

20 June 2018

McGrath Limited secures strategic investment by Aqualand

- **McGrath has secured a strategic equity investment from one of Australia's premier residential property development and investment groups, Aqualand Group (Aqualand)**
- **The placement of 25,189,880 shares at \$0.425 per share will take place in two tranches, with the second tranche of 11,568,042 shares subject to ordinary shareholder approval**
- **The placement represents a 25.0% premium to the last closing price and a 16.9% premium to the 60 day VWAP**
- **Following completion of both tranches and, subject to shareholder approval for the second tranche, Aqualand will be the second largest shareholder of McGrath with a 15% relevant interest.**
- **McGrath and Aqualand have entered into a strategic relationship to explore opportunities for both groups to work more closely together on prestige project marketing opportunities**
- **An Extraordinary General Meeting ("EGM") will be held to approve the second tranche of the placement**

McGrath Limited (ASX:MEA) ("McGrath", or the "Company") is pleased to advise that it has secured a \$10.7 million (before costs) strategic investment in the Company from AL Capital Holding Pty Ltd, as trustee for the AL Capital No 1 Unit Trust, which is part of the Aqualand group ("Aqualand") by way of a placement in two tranches in accordance with the terms of a subscription agreement.

Under the first tranche, which has now completed, Aqualand has acquired an initial stake of 8.7% in McGrath. The second tranche, which is conditional on McGrath shareholder approval, will give Aqualand a further interest of 6.3% in McGrath.

This significant stake achieves strategic commercial alignment between McGrath and Aqualand, with Aqualand entitled to appoint a director to the board.

McGrath and Aqualand Projects Pty Ltd (a member of the Aqualand group) have also entered into an agreement, under which Aqualand has agreed to grant McGrath the first right to discuss, for a limited window, being appointed as an agent for new Aqualand projects expected to come to market in future years or provide property management services in respect of leased apartments within new projects. Aqualand retains discretion as to whether or not to appoint McGrath.

The agreement has an initial term of 5 years (subject to termination rights) and can be renewed for two further terms of 3 years each by agreement between the parties. In addition to customary termination events, the agreement terminates on a change of control of McGrath or if John McGrath ceases to have a substantial holding in McGrath and ceases to be actively involved in the management of McGrath.

John McGrath who founded the company, remains the largest shareholder and Executive Director commented:

"The addition of a new strategic shareholder in Aqualand, represents a great vote of confidence in the future of McGrath Limited. Aqualand is one of Australia's highest quality property development

and investment groups and its addition as a major shareholder and board representation provides McGrath the opportunity to continue to grow our Project Marketing expertise and develop even stronger ties with the inbound investment.”

McGrath CEO Geoff Lucas said: “The Australian real estate market is becoming more sophisticated and relationships and channels are more important than ever before. Working closely with a major shareholder like Aqualand, which owns some of the best residential development sites in the country, represents a great opportunity to grow our business in project marketing. The capital raised in the placement will also allow us to take advantage of any strategic acquisition opportunities that arise over the next couple of years. McGrath is currently in a stabilisation and turnaround program and this transaction and relationship underpin our momentum to return to being Australia’s pre-eminent residential property brand.”

Aqualand is a leading property development and investment group. Aqualand has advised that it was established in Australia in 2014 and has since generated a portfolio of 18 sites, with a collective gross development value of approximately \$5 billion.

AL Capital CEO Wayne Mo commented “Aqualand is pleased to enter into this strategic relationship with McGrath. We have observed McGrath for some time and have developed a positive view of the overall business operation and the capability of the McGrath leadership team. We believe McGrath has good potential for future growth and that this growth will only be enhanced by our new strategic relationship.”

Proceeds from the placement will be used for general corporate purposes, including business development and potential growth opportunities as they may arise.

Subscription Agreement

The Aqualand strategic investment is comprised of a placement in two tranches for a total of 25,189,880 fully paid ordinary McGrath shares at a price of \$0.425 per share which will raise \$10,705,699 million (before costs).

