McGrath

ASX ANNOUNCEMENT

Trading update

April 18, 2016: Leading residential real estate group, McGrath Limited (ASX: MEA) provides the following trading update to the market.

Even though an unforeseen low volume of listings and sales started to emerge in the latter part of March 2016, McGrath was performing slightly ahead of management's budget required to achieve Prospectus forecast for the full year ending 30 June 2016. Over the 9 months ended 31 March 2016:

- Revenue was 6% above budget
- Revenue from pre-existing company owned offices was 9% above budget, while revenue from company owned offices acquired from the Smollen Group was 10% below budget
- EBITDA was 1% above budget.

However, McGrath has continued to experience an unforeseen low volume of listings and sales in the first half of April, particularly in the North and North Western suburbs of Sydney. The Company believes the fall in listings in the North and North Western suburbs of Sydney is in line with the market in those areas.

As flagged at the end of the half year, current conditions remain challenging in certain market segments and with listings and sales volumes not expected to materially change in the near term, McGrath has accordingly adjusted its expectations for sales volumes and values for the last quarter of FY16.

Listings in the company owned offices acquired from the Smollen Group (located in North and North Western Sydney) are now expected to be 25% to 30% lower in the final quarter of FY16 than was expected for this period when the Prospectus forecast was prepared. This compares to listings in pre-existing company owned offices expected to be flat to slightly lower over this quarter.

On the basis of the current quarter's listings trend (assuming there is no improvement in listings volumes) and current market conditions, McGrath expects to generate FY16 revenue in the range of $136 million to $140 million, and pro forma EBITDA in the range of $26 million to $27 million[1].

[1] The expected results for FY16 are based on unaudited management accounts. McGrath intends to release its audited FY16 financial results on 24 August 2016.

The major drivers for the revised pro forma FY16 EBITDA forecast are:

Driver	**EBITDA impact ($m)**
Expected reduction in residential sales in the final quarter of FY16 due to: • A 25% to 30% decline in listings in the Smollen areas compared to the expectation for this period when the Prospectus forecast was prepared • A continued reduction in Chinese buyer activity in the north western Sydney region of company owned territories (the Smollen areas).	3.0-4.0
Timing delays postponing the launch of several project marketing developments into FY17	0.5
A mix of additional items including revenue lost due to delays implementing new IT software, and recruitment	0.5
TOTAL	**4.0-5.0**

The revised FY16 EBITDA variation is larger than the revenue variation due to a change in revenue mix. Vendor property marketing revenue is included in sales revenue for accounting purposes even though it is a pass through cost with a small administration fee to vendors, and is a greater proportion of expected revenue than originally forecast. As such, with commission income from company owned offices being lower due to reduced listing volumes, the overall impact on expected EBITDA is proportionately higher.

As set out in the Prospectus, the acquisition of the Smollen Group was structured so that some of the deferred consideration would not be paid if the business did not meet growth targets set at the time of acquisition. Given the performance of this business as outlined above, the at risk component for 2016 of $2.625 million is therefore unlikely to be paid, subject to a mechanism that allows for that payment to be caught up if the business achieves certain targets in combined gross commission income for FY16 and FY17.

McGrath continues to have a strong balance sheet with no debt and surplus cash expected at 30 June 2016. The Board has determined that it will increase the target payout ratio to 75% of NPAT for the FY16 year. This will decrease the target dividend from approximately 4.5 cents per share to 3.0-3.5 cents per share for the period.

While current industry volatility makes it challenging to forecast FY17, the long term fundamentals of the Real Estate industry remain attractive, underpinned by historically low interest rates and population growth.

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For further information please contact:

Investors
John McGrath
Chief Executive Officer
P: +61-2 9386 3333

Media
Terri Sissian
Communications Director
P: +61-419 881 414

Ronn Bechler
Managing Director, Market Eye
P: +61-400 009 774

About McGrath

Founded in 1988, McGrath Limited (ASX: MEA) has grown to be one of Australia's most successful residential real estate groups. An integrated real estate services business, McGrath is a total solution company offering agency sales, property management, mortgage broking and career training services.
McGrath Estate Agents currently has 82 offices located throughout the East Coast of Australia.