graysecommercegroup

Full Year 2016 Results

23 August 2016

Mark Bayliss
Chief Executive Officer

David Grbin
Chief Financial Officer





Putting in place the right growth foundations

Strong growth in EBITDA from continuing operations

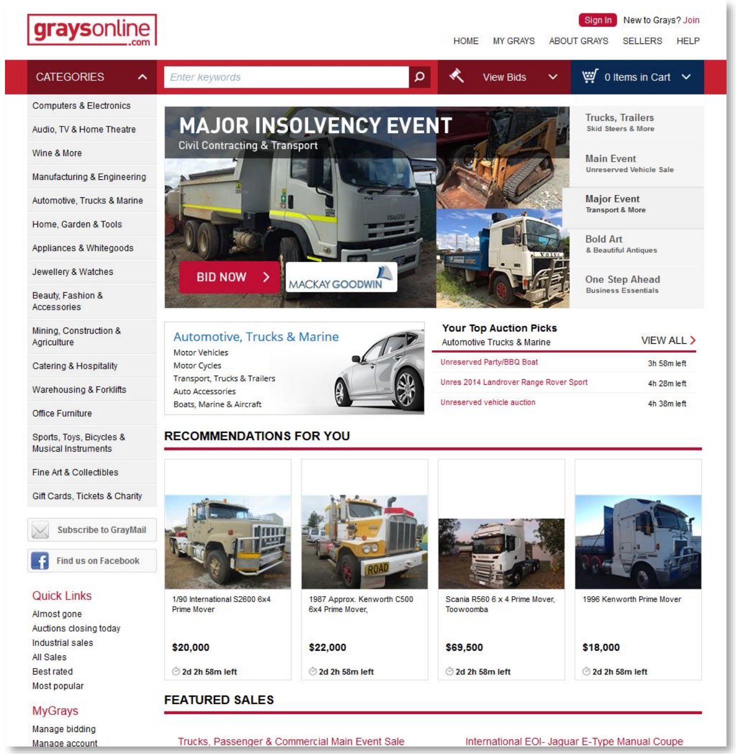
Well positioned to continue our growth trajectory

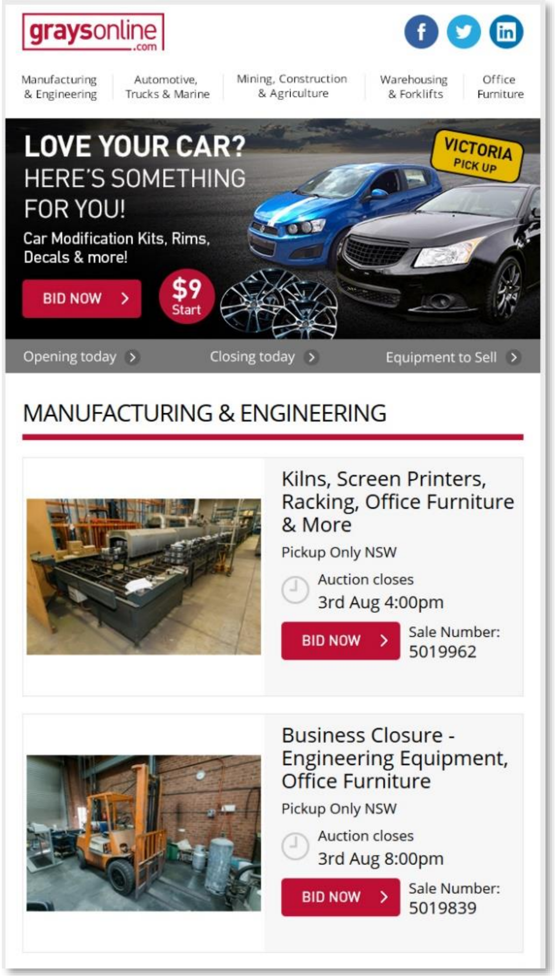
FY16: A year of transformation
Focusing on key strengths in B2B online auctions

