Half Year 2016 results

25 February 2016

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H1 FY16 overview

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Positive outlook for FY16

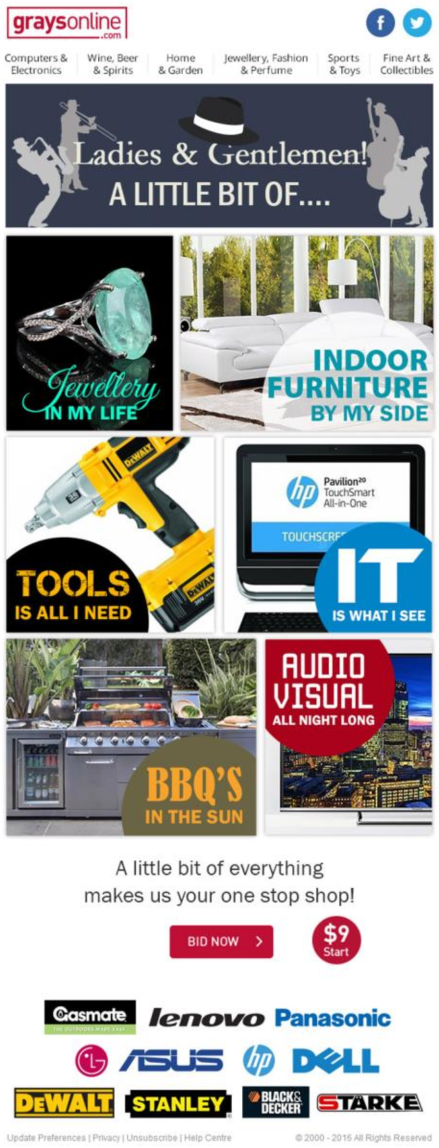
Focusing on key strengths

- Transformed from a mix of retail and auction businesses to a predominantly B2B auction focussed business
- Delivering on B2B growth strategy
  - Unlocking value for vendors and customers by providing an efficient and liquid marketplace that allows the monetisation of assets
  - Grays is uniquely placed to do this given its skill sets, relationships and online expertise and capability
- Refocused profitable B2C consumer auction business
  - Implemented new sourcing strategies, cut warehouse space and reduced costs
- Exited fixed price retail (FPR) business with its sale to MySale
  - Given highly competitive market, high fixed costs and customer loyalty dynamics, the chance of growing the business on a sustainable profitable basis was considered low
  - Sale de-risks continuing operations, reduces fixed costs and allows management to refocus and reinvest cash into GEG's growing and profitable auction business

Delivering on B2B growth strategy

- Over 30% yoy gross sales growth across key Corporate categories of Auto, Mining & Contracting, and Transport
- Banking, Insolvency & Finance (BIF) revenue, which can fluctuate, down in H1 FY16 vs H1 FY15
  - FY15 benefited from some large insolvency projects
  - H2 FY16 pipeline is strong, with expected revenue from BIF in H2 FY16 > H1 FY16
- Expanded into SE Asia with early feedback showing strong pipeline of potential sale activity
- GraysOnline & Iron Planet alliance
  - Exclusive joint venture arrangement, leveraging our expertise to extend into SE Asia
- DMS Davlan integrated into GraysOnline B2B and underpinning our initial growth into Agricultural vertical
- Invested in new infrastructure, facilities and people to provide long term sustainable growth

A refocused profitable B2C auction business



- Online consumer auctions in key categories: wine, consumer electronics, IT, appliances, home furnishings, fine jewellery
- Implemented new sourcing strategies to encourage quality supply, improve vendor yield and lift average sale price
- Cut warehouse space and commenced selective outsourcing to reduce costs, manage seasonality in volumes and introduce more variability into cost base
- Net Promoter Score (NPS) up 32% over last 12 months:
  - Increased personalisation of on site experience
  - Introduction of mobile app notification functionality
  - New wine website: grayswine.com.au

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Sale of FPR business

- Sale of goodwill and customer lists of OO.com.au, dealsdirect.com.au and topbuy.com.au to MySale Group plc for $5.2m
  - Initial purchase price component of $3.0m received in Nov 15, with remaining $2.2m received in early Feb 16
  - The sale proceeds covered costs associated with exiting the business
  - Expected to be earnings accretive in FY17
- Given highly competitive market, high fixed costs and customer loyalty dynamics, the chance of growing the business on a sustainable profitable basis was considered low
- Sale de-risks continuing operations, reduces fixed costs and allows management to focus and reinvest cash into the company's growing and profitable auction business
- Financial results of FPR reflected in "Disposed Operations" with $7.9m EBITDA loss and $25.0m significant item
- Run down of net inventory from $11.6m at 30 Jun 15 to $1.6m at 31 Dec 15, with reduction to nil during H2 FY16

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Growth in Continuing Operations

