grays ecommercegroup

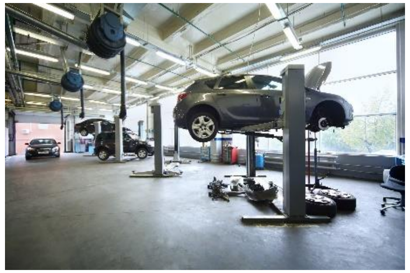
Half Year 2017 Results

23 February 2017

Mark Bayliss
Chief Executive Officer

David Grbin
Chief Financial Officer

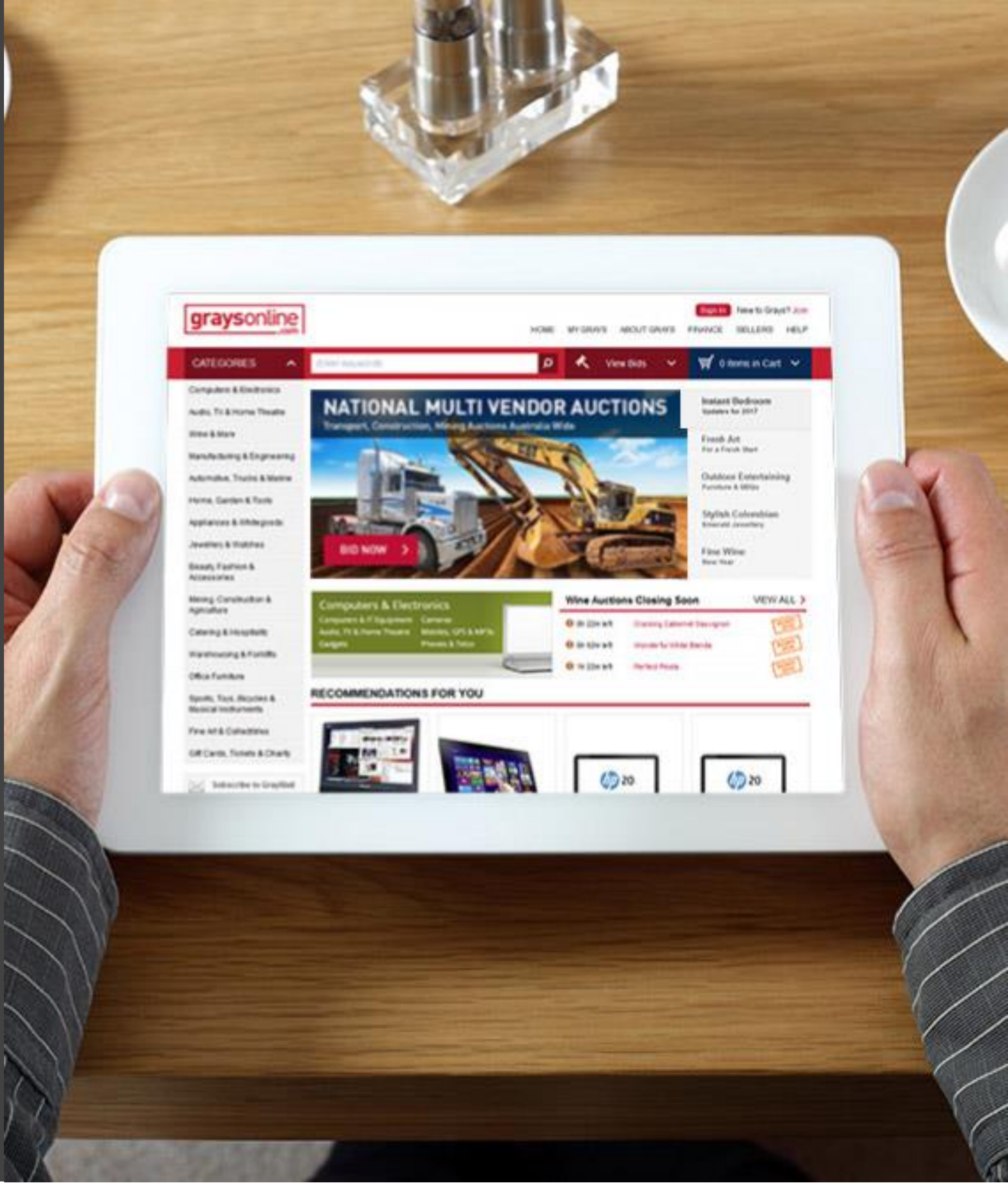





H1 financial performance underpinned by growth in B2B

Building a growing and sustainable business

Well positioned to continue
B2B growth trajectory



H1 FY17: revenue lift from growth in investment

A$'000	H1 FY17	H1 FY16	CHG
Continuing operations	**71,258**	**62,175**	**14.6%**
Disposed operations	-	52,536	
Revenue[1]	71,258	114,711	-37.9%
EBITDA Continuing[2]	**7,109**	**8,115**	**-12.4%**
EBITDA Disposed	-	(7,879)	
EBITDA	7,109	236	>100%
Significant items[3]	**-**	**(24,982)**	
D&A Continuing	(930)	(821)	
D&A Disposed	-	(795)	
Net interest (expense)	**(280)**	**20**	
Tax benefit (expense)	(1,903)	4,381	
NPAT	**3,996**	**(21,961)**	**>100%**
EPS (cents)	**3.1**	**(20.4)**	**>100%**
DPS (cents)	**1.2**	**-**	

1: Revenue represents statutory revenue (excluding interest income) as prescribed by Australian Accounting Standards
2: Continuing: B2B and B2C (consumer auction and wine). Disposed: Fixed Price Retail business (00.com.au, dealsdirect.com.au, topbuy.com.au) in FY16
3: Details on significant items are set out in the appendix to this presentation

- Revenue from Continuing Operations was up 14.6%
  - B2B net revenue up +16.3%.
  - B2B grew revenue in all categories as benefits flow through from investment in people and facilities
- EBITDA from Continuing Operations down -$1.0m on pcp to $7.1m:
  - B2B EBITDA up $0.4m on pcp. Revenue growth supported continued business investment in people and facilities to underpin long term sustainable growth
  - Corporate costs $0.3m lower on pcp
  - B2C EBITDA down -$1.7m on pcp following poor pre Christmas (November and December 2016) trading
