred by that

- person as an officer of McGrath or its subsidiaries, and legal costs incurred by that person in defending an action for a liability of that person;
- may make a payment (whether by way of advance or otherwise) to a Director in respect of legal costs incurred by that person in defending an action for a liability of that person;
- may pay, or agree to pay, a
 premium for a contract insuring
 a Director against any liability
 incurred by that person as
 an officer of McGrath or its
 subsidiaries and legal costs
 incurred by that person in
 defending an action for a liability of
 that person; and
- may enter into an agreement or deed with a Director or a person who is, or has been, an officer of McGrath or its subsidiaries, under which McGrath must do all of the following:
 - keep books of McGrath and allow either or both that person and that person's advisers access to those books on the terms agreed;
 - indemnify that person against any liability incurred by that person as an officer of McGrath or its subsidiaries and legal costs incurred by that person in defending an action for a liability of that person;
 - make a payment (whether by way of advance, loan or otherwise) to that person in respect of legal costs incurred by that person in defending an action for a liability of that person; and
 - keep that person insured in respect of any act or omission by that person while a Director or an officer of McGrath or its subsidiaries, on the terms agreed (including as to payment of all or part of the premium for the contract for insurance).

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Number of McGrath offices following the Acquisition

4,954
Company Owned Office property sales in FY2015









KPMG Transaction Services

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ABN: 43 007 363 215

The Directors
McGrath Limited, McGrath Holding Company
Limited and McGrath SaleCo Limited
191 New South Head Road
Edgecliff, NSW, 2027

12 November 2015

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by McGrath Limited, McGrath Holding Company Limited ("McGrath") and McGrath SaleCo Limited ("SaleCo") to prepare this report for inclusion in the Prospectus to be dated 12 November 2015 ("Prospectus"), and to be issued by McGrath and SaleCo, in respect of the proposed initial public offering of shares in McGrath and listing on the ASX (the "IPO" or "Transaction").

Expressions defined in the Prospectus have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical and forecast financial information described below and disclosed in the Prospectus.

The pro forma historical and forecast financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

KPMG Transaction Services is an affiliate of KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

McGrath Limited, McGrath Holding Company Limited and McGrath SaleCo Limited Limited Assurance Investigating Accountant's Report and Financial Services Guide 12 November 2015

Pro Forma Historical Financial Information

The pro forma historical financial information of McGrath's consists of:

- pro forma historical consolidated statement of financial position as at 30 June 2015 as set out in Table 4.5 of Section 4.4.1 of the Prospectus;
- pro forma historical consolidated statement of comprehensive income for the years ended 30 June 2013, 30 June 2014 and 30 June 2015 as set out in Table 4.1 of Section 4.3.1 of the Prospectus; and
- pro forma historical consolidated statement of cash flows for the years ended 30 June 2013,
 30 June 2014 and 30 June 2015 as set out in Table 4.8 of Section 4.5.1 of the Prospectus,

(collectively the "Pro Forma Historical Financial Information").

The Pro Forma Historical Financial Information has been compiled by McGrath and derived from the audited consolidated financial statements of McGrath Limited for the years ended 30 June 2013, 30 June 2014 and 30 June 2015 (the "Historical Financial Information") after adjusting for the impact of the pro forma adjustments described in Section 4 of the Prospectus.

The financial statements of McGrath Limited for the years ended 30 June 2013, 30 June 2014 and 30 June 2015 were audited by KPMG in accordance with Australian Auditing Standards. The audit opinions issued to the members of McGrath relating to those financial statements were unqualified.

The stated basis of preparation of the Pro Forma Historical Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and McGrath's accounting policies applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in Section 4 of the Prospectus, as if those events and transactions had occurred as at the date of the Pro Forma Historical Financial Information. Due to its nature, the Pro Forma Historical Financial Information does not represent the company's actual or prospective financial position, financial performance, and/or cash flows.

For the purposes of preparing this report we have performed limited assurance procedures in relation to Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

McGrath Limited, McGrath Holding Company Limited and McGrath SaleCo Limited

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Forecast Financial Information and directors' best-estimate assumptions

The forecast financial information of McGrath consists of:

- pro forma forecast consolidated statement of comprehensive income for the year ending 30
 June 2016 as set out in Table 4.1 of Section 4.3.1 of the Prospectus;
- pro forma forecast consolidated statement of cash flow for the year ending 30 June 2016, as set out in Table 4.8 of Section 4.5.1 of the Prospectus;
- statutory forecast consolidated statement of comprehensive income for the year ending 30
 June 2016 as set out in Table 4.1 of Section 4.3.1 of the Prospectus; and
- statutory forecast consolidated statement of cash flow for the year ending 30 June 2016 as set out in Table 4.8 of Section 4.5.1 of the Prospectus,

(collectively the "Forecast Financial Information").

The directors' best-estimate assumptions underlying the Forecast Financial Information are described in Section 4.7 of the Prospectus. As stated in Section 4.2.3 of the Prospectus, the basis of preparation of the Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and McGrath's accounting policies.

We have performed limited assurance procedures in relation to the Forecast Financial Information, set out in Section 4 of the Prospectus, and the directors' best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions do not provide reasonable grounds for the Forecast Financial Information;
- in all material respects the Forecast Financial Information is not:
 - prepared on the basis of the directors' best-estimate assumptions as described in the Prospectus; and
 - presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards and McGrath's accounting policies;
- the Forecast Financial Information itself is unreasonable.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion.

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Directors' responsibilities

The directors of McGrath are responsible for the preparation of:

- the Pro Forma Historical Financial Information, including the selection and determination of
 the pro forma transactions and/or adjustments made to the Historical Financial Information
 and included in the Pro Forma Historical Information on the basis stated in Section 4 of the
 Prospectus; and
- the Forecast Financial Information, including the directors' best-estimate assumptions on which the Forecast Financial Information is based and the sensitivity of the Forecast Financial Information to changes in key assumptions.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Review statement on the Pro Forma Historical Financial Information

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, comprising:

- the pro forma historical consolidated statements of comprehensive income for the years ended 30 June 2013, 30 June 2014 and 30 June 2015 as set out in Table 4.1 of Section 4.3.1 of the Prospectus;
- the pro forma historical consolidated statement of cash flows for the years ended 30 June 2013, 30 June 2014 and 30 June 2015 as set out in Table 4.8 of Section 4.5.1 of the Prospectus; and
- the pro forma historical statement of financial position as at 30 June 2015 2015 as set out in Table 4.5 of Section 4.4.1 of the Prospectus,

is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in Section 4 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in the Australian Accounting Standards, and McGrath's accounting policies.

Forecast Financial Information and the directors' best-estimate assumptions

Based on our procedures, which are not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Forecast Financial Information for the:
 - pro forma forecast consolidated statement of comprehensive income for the year ending 30 June 2016 as set out in Table 4.1 of Section 4.3.1 of the Prospectus;
 - pro forma forecast consolidated cash flow statement for the year ending 30 June 2016,
 as set out in Table 4.8 of Section 4.5.1 of the Prospectus;

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- statutory forecast consolidated statement of comprehensive income for the year ending 30 June 2016 as set out in Table 4.1 of Section 4.3.1 of the Prospectus; and
- statutory forecast consolidated cash flow statement for the year ending 30 June 2016 as set out in Table 4.8 of Section 4.5.1 of the Prospectus,

do not provide reasonable grounds for the Forecast Financial Information; and

- in all material respects, the Forecast Financial Information:
 - is not prepared on the basis of the directors' best-estimate assumptions as described in Section 4.7 of the Prospectus; and
 - is not presented fairly in accordance with the recognition and measurement principles contained in the Australian Accounting Standards, and McGrath's accounting policies;
- the Forecast Financial Information itself is unreasonable.

The Forecast Financial Information has been prepared by McGrath management and adopted and disclosed by the directors in order to provide prospective investors with a guide to the potential financial performance of McGrath for the year ending 30 June 2016.

There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Forecast Financial Information is based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of McGrath. Evidence may be available to support the directors' best-estimate assumptions on which the Forecast Financial Information is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in McGrath, which are detailed in the Prospectus, and the inherent uncertainty relating to the Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in the Prospectus. The sensitivity analysis described in Section 4.8 of the Prospectus demonstrates the impact on the Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of McGrath, that all material information concerning the prospects and proposed operations of McGrath has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

McGrath Limited, McGrath Holding Company Limited and McGrath SaleCo Limited Limited Assurance Investigating Accountant's Report and Financial Services Guide 12 November 2015

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed transaction, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of McGrath and from time to time, KPMG also provides McGrath with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to Section 4 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Yours faithfully

Matthew Saunders Authorised Representative



KPMG Transaction Services

A division of KPMG Financial Advisory Services (Australia) Pty Ltd Australian Financial Services Licence No. 246901 10 Shelley Street Sydney NSW 2000

PO Box H67 Australia Square 1213 Australia ABN: 43 007 363 215 Telephone: +61 2 9335 7000 Facsimile: +61 2 9335 7001 DX: 1056 Sydney www.kpmg.com.au

Financial Services Guide Dated 12 November 2015

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**'KPMG Transaction Services'**), and Matthew Saunders as an authorised representative of KPMG Transaction Services **(Authorised Representative)** authorised representative number (404266).