A$'000	H1 FY16	H1 FY15	CHG
Continuing operations	62,175	60,204	3.3%
Disposed operations	52,536	39,915	31.6%
Revenue[1]	**114,711**	**100,119**	**14.6%**
EBITDA Continuing ops	8,115	7,422	9.3%
EBITDA Disposed ops	(7,879)	(1,708)	
EBITDA	**236**	**5,714**	
Significant items	(24,982)	(2,988)	
D&A Continuing ops	(821)	(1,100)	
D&A Disposed ops	(795)	(53)	
Net interest income	20	217	
Tax benefit/(expense)	4,381	(555)	
NPAT	**(21,961)**	**1,235**	

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)

- To better understand Grays' H1 FY16 result, we have split the financials into "Continuing Operations" and "Disposed Operations" (see footnote 2, below)
- Revenue from Continuing Operations was up 3.3% to $62.2m due to growth in Auto, Transport and Mining B2B segments and DMS Davlan acquisition
- EBITDA from Continuing Operations up 9.3% to $8.1m due to cost savings in B2C offsetting increased investment into B2B resources to support growth initiatives
- Performance of Disposed Operations reflects full 6 months in H1 FY16 vs 7 weeks in H1 FY15, plus a managed run down of inventory
- Significant items of $25.0m (pre-tax) includes loss on sale of FPR [$13.1m], onerous leases [$6.6m], inventory liquidation [$1.9m], other business closure costs [$3.4m]
- Carried forward revenue tax losses at 31 Dec 15 approximately $13m. We do not expect to pay cash tax until FY18. Does not include capital loss on sale of FPR. Estimated capital loss $11m

Continuing Operations revenue and EBITDA grew from H1 FY15 to H1 FY16. We expect H2 FY16 Continuing Operations EBITDA > H2 FY15, with seasonal shift to H2 in FY16

$'000 AUD		B2B	B2C	Corporate	Continuing Operations	Disposed Operations	Total GEG
First Half 2016	**Revenue**	**36,050**	**26,125**		**62,175**	**52,536**	**114,711**
	EBITDA	**9,041**	**1,338**	**(2,264)**	**8,115**	**(7,879)**	**236**
First Half 2015	Revenue	29,750	30,454		60,204	39,915	100,119
	EBITDA	8,616	1,255	(2,449)	7,422	(1,708)	5,714
Second Half 2015	Revenue	26,412	23,346	231	49,989	42,345	92,334
	EBITDA	4,342	1,018	(1,983)	3,377	(2,220)	1,157
Full Year 2015	Revenue	56,162	53,800	231	110,193	82,260	192,453
	EBITDA	12,958	2,273	(4,431)	10,800	(3,928)	6,872

B2B growth reflects successful execution of strategic plan

A$'000	H1 FY16	H1 FY15	CHG
Continuing operations			
Gross sales*	230,035	196,159	17.3%
Revenue#	**36,050**	**29,750**	**21.2%**
Expenses	(27,009)	(21,134)	(27.8%)
EBITDA	**9,041**	**8,616**	**4.9%**
EBITDA margin	25.1%	29.0%	(13.4%)

** **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*

 # This is statutory revenue excluding interest income, refer to Operating Segments note in the half year financial report

- B2B revenue streams comprise:
  - Corporate – regular, recurring revenue
  - BIF – transactional based revenue
- Revenue up 21.2% to $36.1m due to:
  - Agricultural vertical – integration of DMS Davlan
  - 30% gross sales growth across core vertical markets following successful initiatives (Auto, Mining and Contracting, Transport)
  - Weaker performance in BIF due to H1 FY15 benefiting from timing of some large contracts. H2 FY16 pipeline is strong
  - Increased use of Guarantees and Buys
- Expenses up $5.9m to $27.0m reflecting acquisitions, new facilities to support growth in Auto, and cost of sales on own inventory
- H1 FY16 margin decrease due to integration of DMS Davlan and seasonal shift away from BIF revenue. Over H2 FY16 expect margins to recover and FY16 margins to exceed FY15 levels

B2C (Continuing Operations) – realigned; improving margin

A$'000	H1 FY16	H1 FY15	CHG
Continuing operations			
Gross sales*	37,799	41,030	(7.9%)
Revenue#	**26,125**	**30,454**	**(14.2%)**
Expenses	(24,787)	(29,199)	15.1%
EBITDA	**1,338**	**1,255**	**6.6%**
EBITDA margin	5.1%	4.1%	24.4%

** **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*

 # This is statutory revenue excluding interest income, refer to Operating Segments note in the half year financial report

- Revenue down 14.2% to $26.1m due to:
  - Re-weighting of stock levels to match key B2C categories
  - Major event sales in H1 FY15 not repeated during H1 FY16
- Expenses down $4.4m or 15.1% - due lower revenue and efficiencies in warehousing and logistics