- No significant items. Fixed Price Retail business exited in FY16
- NPAT of $4.0m enables payment of 1.2 cents fully franked maiden dividend
- As at 31 December 2016, carry forward tax losses of $5.9m (gross)

B2B: growing across all key financial metrics

A$'000	H1 FY17	H1 FY16	Chg H1 FY17/FY16	H2 FY16	Chg H1 FY17/H2 FY16
Gross sales[1]	273,566	230,035	18.9%	253,028	8.1%
Revenue[2]	**43,218**	**36,050**	**19.9%**	**37,357**	**15.7%**
Cost of goods sold	(2,806)	(1,300)	115.8%	(2,410)	16.4%
Net Revenue	**40,412**	**34,750**	**16.3%**	**34,947**	**15.6%**
Expenses	(31,028)	(25,709)	20.7%	(27,440)	13.1%
EBITDA	**9,384**	**9,041**	**3.8%**	**7,507**	**25.0%**
EBITDA/net revenue	23.2%	26.0%	-2.8%	21.5%	1.7%

B2B revenue streams comprise Corporate (regular, recurring revenue) and Major Event/BIF which is transaction based revenue and can fluctuate substantially with timing dependent on various factors often outside of GEG's control.

*1: **Gross Sales** is a non statutory measure that is reported to provide greater understanding of the performance of the underlying business. The measure represents the gross sale value of consignment assets auctioned, plus sales of owned inventory*

*2: **Revenue** is statutory revenue including commissions on consignment sales, excluding interest income, refer to Operating Segments note in the financial report*

- Significant planned investments in people and facilities that commenced in H2 FY16 are delivering net revenue growth in H1 FY17
- Compared to H1 FY16, increased investment centred on:
  - +$1.1m pcp on facilities
  - +$4.2m pcp on employment (Business Development Managers)
- H1 FY17 EBITDA margins (based on net revenue) are expected to further improve in H2 FY17
- B2B net revenue growth on H2 FY16 of $5.5m generated EBITDA of $1.9m (EBITDA margin of 34.5%)