This FSG includes information about:

- . KPMG Transaction Services and its Authorised Representative and how they can be contacted
- · the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- · foreign exchange contracts;

- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- · securities;
- · superannuation;
- · carbon units;
- · Australian carbon credit units; and
- · eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG. KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

McGrath Limited, McGrath Holding Company Limited and McGrath SaleCo Limited

Limited Assurance Investigating Accountant's Report and Financial Services Guide 12 November 2015

relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction

Services' behalf

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by McGrath Limited, McGrath Holding Company Limited (McGrath) and McGrath SaleCo Limited (SaleCo) to provide general financial product advice in the form of a Report to be included in the Prospectus to be dated 12 November 2015 (Prospectus) prepared by McGrath in relation to the proposed initial public offering of shares in McGrath and SaleCo and listing on the ASX (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Prospectus. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Prospectus before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services \$700,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report. In addition, other KPMG entities have performed work in relation to tax advice and due diligence enquiries and McGrath has agreed to pay \$460,000 for these services as at the date of the Prospectus.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a

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McGrath Limited, McGrath Holding Company Limited and McGrath SaleCo Limited

Limited Assurance Investigating Accountant's Report and Financial Services Guide 12 November 2015

partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client and for which professional fees are received. The professional fees of \$125,000 and \$149,000 have been received from McGrath Limited for the years ended 30 June 2014 and 30 June 2015 respectively. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your

satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited,

GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08 Facsimile: (03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services A division of KPMG Financial Advisory Services (Australia) Pty Ltd 10 Shelley St Sydney NSW 2000 PO Box H67 Australia Square

Telephone: (02) 9335 7000 Facsimile: (02) 9335 7200

Matthew Saunders C/O KPMG PO Box H67 Australia Square NSW 1213

NSW 1213

Telephone: (02) 9335 7000 Facsimile: (02) 9335 7200

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6,036
Franchise Office property sales in FY2015

15,003

Franchise Office: Number of properties under management as at 30 June 2015







9. Additional information

9.1 Registration

McGrath Holdings was registered in Victoria, Australia on 10 September 2015 as a public company. As at the date of this Prospectus, McGrath Holdings has not traded and has one Share on issue (fully paid to \$1.00), which is currently held by John McGrath. After Completion of the Offer, McGrath Holdings will be renamed 'McGrath Limited' and McGrath Operations will be renamed 'McGrath Operations Limited'.

9.2 Company tax status

McGrath will be taxed in Australia as a public company. McGrath's financial year ends on 30 June annually.

9.3 Role of SaleCo

SaleCo was incorporated in Victoria, Australia on 10 September 2015. It has no material assets, liabilities or operations other than as a special purpose vehicle established to enable relevant Existing Shareholders to sell a portion of their Shares, as described in Section 7.1.4.

The sole shareholder in SaleCo is John McGrath. The Directors of SaleCo are Cass O'Connor, David Mackay and John McGrath. SaleCo has no material assets, liabilities or operations other than its interests in the deed polls described in Section 7.1.4.

9.4 Material agreements

The Directors consider that the material agreements described below are those that an investor would reasonably regard as material and that investors and their professional advisers would reasonably expect to find described in this Prospectus for the purpose of making an informed assessment of an investment in McGrath under the Offer.

9.4.1 Acquisition agreements

SPA

McGrath entered into a share purchase agreement and scrip consideration deed on 3 October 2015 to acquire the Smollen Group (SPA).

The SPA is conditional upon Completion of the Offer and a specified percentage of key personnel remaining with the business following completion of the Acquisition.

McGrath may terminate the SPA before completion in certain circumstances, including where a Smollen Seller breaches a warranty or material term of the SPA and the Offer is withdrawn.

Consideration

The amount payable under the SPA includes a combination of cash, Shares and CRPS (which may convert into Shares), comprising:

- initial amounts payable on completion of the Acquisition to the Smollen Sellers or to discharge certain Smollen Group liabilities of approximately \$31.5 million in cash and \$21 million in Shares (issued at the Offer Price); and
- deferred consideration which:
 - comprises up to \$17.5 million, to be satisfied by up to \$8.75 million in cash and up to \$8.75 million by way of conversion of CRPS to Shares; and
 - is payable in 2 tranches, as follows:
 - tranche 1 within 10 business days following finalisation of the statutory accounts for FY2016, up to \$4.375 million will be paid in cash on that date, and the conversion price will be set at the then prevailing market price for up to \$4.375 million of CRPS to convert into Shares (conversion does not actually occur until 30 June 2017).

Payment is subject to the acquired business meeting performance hurdles specified in the SPA by those dates and other specified events not occurring; and

tranche 2 - within 10 business days following finalisation of the statutory accounts for FY2017, up to \$4.375 million will be paid in cash and up to \$4.375 million will be paid by way of conversion of CRPS into Shares worth up to that amount (at the then prevailing market price of Shares). Payment is subject to the acquired business meeting performance hurdles specified in the SPA by the dates and other specified events not occurring. If the performance hurdles for FY2016 are not met, but cumulative performance hurdles for FY2016 and FY2017 are met, then up to \$2.625 million of the consideration, which would have been paid in tranche 1 if the performance hurdles for FY2016 were satisfied, will instead be paid in tranche 2.

The total consideration is subject to an adjustment to take account of working capital of the Smollen Group as at the date of completion of the Acquisition. The Smollen Sellers retain the benefit of commissions on sales of properties sales exchanged prior to Completion. The CRPS terms are summarised below in this Secton 9.4.1.

Shares issued on completion of the Acquisition will be subject to escrow until 30 September 2017. Shares issued on conversion of the CRPS will be held in escrow until 30 September 2018. See section 7.1.5.

Warranties and indemnities

The Smollen Sellers have provided warranties and indemnities to McGrath, which are reasonably typical for a transaction such as this. An indemnity in respect of tax and specific certain known potential liabilities has also been given.

Some warranty claims are restricted by matters fairly disclosed during the due diligence process and certain other matters reasonably typical in a transaction such as this. Time and minimum claim limitations also apply.

Liability of each Smollen Seller for general warranty claims is restricted to 30% of the purchase price received by it. Claims in respect of certain fundamental warranties such as title, capacity, the corporate structure of the Smollen Group and tax is restricted for each of the Smollen Sellers to 100% of the purchase price received by it. The overall liability of each Smollen Seller other than Shane Smollen's selling entity for all claims under the SPA is 100% of the purchase received by it. Certain outstanding claims against the Smollen Sellers as at the date for payment of the deferred consideration can be offset against those payments.

Restraint

Shane Smollen, as the largest Smollen Seller, has agreed to covenants restricting him from certain activities including engaging in a competitive business, inducing or soliciting employees, suppliers and customers, damaging the reputation of the Smollen Group and using confidential information or trademarks.

Most of the restrictions lapse on 30 September 2018 and are subject to exemptions typical for a transaction such as this, so as to allow Shane Smollen to give certain real estate market training and speaking engagements.

Terms of the CRPS

The CRPS are four separate series (Series A to D) of convertible redeemable preference shares to be issued by McGrath to each Smollen Seller as part of the deferred component of consideration for the Acquisition. A Smollen Seller will forfeit deferred consideration it may otherwise become entitled to if it undertakes specified activities before 30 June 2017 (for example, if the relevant Smollen Seller works for or acquires another real estate business). In circumstances where the deferred consideration is forfeited. McGrath has the right to redeem each series of CRPS held by the relevant Smollen Seller for a nominal sum, in which case no series of CRPS issued to that Smollen Seller will become convertible into Shares.

The CRPS convert into a number of Shares that is calculated by reference to the prevailing volume weighted average price of Shares on the date the Smollen Sellers become entitled to payment of the cash component of the relevant tranche of the deferred consideration.

FY2016 CRPS

Whether the Series A CRPS become convertible depends on the revenue performance and certain other performance indicators of the acquired business for FY2016. Provided no forfeiture event has occurred and assuming all conditions and performance hurdles are satisfied, the Series A CRPS could convert on 30 June 2017 into \$4.4 million worth of Shares (at the prevailing volume weighted average price of Shares on the date the Smollen Sellers become entitled to payment of the cash component of that tranche of the deferred consideration). If full conversion were to occur at the same price as the Offer Price, the Shares issued on conversion would represent approximately 1.6% of all Shares on issue immediately after the completion of the Offer and Acquisition. If at the conversion date, any warranty, indemnity or other claim is outstanding against

the Smollen Sellers under the SPA, the number of Shares into which the Series A CRPS convert can be reduced to reflect the amount of that claim.

Series A CRPS do not have any dividend rights or other rights to participate in the profits or assets of McGrath unless and until the Smollen Sellers become entitled to payment of the cash component of the first tranche of the deferred consideration (other than a preferential right to payment of \$1.00 on a winding up).

A Series A CRPS gives its holder the right to vote during the period during which a dividend (or part dividend) in respect of the share is in arrears, on a proposal to reduce the share capital of McGrath, on resolutions to buy back the share, on a proposal that affects the rights attaching to the share, on a proposal for the disposal of the whole of the property, business and undertaking of McGrath and on a proposal to wind up, and during the winding up of, McGrath.

The Series B CRPS reflect the amount of the non-cash component of the deferred consideration that is withheld from the Smollen Sellers following finalisation of the accounts of McGrath for the period ending 30 June 2016 for any warranty, indemnity or other claims under the SPA and which thereby reduce the conversion value of the Series A CRPS as outlined above. If no such amount is withheld, then McGrath has the right to redeem the Series B CRPS for a nominal sum. The Series B CRPS only convert into Shares on the date that all such claims under the SPA are finally settled. On that date, if any amount of the non-cash component of the deferred consideration that was withheld is payable, then the Series B CRPS will convert into Shares with a value equal to that amount.

The Series B CRPS do not have any dividend rights or other rights to participate in the profits or assets of McGrath (other than a preferential right to payment of \$1.00 on a winding up).

A Series B CRPS gives its holder the right to vote on resolutions to buy back the share, on a proposal that affects the rights attaching to the share and on a proposal to wind up, and during the winding up of, McGrath.