B2C (Disposed Operations) – controlled inventory sell-down

A$'000	H1 FY16	H1 FY15	CHG
Disposed operations			
Gross sales*	50,743	36,804	37.9%
Revenue	**52,536**	**39,915**	**31.6%**
Expenses	(60,415)	(41,623)	(45.1%)
EBITDA	**(7,879)**	**(1,708)**	
EBITDA margin	(15.0%)	(4.3%)	

** **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. It is lower than statutory revenue as it does not include recoveries (eg freight)*

 # This is statutory revenue excluding interest income, refer to Operating Segments note in the half year financial report

- H1 FY16 loss > H1 FY15 due to:
  - H1 FY15 only 7 weeks trading. On a like-for-like basis H1 FY15 loss approximately $2.2m
  - Increased variable costs – freight, warehouse and marketing
  - Lower delivered margin to de-risk inventory sell down, clear inventory across all categories and match seasonal demand
- Sale of FPR expected to reduce total annual GEG cost base (excluding COGS and freight) by approximately 28%
- Net FPR inventory after provisioning at 31 Dec 15 was $1.6m (30 Jun 15: $11.6m)
  - Will be reduced to nil in H2 FY16
  - Effect of inventory liquidation included in H1 FY16 as a significant item (provision for inventory liquidation)
- As the FPR business did not cease trading until the end of Jan 16, we expect further operating losses (pre-tax) in the second half in the range of $1.5m to $1.7m

Corporate costs

A$'000	H1 FY16	H1 FY15	CHG
Continuing operations			
Corporate costs	(2,264)	(2,449)	7.5%

- 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
- Corporate costs were down in H1 FY16 due to reduction in corporate headcount, partly offset by full half of additional expenses associated with being an ASX listed entity

Significant items – majority non-cash

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)	
Acquisition and integration costs	(196)	(196)	
Total significant items	**(24,982)**	**1,744**	**(26,726)**

Balance sheet movements reflect business transformation

A$'000	31 Dec 2015	30 Jun 2015
Cash	6,829	6,989
Inventories	10,048	15,288
Receivables	14,809	10,021
Non-current assets	30,876	40,298
Total assets	**62,562**	**72,596**
Trade & other payables	36,530	25,054
Borrowings	2,447	-
Provisions	6,117	8,513
Net assets	**17,468**	**39,029**

- Inventory (net of provisions) analysis:
  - Disposed operations: $1.6m balance at 31 Dec 15 compared with $11.6m at 30 Jun 15 due to managed inventory sell down
  - Continuing operations: $8.4m balance at 31 Dec 15 compared with $3.6m at 30 Jun 15 mainly B2C (Continuing Operations) restocking popular lines – for example, power tools and outdoor furniture - to benefit from seasonal growth over 2H FY16
- Receivables increase: $2.2m FPR sale proceeds received early Feb 16
- Non-current assets decrease: -$18.3m FPR assets sold partly offset by $4.7m increase re DMS Davlan and $4.6m increase of deferred taxes (set up of tax losses)
- Payables increase: $6.6m lease contracts; $1.1m FPR restructuring provisions, $1.1m other significant items accrued; trade creditors grew with increase in B2C (Continuing Operations) inventory; partly offset by reduction in FPR trade creditors
- Borrowings increase: DMS Davlan acquisition Jul 15
- Provisions decrease: payment of FY15 tax and pay out of employee entitlements following FPR sale

Solid cash flows from Continuing Operations

H1 FY16 (A$'000)	Continuing Operations	Disposed Operations	GEG
Opening net cash			**6,989**
EBITDA (excluding significant items)	8,115	(7,879)	236
Working capital movement			
▪ Receivables	(756)	(162)	(918)
▪ Inventory	(4,725)	7,790	3,065
▪ Prepayments	(1,215)	-	(1,215)
▪ Payables	6,600	(4,549)	2,051
▪ Provisions	(2,312)	511	(1,801)
▪ Significant items (operating cash)	-	(1,580)	(1,580)
Operating cash flows before interest and tax	**5,707**	**(5,869)**	**(162)**
Net interest income			20
Income taxes paid relating to FY15			(1,664)
Statutory operating cash flows			**(1,806)**
Acquisition of DMS Davlan			(2,697)
Significant items (financing cash)			(196)
Capital expenditure			(908)
Proceeds from FPR sale			3,000
Statutory investing cash flows			**(801)**
Closing net cash			**4,382**

- $5.7m of operating cash flows generated from Continuing Operations, $2.4m less than EBITDA of $8.1m. Mainly due to FY15 short-term incentive payments of around $2m from a strong B2B performance in FY15, paid in H1 FY16
- Inventory/Payables movements: +$4.8m increase in Continuing Operations B2C inventory and payables; decrease in Disposed Operations inventory and payables from FPR sell down
- Significant items: FPR redundancies
- Purchase of DMS Davlan was debt funded
- Proceeds from FPR sale $3.0m in Nov 15. An additional $2.2m was received in early Feb 16
- Capex: web development costs and leasehold improvements
- New $30m banking facility in place with ANZ to support growth initiatives

