

13 June 2019

Strategic Review of Stratton & FY19 results update

carsales is conducting a strategic review and pursuing the sale of its 50.1% interest in Stratton Finance Pty Ltd ("Stratton"), the vehicle finance broking business. Timing of a potential sale of carsales' interest in Stratton will be determined following the completion of the strategic review, which Miles Advisory Partners has been engaged to conduct.

Stratton is a leading player in the asset finance and insurance market, assisting its customers finance over \$750 million of assets each year. The business has a 22 year history and large customer base built over that time. While the business is adapting well to changes in the automotive finance market stemming from regulatory changes, and making significant steps towards a digital transformation, carsales believes it can deliver better value for shareholders by investing in the growth and development of its core Australian and international businesses. Customers will continue to be able to access Stratton's products and services through the carsales platform, with additional finance products benefiting carsales' entire customer base expected to be brought to market over the coming financial year.

Managing Director of carsales Cameron McIntyre said, "Stratton has been an advertising partner of carsales over many years prior to our investment in the business, and we expect this strong commercial relationship to continue into the future. The decision to divest Stratton when market conditions permit will allow carsales to focus on other core business growth opportunities in our Australian and International operations while repositioning our finance services strategy."

Managing Director of Stratton Rob Chaloner said, "The relationship with carsales has always been strong and supportive and we look forward to continuing to provide valuable products and services to carsales customers well into the future."

As a result of this process, Stratton will be classified as a discontinued operation in the FY19 financial statements and a non-current asset held for sale. carsales FY19 financial statements will separately disclose results from continuing operations (excluding Stratton) and discontinued operations (Stratton). Stratton will initially be carried at current book value as a held for sale asset and the valuation of the business expected to be achieved through the sale process will be kept under review.

Ahead of carsales announcement of its FY19 results in August 2019, carsales provides the following estimate of the FY19 results on a continuing operations basis (excluding Stratton) and a total consolidated basis (including Stratton). The performance of the classifieds business in Australia has proven resilient in the current economic environment, reflecting the strength and breadth of its offer to consumers and commercial customers. International businesses continue to perform well and build scale in each market.

A\$ in millions	FY19 continuing		Growth on FY18	
	operations (exc Stratton)	FY19 total (inc Stratton)	FY19 continuing operations	FY19 total (inc Stratton)
Revenue	418 - 420	473 - 475	10-11%	6-7%
Adjusted EBITDA*	209 - 211	211 - 213	7-8%	3-4%
Adjusted Net Profit After Tax *	130 - 132	130 - 132	1-3%	0-1%
EBITDA margin %	50%	45%		

*Adjusted EBITDA excludes approximately \$5m of one-off expenses including \$2m of costs related to streamlining operations and \$3m in FY18 bad debt write-offs expected to be recorded in FY19. The \$3m of FY18 bad debt write offs reflects the impact of customer receipt allocation issues associated with the implementation of the new ERP system in FY18. These allocation issues have been rectified and are confined to FY18 receivables. The collection experience relating to FY19 revenue is at normal levels and no additional abnormal bad debt write-offs associated with this issue are anticipated. In addition to these items, Adjusted Net Profit After Tax also excludes other non-recurring and non-cash items relating to financing, investments and acquired intangible amortisation.

Stratton contributed \$1m in EBITDA in H1 FY19 on a standalone basis, representing approximately 1% of carsales' Adjusted EBITDA. A detailed reconciliation of the change in accounting treatment including a restatement of the FY18 comparative period is included in the attached Appendix.

carsales advises that it will announce its FY19 full year results on Wednesday 21 August 2019.

Appendix

Impact of change in accounting treatment of Stratton

A\$ in millions	H1 FY18	H2 FY18	FY18 restated	H1 FY19	H2 FY19E	FY19 estimate
Continuing operations						
Revenue	169	208	377	205	213 - 215	418 - 420
Adjusted EBITDA	87	109	196	97	112 - 114	209 - 211
Adjusted Net Profit After Tax	60	69	129	60	70 - 72	130 - 132
Discontinued operations - Stratton*						
Revenue	32	36	68	31	26	57
EBITDA	4	4	8	1	1	2
Adjusted Net Profit After Tax	1	1	2	-	-	-

*NB: Stratton's results detailed above are shown on a standalone entity basis and include intercompany transactions between Stratton and the continuing carsales operations. The Financial and Related Services segment shown in prior period Annual Reports and Investor Presentations was presented on a different basis with intercompany transactions eliminated in the segment reporting.