FY2017 CRPS

Whether the Series C CRPS become convertible depends on the revenue performance and certain other performance indicators of the acquired business for FY2017. Provided no forfeiture event has occurred and assuming all conditions and performance hurdles are satisfied, the Series C CRPS could convert on the date that is 10 business days following finalisation of the accounts for FY2017 into \$4.4 million worth of Shares. If full conversion were to occur at the same price as the Offer Price, the Shares issued on conversion would represent approximately 1.6% of all Shares on issue immediately after completion of the Offer and Acquisition. If on the conversion date any warranty, indemnity or other claim is outstanding against the Smollen Sellers under the SPA the number of Shares into which the Series C CRPS convert can be reduced by the amount of the claim.

The Series C CRPS do not have any dividend rights or other rights to participate in the profits or assets of McGrath (other than a preferential right to payment of \$1.00 on a winding up).

A Series C CRPS gives its holder the right to vote on resolutions to buy back the share, on a proposal that affects the rights attaching to the share and on a proposal to wind up, and during the winding up of, McGrath.

The Series D CRPS reflect any amount of the non-cash component of the deferred consideration that is withheld from the Smollen Sellers on the date the Series C CRPS convert for any warranty. indemnity or other claims under the SPA and which thereby reduce the conversion value of the Series C CRPS as outlined above. If no such amount is withheld, then McGrath has the right to redeem the Series D CRPS for a nominal sum. The Series D CRPS only convert into Shares on the date that all such claims under the SPA have been finally settled. On that date, if any amount of the non-cash component of the deferred consideration that was withheld is payable, then the Series D CRPS will convert into Shares with a value equal to that amount.

The Series D CRPS do not have any dividend rights or other rights to participate in the profits or assets of McGrath (other than a preferential right to payment of \$1.00 on a winding up).

A Series D CRPS gives its holder the right to vote on resolutions to buy back the share, on a proposal that affects the rights attaching to the share and on a proposal to wind up, and during the winding up of, McGrath.

A summary of the key terms of the CRPS is included in Appendix B.

Issue of Shares

All Shares that are required to be issued under the SPA as consideration for the Acquisition will be issued under this Prospectus on Completion of the Offer. Although those Shares are issued under this Prospectus, they do not form part of the Offer.

For the purposes of the waivers provided by the ASX described in Section 9.6 of this Prospectus, McGrath makes the following disclosures for the purposes of ASX Listing Rule 7.3:

	SHARES	SHARES ON CONVERSION OF CRPS
MAXIMUM NUMBER OF SECURITIES TO BE ISSUED	4.2 million Shares	Up to 4.2 million Shares in aggregate (assuming the prevailing volume weighted market price at the date for conversion is equal to the Offer Price)
DATE FOR ISSUE	10 December	Series A CRPS – 30 June 2017
	2015	Series C CRPS – on the date that is 10 business days following finalisation of the accounts for FY2017
		Series B CRPS and Series D CRPS – on the date that all relevant warranty, indemnity or other claims under the SPA have been finally settled
PRICE OF THE SECURITIES OR FORMULA UNDER WHICH CALCULATED	Offer Price	Series A CRPS and Series B CRPS – the prevailing volume weighted average trading price over the seven ASX trading days before the date which is ten business days after the FY2016 audited accounts of McGrath are finalised
		Series C CRPS and Series D CRPS – the prevailing volume weighted average trading price over the seven ASX trading days before the date which is ten business days after the FY2017 audited accounts of McGrath are finalised
NAMES OF SUBSCRIBERS	Smollen Sellers	Smollen Sellers
TERMS OF THE SECURITIES	See Section 7.11	See Appendix B
USE OF PROCEEDS	As consideration for the Acquisition	As consideration for the Acquisition

9.4.2 Summary of Underwriting Agreement

The Offer (other than the Employee Award Offer) is being underwritten by the Joint Lead Managers pursuant to an underwriting agreement dated 12 November 2015 and entered into between McGrath Holdings, McGrath Operations, SaleCo and the Joint Lead Managers (Underwriting Agreement). Under the Underwriting Agreement, the Joint Lead Managers have agreed to arrange, manage and underwrite the Offer.

For the purpose of this section, "Offer Documents" means the documents issued or published by, or on behalf of, McGrath Holdings and SaleCo and with their prior approval in respect of the Offer, and in a form approved by the Joint Lead Managers including:

- the pathfinder version of this Prospectus and any document which supplements or replaces the pathfinder (including any addendum to the pathfinder);
- this Prospectus, any Application Form and any supplementary or replacement Prospectus;
- any cover email, including an appropriate cautionary legend, sent to eligible Institutional Investors in Australia and New Zealand and other agreed foreign jurisdictions, with a link to or attaching the pathfinder in connection with the Institutional Offer and bookbuild; and
- any investor presentation, roadshow presentation or marketing presentation and/or ASX announcement(s) used in connection with the Institutional Offer or the Broker Firm Offer (including any addendum to those presentations and any draft of such documents used for roadshow purposes prior to the lodgement date).

Commissions, fees and expenses

McGrath Holdings and SaleCo have agreed to pay the Joint Lead Managers an underwriting fee equal to 2.25%, and a selling and management fee equal to 0.75% of the funds raised under the Offer. The underwriting and selling and management fees will become payable by McGrath Holdings and SaleCo on the date of Settlement of the Offer and will be paid to the Joint Lead Managers in equal proportions. In addition, an incentive fee of up to 0.75% of the Offer Proceeds may also be payable to the Joint Lead Managers at the absolute discretion of McGrath Holdings and SaleCo and may be split between the Joint Lead Managers in the absolute discretion of McGrath Holdings and SaleCo, including by allocating the full incentive fee to either of the Joint Lead Managers.

In addition to the fees described above, McGrath Holdings and SaleCo will reimburse the Joint Lead Managers for certain other agreed costs and expenses incurred by the Joint Lead Managers in relation to the Offer.

Termination events

A Joint Lead Manager may terminate the Underwriting Agreement at any time after the date of the Underwriting Agreement until 10.00am on the date of Settlement of the Offer (without any cost or liability by notice to the McGrath Holdings, McGrath Operations and the other Joint Lead Manager), if any of the following events occur:

- in the relevant Joint Lead Manager's opinion (acting in good faith), a statement in any of the Offer Documents or public information is or becomes misleading or deceptive or is likely to mislead or deceive, or a matter required to be included is omitted from an Offer Document;
- there occurs a new circumstance that arises after the Prospectus is lodged that would have been required to be included in the Prospectus if it had arisen before lodgement;

- McGrath Holdings and SaleCo issue or, in the reasonable opinion of the Joint Lead Managers, are required to issue, a supplementary Prospectus to comply with section 719 of the Corporations Act;
- at any time the S&P/ASX 200
 Index falls to a level that is 90% or less of the level as at the close of trading on the date of close of the bookbuild and is at or below that level at the close of trading:
 - for 2 Business Days during any time after the date of the Underwriting Agreement; or
 - on the Business Day immediately prior to, either, the date of Settlement or the date of Allotment;
- any of the escrow deeds described in Section 7.1.5 are withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- any of the restructure documents described in Section 7.1.4 is withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- any financial forecast that appears in the Offer Documents is, or becomes (in the reasonable opinion of the Joint Lead Managers) incapable of being met within the relevant forecast period;
- McGrath Holdings, McGrath
 Operations, SaleCo or any of their
 respective Directors or officers
 (as those terms are defined in
 the Corporations Act) engage, or
 have engaged since the date of
 the Underwriting Agreement, in
 any fraudulent conduct or activity
 whether or not in connection with
 the Offer;
- approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:
 - McGrath Holdings' admission to the official list of ASX on or before the Listing Approval Date; or

- the quotation of all of McGrath Holdings' Shares, including the offer Shares, on ASX or for McGrath Holdings' Shares, including the offer Shares, to be traded through CHESS on or before the quotation date,
- or, if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- any of the following notifications are made in respect of the Offer:
 - ASIC issues an order (including an interim order) under section 739 of the Corporations Act;
 - ASIC holds a hearing under section 739(2) of the Corporations Act;
 - an application is made by ASIC for an order under Part 9.5 in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the ASIC Act in relation to the Offer or an Offer Document;
 - any person (other than the Joint Lead Managers) who has previously consented to the inclusion of its name in any Offer Document withdraws that consent: or
 - any person (other than the Joint Lead Managers) gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- McGrath Holdings, McGrath
 Operations or SaleCo does not
 provide a closing certificate as and
 when required by the Underwriting
 Agreement;
- if any of the obligations of the relevant parties under any of the contracts that are material to the business of McGrath or any of the material contracts summarised in Section 9.4 of the Prospectus are not capable of being performed in accordance with their terms (in the opinion of the terminating Joint Lead Manager (acting in good faith)) or if all

or any part of any of such contracts:

- is amended or varied without the consent of the Joint Lead Managers;
- is terminated;
- ceases to have effect, otherwise than in accordance with its terms;
- is or becomes void, voidable, illegal, invalid or unenforceable (other than by reason only of a party waiving any of its rights) or capable of being terminated, rescinded or avoided or of limited force and affect, or its performance is or becomes illegal,

other than in respect of nonmaterial amendments to the terms of existing franchise agreements.

