

## 2016 ANNUAL GENERAL MEETING

18 November 2016

### Chairman's address

#### SLIDE 3: Chairman's address

##### Year in review

Kogan.com is Australia's leading pure play online retail website with almost one in six Australians subscribed to our community.

It has been approximately five months since the company listed and the funds raised have begun to be utilised by the business through investment in inventory and marketing. We believe by releasing capital constraints, the business will be able to deliver on our growth targets and objectives.

As mentioned, Ruslan Kogan, Founder and CEO, will provide additional commentary on your company's performance including an update on trading in the four months to October, but I wanted to highlight some key financial performance measures achieved by Kogan.com during the year ended 30 June 2016.

#### SLIDE 4: FY16 Results

Kogan.com delivered a strong result, comfortably exceeding Prospectus and providing momentum into 2017. The highlights included:

- statutory total revenue of \$211.2 million, exceeding prospectus forecasts by 5.0%;
- pro forma EBITDA of \$4.0 million which adjusts for one-off costs relating to the IPO and is up 37.9% on prospectus forecasts; and
- pro forma NPAT of \$0.8 million, exceeding prospectus forecasts by 100%.

These results reflect the significant work undertaken by the Kogan.com team to grow your company's active customer and subscriber base – both organically and via expansion strategies. During the financial year, the team successfully acquired and integrated the Dick Smith online business and expanded your company's reach into new verticals including Kogan Mobile and Kogan Travel.

These carefully-executed growth initiatives, combined with significant investment in systems and automation, have allowed Kogan.com to deliver a strong maiden result for shareholders.

##### Strategy

The Australian online retail market continues to grow rapidly and your Board believes it remains underpenetrated compared to other developed economies. Euromonitor estimates that the Australian online retail market was valued at \$17 billion in 2015, and is forecast to grow at a compound annual growth rate (CAGR) of 11.5% in the period through to 2019.

The Board is confident in Kogan.com's growth strategy and believes that the business has a strong platform from which to expand. Kogan.com's growth initiatives are designed to support its vision to further consolidate our position as Australia's largest pure play online retail website through leveraging its core business strengths.

The majority of funds raised from Kogan.com's recent IPO are being invested in accelerating the company's growth strategy, including investment in new Private Label products and marketing.

Over the medium term, your company will also assess new business verticals that can scale with the Kogan community and potential industry consolidation opportunities.

The Board is confident in the growth strategy of the business.

### **Remuneration**

In order to deliver on this strategy, Kogan.com needs to appropriately attract, reward and retain team members at all levels of the business. The Board recognises the performance of the Group depends on the quality and motivation of its team members.

As a result, since listing Kogan.com on the ASX, the Board has sought to establish incentive arrangements that are in line with best practice – combining fixed remuneration with a combination of cash and equity based short-term and long-term incentives. We have taken advice from KPMG and are confident our remuneration strategy aligns relevant staff to the future success of the company.

### **Conclusion**

I would now like to invite Ruslan Kogan, Founder and CEO of Kogan.com, to address the meeting and provide a more comprehensive review of the business during the 2016 financial year and an update on performance to date in the 2017 financial year.

# CEO's presentation

## SLIDE 5: CEO's presentation

Thanks, Chairman.

I am delighted to have the opportunity to personally address fellow shareholders at our first public Annual General Meeting and I am grateful for the support you, our shareholders, have shown as we lay the foundations for future growth.

There is no doubt that the 2016 financial year was a transformational year for us.

It was a year that saw us complete the implementation of our ambitious ERP Project which provides us with increased automation and the platform required to scale our business. We also launched Kogan Mobile; grew Kogan Travel to be a material contributor; and acquired the Dick Smith online business, fully integrating it into our platform.

Kogan.com is a successful online retail business that was grown organically for over a decade. By focusing on our customers and funding our growth from cash flow, we have been EBITDA positive since inception.

Over the last couple of years as a private company we faced significant capital constraints. Turning over \$200 million in revenues, we were pushing up against the boundaries of growth that we could fund organically.

But despite those constraints impacting our marketing spend and hampering the speed of our Private Label expansion, we were still able to deliver top line growth of 5.4% on last year and statutory EBITDA growth of 116.7%. I think this demonstrates that we run a tight ship, driven by a culture strong on metrics and analytics.

Now, with the capital you've entrusted to us, we have begun to spread our wings. You've given us the ability to pursue a phase of further investment in profitable and sustainable growth.

## SLIDE 6: Agenda

I plan to briefly cover off the following topics with you today before handing back to the Chairman for the formal business of the meeting.

1. Firstly, I will take you through the strong growth we are achieving in our core online retailing business.
2. Secondly, I want to talk about Kogan.com's increasing efficiency and the operating leverage we have generated in our business.
3. Thirdly, I will outline our current growth plans in our core business and our new verticals.
4. Next, I'd like to talk briefly about the long term market opportunity and provide some views on the growing importance of online retail in the marketplace both globally and locally.
5. And finally, I will provide an update on trading for the first four months to October and our outlook for the 2017 financial year.

