

19 August 2020

## Domestic and international growth reflecting the strength of the business and benefits of diversification across product and geography

carsales.com Limited (ASX: CAR) today announced its results for the full year ended 30 June 2020. The Group delivered a robust set of results despite the challenging environment, demonstrating the strength of the Australian business and the growth potential of its international markets. The result was underpinned by earnings growth across Domestic and International portfolios and an excellent performance from Encar in South Korea, which delivered EBITDA growth of 18%<sup>3</sup>. The result reflects the diversification of the business across product and geography with international now representing 24% of look-through<sup>4</sup> revenue.

### Results highlights

- Group Adjusted Revenue<sup>2</sup> grew by 1% to \$423m, a strong outcome given the impact of COVID-19 in H2. Reflects good growth in Domestic Dealer and South Korean segments, partly offset by revenue declines in the domestic Private and Media businesses, largely due to the impact of COVID-19 in H2.
- Group Adjusted EBITDA<sup>2</sup> up 6% to \$237m, with Group EBITDA margins of 55% reflecting good operating leverage and strong cost control in both the domestic and international businesses.
- Group Adjusted NPAT<sup>2</sup> up 6% to \$138m.
- Reported Revenue down 5% to \$396m, Reported EBITDA down 5% to \$202m, Reported NPAT down 9% to \$120m, lower than pcp primarily due to \$28m COVID-19 dealer support package.
- Strong cash flow with Reported EBITDA to operating cash flow conversion of 107%.
- Final dividend of 25.0 cents per share.

A\$m	FY19 <sup>1</sup>	FY20	Growth
<b>Adjusted Revenue<sup>2</sup></b>	418	423	1%
<b>Adjusted EBITDA<sup>2</sup></b>	218	232	6%
<b>Adjusted NPAT<sup>2</sup></b>	130	138	6%
<b>Reported Revenue</b>	418	396	(5%)
<b>Reported EBITDA</b>	213	202	(5%)
<b>Reported NPAT</b>	132	120	(9%)
<b>Adjusted Earnings Per Share (Cents)</b>	53.4	56.4	6%
<b>Reported Earnings Per Share (Cents)</b>	54.2	48.9	(10%)
<b>Final Dividend (Cents)</b>	25.0	25.0	-

1. FY19 financials have been restated to reflect the adoption of AASB16. Refer to Results Presentation documents regarding AASB16 adjustment.

2. Adjusted Revenue, Adjusted EBITDA and Adjusted NPAT stated above is on a continuing basis (excluding Stratton Finance), post non-controlling interests and excludes certain non-recurring or non-cash items. Refer to Results Presentation documents regarding the disclosure of non-IFRS information and reconciliation from Reported to Adjusted Financials.

3. Represents local currency growth.

4. Look-through methodology: for equity accounted associates and consolidated subsidiaries, add the total revenue or EBITDA for the period of ownership within the reporting period multiplied by the % ownership over the period.

## **COVID-19 response**

- The COVID-19 pandemic had a significant impact on the business in the second half
- Action was taken to protect our people, support our customers in the car industry and increase business resilience
- \$28m in financial assistance and extended payment terms for dealers as well as new product innovation to enhance customer safety and experience in a COVID-19 restricted environment
- Working from home support for our team including flexible working arrangements and focus on physical and mental wellbeing
- Cost reductions including 20% decrease in board and executive salaries, other discretionary cost savings and the JobKeeper support program in the last quarter
- Refinanced, extended and increased debt facilities to increase liquidity

### **Group CEO of carsales, Cameron McIntyre, commented:**

“This is a pleasing full year result given the impact of COVID-19 on our business in the second half. We delivered earnings growth across our Domestic and International businesses with our Australian business proving very resilient and 18%<sup>3</sup> earnings growth from our South Korean business highlighting the attractive growth potential from international markets. Our long standing strategy to grow and diversify our business by geography and product positions us well even in a challenging operating environment.