- Transformed from a mix of retail and auction businesses to a predominantly B2B auction focussed business
  - Revenue from Continuing Operations at $124.9m (+13.7% on FY15), with significant growth in B2B of +30.7%
  - EBITDA from Continuing Operations at $14.3m, comfortably ahead (+32.8% on FY15)
  - Significant items of $25.3 million (pre-tax) relating to the sale of the Fixed Price Retail [FPR] business drove a statutory net loss after tax of $20.0 million
- Exited the FPR business with its sale to MySale in H1 FY16

Delivering on B2B growth strategy

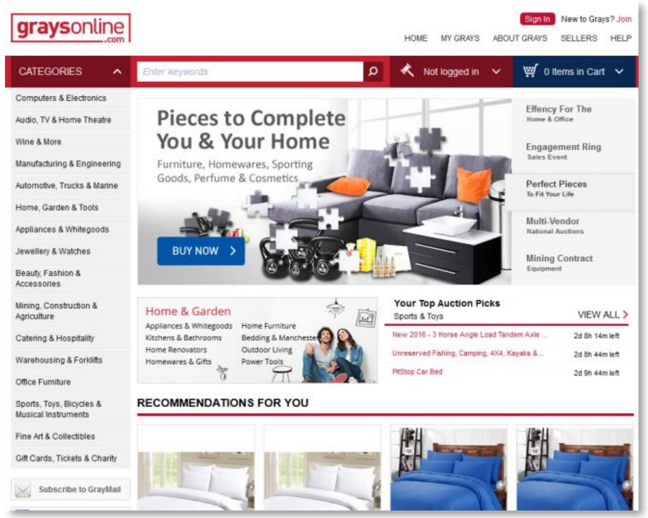
- Revenue up 30.7% on FY15 from growth in key Corporate categories of Auto, Mining & Contracting and Transport
- Expanded into SE Asia with early feedback showing solid pipeline of sale activity
- DMS acquisition successfully integrated, facilitating our growth in the Agriculture category
- Assembled an experienced team and re-deployed senior staff to growth categories and geographies. Our talent management program is gaining traction and complements our recruitment and retention programs
- Invested in new facilities in SA and NT, expanded auto yards in QLD, VIC and NSW
- Increased the number of Business Development Managers by 50% to leverage growth opportunities