B2C: disappointing performance

A$'000	H1 FY17	H1 FY16	Chg H1 FY17/FY16	H2 FY16	Chg H1 FY17/H2 FY16
Gross sales[1]	39,100	37,799	3.4%	46,449	-15.8%
Revenue[2]	**27,880**	**26,125**	**6.7%**	**25,037**	**11.4%**
Cost of goods sold	(12,233)	(8,784)	39.3%	(10,076)	21.4%
Net Revenue	**15,647**	**17,341**	**-9.8%**	**14,961**	**4.6%**
Expenses	(15,989)	(16,003)	0.0%	(14,227)	-12.4%
EBITDA	**(342)**	**1,338**	**-125.6%**	**734**	**-146.6%**
EBITDA/net revenue	-2.2%	7.7%	-9.9%	4.9%	-7.1%

- Net Revenue down -9.8% on pcp to $15.6m due to:
  - Unsatisfactory trading performance in November and December 2016 due to subdued consumer demand and increased competition
- Expenses flat on pcp
- Expenses increased 12.4% on H2 FY16 from
  - +$1.1m on marketing and eBay channel expenses on GEG owned inventories
  - +$0.4m on warehouse (handling higher volumes of GEG owned inventories)

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*2: **Revenue** is statutory revenue including commissions on consignment sales, excluding interest income, refer to Operating Segments note in the financial report*

B2C: disappointing performance supports actions taken

- Strategic decision made to exit highly competitive and unprofitable fixed price retail segment in FY16
- Remaining B2C business was refocused on a narrower range of consumer categories, with further investment made into marketing capability and the review of the cross-over of customers from B2C to B2B
- Underperformance over the two key trading months of November and December led to a re-assessment of the longer term strategic relevance of B2C in the context of building a growing and sustainable B2B focussed business
- Following the re-assessment, and continued poor trading performance in January 2017, the decision was taken to rationalise B2C categories to those that support B2B
    - Orderly run-down of GEG owned inventories is being undertaken
    - Fixed cost base will be reduced

Strong balance sheet

Higher working capital in H1 FY17 from timing of B2B activity reversing over H2 FY17

A$'000	31 Dec 2016	30 June 2016
Cash	1,878	2,796
Receivables	7,071	6,020
Inventories	7,760	7,926
Prepayments	7,350	5,062
Non-current assets	28,709	30,540
Total assets	**52,768**	**52,344**
Trade and other payables	14,329	16,157
Borrowings	3,568	2,447
Provisions	10,309	13,577
Net assets	**24,562**	**20,163**

- Net debt of $1.7m at 31 Dec 16, compared with net cash of $0.3m at 30 June 16
- Increase in net debt due to:
  - $1.0m DMS Davlan acquisition (July 2015) earn-out payment
  - Increased working capital over H1 FY17:
    - Receivables increase from timing of B2B revenues. To date $4.6m cash collected
    - Prepayments increase largely from prepaid sale costs related B2B sales. To date $1.3m recovered from gross sale proceeds
    - Provisions decrease largely from on-going payment of onerous Lidcombe lease and payment of short term incentives from a strong B2B performance in FY16

Cash flow

Cash conversion lower in H1 FY17 due to timing of B2B activity. Reversing over H2 FY17

(A$'000)	H1 FY17	H1 FY16
Opening cash (net of borrowings)	**349**	**6,989**
EBITDA Continuing Operations	7,109	8,115
Working capital movement		
▪ Inventory	166	(4,725)
▪ Receivables	(1,051)	(756)
▪ Prepayments	(2,288)	(1,215)
▪ Payables	34	6,600
▪ Provisions	(2,028)	(2,312)
Operating cash flow (Continuing Operations)	**1,942**	**5,707**
Onerous lease payments	(896)	-
Disposed Operations	(783)	(5,869)
Net interest (expense)	(280)	20
Income taxes (paid)	7	(1,664)
Statutory operating cash flows	**(10)**	**(1,806)**
Acquisition of DMS Davlan	(1,079)	(2,697)
Significant items (financing cash)	-	(196)
Capital expenditure	(950)	(908)
Proceeds from FPR sale	-	3,000
Statutory investing cash flows	**(2,029)**	**(801)**
Closing cash (net of borrowings)	**(1,690)**	**4,382**