- McGrath Holdings or SaleCo withdraws an Offer Document or the Offer or indicates that it does not intend to proceed with the Offer or any part of the Offer;
- any member of the McGrath group becomes insolvent, or there is an act or omission which is likely to result in a McGrath group member becoming insolvent:
- an event specified in the Offer timetable up to and including the date of Settlement is delayed by more than 2 Business Days (other than any delay agreed between the parties or required under the Underwriting Agreement as a result of ASIC extending the period under section 727(3) of the Corporations Act);
- McGrath Holdings is prevented from allotting and issuing (as applicable) the Shares, or SaleCo is prevented from transferring the Shares, within the time required by the timetable, the Offer Documents, the Listing Rules, by applicable laws, an order of a court of competent jurisdiction or a governmental authority;
- McGrath Holdings or McGrath Operations:
 - alters the issued capital of McGrath Holdings, McGrath

- Operations or a member of the McGrath group; or
- disposes or attempts to dispose of a substantial part of the business or property of McGrath Holdings, McGrath Operations or a member of the McGrath group,

without the prior written consent of the Joint Lead Managers (except as required to give effect to the capital structure discolsed in this Prospectus);

- if a regulatory body withdraws, revokes or amends any regulatory approvals required for McGrath Holdings, McGrath Operations or SaleCo to perform their obligations under the Underwriting Agreement or to carry out the transactions contemplated by the Offer Documents:
- there is an event or occurrence, including any statute, order, rule, regulation, directive or request (including one compliance with which is in accordance with the general practice of persons to whom the directive or request is addressed) of any governmental agency which makes it illegal or impracticable for the Joint Lead Managers to satisfy an obligation under this document, or to market, promote or settle the Offer;
- a change in the chief Executive officer, chief financial officer or chief operating officer or other senior management of McGrath Holdings or McGrath Operations occurs, or there is a change in or the board of Directors of McGrath Holdings, McGrath Operations or SaleCo;
- the chairman, chief Executive officer, chief financial officer or chief operating officer of McGrath Holdings, or McGrath Operations vacates his or her office;
- any of the following occur:
 - a Director or proposed Director named in the pathfinder or Prospectus of McGrath Holdings, McGrath Operations or SaleCo is charged with an indictable offence;

- any governmental agency commences any public action against McGrath Holdings, McGrath Operations or SaleCo or any of their respective Directors in their capacity as a Director of McGrath Holdings, McGrath Operations or SaleCo (as applicable), or announces that it intends to take action; or
- any Director or proposed
 Director named in the pathfinder
 or Prospectus of McGrath
 Holdings, McGrath Operations
 or SaleCo is disqualified from
 managing a corporation under
 Part 2D.6 of the Corporations
 Act:
- McGrath Holdings varies any term of its constitution without the prior written consent of the Joint Lead Managers; and
- any regulatory body commences any enquiry or public action against a McGrath group Member.

Termination events subject to materiality

A Joint Lead Manager may terminate the Underwriting Agreement at any time after the date of the Underwriting Agreement until 10.00am on the date of Settlement of the Offer (without any cost or liability by notice to McGrath Holdings, McGrath Operations, SaleCo and the other Joint Lead Manager), if any of the following events occur and the Joint Lead Manager has reasonable grounds to believe the event: (i) has or is likely to have a materially adverse effect on the success, settlement or marketing of the Offer, or on the ability of the Joint Lead Manager to market, promote or settle the Offer, or on the likely price at which the Shares will trade on ASX or the willingness of investors to subscribe for Shares; or (ii) will, or is likely to, give rise to a liability of the Joint Lead Manager under, or give rise to, or result in, a contravention by the Joint Lead Manager or its affiliates or the Joint Lead Manager or its affiliates being involved in a contravention of, any applicable law:

 if any of the contracts that are material to the business of McGrath or any of the material contracts summarised

- in Section 9.4 of this Prospectus are breached other than in respect of any non-material amendments to the terms of existing franchise agreements;
- the due diligence report or verification material or any other information supplied by or on behalf of McGrath Holdings, McGrath Operations or SaleCo to the Joint Lead Managers in relation to the McGrath group or the Offer is (or is likely to), or becomes (or becomes likely to be), misleading or deceptive, including by way of omission;
- any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the McGrath group (insofar as the position in relation to an entity in the McGrath group affects the overall position of McGrath), including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of McGrath or the McGrath group from those respectively disclosed in any Offer Document or the public information;
- there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia, New Zealand, the United States, Canada, the United Kingdom, Japan, the People's Republic of China, Hong Kong or Singapore or any Member State of the European Union or any State or Territory of Australia a new law, or the Reserve Bank of Australia or New Zealand, or any Commonwealth or State authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);
- there is a contravention by McGrath Holdings, McGrath Operations, SaleCo or any other McGrath group Member of the Corporations Act, the Competition and Consumer Act 2010 (Cth), ASIC Act (any regulations under those acts), or any of the Listing Rules;

- any of the Offer Documents or any aspect of the Offer does not comply with the Corporations Act (and all regulations under that Act), its constitution, the Listing Rules or any other applicable law or regulation;
- a representation, warranty, undertaking or obligation contained in the Underwriting Agreement on the part of McGrath Holdings, McGrath Operations or SaleCo (whether severally or jointly) is breached, becomes not true or correct or is not performed;
- McGrath Holdings, McGrath
 Operations or SaleCo defaults on 1
 or more of its obligations under the
 Underwriting Agreement;
- the commencement of legal proceedings against McGrath Holdings, McGrath Operations, SaleCo, any other member of the McGrath group or against any Director of McGrath Holdings, McGrath Operations, SaleCo or any other member of the McGrath group in that capacity;
- any information supplied (including any information supplied prior to the date of the Underwriting Agreement) by or on behalf of a member of the McGrath group to the Joint Lead Managers in respect of the Offer or McGrath is, or is found to be, misleading or deceptive, or likely to mislead or deceive (including, by omission);
- hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, Canada, the United Kingdom, the People's Republic of China, Hong Kong, Singapore, or any member state of the European Union, or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries:

- a statement in any closing certificate is false, misleading, inaccurate or untrue or incorrect; or
- any of the following occurs:
 - a general moratorium on commercial banking activities in Australia, Canada, The People's Republic of China, Japan, Singapore, Hong Kong, the United Kingdom, the United States or a Member State of the European Union is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries:
 - any adverse affect on the financial markets in Australia, Japan, Canada, The People's Republic of China, Singapore, Hong Kong, the United Kingdom, the United States or a Member State of the European Union, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries: or
 - trading in all securities quoted or listed on ASX, New York Stock Exchange, London Stock Exchange, Hong Kong Stock Exchange or the Tokyo Stock Exchange is suspended or limited in a material respect for 1 day (or a substantial part of 1 day) on which that exchange is open for trading.

Conditions, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by McGrath Holdings, McGrath Operations and SaleCo to the Joint Lead Managers (as well as common conditions precedent, including conducting due diligence, lodgement of this Prospectus, the entry into voluntary escrow deeds by the Escrowed Shareholders, and ASIC and ASX granting

the waivers and modifications necessary to enable the Offer to proceed in accordance with the timetable).

The representations and warranties given by McGrath Holdings, McGrath Operations and SaleCo include, but are not limited to, matters such as the conduct of McGrath Holdings, McGrath Operations and SaleCo, power and authorisations, information provided by McGrath Holdings, McGrath Operations and SaleCo. Financial Information. disclosure in this Prospectus and other public information, the conduct of the Offer and compliance with laws, compliance with ASX Listing Rules and other legally binding requirements, antimoney laundering and bribery. McGrath Holdings, McGrath Operations and SaleCo also provide additional representations and warranties in connection with matters including, but not limited to, their assets, closing certificates, the Shares, encumbrances, future matters, material contracts, the business of McGrath, litigation, non-disposal of Escrowed Shares, entitlements of third parties, tax, insurance, authorisations, eligibility for Listing and internal accounting controls.

McGrath Holdings' and McGrath Operations' undertakings include that each will not without the prior written consent of the Joint Lead Managers, during the period following the date of the Underwriting Agreement until:

- 180 days after Shares have been issued under the Offer:
 - issue, or agree to issue, or indicate in any way that it may or will issue, or agree to issue, any shares or other securities or enter into certain other arrangements subject to certain limited exceptions, including an issue of securities pursuant to an employee share or option plan, a non-underwritten dividend reinvestment or bonus share plan as described in the Prospectus or a proposed transaction as fully and fairly disclosed in the Prospectus; or
 - pursuant to discussions

relating to the issue of scrip considerations to any seller in an acquisition undertaken by McGrath Holdings provided that McGrath Holdings must not issue, or agree to issue, any shares or other securities or enter into certain other arrangements at any time after the date of the Underwriting Agreement and up to 120 days after completion of the Offer.

- alter the capital structure of McGrath Holdings or amend McGrath Holdings' constitution, except with the prior written consent of the Joint Lead Managers; or
- 120 days after Shares have been issued under the Offer dispose (or permit a member of the McGrath group to dispose) of any material part of its (or their) business or property, and not acquire (or permit any member of the McGrath group to acquire) any business or property, except in the ordinary course or as disclosed in the Prospectus.

Indemnity

Subject to certain exclusions relating to, among other things, fraud, wilful default or gross negligence of an indemnified party, McGrath Holdings, McGrath Operations and SaleCo agree to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

9.4.3 New Debt Facility

McGrath has entered into a facility agreement for the provision of a debt facility with Macquarie Bank (New Debt Facility). See Section 4.4.3 for further details.

9.4.4 Franchise Agreements

McGrath enters into franchise agreements which govern its relationship with each Franchisee, including to grant a right to use the marks, image, system and intellectual property of McGrath in a specified geographical region. The franchise agreements are based on a standard

form.

Term and Renewal

Franchise agreements typically have an initial term of five years. Each Franchisee has the option to renew their franchise agreement for a further term, typically a further five years, which is conditional upon payment of the required renewal fee and satisfaction of agreed conditions. Several existing Franchisees have exercised their opinion of renewal.