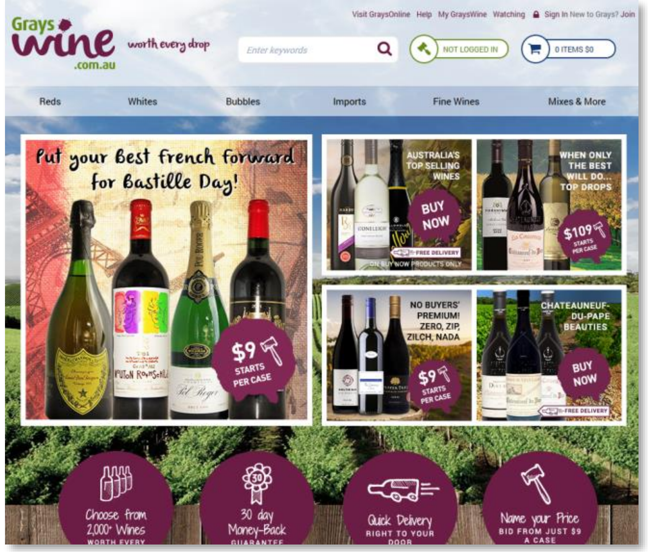


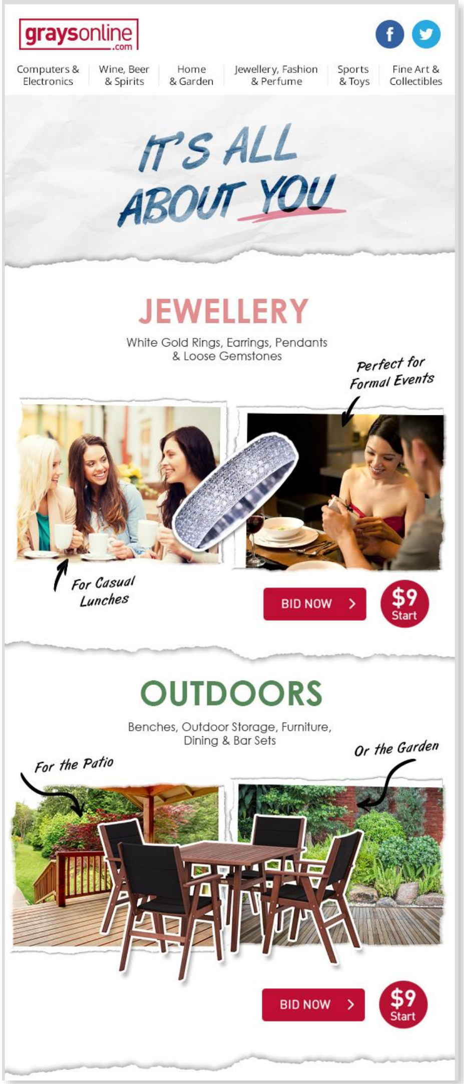


A refocused profitable B2C auction business

- Online consumer auctions and buy now 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
- Wine is the strongest category in both profitability and brand awareness selling around 55,000 cases of wine per month (~2% of bottled wine in Australia)
- Launched GraysOnline eBay store in H2 FY16 to provide an additional sales channel for selected categories (consumer electronics and IT).
- Cut warehouse space by c. 20% and commenced selective outsourcing to reduce costs, manage seasonality in volumes and introduce more variability into cost base
- Net Promoter Score (a measure of customer satisfaction) improved by 32% year-on-year to an encouraging score of 37, driving a reduction in customer churn of 27% year-on-year
    - Increased personalisation of on site experience
    - Introduction of mobile app and notification functionality







Putting in place the right growth foundations

Strong growth in EBITDA from continuing operations

Well positioned to continue our growth trajectory

Growth in Continuing Operations

A$'000	FY16	FY15	CHG
Continuing operations	**124,912**	**109,866**	**13.7%**
Disposed operations	56,367	82,587	-31.7%
Revenue[1]	181,279	192,453	-5.8%
EBITDA Continuing	**14,342**	**10,800**	**32.8%**
EBITDA Disposed	(9,718)	(3,928)	<(100%)
EBITDA	4,624	6,872	-32.7%
Significant items[3]	(25,277)	(6,491)	
D&A Continuing	(1,743)	(2,475)	
D&A Disposed	(795)	(157)	
Net interest (expense)	(121)	389	
Income tax benefit	3,293	657	
NPAT	**(20,019)**	**(1,205)**	

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)
3: Details on significant items are set out in the appendix to this presentation

- To better understand GEG's FY16 result, we have split the financials into "Continuing Operations" and "Disposed Operations" (see footnote 2, below)
- Revenue from Continuing Operations was up 13.7% to $124.9m due to growth in Auto, Transport and Mining B2B segments and DMS Davlan acquisition
- EBITDA from Continuing Operations up 32.8% to $14.3m due to revenue growth in B2B partially offset by increased investment into B2B resources to support growth initiatives
- Performance of Disposed Operations reflects full 12 months in FY16 vs 8 months in FY15, plus a managed rundown of inventory
- Significant items of $25.3m (pre-tax) predominantly non-cash and includes loss on sale of FPR $13.1m, onerous leases $6.6m, FPR inventory liquidation $1.5m, other business closure costs $4.1m – the majority of which were incurred in H1 FY16
- As at 30 June 16, carry forward tax losses of $13.1m (gross)

As expected, FY16 Continuing Operations EBITDA comfortably exceeded FY15

EBITDA $'000 AUD	B2B	B2C	Corporate	Continuing Operations	Disposed Operations	Total GEG
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
H1 FY15	8,616	1,255	(2,449)	7,422	(1,708)	5,714
H2 FY15	4,342	1,018	(1,983)	3,377	(2,220)	1,157
Full Year FY15	12,958	2,273	(4,431)	10,800	(3,928)	6,872
Annual Variance $	3,590	(201)	153	3,542	(5,790)	(2,248)
Annual Variance %	28%	-9%	3%	33%	-147%	-33%