- Cash conversion -$5.2m less than EBITDA due to timing of working capital flows. Anticipated to improve in H2 FY17.
- Increase in H1 FY17 working capital. Refer balance sheet
- Onerous lease payments are the on-going lease payments provided for on the H1 FY16 sale of FPR
- Disposed Operations out flows relate to the closure of FPR
- Capex represents web development costs and leasehold improvements
- Headroom in debt facilities $18.1m as at 31 Dec 16

Maiden interim dividend declared

- The Directors have declared a fully franked interim dividend of 1.2 cents per share
- This is in-line with the target payout ratio of approximately 40% of NPAT
- Key dates:
  - Ex dividend date: 28 February 2017
  - Record date: 1 March 2017
  - Dividend payment date: 21 April 2017

H1 FY17 financial performance underpinned by growth in B2B

Building a growing and sustainable business

Well positioned to continue our B2B growth trajectory

H1 FY 17 report card

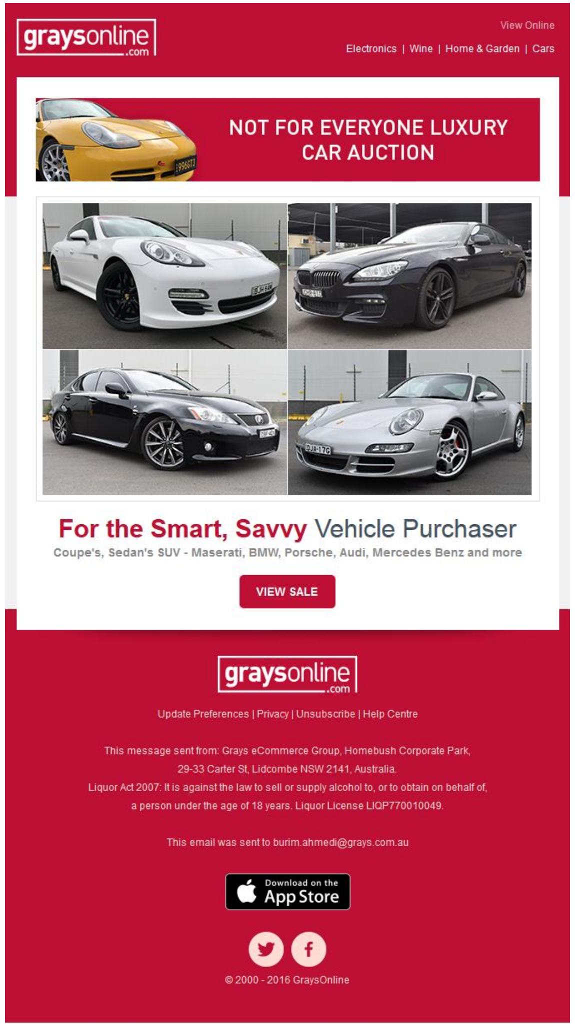
FY17 key priorities	H1 FY17 progress
Continued delivery of the **B2B growth** strategy across the key categories of Auto, Mining & Contracting, Agriculture and Transport	Good progress • B2B Net Revenue up 16.3% on H1 FY16 with growth across all categories • Invested in people and facilities to create a significant national auto business
Measured **offshore expansion** in B2B	Cautious and sensible progress • Trialling new market in Middle East with a knowledgeable joint venture partner. Low cost and low capital investment model
Enhanced **B2C offering** and further reduction in operating expenses	Disappointing • Re- assessed B2C business. Move to only focus on profitable categories that support B2B; reduce the cost base and lower GEG owned inventories
Upgraded **marketing capability** to leverage our marketplace	Underway • Added capability in marketing and digital • Focus on strengthening our revenue cross-over between B2C and B2B
Continued **investment in technology** to improve our customers' experience and scalability of our operations	Underway • On-going investment in technology to improve the customer experience of our website

B2B growth strategy delivering

- Business reinvestment in facilities and people driving profitable revenue growth, especially in Auto – see next slide
- Transport is experiencing solid volumes from fleet replacement
- Successful execution of large-scale programs including McAleese and Masters
- Ongoing workflow of surplus equipment from the completion of infrastructure projects
- Groundwork laid for joint venture in the Middle East
- Buyers' finance and insurance options now offered through a finance broker
- Asset based lending (sale and lease back) trial
- Consistent net revenue growth half on half:
  - H2 FY16 to H1 FY17: +15.6%
  - H1 FY16 to H1 FY17: +16.3%
- B2B net revenue growth on H2 FY16 of $5.5m generated EBITDA of $1.9m (EBITDA margin of 34.5%)