Termination

McGrath has the right to terminate a franchise agreement if the Franchisee, among other things:

- causes a default event and the Franchisee does not remedy the default event within a reasonable period of time or persistently breaches the agreement;
- no longer holds a licence that is necessary to operate the business, becomes insolvent or voluntarily abandons the business; or
- is convicted of certain offence or is fraudulent.

In addition, McGrath may terminate the agreement if the Franchisee damages the intellectual property or goodwill of McGrath.

Unless the Franchisee terminates the franchise agreement during a short cooling-off period at the commencement of the franchise agreement, the franchise agreement does not contain termination rights in favour of the Franchisee. As at the Prospectus Date, no Franchisees have exercised cooling-off rights.

Assignment/transfer rights

McGrath has the right to transfer or acquire any part of its rights, interests, obligations or liabilities under the agreement at any time without the Franchisees' prior consent or approval.

Franchisees may not transfer, assign, sell or otherwise dispose of all or any part of its interest in the franchise without first offering to sell the business to McGrath and obtaining McGrath's written consent to the transfer (consent must

not be unreasonably withheld subject to satisfaction of certain conditions).

Fees

The majority of Franchisees agree to pay an initial fee, as well as continuing royalties of between 6% and 8% in respect of commissions received on property sales (excluding GST) and typically 3% in respect of property management fees. In addition to the initial fee and continuing royalties, the majority of Franchisees must pay to McGrath a marketing levy, which is an amount equal to 1% of commissions received on property sales (excluding GST), a monthly website subscription fee, a technology and training levy and a fee in relation to the publication of the McGrath magazine. The marketing levy must only be used for marketing purposes and the management of the marketing fund.

Other terms

In addition, the franchise agreements:

- contain customary terms, indemnities and limitations of liability in favour of McGrath;
- place a range of obligations on Franchisees with respect to performance, insurance and the operation of the franchised business;
- typically restrain Franchisees (while the agreement is on foot and for a period thereafter) from directly or indirectly engaging or being interested in any business within the restraint area that provides real estate services or is regarded as a competitor. In some cases, a payment is required to enforce this restraint;
- place restrictions on Franchisees to protect McGrath's intellectual property; and
- require the Franchisees to comply with all relevant legal, licensing and regulatory requirements.

McGrath's rights and obligations under each franchise agreement are subject to McGrath's obligations under the Franchising Code.

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As noted in Section 5.2.4, the franchise agreements govern the relationship between McGrath and the Franchisee over the duration of the franchise. Over time, disagreements or disputes may arise in relation to the application of any of the terms of the franchise agreements.

9.4.5 Escrow agreements

As noted elsewhere in this Prospectus, the Existing Shareholders and the Smollen Sellers have entered into voluntary escrow arrangements in relation to approximately 72.1 million Escrowed Shares (comprising 53.7% of McGrath's total share capital following Listing), which restrict dealings with the Escrowed Shares until the FY2017 Release.

Escrow restrictions also apply to Shares issued on conversion of CRPS and to the NED Bonus Shares. See Section 7.1.5 for further details.

9.5 Description of the syndicate

The Joint Lead Managers to the Offer are Bell Potter and J.P. Morgan.

The Co-Manager to the Offer is Ord Minnett Ltd.

9.6 Regulatory relief

McGrath has obtained relief from and modifications from the following provisions of the Corporations Act from ASIC:

- modifications of section 609 of the Corporations Act to permit McGrath to enter into the escrow arrangements described in Section 7.1.5 with the Existing Shareholders and Smollen Sellers; and
- exemption from the requirements
 of section 734(2) of the Corporations
 Act to enable McGrath to
 communicate limited information
 in relation to the Offer prior to
 lodgement of the Prospectus
 with ASIC to communicate with
 employees, real estate agents and
 contractors and existing employee
 shareholders of McGrath (including

the Smollen Group) about the Offer.

McGrath has obtained the following waivers and confirmations from ASX in relation to the Offer:

- confirmation that the terms of the CRPS are appropriate and equitable for the purposes of Listing Rule 6.1;
- approval of the terms of the CRPS under Listing Rule 6.2;
- a waiver from the requirements of Listing Rules 6.3 and 6.5 in relation to voting and dividend rights under the CRPS: and
- a waiver from the requirements of Listing Rule 7.10 to permit the issue of deferred consideration in the form of Shares to the Smollen Sellers and the conversion of CRPS into Shares without Shareholder approval.

9.7 Ownership restrictions

The sale and purchase of Shares in Australia is regulated by a number of laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section 9.7 contains a general description of these laws.

Foreign Acquisitions and Takeovers Act 1975 (Cth) and Federal Government Foreign Investment Policy

Generally, the Foreign Acquisitions and Takeovers Act 1975 (Cth) applies to Acquisitions of shares and voting power in a company of 15% or more by a single foreign person and its associates (Substantial Interest), or 40% or more by two or more unassociated foreign persons and their associates (Aggregate Substantial Interest).

Where an Acquisition of a Substantial Interest or Aggregate Substantial Interest meets certain criteria, the Acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed Acquisition in terms of the Federal Government's Foreign Investment Policy (Policy) or a statutory

period has expired without the Federal Treasurer objecting. An Acquisition of a Substantial Interest or an Aggregate Substantial Interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory policy without objection, has occurred.

In addition, in accordance with the Policy, Acquisitions of a direct investment in an Australian company by foreign governments and their related entities should be notified to the Foreign Investment Review Board for approval, irrespective of value. According to the Policy, a 'direct investment' will typically include any investment of 10% or more of the shares (or other securities or equivalent economic interest or voting power) in an Australian company but may also include investment of less than 10% where the investor is building a strategic stake in the target or obtains potential influence or control over the target investment.

Corporations Act

The takeovers provisions in Chapter 6 of the Corporations Act restrict Acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply. The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in McGrath either themselves or through an associate.

9.8 Tax considerations

9.8.1 Australian taxation considerations

The following tax comments are based on the tax law in Australia in force as at the date of the Prospectus. Australian tax laws are complex. This summary is general in nature and is not intended to be an authoritative or

complete statement of all potential tax implications for each investor. During the ownership of the Shares by investors, the taxation laws of Australia or their interpretation may change. The precise implications of ownership or disposal will depend upon each investor's specific circumstances. Investors should seek their own professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

The following information is a general summary of the Australian income tax implications for Australian resident individuals, complying superannuation entities, trusts, partnerships and corporate investors that hold their Shares on capital account. These comments do not apply to investors that hold Shares as trading stock on revenue account, investors who are exempt from Australian income tax or investors subject to the Taxation of Financial Arrangements regime in Division 230 of the Income Tax Assessment Act 1997 (Cth) which have made elections for the fair value or Reliance on Financial Reports (ROFR) methodologies.

Taxation issues, such as (but not limited to) those covered by this section, are only one of the matters an investor needs to consider when making a decision about a financial product. Investors should consider taking advice from someone who holds an Australian financial services licence before making such a decision.

9.8.2 Dividends paid on Shares

Dividends may be paid to Shareholders by McGrath. McGrath may attach 'franking credits' to such dividends. Franking credits broadly represent the extent to which a dividend is paid by McGrath out of profits that have been subject to Australian tax. It is possible for a dividend to be fully franked, partly franked or unfranked.

It should be noted that the concept of a dividend for Australian income tax

purposes is very broad and can include payments that are made in respect of such things as off-market share buybacks.

Australian resident individuals and complying superannuation entities

Dividends paid by McGrath on a share will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income (some superannuation funds may be exempt in relation to shares to the extent they are held to support current pension liabilities) in the year the dividend is paid, together with any franking credit attached to that dividend. Such investors should be entitled to a tax offset equal to the franking credit attached to the dividend. The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income, such investors should be entitled to a tax refund.

To the extent that the dividend is unfranked, the investor will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

Corporate investors

Corporate investors are also required to include both the dividend and associated franking credit in their assessable income.

They are then allowed a tax offset up to the amount of the franking credit on the dividend.

An Australian resident corporate investor should be entitled to a credit in its own franking account to the extent of the franking credit on the distribution received. This will allow the corporate investor to pass on the benefit of the franking credits to its own investor(s) on the payment of dividends.

Excess franking credits received cannot give rise to a refund for a company but can be converted into carry forward tax losses.

Trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership.

Shares held at risk

The benefit of franking credits can be denied where an investor is not a 'qualified person' in which case the investor will not need to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a 'qualified person', two tests must be satisfied, namely the holding period rule and the related payment rule.

Under the holding period rule, an investor is required to hold shares "at risk" for more than 45 days continuously (which is measured as the period commencing the day after the shares were acquired and ending on the 45th day after the shares become exdividend) in order to qualify for franking benefits, including franking credits.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000. Special rules apply to trusts and beneficiaries.

Under the related payment rule, a different testing period applies where the investor has made, or is under an obligation to make, a related payment in relation to the dividend. The related payment rule requires the investor to have held the shares at risk for the continuous 45 day period as above but

within the limited period commencing on the 45th day before, and ending on the 45th day after, the day the shares become ex-dividend.

Investors should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

9.8.3 Disposal of Shares

Australian tax resident Shareholders who hold their Shares on capital account will be required to consider the impact of the Australian capital gains tax (CGT) provisions in respect of the disposal of their Shares.