- B2B: H2 FY16 pcp benefited from increased BIF, Auto, Transport and Major Corporate sales activity. BIF and Major Corporate sales are lumpy and can vary between halves
- B2C: H2 FY16 pcp buy now sales down due to loss of FPR channel. This has now been replaced by GraysOnline ebay store
- Seasonality: B2B H1 generally exceeds H2 due to quiet January holiday period. B2C has higher Christmas sale period in H1

B2B growth reflects successful execution of strategic plan

A$'000	FY16	FY15	CHG
Continuing Operations			
Gross sales[1]	483,063	341,961	41.3%
Revenue[2]	73,407	56,162	30.7%
Cost of goods sold	(3,710)	(891)	n/c
Expenses	(53,149)	(42,313)	-25.6%
EBITDA	16,548	12,958	27.7%
EBITDA margin	22.5%	23.1%	-2.6%
EBITDA/net revenue[3]	23.7%	23.4%	1.3%

*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*

*3: **Net revenue** is revenue after deducting COGS*

- B2B revenue streams comprise Corporate (regular, recurring revenue) and Banking, Insolvency and Finance (BIF) which is transactional based revenue which can fluctuate
- Revenue up 30.7% to $73.4m due to:
  - +41.3% gross sales growth across core vertical markets following successful initiatives (Auto, Mining and Contracting, Transport)
  - Growth in agricultural category from the integration of DMS Davlan
  - BIF revenue is lower in FY16 than FY15, with GEG maintaining market share
  - Expenses up $10.8m from acquisitions and investment to support revenue growth (facilities and business development staff)
- FY16 EBITDA margins (based on net revenue) recovered as anticipated in H2 FY16 due to strong H2 revenue partially offset by investment in new facilities and staff which are expected to generate increased margins during FY17 and beyond

B2C (Continuing Operations) – realigned for growth

A$'000	FY16	FY15	CHG
Continuing Operations			
Gross sales[1]	84,248	91,202	-7.6%
Revenue[2]	51,162	53,473	-4.3%
Cost of goods sold	(18,860)	(17,059)	-10.6%
Expenses	(30,230)	(34,141)	11.5%
EBITDA	2,072	2,273	-8.8%
EBITDA margin	4.0%	4.3%	-7.0%
EBITDA/net revenue[3]	6.4%	6.2%	3.2%

*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*

*3: **Net revenue** is revenue after deducting COGS*

- Revenue down 4.3% to $51.2m due to:
  - Reduction of less profitable categories and vendors in order to refocus on lines with competitive advantage and growth potential
  - Re-weighting of stock levels to match key B2C categories
  - Reduced retail channel cross-sell following sale of FPR. This is channel has now been replaced by GraysOnline eBay store, with promising initial growth
  - Fewer major event sales in FY16 compared with FY15
- Expenses down $3.9m or 11.5% from efficiencies in warehousing and logistics
- FY16 EBITDA margins (based on net revenue) improved on prior year due to efficiencies and refocus on profitable lines

Corporate costs

A$'000	FY16	FY15	CHG
Continuing operations			
Corporate costs	(4,278)	(4,431)	3.5%

- 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 lower in FY16 due to reduction in corporate headcount, partly offset by a full year of additional expenses associated with being an ASX listed entity, compared with 8 months in FY15

Disposed Operations (FPR) – ceased trading in H2 FY16

A$'000	FY16	FY15	CHG
Disposed operations			
Gross sales[1]	54,309	75,467	-28.0%
Revenue[2]	56,367	82,587	-31.7%
Cost of goods sold	(41,263)	(53,072)	22.3%
Expenses	(24,822)	(33,443)	25.8%
EBITDA	(9,718)	(3,928)	-147.4%
EBITDA margin	-18.0%	-4.7%	-283.0%