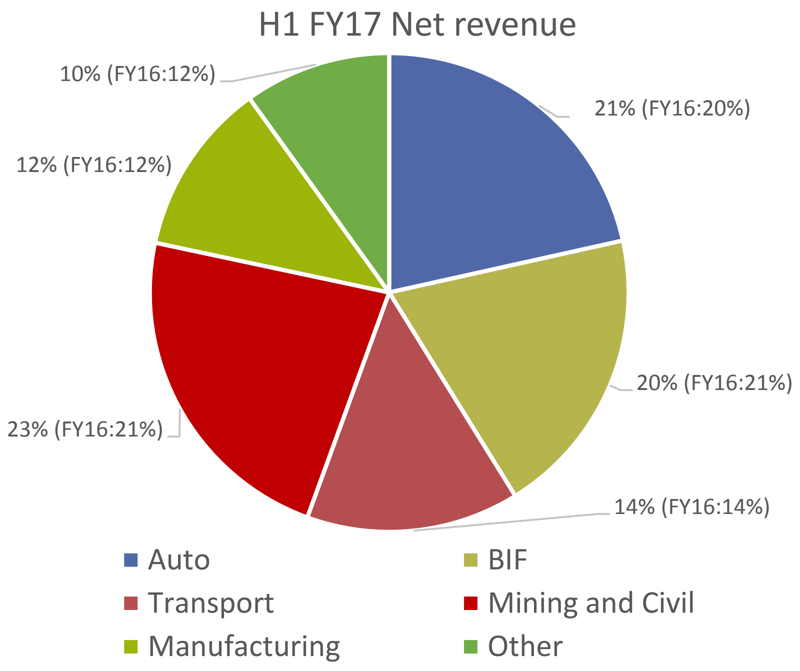
Auto powering ahead

- Over 13,500 cars sold in H1 FY17 compared to 8,800 in H1 FY16
- Expanded Auto facilities in NSW, Victoria, Queensland and SA came on-stream in Q4 FY16
- Larger business development team (+8 BDM's) securing a broader range and higher value cars (ex-fleet, luxury and classic cars), across all mainland States
- NSW auto volumes building momentum off a low base. Around 1/3 the volumes of Victoria and Queensland
- More relevant customer offering - buyers' finance and trialling auto warranty options. Conversion rate on buyers' finance circa 14% versus industry average of 10%
- Growth supported by successful car buyer marketing efforts:
  - Buyer research completed providing clear target segments with significant growth potential
  - Dedicated digital marketing campaign launched, driving 48% growth in bidding activity

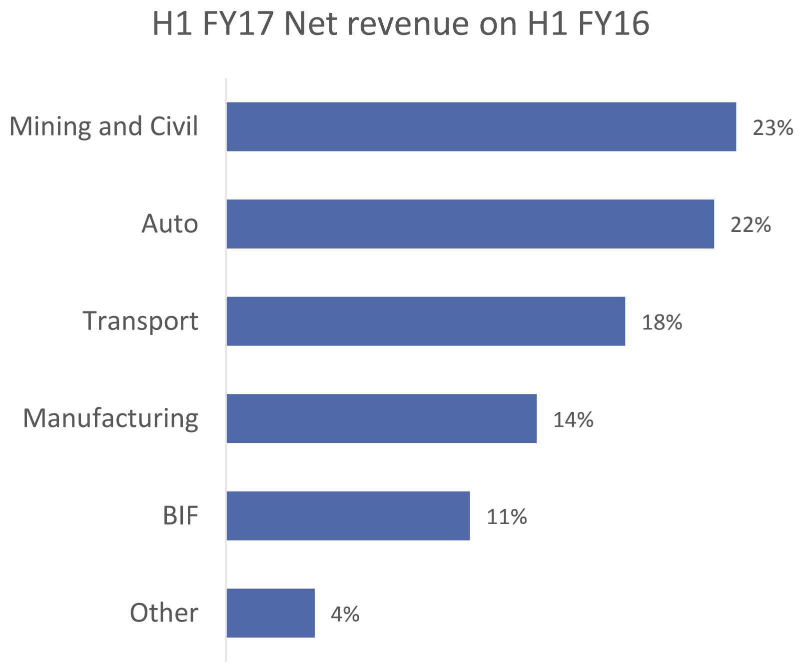


B2B net revenue analysis

B2B net revenue mix



B2B Net revenue growth



- Diversification of revenue categories working. Growth across all categories, especially in recurring revenue Auto and Transport
- Better than expected H1 FY17 Major Event/BIF revenue in Mining and Transport categories due to timing