“The resilience of carsales is testament to the hard work and dedication of our fantastic team during this challenging time as well as the strength of our offering to our customers. Our longstanding strategy of investment in new products that provide the best experience and solutions for our customers continues to drive our market leadership position. The 30% growth in our global traffic substantiates this investment. It has been extremely pleasing to see us continue to extend our market leadership position in our two largest markets, Australia and South Korea.

“In navigating the challenges of COVID-19 we have been guided by the principles of protecting our people, supporting our customers and building business resilience. We have been pleased to be able to support car dealers with \$28m in financial assistance and extended payment terms as well introduce product innovation to enhance customer safety and experience in a COVID-19 restricted environment.

We have observed a strong rebound in demand for vehicles across multiple international markets as countries have emerged from lockdown. We have also seen continued migration to digital platforms as well as people's aversion to taking public transport (deemed unsafe due to COVID-19) have increased the propensity for car ownership, which are positive trends for our business.

“Our International growth strategy is delivering. We have an enviable portfolio of International assets, which are key pillars of our long-term growth agenda. Our two largest International assets in South Korea and Brazil continue to demonstrate impressive growth profiles and both have significant future upside potential.

“Our overriding priority continues to be the safety and wellbeing of our employees and customers around the world during these challenging times. We remain attentive to our near term challenges whilst focussing on the long term opportunities to grow our business. Moreover, the online experience as part of the car buying process has never been more important.” said Mr McIntyre.

## **carsales Australia**

- **Domestic market leadership position** – reinforced our market leadership across all metrics including traffic, inventory, customer engagement and reputation. Increased our traffic advantage over our nearest competitors.
- **Audience growth** – strong traffic growth of 8%, testament to a sustained investment in our platform and user experience.
- **Dealer** – good Adjusted Revenue<sup>2</sup> growth of 10%, reflecting healthy demand for used cars, good depth growth and yield improvements. Strong rebound in transaction volumes as social distancing measures were eased. Decisive action to support our customers with a \$28m support package. Also provided counselling, education and product support.
- **Private** – revenue down 5%, reflecting solid growth of 7% in H1 and a decline of 17% in H2. Growth in H1 reflective of growth in core private business, Instant Offer and tyresales. Decline in H2 largely reflects the negative impact from COVID-19 restrictions. There was good recovery in core private business in the last quarter of FY20 as COVID-19 restrictions were eased.
- **Data, Research & Services** – good demand for core data product set, with good growth in Redbook and our Warranty product. Revenue was flat on pcp but grew by 5%, excluding the impact of deliberate exit from some low margin, non-core products and contracts.
- **Media** – result reflects very challenging new car advertising market with new car sales down 20% in H2. carsales' optimised native and video product portfolio mitigated revenue declines and enabled carsales to grow share of a smaller market.
- **Inventory** – total inventory on site decreased over the last two months of the financial year driven by a significant reduction in time to sell and an increase in the number of first time car buyers and people adding an additional car to the household.

The strength of our business model has been highlighted in the last twelve months. We have further consolidated our market leadership with record audience numbers and engagement, recording traffic growth of 8% on pcp. Our long term investment in providing customers with a seamless and personalised experience continues to be our key competitive advantage.

This is reflected in the performance of our Dealer segment, as we continue to connect our Dealers to the largest and most engaged automotive audience in Australia. We are the key source of used car leads for dealers, with pleasing growth in enquiry volumes in FY20. We responded to the unique challenges presented by COVID-19, updating the presentation of a dealer's stock items to include easy to understand badges that highlight key information around services, capabilities and sanitisation. Our depth products continue to demonstrate good growth, providing our dealers with the opportunity to differentiate their listings in a congested market.

In the Private business, carsales continued to execute on its goal of facilitating a frictionless buying, selling and ownership experience for private customers. The Instant-Offer product has maintained strong underlying growth and is an increasingly attractive way for private customers to sell their cars in a convenient and transparent manner. Enhancements made to the product have improved customer experience and sales conversion, with significant future growth potential.

carsales is also delivering on its strategy to build and enhance engagement with its membership base across the car ownership lifecycle. We aim to do this by providing compelling member benefits as well as enhanced personalisation. We successfully launched a fuel discount offer and our 'Owner Accelerate'

membership program throughout the year. We also deployed MyFeed, an AI based tool that provides carsales users with a personalised native content experience based on their search behaviour and preferences. These initiatives resulted in a significant uplift in both the size and engagement of carsales members, reflected in a 100%+ increase in the number of cars that members store in our “Virtual Garage”.