Where the capital proceeds received on disposal of the Shares exceed the CGT cost base of those Shares, Australian tax resident Shareholders will be required to recognise a capital gain. The CGT cost base of the Shares should generally be equal to the issue price or Acquisition price of the Shares plus, among other things, incidental costs associated with the Acquisition and disposal of the Shares. In respect of the CGT cost base of the Shares, this amount may be reduced as a result of receiving non-assessable distributions from McGrath, such as returns of capital.

Conversely, Australian tax resident Shareholders may recognise a capital loss on the disposal of Shares where the capital proceeds received on disposal are less than the reduced CGT cost base of the Shares.

All capital gains and losses recognised by an Australian tax resident Shareholder for an income year are added together. To the extent that a net gain exists, such Shareholders should be able to reduce the gain by any amount of unapplied net capital losses carried forward from previous income years (provided certain loss recoupment tests are satisfied). Any remaining net gain (after the application of any carried forward capital losses) will then be required to be included in the Australian tax resident Shareholder's assessable income (subject to the comments below in relation to the availability of the

CGT discount concession) and will be taxable at the Shareholder's applicable rate of tax. Where a net capital loss is recognised, the loss will only be deductible against future capital gains. Capital losses are capable of being carried forward indefinitely, provided the relevant loss recoupment tests are satisfied.

Non-corporate Shareholders may be entitled to a concession which discounts the amount of capital gain that is assessed. Broadly, the concession is available where the Shares have been held for at least 12 months prior to disposal. The concession results in a 50% reduction in the assessable amount of a capital gain for an individual Shareholder or trust, and a one third reduction of a capital gain for an Australian tax resident complying superannuation entity Shareholder. The concession is not available to corporate Shareholders.

In relation to trusts, the rules surrounding capital gains and the CGT discount are complex, but the benefit of the CGT discount may flow through to relevant beneficiaries, subject to certain requirements being satisfied.

9.8.4 Tax file numbers and Australian Business Number

A shareholder is not obliged to quote their tax file number (TFN), or where relevant, Australian Business Number (ABN), to McGrath. However, if a TFN or ABN is not quoted and no exemption is applicable, income tax is required to be deducted by McGrath at the highest marginal tax rate plus the Medicare levy from certain dividends paid. From 1 July 2014 an additional temporary budget repair levy of 2% will be imposed on the portion of an individual's taxable income that exceeds \$180,000 for the 2015, 2016 and 2017 financial years.

No withholding requirement applies in respect of fully franked dividends paid by McGrath on the Shares.

9.8.5 Stamp duty

No stamp duty should be payable by a Shareholder on the issue, transfer or

Acquisition of Shares pursuant to the Offer. Further, under current stamp duty legislation, stamp duty should not ordinarily be payable on any subsequent Acquisition by transfer of Shares by a Shareholder provided McGrath remains listed on the ASX at the time of the transfer.

9.8.6 Australian Goods and Services Tax (GST)

Under current Australian law, GST should not be payable in respect of the issue, Acquisition, disposal or transfer of Shares or on the payment of dividends.

However, Shareholders may be charged GST on brokerage, or other professional advisory services acquired by Shareholders in their own right in relation to the Proposed IPO of McGrath.

Shareholders should determine whether they will be entitled to claim GST input tax credits on any GST incurred on costs associated with the Acquisition or disposal of Shares.

9.9 Legal proceedings

McGrath is, from time to time, party to various disputes and legal proceedings incidental to the conduct of its business. As at the Prospectus Date, there are no legal proceedings to which McGrath is a party that it believes are likely to have a material adverse impact on its future financial results and McGrath is not aware of any such legal proceedings that are pending or threatened.

9.10 Consents to be named and statement of disclaimers of responsibility

Chapter 6D of the Corporations Act imposes a liability regime on McGrath Holdings and SaleCo (as the offerors of the Shares), the Directors, and persons named in the Prospectus with their consent as proposed Directors, of McGrath Holdings and SaleCo, any underwriters, persons named in the Prospectus with their consent as having made a statement in the Prospectus

and persons involved in a contravention in relation to the Prospectus, with regard to misleading or deceptive statements made in the Prospectus. Although McGrath Holdings and SaleCo bear primary responsibility for the Prospectus, other parties involved in the preparation of the Prospectus can also be responsible for certain statements made in it.

In light of the above, each of the parties referred to below (each a **Consenting Party**), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name (in the form and context in which it is named) and a statement or report included in this Prospectus with its consent as specified below.

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by the following parties:

- Allen & Overy has given its written consent to be named in this Prospectus as Australian legal adviser (other than in relation to taxation matters) to McGrath in relation to the Offer in the form and context in which it is named;
- Bell Potter has given its written consent to be named in this Prospectus as a Joint Lead Manager to the Offer in the form and context in which it is named;
- J.P. Morgan has given its written consent to be named in this Prospectus as a Joint Lead Manager to the Offer in the form and context in which it is named;
- KPMG Transaction Services has given its written consent to be named in this Prospectus as Investigating Accountants to McGrath in relation to the pro forma Historical and Forecast Financial Information in the form and context in which it is named

- and has given and not withdrawn its consent to the inclusion of its Investigating Accountant's Report in the form and context in which it is included:
- KPMG has given its written consent to be named in this Prospectus as the auditor to McGrath in the form and context in which it is named;
- Link Market Services has given its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named. Link Market Services has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to McGrath;
- Luminis has given its written consent to be named in this Prospectus as the financial adviser to McGrath in the form and context in which it is named:
- BIS Shrapnel has given its written consent to the inclusion in this Prospectus of references to in the form and context in which it is named and has given and not withdrawn its consent to the inclusion of the summary of its Market Report in Section 2.4 in the form and context in which it is included; and
- CoreLogic has given its written consent to the inclusion in this Prospectus of references to its name, and to the CoreLogic Data on pages 11, 19, 37-40, 42, 44, 70-73 and 77, in the form and context in which they are included. In addition to the CoreLogic Data, there are other statements and charts in this Prospectus made by, attributed to or based on statements made by CoreLogic. These have not been consented to by CoreLogic for the purpose of Section 729 of the Corporations Act and are included by McGrath on the basis of Class Order relief from the Corporations Act for statements used from books, journals or comparable publications.

No entity or person referred to in this Section 9.10 has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each of the persons and entities referred to in this Section 9.10 has not authorised or caused the issue of this Prospectus and does not make any offer of Shares.

9.11 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the laws applicable in New South Wales and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of New South Wales.

9.12 Statement of Directors

This Prospectus is authorised by each Director who consents to its lodgement with ASIC and its issue.



Key accounting policies

1. Basis of preparation

The following significant accounting policies have been adopted in the preparation of the Financial Information included in Section 4 of the Prospectus. The applicable accounting policies are consistent with the audited financial report of McGrath Operations for the year ended 30 June 2015. The accounting policies have been consistently applied to all periods presented, unless otherwise stated.

Compliance with Australian Accounting Standards ensures that the Financial Information complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this Financial Information has also been prepared in accordance with and complies with IFRS as issued by the IASB.

The Financial Information has been prepared under the historical cost convention except as identified within the notes.

2. Principles of consolidation

The Financial Information incorporates the assets and liabilities of all subsidiaries of McGrath Holdings (McGrath or the Consolidated Entity) and the results of all subsidiaries for the respective year then ended. For historical periods prior to the completion of restructure described in Section 7.1.4, references to McGrath relate to the group headed by McGrath Operations.

a. Subsidiaries

Subsidiaries are all entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

b. Business combinations

Business combinations, except common control transactions, are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. For each business combination, the Consolidated Entity measures the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Consolidated Entity acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entities operating or accounting policies and other pertinent conditions as at the acquisition date.

Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, it is recognised as a liability and subsequent changes in the fair value of the liability is recognised in profit or loss.

c. Transactions under common control

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value in the Consolidated Entity's annual financial statements with no gain or loss recognised in profit or loss. The difference between the book value of the net assets acquired and the consideration transferred is recognised directly in equity.

d. Transactions eliminated on consolidation

Intercompany balances and transactions, income and expenses and profit and losses resulting from intra-Consolidated Entity transactions have been eliminated in full.

3. Revenue

Revenue is recognised for the major business activities using the methods outlined below:

- Commission and related income, including franchise fee income, derived from real estate sales is recognised at the time of unconditional exchange of contracts between vendors and purchasers.
- Property management fee income is recognised when rental payments for managed properties are receipted.
- Mortgage commissions are recognised upon loan settlement.
- Interest income is recognised upon control of the right to receive the interest payment.
- Dividends are recognised when declared.

4. Employee benefit expenses

Short term employee benefits are expensed as the related service is provided. Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. Liabilities for non-accumulating sick leave are recognised when the leave is taken.

Liabilities for wages, salaries, annual leave and sick leave are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are measured at the rates paid or payable.

The liability for long service leave is recognised in the provision for employee benefits. The liability for long

service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

5. Taxation

Income tax expense comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is provided on all temporary differences at the reporting date between the tax bases used for taxation purposes of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is recognised for all taxable temporary differences except:

- when the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and

unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax Consolidation Legislation

McGrath Operations and its whollyowned controlled entities apply the tax consolidation legislation.

The deferred tax balances recognised by the parent entity and the consolidated entity in relation to wholly-owned entities joining the tax consolidated group are initially measured and remeasured based on the carrying amounts of the assets and liabilities of those entities at the level of the tax consolidated group and their tax values, as applicable under the tax consolidation legislation.

McGrath Operations, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax sharing agreement with the tax consolidated entities are recognised as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax (expense)/benefit.

6. Receivables

Trade receivables, which are generally due on settlement or have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

The Consolidated Entity considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Consolidated Entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

7. Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is based on the cost of an asset less its residual value.