H1 FY17 financial performance
underpinned by growth in B2B

Building a growing and sustainable business

Well positioned to continue our B2B growth trajectory

B2B growth engine

Our growth strategy is on track and built around four key areas

Horizontal adjacencies

- Build B2B strategic partnerships to take advantage of specific category expertise, without paying for goodwill
- Reviewed domestic M&A opportunities. Concluded its is better to deploy our capital into other growth areas

Vertical adjacencies

- Continued expansion of existing categories from significant business reinvestment in people and facilities
- Improving incremental EBITDA margin

Adjacent segments

- Diversify our revenue base in related segments that leverage our deep experience plant and equipment markets
  - Asset based lending (sale and lease back) trial
  - Expanded Auto finance, insurance and warranty options, in alliance with financiers

Overseas geographies

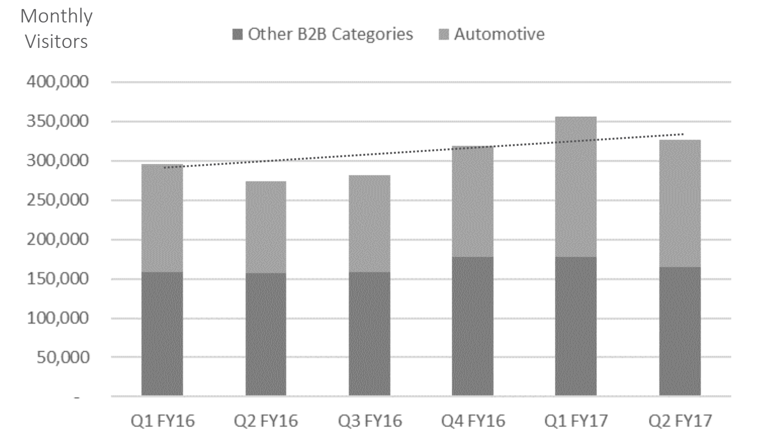
- Expand into new geographies with local joint venture partners who bring local connections. GEG provides a scaleable auction platform and eCommerce know-how.
  - Low cost model. Not purchasing businesses
  - Expect to launch in the Middle East in H2 FY17
  - On-going sales in SE Asia for Australian vendors

Strong customer base supporting B2B

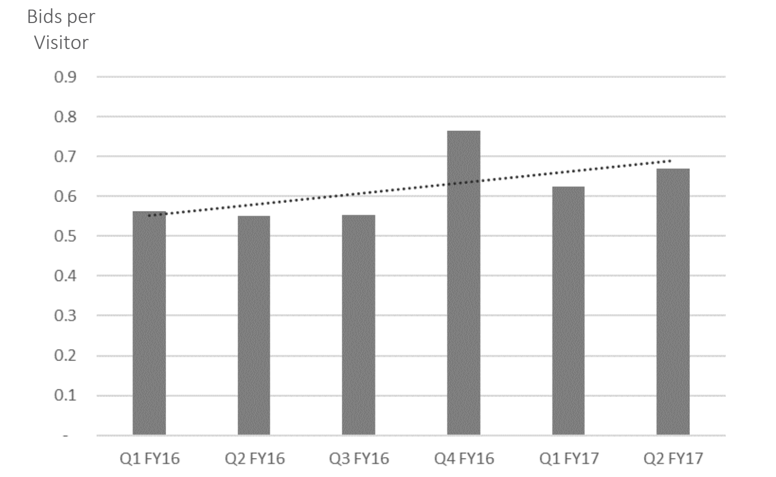
Metrics indicate a loyal base of customers with high engagement