### **carsales International**

- Good performance despite the impact of COVID-19 in H2, with International look-through<sup>4</sup> revenue growth of 13% and International look-through<sup>4</sup> EBITDA growth of 20%.
- **South Korea** – delivered an outstanding result with revenue and EBITDA growth of 16%<sup>3</sup> and 18%<sup>3</sup> respectively. The Guarantee service and reinvigorated Dealer Direct product were the key performance drivers and are expected to drive growth over the medium term. Good margin expansion from operating leverage and prudent cost control. Successful transition away from the SK brand.
- **Brazil** – delivered an outstanding performance in the first half, with growth in second half impacted by the onset of COVID-19. Growth in revenue from webmotors’ finance integration with Santander was the key growth driver alongside continued growth in dealer acquisition and lead volumes.

The Group has an attractive portfolio of international assets, which are benefiting from carsales’ deployment of IP and technology, with excellent long term growth prospects.

While South Korea has clearly been impacted by COVID-19, economic activity to date has been significantly less impacted than many other first world countries with the spread of the virus being controlled without extended economic shutdown. As a result, the business recorded growth in all its key operating metrics of inventory, listing volumes and traffic. The business also made a seamless transition away from the SK brand, with strong traffic growth demonstrating the underlying strength of the Encar brand.

The trust and safety attributes of the premium Guarantee product continue to be a key differentiator and competitive advantage for Encar, with the business recording continued strong revenue growth from this product. A redesigned Dealer Direct product, which is similar to carsales’ Instant Offer product, was also a key driver of growth over the last twelve months. Both these products have good long term growth potential.

In Brazil, webmotors delivered a very strong result in the first half of the financial year with underlying local currency revenue and EBITDA up 29% and 36% compared with H1 FY19. Finance revenue is now a material contributor to the business comprising approximately 15% of revenue and growing rapidly. Whilst COVID-19 materially impacted the business in the second half, the long term growth prospects of the business are strong, and we expect the business to make a good recovery when Brazil emerges from lockdown.

Mexico, Argentina and Chile all benefited from leveraging our global technology platform, as products released globally provide these businesses with a competitive advantage in their home markets. Whilst all businesses were impacted by the onset of the pandemic, we continue to see good long term potential from these markets.

## **FY21 Trading Observations**

### **Overall Summary**

- COVID-19 continues to create uncertainty in our operating environment
- We remain committed to supporting our people through these challenging times
- While lockdowns in most regions have been lifted, Metro Melbourne and Regional Victoria are currently in stage 4 and 3 lockdowns and localised lockdowns in other jurisdictions remain a real possibility
- We will continue to focus on managing costs
- We remain committed to investing in product and market leading positions
- Business is well diversified across geography and product – international now represents 19% of total look-through<sup>4</sup> EBITDA, significant diversification in Australia across states and territories
- Used car market has proven very resilient with volumes rebounding quickly after lockdowns have been lifted, business has limited exposure to new car market
- Trends coming out of COVID-19 very positive for carsales – continued digital adoption, increased propensity for car ownership
- Business is well funded with low gearing, strong liquidity and strong cash generation to fund growth capital and dividends

### **Specific Trading Observations**

Given the continuing uncertainty due to COVID-19, we are not providing specific guidance on our financial expectations for FY21. We do, however provide the following current trading observations.