## **SLIDE 7: Strong growth**

### **1. Strong growth in core business**

As you will have seen from our Annual Report to shareholders, Kogan.com delivered strong growth on all metrics during 2016. Reported revenue was \$211.2 million, outperforming our prospectus forecasts by \$10.1 million.

Our successful launch of Dick Smith in early May delivered sales of \$6.5 million in under two months. We are very pleased by this performance and proud of the team's ability to have Dick Smith launched well ahead of schedule.

It is still early days for us, but we continue to be pleased by the top line contribution from Dick Smith since its relaunch and the additional operating leverage we are generating through this channel.

Excluding Dick Smith, Kogan.com still outperformed prospectus forecasts by \$3.6 million in revenue, with Third Party Domestic sales delivering faster than expected growth and contributing to higher margins.

Today, almost one in every six Australians is a subscriber to one of our websites. Kogan.com had 3.7 million unique active subscribers at 30 June 2016, up 60.8% in six months. Excluding the impact of Dick Smith, subscriber numbers achieved 26.1% growth over the same period.

We continue to see strong growth in unique active customers. We define an active customer as one that has transacted with us in the prior 12 months. At 31 December 2015, we had 621,000 active customers. At the end of October 2016, this has grown to 763,000, representing growth of 22.9% in the last 10 months. You can see a chart of our strong active customer growth in the presentation. This demonstrates the strength of Kogan.com's brands.

## **SLIDE 8: Operating leverage**

### **2. Operating leverage delivering results**

In terms of our gross profit and EBITDA performance, a key contributor was margin expansion partly due to mix shift and also due to significant investments in enhanced efficiency.

Kogan.com delivered pro forma EBITDA of \$4 million for the year, up 37.9% on our prospectus forecast and up 150% on last year.

Approximately 48% of Kogan.com's overhead cost base is fixed, providing the company with significant operating leverage as we continue to scale.

Our gross margin for the financial year was 15.5%, bolstered by an increase in Third Party Domestic sales (which operate at higher margins than Third Party International) and investments in systems, proprietary technology and logistics that were made prior to Kogan.com's listing.

The hard work undertaken by the team to implement proprietary software solutions has delivered efficiencies in time and cost via automation, timelier reporting and improved business insights.

Our gross margin increased by 6.9% against forecast whereas our pro forma EBITDA margin increased by 35.7% and NPAT by 100%.

Let me briefly outline some of the key success factors that supported our strong organic growth, increased efficiency and margin expansion.

Firstly, we have a strong Private Label business consisting of 13 brands, driven by an analytical approach to servicing existing demand and maintaining price leadership.

We believe our world class supply chain is the most efficient way to get a product from point of manufacture into the customers' hands. Our investment in automation has also driven faster dispatches, timely communication and ultimately resulted in happier customers. We now have end-to-end automation for the dispatch of in-inventory items.

Our established brand is synonymous with online retail in Australia and is why we had 52 million visits to Kogan's core website channels during 2015. Our team is committed to furthering our leadership position as a pure play online retail website.

Ultimately, it's our compelling offering which drives new customers to our site and ensures existing customers keep coming back.

Our unique mix of Private Label products, Third Party brands and new verticals ensures a higher likelihood of turning any visitor into a customer.

### **SLIDE 9: New verticals**

#### **3. New verticals performing well**

During the 2016 financial year, Kogan Mobile and Kogan Travel together delivered \$5.3 million in gross sales – this exceeded our expectations.

Both of these verticals are relatively new, but we did have a full-year contribution from Kogan Travel, which launched in May 2015 and delivered gross sales of \$4.8 million, up 11.6% on forecasts.

Kogan Travel markets affordable holidays online, leveraging and growing our subscriber base.

Meanwhile, Kogan Mobile launched in October 2015 and delivered \$0.5 million in sales for the portion of the financial year that it was operational, outperforming prospectus by 25.0%. Kogan Mobile's gross sales are commission-based, so they reflect 100% gross margin.

We are excited by the opportunities to continue to scale these businesses.

### **SLIDE 10: Delivering growth in 2017 and beyond**

#### **4. Investment and growth**

There are a number of growth opportunities open to Kogan.com into 2017 and beyond.

These opportunities are made possible by:

- a strong balance sheet, bolstered by our recent capital raising;
- the continued growth of the Kogan.com community; and
- the world class scalable platform we have built.

I want to call out Dick Smith here as a great example of our ability to seamlessly grow and scale from our sustainable core business.

After acquiring the online assets of Dick Smith in March 2016, we relaunched dicksmith.com.au on May 4th this year, a month ahead of schedule.

In under two months, our team was able to integrate the Dick Smith asset into our existing infrastructure and give it the benefit of:

- a fully responsive platform that works on mobile, desktop and tablet;
- full integration into our proprietary systems and automation platform; and
- the ability to leverage Kogan.com's existing inventory.

Dick Smith was integrated with next to zero additional fixed costs and is contributing significant operating leverage to the business.

Dick Smith remains an iconic Australian brand with nearly 50 years of history. We are proud to have played a role in keeping the brand alive and trading online for the benefit of customers. The combination of this iconic brand with our best-in-class infrastructure is clearly providing customers with a reason to continue shopping with Dick Smith.