Depreciation is calculated on a straightline basis over the estimated useful life of the assets as follows:

- Plant and equipment 2.5 to 10 years
- Leasehold improvements remaining lease term

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the profit and loss.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

8. Intangible assets

Intangible assets acquired separately or in a business combination that have finite useful lives are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, acquired intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. property management rights are amortised on a 15% diminishing value method.

Expenditure on internally generated intangible assets, excluding software development costs, is not capitalised. Software assets are amortised on a straight-line basis over three years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting period.

Goodwill arising on the acquisition of businesses is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment.

At each reporting date, the Consolidated Entity reviews the carrying amount of intangibles to determine whether there is any indication of

impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cashflows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset exceeds it recoverable amount.

Impairment losses are recognised in the profit or loss. An impairment loss in respect of goodwill is not reversed. For other intangibles, an impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

9. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

10. Trade and other payables

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services.

11. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After

initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

12. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Consolidated Entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the outstanding lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Consolidated Entity will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Lease incentives are recognised in the profit or loss as an integral part of the total lease expense.

13. Share based payments

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised

as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

14. Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

15. Segment reporting

Segments results that are reported to the Board (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

16. Earnings per share

The Consolidated Entity presents basic and diluted earnings per share data. Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of McGrath by the weighted average number of ordinary shares outstanding during the years. The diluted earnings per share is determined by adjusting the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. McGrath uses the treasury stock method for calculating diluted earnings per share. The diluted earnings per share calculation considers the impact of potentially dilutive instruments, if any.



Key CRPS terms

	SERIES A	SERIES B	SERIES C	SERIES D
ISSUER	McGrath Holdings	McGrath Holdings	McGrath Holdings	McGrath Holdings
SUBSCRIBERS	Each Smollen Seller	Each Smollen Seller	Each Smollen Seller	Each Smollen Seller
TRANSFERABILITY	Not permitted	Not permitted	Not permitted	Not permitted
DIVIDEND RIGHTS	None until the Smollen Sellers become entitled to payment of the cash component of the deferred consideration based on the McGrath accounts for FY2016.	None	None	None
VOTING RIGHTS	Same voting rights as Series B and the following additional rights to vote: — when dividends are in arrears; — on a share capital reduction; and — on a whole of business disposal.	Right to vote on a buy back of the share, on a proposal that affects the shareholder's rights and on and during a winding up.	Same voting rights as Series B.	Same voting rights as Series B.
OTHER ENTITLEMENTS	Board to use reasonable endeavours to provide participation in a takeover or scheme of arrangement to the extent that reflects the value of the shares. Subject to the ASX Listing Rules, right to participate in a pro-rata entitlement offer (other than a bonus issue).48	N/A	Board to use reasonable endeavours to provide participation in a takeover or scheme of arrangement to the extent that reflects the value of the shares.	N/A
CONVERSION DATES	30 June 2017	On the date on which all relevant outstanding claims relating to the Acquisition have been finally settled	Ten business days following finalisation of the accounts for FY2017.	On the date on which all relevant outstanding claims relating to the Acquisition have been finally settled.
CONVERSION ADJUSTMENT ⁴⁹	For bonus issues and share consolidations	None	None	None
REDEMPTION EVENTS 48 Only applies in relation to entitlement offers that occur after the date on which the Smollen Sellers become entitled to payment of the cash component of the deferred consideration based on the McGrath accounts for FY2016. 49 Only applies in relation to bonus issues or share consolidations that occur after the date on which the Smollen Sellers become entitled to payment of deferred consideration based on the McGrath accounts for FY2016.	 If the relevant Smollen Seller or its guarantor undertakes specified activities before 30 June 2017. If no deferred consideration based on the McGrath accounts for FY2016 is withheld. 	 If the relevant Smollen Seller or its guarantor undertakes specified activities before 30 June 2017. If there are no outstanding claims relating to the Acquisition either as at the date the cash component of the deferred consideration based on the McGrath accounts for FY2016 becomes payable or as at 30 June 2017. If all amounts withheld for outstanding claims relating to the Acquisition become due and payable to McGrath. 	withheld.	 If the relevant Smollen Seller or its guarantor undertakes specified activities before 30 June 2017. If there are no outstanding claims relating to the Acquisition cash component of the date the deferred consideration based on the McGrath accounts for FY2017 becomes payable. If all amounts withheld for outstanding claims relating to the Acquisition become due and payable to McGrath.



McGrath's subsidiaries

SUBSIDIARY	PRINCIPAL BUSINESS
McGrath Limited (ACN 091 455 711)	Holding company
Architype Marketing Pty Ltd (ACN 055 590 237)	Company owned marketing services
McGrath Sales Pty Ltd (ACN 092 061 982)	Company owned sales operations (NSW)
Total Real Estate Training Pty Ltd (ACN 093 918 122)	Company owned training and events
McGrath Auctions Pty Ltd (ACN 137 632 547)	Company owned auction services
McGrath Property Management (QLD) Pty Ltd (ACN 143 634 717)	Company owned property management (QLD)
McGrath Bulimba (No.1) Pty Ltd (ACN 160 497 272)	Company owned sales operations (Bulimba)
McGrath Sales Paddington Pty Ltd (ACN 157 756 002)	Company owned sales operations (Paddington)
UNS Property Pty Ltd (ACN 120 504 056)	Smollen Group sales operations (Lindfield)
MNS Property Pty Ltd (ACN 120 504 083)	Smollen Group sales operations (Lane Cove / Crows Nest)
NDH Property Pty Limited (ACN 124 995 419)	Smollen Group sales operations (Epping)
HH Property Pty Ltd (ACN 128 267 470)	Smollen Group sales operations (Hunters Hill / Ryde)
MG Logistics Pty Ltd (ACN 093 559 856)	Company owned shared services
McGrath Australasia Pty Ltd (ACN 118 129 507)	Company owned IP and franchising
McGrath Oxygen Home Loans Pty Ltd (ACN 103 177 377)	Mortgage broking
McGrath Property Management Pty Ltd (ACN 121 908 656)	Company owned property management (NSW)
McGrath Bulimba (No.2) Pty Ltd (ACN 160 497 496)	Company owned property management (Bulimba)
McGrath Sales (QLD) Pty Ltd (ACN 143 634 771)	Company owned sales operations (QLD)

SUBSIDIARY	PRINCIPAL BUSINESS
McGrath Sales VIC Pty Ltd (ACN 169 422 824)	Victorian operations
McGrath Asia Pty Ltd (ACN 607 486 742)	Dormant company
SPG (Australian Portfolio Management) Pty Ltd (ACN 608 305 362)	Holding company
SPG (NDH Property) Pty Ltd (ACN 608 305 568)	Holding company
SPG (MNS Property) Pty Ltd (ACN 608 305 755)	Holding company
SPG (NB Property) Pty Ltd (ACN 608 305 675)	Holding company
Engage Property Management Pty Limited (ACN 125 851 247)	Smollen Group property management
Smollen Property (Pymble) Pty Ltd (ACN 135 829 168)	Smollen Group sales operations (Pymble)
Hills Property Pty Ltd (ACN 129 358 265)	Smollen Group sales operations (Castle Hills)
NB Property Pty Ltd (ACN 139 117 963)	Smollen Group sales operations (Mona Vale / Avalon)
Market Pod Pty Limited (ACN 124 960 176)	Smollen Group marketing services
Australian Portfolio Management Pty Ltd (ACN 133 767 012)	Smollen Group shared services
SPG (HH Property) Pty Ltd (ACN 608 304 838)	Holding company
SPG (UNS Property) Pty Ltd (ACN 608 304 490)	Holding company
SPG (Engage Property) Pty Ltd (ACN 608 304 641)	Holding company
SPG (Market Pod) Pty Ltd (ACN 608 303 813)	Holding company
SPG (Hills Property) Pty Ltd (ACN 608 303 751)	Holding company
SPG (Pymble Property) Pty Ltd (ACN 608 304 294)	Holding company

Notes

- ¹ Each of the entities in this table is a company incorporated under the Corporations Act.
- ² Each entity's principal place of business is in New South Wales, other than McGrath Property Management (QLD) Pty Ltd and McGrath Sales (QLD) Pty Ltd, whose principal place of business is in Queensland.
- ³ Directly or indirectly, each entity is (or following the Acquisition will be) a wholly-owned subsidiary of McGrath Holdings.