- Continued strong activity levels with B2B buyers:
  - Growth in unpaid channels including email, LinkedIn and PR coverage
  - Category-specific paid placements and digital marketing to support listings volume
  - Mobile and tablet driving >60% of site bids
- Significant reach, with over 1 million unique visitors accessing the site each month
- A loyal, active customer base with 68% of 2016 buyers having tenure over 1 year
- 48% of customers bought more than once, with 26% purchasing 4 or more times
- 28% of customers buying across two or more categories
- Strong and growing user engagement:
  - A healthy conversion rate of 3.7%[1]
  - B2B auction bids growing strongly vs. H1 FY16
- B2B Vendor marketing including PR, LinkedIn, events and paid placements

B2B Auction Visitors



Increasing Bids per Auction Visitor

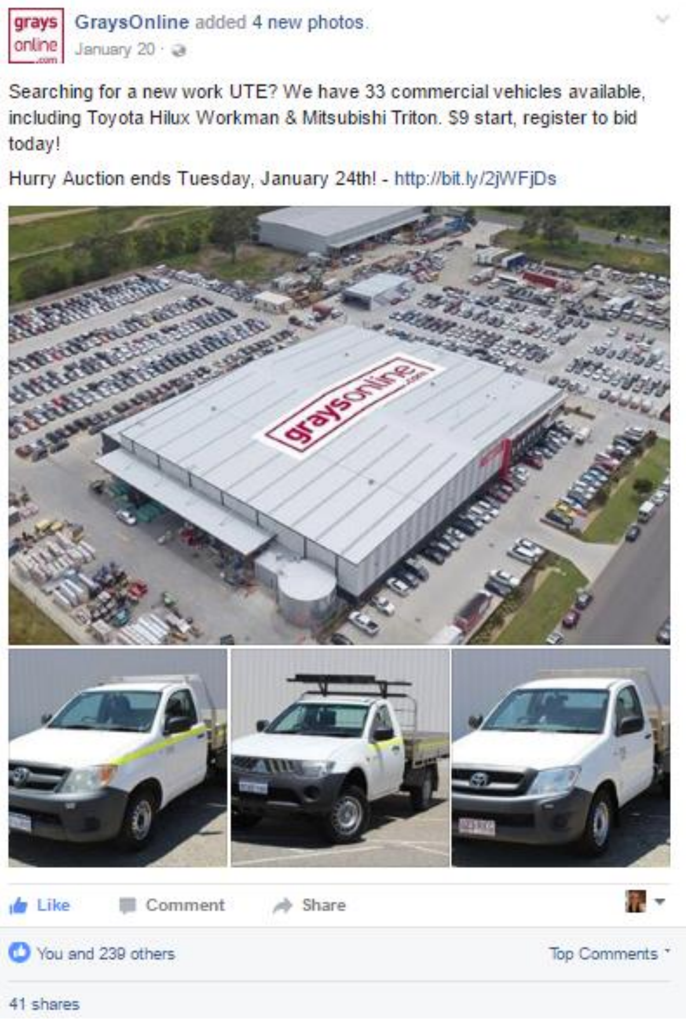


[1] Monthly average conversion from unique visitors to unique bidders for the 6 months to December 2016

Focus on customer acquisition and engagement

Re-energised marketing activities have driven incremental site traffic and revenue

- New channels added to grow the customer base: LinkedIn and Facebook unpaid and paid promotions, targeted online display and mobile notification
- Category-specific campaigns for Autos and Wine
- Strong focus on Grays points of difference: unreserved auctions, refurbished and seconds
- Improved targeting using lists, lookalike audiences and customer research
- Increased capabilities to re-engage customers:
    - Search and social channels used to target current, lapsed and disengaged customers
    - Improvements in email segmentation offering related products to adjacent segments
    - On-site recommendations to drive cross-category sales
- Ongoing investments in mobile: iOS and Android apps and responsive sites
- Research underway for site usability improvements