#### **Australia**

- Dealer:
  - In July 2020, overall lead volumes grew strongly on the prior corresponding period (pcp).
  - Lead volumes in Victoria are now being impacted by the metro Melbourne restrictions. Other states still showing strong growth on pcp.
  - Implemented Dealer support package for metro Melbourne dealers – 100% rebate on all fees from 6<sup>th</sup> of August 2020 until stage 4 restrictions are lifted.
- Private:
  - Private listing volumes had largely recovered to pre-COVID-19 levels in July 2020.
  - Listing volumes now being impacted by stage 4 metro Melbourne restrictions. Other states still performing well, recording pre-COVID-19 listing volumes.
  - Lower volumes in tyresales expected in FY21 reflecting Q4 run rate and metro Melbourne restrictions.
- Media and new car market:
  - Improving signs in new car activity in June and July, with some recovery in media revenue run rate against pcp. Stage 4 restrictions in Melbourne could impact this recovery. Expecting media revenue to be lower than pcp in the first half.

## International

- South Korea:
  - At the start of FY21, key operating metrics of inventory, listing volumes and traffic are all growing well reinforcing continued good growth in revenue and EBITDA on pcp.
- Brazil:
  - Despite high continuing infection rates, we have observed a good rebound in key metrics since June as Brazil emerges from lockdown. Traffic, leads and revenue are now showing growth on pcp in early FY21.
- LATAM
  - Key operating metrics still impacted by continuing restrictions in Chile, Mexico and Argentina. Profitability being well managed through strong cost control. In a good position to leverage unserved consumer demand and recent product development investment as countries emerge from COVID-19 restrictions.

## ENDS

*Release authorised by the Carsales.com Ltd Board*

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## Notes to Editors:

Financial Reports and Investor Presentations can be downloaded from

<http://shareholder.carsales.com.au/Investor-Centre/>

## FINANCIAL RESULTS

Full Year Ending 30 June 2020	\$A Millions		Growth	
	FY19 <sup>1</sup>	FY20	\$'s	%
<b>Revenue</b>				
Online Advertising	300.1	296.7	(3.4)	(1%)
Data, Research and Services	43.2	43.3	0.1	0%
carsales Asia	65.1	75.5	10.4	16%
carsales Latin America	9.1	7.6	(1.5)	(17%)
<b>Adjusted Revenue<sup>2</sup></b>	<b>417.5</b>	<b>423.1</b>	<b>5.6</b>	<b>1%</b>
Total operating expenses	199.6	191.3	8.3	4%
<b>Adjusted EBITDA<sup>2</sup></b>	<b>217.9</b>	<b>231.8</b>	<b>13.9</b>	<b>6%</b>
<i>EBITDA margin</i>	<i>52.2%</i>	<i>54.8%</i>		
Depreciation & amortisation	23.4	28.2	(4.8)	(21%)
<b>EBIT</b>	<b>194.5</b>	<b>203.6</b>	<b>9.1</b>	<b>5%</b>
Net finance costs	15.5	14.3	1.2	8%
<b>Profit Before Tax</b>	<b>179.0</b>	<b>189.3</b>	<b>10.3</b>	<b>6%</b>
Income tax expense	52.9	56.5	(3.6)	(7%)
Profits from associates	3.7	4.7	1.0	27%
Non-controlling interests (NCI)	0.4	0.7	0.3	75%
<b>Adjusted NPAT<sup>2</sup> (continuing operations)</b>	<b>130.2</b>	<b>138.2</b>	<b>8.0</b>	<b>6%</b>
Adjusted Earnings per share (cents)	53.4	56.4	3.0	6%
Final Dividend per share (cents)	25.0	25.0	-	-

### Summary of Reported Results

Reported Revenue	417.5	395.6	(21.9)	(5%)
Reported EBITDA	212.9	202.0	(10.9)	(5%)
Reported NPAT (continuing operations)	132.1	119.9	(12.2)	(9%)
Reported Earnings per share (cents)	54.2	48.9	(5.3)	(10%)

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### About carsales.com Ltd

Founded in 1997, carsales.com Ltd (ASX: CAR) operates the largest online automotive, motorcycle and marine classifieds business in Australia. carsales is regarded as one of Australia's original disruptors and has expanded to include a large number of market-leading brands. Employing over 1200 people around the world, carsales develops world-leading technology and advertising solutions in Melbourne that drive its business around the world. Find out more at carsales.com.au.