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

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

- FPR business ceased trading at the end of January 2016
- FY16 loss is greater than FY15 due to:
  - Lower delivered margin to clear inventory
  - Proportion of variable costs increased due to higher volumes and lower margin from inventory sell down
- H2 FY16 loss of $1.8m was $0.1m higher than forecast at H1 FY16 due to additional employee expenses post closure
- FPR inventories:
  - Reduced to $0.2m at 30 June 2016. Balance to be sold in H1 FY17
  - Effect of inventory liquidation ($1.5m write down) included in FY16 as a significant item

Balance sheet movements reflect business transformation

A$'000	FY16	FY15
Cash	2,796	6,989
Inventories	7,926	15,288
Receivables	6,020	7,472
Prepayments	5,062	2,549
Non-current assets	30,540	40,298
Total assets	**52,344**	**72,596**
Trade and other payables	16,157	23,581
Borrowings	2,447	-
Provisions	13,577	9,986
Net assets	**20,163**	**39,029**

- Cash: refer to cash flow analysis on following slide
- Inventory (net of provisions) analysis:
  - Disposed Operations: $0.2m balance at 30 June 2016 compared with $11.9m at 30 Jun 15 due to managed inventory sell down
  - Continuing Operations: $7.7m balance at 30 June 16 (+$4.3m on FY15) due to opportunistic purchases at significant discount to RRP and impact of new sourcing strategies to secure reliable and quality supply. Increase expected to be partly unwound in FY17.
- Receivables decrease driven by improved collections
- Prepayments increased due to new B2C (continuing operations) sourcing strategies to secure reliable and quality supply
- Non-current assets decrease: sale of FPR -$18.3m, offset by acquisition of DMS Davlan +$5.4m and +$3.1m future tax benefit recognised
- Payables decrease: FPR creditors reduction post sale of FPR, partly offset by increased Continuing Operations creditors
- Borrowings increase: DMS Davlan acquisition July 15
- Provisions increase: +$3.6m largely due to onerous lease provision recognised in H1 FY16 upon sale of FPR, partly offset by short term incentives paid in H1 FY16 due to strong B2B performance in FY15

Solid cash flows from Continuing Operations

FY16 (A$'000)	Continuing Operations	Disposed Operations	GEG
Opening net cash			**6,989**
EBITDA (excluding significant items)	14,342	(9,718)	4,624
Working capital movement			
▪ Inventory	(4,289)	10,057	5,768
▪ Receivables	1,673	(162)	1,511
▪ Prepayments	(2,513)	-	(2,513)
▪ Payables	2,945	(11,523)	(8,578)
▪ Provisions	(1,452)	511	(941)
▪ Significant items (operating cash)	-	(3,430)	(3,430)
▪ Onerous lease payments	-	(1,958)	(1,958)
Operating cash flows before interest and tax	**10,706**	**(16,223)**	**(5,517)**
Net interest (expense)			(121)
Income taxes (paid) relating to FY15			(1,286)
Statutory operating cash flows			**(6,924)**
Acquisition of DMS Davlan			(2,697)
Significant items (financing cash)			(288)
Capital expenditure			(1,931)
Proceeds from FPR sale			5,200
Statutory investing cash flows			**284**
Closing net cash			**349**

- $10.7m of operating cash flows generated from Continuing Operations, -$3.6m less than EBITDA of $14.3m comprising:
  - -$3.8m total inventory/payables/prepayments increase due to opportunistic purchases and new sourcing strategies to secure reliable and quality supply. Increase expected to be partly unwound over FY17
  - +1.7m receivables decrease driven by improved debtor collections
  - -1.5m provisions decrease mainly due to FY15 short term incentive payments from a strong B2B performance in FY15, paid in H1 FY16
- Significant items: FPR employment terminations and other FPR sale costs
- New $30m banking facility with ANZ to support growth initiatives and fund DMS Davlan acquisition
- Capex: web development costs and leasehold improvements