In summary…

Building a growing and sustainable B2B business

- H1 FY17 initiatives delivering:
  - B2B: increased revenue underpinned by planned business reinvestment and EBITDA continuing to grow
  - Maiden interim dividend declared of 1.2 cps fully franked
- H2 FY17 priorities:
  - B2B:
    - further benefits from investment program to take effect with higher recurring revenue growth across major categories
    - measured B2B expansion offshore (launch of graysmideastplant.com)
    - expand B2B adjacent service lines (GEG Capital to commence operations)
  - B2C: rationalise categories, undertake an orderly run-down of GEG owned inventories and reduce fixed costs
- As a result of the strategic decision to rationalise B2C and its deteriorating performance, FY17 EBITDA expected to be at a similar level to FY16 (from Continuing Operations)
  - Benefits from investment in B2B are expected to continue flowing through in H2 FY17
  - Continued growth expected in B2B earnings offset by B2C loss

Appendices

Segment net revenue summary and run rate

NET REVENUE * $'000 AUD	B2B	B2C	Corporate	Continuing Operations	Disposed Operations	Total GEG
H1 FY17	40,412	15,647	160	56,219	-	56,219
H1 FY16	34,750	17,341	-	52,091	14,127	66,218
H2 FY16	34,947	14,961	343	50,251	977	51,228
Full Year FY16	69,697	32,302	343	102,342	15,104	117,446
PCP Variance $	5,662	-1,694	160	4,128	-14,127	-9,999
PCP Variance %	16.29%	-9.77%	>100%	7.92%	-100.00%	-15.10%
H2 FY16 Variance $	5,465	686	-183	5,968	-977	4,991
H2 FY16 Variance %	15.64%	4.59%	-53.35%	11.88%	-100.00%	9.74%

** Statutory revenue less interest income and Cost of Sales.*

Segment EBITDA summary and run rate

EBITDA $'000 AUD	B2B	B2C	Corporate	Continuing Operations	Disposed Operations	Total GEG
H1 FY17	9,384	(342)	(1,933)	7,109	-	7,109
H1 FY16	9,041	1,338	(2,264)	8,115	(7,879)	236
H2 FY16	7,507	734	(2,014)	6,227	(1,839)	4,388
Full Year FY16	16,548	2,072	(4,278)	14,342	(9,718)	4,624
PCP Variance $	343	(1,680)	331	(1,006)	7,879	6,873
PCP Variance %	3.8%	-125.6%	14.6%	-12.4%	100.0%	>100.0%
H2 FY16 Variance $	1,877	(1,076)	81	882	1,839	2,721
H2 FY16 Variance %	25.0%	-146.6%	4.0%	14.2%	100.0%	62.0%

Corporate costs

A$'000	H1 FY17	H1 FY16	CHG
Continuing operations			
Corporate costs	(1,933)	(2,264)	14.6%

- Corporate costs include Board, senior executive team, legal, company secretarial and public company fees
- All expenditure relating to HR, Finance and IT has been allocated to B2B or B2C where appropriate
- Continued tight cost control

Significant items summary – H1 FY16

A$'000 (Pre-tax)	H1 FY16	Cash	Non-cash
Sale of FPR – loss on sale			
Proceeds on sale	5,200	5,200	
▪ Goodwill sold	(16,060)		(16,060)
▪ Intangibles sold (customer database, software)	(1,526)		(1,526)
▪ Assets sold (capitalised web development & software)	(665)		(665)
Net loss on sale of FPR	(13,051)	5,200	(18,251)
Recognition of onerous contracts upon disposal	(6,605)		(6,605)
Provision for inventory liquidation	(1,870)		(1,870)
Other costs including employment terminations	(3,260)	(3,260)	
Disposal of FPR	**(24,786)**	**1,940**	**(26,726)**
Acquisition and integration costs	(196)	(196)	
Total significant items	**(24,982)**	**1,744**	**(26,726)**

B2B guarantees and buys

- Guarantees and buys leverage GEG's distinctive capabilities to unlock value for vendors and utilise our efficient and liquid marketplace
- $13.3m in guarantees were written during H1 FY17 (4.9% of gross sales). H1 FY16: $27.2m (11.8% of gross sales)
- Robust systems and controls in place:
  - A Board approved delegation matrix and aggregate maximum exposure limits at all times
  - Standard documentation, terms and conditions
  - 3 stage valuation process, subject to peer review
  - Monthly review of guarantee book by Board and Executive Team
  - Compulsory post-sale reviews
- As at 31 December 2016 outstanding guarantees totalled $5.6m (31 Dec 15: $6.8m)

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