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H1 FY16 overview

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Positive outlook for FY16

B2B growth opportunities across all segments

Significant overall opportunities for long-term sustainable growth in these core categories and a diverse, recurring revenue base. Leveraging local expertise across Australasia

Agriculture

- DMS Davlan acquisition and integration created regional Agri-business vertical and is now driving category revenue growth

Automotive

- Investing in new yards, people and technology

Banking, Insolvency & Finance (BIF)

- Continue to provide and refine our high level of service and access to our industry specialists
- Growth in Mining and Transport sectors
- Seeing an increase in activity in H2 FY16

Civil & Construction

- Ongoing steady workflow of surplus equipment from contractors and completion of civil construction / infrastructure projects.
- Investment made in key staff with civil construction equipment expertise
- Partnering with capital intensive entities to improve their asset utilisation and secure supply of assets for our marketplace

B2B growth opportunities across all segments

Significant overall opportunities for long-term sustainable growth in these core categories and a diverse, recurring revenue base. Leveraging local expertise across Australasia

Mining

- Low commodity prices have resulted in a large quantity of mobile plant and equipment parked up around Australasia
- Our alliance with IronPlanet provides a unique competitive advantage for clients accessing offshore markets through GraysOnline

SE Asia

- Good initial deal flow from the region. Focussing on core verticals to leverage our expertise within Australian team
- Preliminary results are encouraging

Transport

- Significant volumes of large, heavy haulage equipment from servicing the Mining sector
- Good volumes of fleet replacement assets coming through
- Investing in facilities to support category growth nationally

In summary…

- Transformed from a mix of retail and auction businesses to a predominantly B2B auction focussed business
- Sale of FPR business allows management to focus on our core auction business and exit a underperforming FPR business operating in an highly competitive environment
- Delivering on B2B growth strategy:
  - H1 FY16 saw continued growth in revenue and earnings
  - Substantial investments made to underpin revenue growth
  - Promising start to H2FY16. Continued growth in Auto, Mining and Transport.   BIF has a strong pipeline of multiple opportunities and a number of projects deferred from H1 FY16
- Refocused remaining profitable B2C auction business
- Accordingly, we expect our Continuing Operations EBITDA in FY16 to comfortably exceed that achieved during FY15

Questions

Appendices

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B2B Guarantees and Buys

- Guarantees and Buys leverage Grays' distinctive capabilities to unlock value for vendors and utilise our efficient and liquid marketplace
- Robust systems and internal 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 book by Board and Executive Team
- No losses incurred
- As at 31 Dec 15 outstanding guarantees totalled $6.8m

Grays Wine – strongest category for B2C

- GEG sells wine through grayswine.com.au and graysonline.com
- One of the largest wine sites by visitation in Australia, and the largest non-Woolworths and non-Coles site with over 300,000 visits per month
- Strongest consumer category for GraysOnline for profitability and brand awareness:
    - Net promoter score >45
    - Sells 55,000 cases of wine direct to consumers per month (~2% of bottled wine in Australia)
    - Sold online to end customers through auction or fixed price
    - Low working capital requirements – 80% of sales on consignment basis
- Product sourced from more than 250 wineries
- Increasingly importing wines direct from Europe and Americas
- Winner of CanStar Blue "Most Satisfied Customers Award" for Online Liquor Store

Brand	Overall satisfaction*	Value for money	Quality	Range	Delivery
Cellarmasters	★★★★	★★★	★★★★	★★★★	★★★
Dan Murphy's	★★★★★	★★★★	★★★★★	★★★★★	★★★★
Deals Direct	★★★★	★★★★	★★★★	★★★	★★★★★
GraysOnline	★★★★★	★★★★★	★★★★	★★★★	★★★★★
Liquorland	★★★★	★★★★	★★★★★	★★★★	★★★★

** Overall satisfaction is an individual rating and not a combined total of all ratings*

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Lidcombe NSW Distribution Facility leases

- Post the sale of FPR, Lidcombe NSW facility will be downsized. The surplus space is considered "onerous" under accounting standards, crystallising a liability equal to the present value of future lease payments. This has been taken up as a Significant Item at H1 FY16
- Continuing Operations FY16 forecast lease expense for Lidcombe approximately $4.0m
- Continuing Operations FY17 forecast lease expense for Lidcombe approximately $3.7m (including 3% CPI increase). This is a saving of around $0.3m over FY16
- Cash lease cost will remain at c. $6m over FY17

* Forecast includes 3% CPI increase

End

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