The details of the placement are as follows:

- Tranche 1 – 13,621,838 ordinary shares have been issued yesterday evening to Aqualand at an issue price of \$0.425 for total consideration of \$5,789,281.15. This has given Aqualand a 8.7% stake in McGrath.
- Tranche 2 – Subject to and following shareholder approval and receipt of funds from Aqualand, a further 11,568,042 ordinary shares will be issued to Aqualand at an issue price of \$0.425 for a total consideration of \$4,916,417.85. This will confer on Aqualand a further 6.3% stake in McGrath.
- The issue price, of \$0.425 per share, represents a:
 - 25.0% premium to the last closing price of \$0.34 per share on 19 June 2018; and
 - 16.9% premium to the 60 day VWAP of \$0.364 per share as at 19 June 2018.

Other aspects of the Agreement

At the conclusion of both tranches of the placement, Aqualand will have a 15% shareholding in McGrath. Under the terms of the agreement Aqualand will be entitled to appoint a director to the board subject to Aqualand maintaining a 10% interest in the Company (where the second tranche of shares have been issued) or 8.5% (where the second tranche of shares have not been issued).

McGrath Limited (ASX:MEA) ABN 61 608 153 779
191 New South Head Road, Edgecliff NSW 2027
www.mcgrath.com.au

Aqualand has advised McGrath that CEO of AL Capital, Wayne Mo, is their nominee to the Board of Directors of McGrath.

The Agreement also provides that Aqualand will have a right to participate in any new issues of shares in McGrath on the same terms and conditions as other participants in that share issue up to such additional number of equity securities sufficient to maintain their ownership percentage in McGrath. This right is subject to receipt of a waiver from the ASX of Listing Rule 6.18. The right will terminate on the earlier of: 3 years from the date of the issue of the Tranche 2 shares; Aqualand ceasing to hold a 15% interest in the Company (where Tranche 2 shares have been issued) or a 8.7% interest in the Company (where Tranche 2 shares have not been issued); termination of the agreement described above in relation to project marketing; or such earlier time required by ASX pursuant to a waiver of Listing Rule 6.18.

Extraordinary General Meeting

McGrath issued 13,621,838 ordinary shares under Placement 1 pursuant to its available placement capacity under ASX Listing Rule 7.1. The proposed issue of shares under Placement 2 is in excess of McGrath's current available placement capacity under the ASX Listing Rules and is conditional on the approval of McGrath shareholders.

McGrath will in due course provide its shareholders with a Notice of an Extraordinary General Meeting to consider the approval of the issue of 11,568,042 shares to Aqualand at \$0.425 per share.

Earnings Update

The company provided a range of earning guidance on 12th March 2018 and having regard for recent trading and real estate market conditions anticipates that the performance for the financial year ending 30 June 2018 will be at the lower end of the previously provided guidance. Accordingly, underlying EBITDA is expected to be approximately \$5 million and, following approximately \$4 million of one-off cash costs, the reported EBITDA is expected to be approximately \$1 million for the year ended 30 June 2018. This excludes and remains subject to any items or impairments arising from the balance sheet review to be conducted as part of the normal year end financial statement processes.

Miles Advisory Partners acted as financial advisor and Herbert Smith Freehills acted as legal adviser to McGrath. Yatsen Associates acted as financial advisor and Allens Linklaters acted as legal adviser to Aqualand.

Ends-

About McGrath:

McGrath (ASX:MEA) has grown to be an integrated real estate services business, offering agency sales, property management, mortgage broking and career training services.

McGrath Estate Agents currently has 95 offices located throughout the East Coast of Australia.

About Aqualand:

Aqualand Australia was established in 2014 and has since generated a portfolio of 18 sites with a collective gross development value of c.\$5billion, consisting landmark projects such as Blue at Lavender Bay.

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Aqualand distinguishes itself as a developer of both Prime Foreshore Residences, boasting views across the iconic Sydney Harbour, and a Strategic Urban Regenerator, in areas benefitting from close proximity to key transport nodes, retail hubs and education facilities.

Aqualand is part of the consortium, including Scentre Group and Grocon, selected as developers of the \$2 billion Barangaroo Central site in Sydney by the NSW Government. Aqualand prides itself on designing and delivering premium projects of exceptional quality.

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