Glossary

TERM	MEANING	
Acquisition	the acquisition of the Smollen Group	
AASB	Australian Accounting Standards Board	
ACL	Australian credit licence	
ADIs	Authorised Deposit-taking Institutions	
Agent	employed Agents and contractor Agent principals in Company Owned Offices and/or Franchise Offices as the context requires	
Applicant	a person who submits an Application	
Application	an application to apply for Shares	
Application Amount or Application Monies	the amount accompanying an Application Form submitted by an Applicant	
Application Form	the application form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility)	
APRA	Australian Prudential Regulatory Authority	
AREC	Australian Real Estate Conference	
ARPM	Australian Realty Property Management	
ASIC	Australian Securities and Investments Commission	
ASX	ASX Limited (ABN 98 008 624 691) or the securities exchange that it operates, as the context requires	
ASX Listing Rules	the official listing rules of ASX as amended or waived from time to time	
ASX Recommendations	the Corporate Governance Principles and Recommendations for Australian listed entities of the ASX Corporate Governance Council	
ASX Settlement Operating Rules	the operating rules of ASX Settlement Pty Limited (ACN 008 504 532)	
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board	
BBSY	Bank Bill Swap Bid Rate	
Bell Potter	Bell Potter Securities Limited (ABN 25 006 390 772)	
BIS Shrapnel	BIS Shrapnel Pty Limited (ABN 20 060 358 689)	
Board or Board of Directors	The board of Directors of McGrath	
Broker	any ASX participating organisation selected by the Joint Lead Managers, Financial Adviser and McGrath to act as a Broker to the Offer	
Broker Firm Offer	the offer of Shares under this Prospectus to Australian resident retail clients of Brokers who have received a firm allocation from their Broker	

Appendix D Glossary

Appendix D Glossary

TERM	MEANING	
Business Development Areas or BDA	defined geographic areas in which McGrath Franchisees have an exclusive right to operate a McGrath branded office	
CAGR	Compound Annual Growth Rate	
CEO	Chief Executive Officer	
CFO	Chief Financial Officer	
COO	Chief Operating Officer	
CHESS	ASX's Clearing House Electronic Sub-register System	
Closing Date	the date on which the Offer is expected to close, being 2 December 2015 in respect of the Broker Firm Offer and Priority Offer. These dates may be varied without prior notice.	
Company Owned Office(s)	a McGrath branded office owned and operated by McGrath	
Completion of the Offer	completion in respect of the issue of Shares pursuant to the Offer	
Constitution	the constitution of McGrath Holdings	
Contractor Employees	the meaning given in Section 7.4	
CoreLogic	RP Data Pty Ltd trading as CoreLogic Asia Pacific (ABN 67 087 759 171)	
CoreLogic Data	the references made to "CoreLogic Data" on pages 11, 19, 37-40, 42, 44, 70-73 and 77 with CoreLogic's consent, as set out in Section 9.10 of this Prospectus	
Corporations Act	Corporations Act 2001 (Cth)	
CPI	Consumer Price Index	
CRPS	convertible redeemable preference shares described in Section 9.4.1	
СҮ	calendar year (year to 31 December)	
Director	a member of the board of McGrath Holdings	
EBIT	earnings before interest and tax	
EBITDA	earnings before interest, tax, depreciation and amortisation	
Eligible Employees	Contractor Employees and McGrath group Employees	
Employee Award Offer	the offer described in Section 7.4	
Enterprise Value	the sum of market capitalisation of McGrath at the Offer Price and pro forma consolidated indebtedness as at 30 June 2015	
Escrowed Shareholders	the Shareholders listed in table 7.4	
Existing Debt Facility	the current facilities described in Section 4.4.1	
Existing Shareholders	those Shareholders who hold ordinary shares in McGrath Operations on the Prospectus Date	

TERM	MEANING	
Existing Shares	Shares offered for sale by SaleCo under the Offer	
Exposure Period	the period specified in section 727(3) of the Corporations Act, being a minimum period of seven days after the Prospectus Date, during which an Application must not be accepted. ASIC may extend this period to no more than 14 days after the Prospectus Date.	
Financial Information	the financial information described as Financial Information in Section 4	
FIRB	Foreign Investment Review Board	
Forecast Financial Information	the forecast financial information described as Forecast Financial Information in Section 4	
Franchise Office	a McGrath branded office operated by a Franchisee	
Franchisee	an existing or potential McGrath Franchisee as the context requires	
Franchising Code	Franchising Code of Conduct established under the Competition and Consumer Act 2009 (Cth)	
FY	financial year (1 July to 30 June)	
FY2017 Release	the date which is 10 trading days after the date on which the full year financial results for FY2017 are released to ASX by McGrath	
GDP	Gross Domestic Product	
Gross Commission Income or GCI	the total sales commission paid to an Agent on the successful sale of a property	
GST	Goods and Services Tax	
IASB	International Accounting Standards Board	
IFRS	International Financial Reporting Standards	
Institutional Investors	Investors who are:	
	 persons in Australia who are wholesale clients under Section 761G of the Corporations Act and either "professional investors" or "sophisticated investors" under sections 708(11) and 708(8) of the Corporations Act; or institutional investors in certain other jurisdictions, as 	
	agreed by McGrath and the Joint Lead Managers, to whom offers of Shares may lawfully be made without the need for a lodged or registered Prospectus or other form of disclosure document or filing with, or approval by, any government agency (except one with which McGrath is willing in its discretion to comply),	
	provided that in each case such investors are not in the United States.	

TERM	MEANING	
Institutional Offer	the invitation to Institutional Investors under this Prospectus to acquire Shares as described in Section 7.6	
Investigating Accountant	KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Limited	
IPO	the initial public Offer of Shares under this Prospectus	
Joint Lead Managers or JLMs	Bell Potter and J.P. Morgan	
J.P. Morgan	J.P. Morgan Australia Limited (ABN 52 002 888 011)	
Legal Adviser	Allen & Overy	
Listing	the admission of Shares for quotation on the official list of ASX	
LTI Plan	the long term incentive plan described in Section 6.3.4	
Luminis	Luminis Partners Pty Ltd (ABN 82 602 701 235)	
Market Data	statistics, data and other information relating to:	
	(i) the markets that McGrath operates in, market sizes, market shares, market positions, and other industry data; and	
	(ii) macroeconomic trends, positions and other data	
Market Report	the market report on the residential real estate market prepared by BIS Shrapnel as described in Section 2.4	
McGrath	McGrath Operations before the restructure steps described in Section 7.1.4 of this Prospectus and McGrath Holdings after the restructure steps described in Section 7.1.4 of this Prospectus or, when the context requires, the group of companies controlled by those entities (other than SaleCo)	
McGrath Group Employees	the meaning given in Section 7.4	
McGrath Holdings	McGrath Holding Company Limited (ABN 61 608 153 779)	
McGrath Operations	McGrath Limited (ABN 17 091 455 711)	
McGrath Network	Company Owned Offices and Franchise Offices	
NCCP Act	National Consumer Credit Protection Act 2009 (Cth)	
NED Bonus Shares	the Shares issued to the Non-Executive Directors as described in Section 6.3.2	
New Debt Facility	the facility described in Section 4.4.3	
New Shares	Shares to be issued under this Prospectus by McGrath Holdings	
Non-Executive Director	a member of the Board of Directors who does not form part of McGrath's management	
NPAT	net profit after tax	
Offer	the Retail Offer, Institutional Offer and offer of NED Bonus Shares	
Offer Price	\$2.10 per Share	

TERM	MEANING	
Oxygen	the mortgage broking business of McGrath operated under the name "Oxygen Home Loans"	
Policy	Federal Government's Foreign Investment Policy	
Priority Offer	the priority Offer as described in Section 7.5	
Prospectus	this document (including the electronic form of this Prospectus) and any supplementary or replacement Prospectus in relation to this document	
Prospectus Date	12 November 2015	
RBA	Reserve Bank of Australia	
Retail Offer	the Broker Firm Offer and the Employee Award Offer	
SAAS	"Software as a service" platform described in Section 3.7.1	
SaleCo	McGrath SaleCo Limited (ABN 65 608 153 797)	
Settlement	payment in settlement of applications for Shares, which is expected to occur on 4 December 2015	
Share	a fully paid ordinary share in the capital of McGrath Holdings	
Shareholder	a holder of Shares	
Share Registry	Link Market Services Limited (ABN 54 083 214 537)	
Smollen Group	the group of companies and trusts which own and operate the McGrath-branded real estate services businesses in Avalon, Castle Hill, Crows Nest, Epping, Hunters Hill, Lane Cove, Lindfield, Mona Vale, Palm Beach, Pymble and Ryde.	
Smollen Sellers	Smollen Property Pty Limited (in its own capacity and as trustee for the Smollen Property Family Trust), Vaughan Investment Group Pty Limited as trustee for the Vaughan Investment Group Trust, Peter Chauncy Investments Pty Ltd as trustee for the Peter Chauncy Investments Trust, Paranchi Investments Pty Ltd as trustee for the Paranchi Investments Trust, Tracey Dixon Investments Pty Limited for the Tracy Dixon Investments Trust, and Courtney Holdings Pty Limited as trustee for the Courtney Investment Trust	
SPA	the share purchase agreement and scrip consideration deed described in Section 9.4.1	
SRN	security holder reference number issued by the Share Registry	
STI	short term incentive described in Section 6.3.4	
Successful Applicant	an Applicant or Institutional Investor who is issued Shares under the Offer	
TFN	the tax file number issued by the ATO	
TRET	Total Real Estate Training	
Underwriting Agreement	the underwriting agreement described in Section 9.4	
U.S. Securities Act	United States Securities Act of 1933	

Corporate Directory

McGRATH REGISTERED OFFICE

McGrath Holding Company Limited (to be renamed McGrath Limited) 191 New South Head Road Edgecliff, NSW 2027

FINANCIAL ADVISER

Luminis Partners Pty Ltd Level 32, Aurora Place 88 Phillip Street Sydney, NSW 2000

JOINT LEAD MANAGERS

Bell Potter Securities Limited Level 38, Aurora Place 88 Phillip Street Sydney, NSW 2000

J.P. Morgan Australia Limited Level 18, 85 Castlereagh Street Sydney, NSW 2000

CO-MANAGER

Ord Minnett Limited Level 8, NAB House 255 George Street Sydney, NSW 2000

AUSTRALIAN LEGAL ADVISER

Allen & Overy Level 25, 85 Castlereagh Street Sydney, NSW 2000

INVESTIGATING ACCOUNTANT

KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Limited 10 Shelley Street Sydney, NSW 2000

AUDITOR

KPMG 10 Shelley Street Sydney, NSW 2000

SHARE REGISTRY

Link Market Services Level 12, 680 George Street Sydney, NSW 2000

McGRATH IPO OFFER INFORMATION

LINE

Within Australia: 1300 880 732 Outside of Australia: +61 1300 880 732

OFFER WEBSITE

www.mcgrath.com.au