We have also begun to strategically deploy the capital we raised at the end of the 2016 financial year into key initiatives including:

- investing in our proven Private Label strategy that is driven by demand metrics;
- investing in our industry-leading digital marketing practices in order to further build the Kogan.com community; and
- growing our Third Party Domestic channel as more and more brands realise the benefits of exposure to Kogan.com's huge customer base.

The performance of the Third Party Domestic product division has exceeded our expectations and demonstrates the increased propensity of Third Party brands to choose Kogan.com as an online retail channel partner. Our ability to talk to over 3.7 million Aussie consumers provides a compelling platform for immediate consumer engagement.

## **SLIDE 11: Market opportunity**

### **5. Long term market opportunity**

I'd like to talk to you for a moment about how I see both the retail market locally and the online retail market globally.

When I started Kogan.com out of my parents' garage just over 10 years ago, the product range was limited to two Private Label televisions.

But I knew there was a gap in the market. I had a vision for delivering customers a better deal through digital efficiency.

What I didn't expect was that a decade down the track, Kogan.com would be the number one pure play online retail website in Australia and the third most visited Australian shopping website, behind two global marketplaces. This ranking does not include the significant traffic we are seeing through the Dick Smith website. We believe this performance is driven by our tens of thousands of products from leading brands and an expanding suite of our own Private Label products.

I am incredibly proud of our track record. I believe this sets us apart from our peers and demonstrates the strength and sustainability of our business.

The way people buy goods and services in Australia has undergone significant change in the past decade. It's a wave of change that continues with great momentum and we are proud to continue playing a leading role in it.

#### **SLIDE 12: Market opportunity**

However, online retail is still under-represented in Australia compared to other major developed economies. As Greg mentioned, it's predicted the Australian online retail market will deliver 11.5% compound annual growth between now and 2019.

For this reason, I can understand the significant excitement in the past couple of months about the rumoured arrival of Amazon. Although I must qualify that in our view, Amazon is already here in a big way. They're a top 20 site in Australia and they already get more traffic than news.com.au and realestate.com.au.

But regardless, there's no doubt that the arrival of a major international online marketplace will do great things to boost the profile of online retail locally. A rising tide lifts all boats.

#### **SLIDE 13: Market opportunity**

I have no doubt these pie charts will look quite different in the years to come. Today, while online retail is a big market and growing strongly – it still only represents 6% of the total Aussie retail market. That's bound to change.

At a high level, the potential arrival of Amazon means the biggest, hottest brands will have no choice but to put products and significant volume through online channels. In doing so, they'll need to let go the fear of upsetting the traditional retail channels to which they've been beholden.

With traditional channels facing continued consolidation, the path to market in Australia is begging for diversification. I expect we'll see a change in behaviour from major brands and suppliers that will only create opportunities. This will happen whether Amazon chooses to come here or not – but if they do, it will accelerate the process.

Amazon would encourage customers to rethink how they buy and suppliers to rethink how they sell. For example, we use eBay as a channel and we are one of the biggest sellers in Australia on the platform. eBay is currently the #5 ranked site in the country.

If Amazon launch in Australia, we'll of course be doing the same through them. Unlike many retailers, we have a strong Private Label business and Amazon provides another large distribution channel to sell our products and deliver our value proposition of price leadership and digital efficiency to customers.

We've always advocated for consumer choice and for consumer value. The continued growth of the Australian online retail market will help to achieve this. We are in favour of any and all platforms that accomplish this goal.

#### **SLIDE 14: Trading & Outlook**

Before handing back to the Chairman to conduct the formal business of the meeting, let me provide a brief update on trading.

We are seeing continued strong sales performance across our business, with our revenue run rate exceeding our expectations when lined up against our prospectus forecasts.

Because of the significant investment made in systems and automation before bringing Kogan.com to market, the uplift in sales is providing us with significant operating leverage and this is translating to a margin expansion opportunity.

We continue to see growth in our active subscriber base and active customer base.

Brand names increasingly see Kogan.com as an additional and important channel to market and we remain dedicated to serving our online community with a huge variety of offerings with great value.

Since listing, we have been progressively deploying IPO proceeds into inventory and marketing activity in a scientific and targeted manner, to support and drive further growth.

We expect a strong Christmas trading period with healthy inventory levels enabled by the capital raised through the IPO.

Finally, Kogan Mobile continues to attract new customers and gain market share, exceeding management's expectations with further customer demand following the rollout of 4G and various promotions.

Based on this strong performance across our business, the Board has revised guidance for the 2017 financial year over and above the prospectus forecasts. Kogan.com now expects pro forma EBITDA of between \$8 million and \$9 million in FY17, up from our prospectus forecast of \$6.9 million.

## **Conclusion**

The Kogan.com team is incredibly proud of what we've built so far and our achievements during the 2016 financial year would not be possible without their amazing commitment. We have a talented team of people that are true leaders, able to navigate the changing retail landscape to ensure Kogan.com continues to be successful and grow.

We remain energised by the continuing opportunities to grow online retailing in Australia. For us this is still just the beginning of a very exciting growth journey. I look forward to the opportunity to talk to you more about our business informally after the meeting.