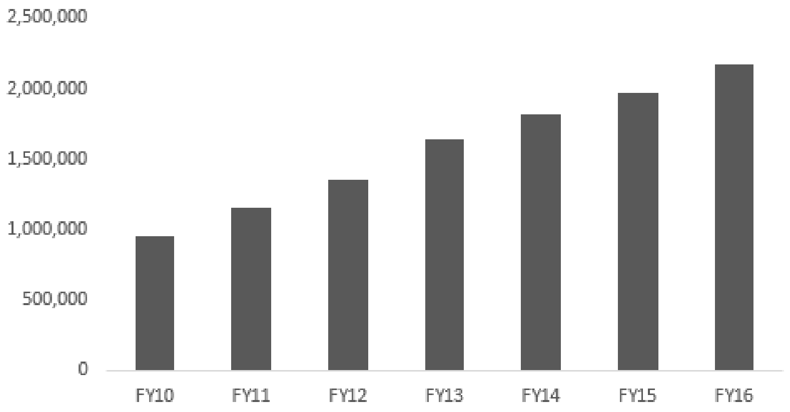
Putting in place the right growth foundations

Strong growth in EBITDA from continuing operations

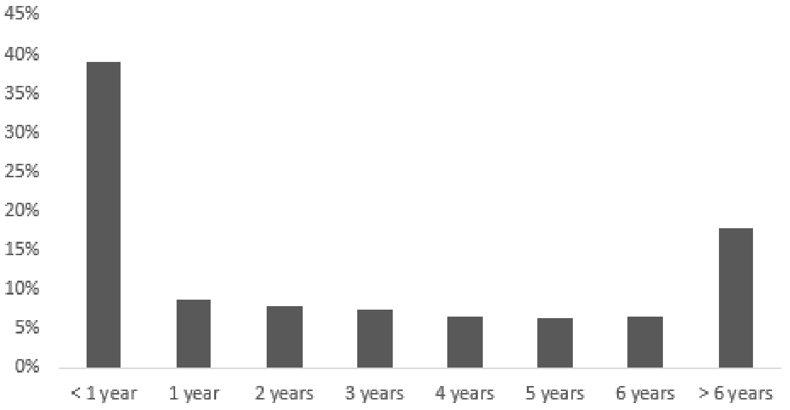
Well positioned to continue our growth trajectory

A growing, loyal and active customer base

Grays member growth



Customer tenure[1]



Commentary

- Strong and consistent member growth
  - Total members have grown by 10% year-on-year in FY16, to 2.17m
  - New customer registrations were +40% year-on-year in FY16
- A loyal, highly active customer base
  - 61% of buyers in FY16 had a tenure of more than 1 year, with 37% having a tenure of 4 years or more
  - 51% of customers bought more than once in FY16, with 29% purchasing 4 or more times
- Significant reach, with over 1 million unique visitors accessing the site every month
- A healthy conversion rate of 3.9%[2]
- Strong customer advocacy, with a Net Promoter Score of 37[3]

[1] Customers that purchased in FY16
[2] Monthly average conversion from unique visitors to unique bidders for the 6 months to June 2016
[3] NPS for B2C buyers; September 2015

B2B growth
Our growth strategy is built around four key areas

Horizontal adjacencies

- Growth of online auctions
- Key B2B strategic partnerships in place to take advantage of specific category expertise of Iron Planet, Hilco, Thomas Industries and Equipnet

Vertical adjacencies

- Continued organic expansion into Mining, Construction and Transport categories
- Acquisition expansion into new categories – eg DMS Davlan (Agriculture)
- Add new categories (Aviation, Marine, Parts)
- Increased depth and market penetration in existing verticals

Adjacent segments

- New opportunies in related segments that leverage current core competencies

Overseas geographies

- Expansion into new regions deploying 20+ years of experience in SE Asia, where the market for used plant and equipment is 4x that of Australia, with a lower online auction take up

B2B growth opportunities

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 and is now driving category revenue growth

Automotive

- Invested 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 & Contracting and Transport sectors
- H2 FY16 saw an increase in activity compared to H1

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

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

Mining

- Current commodity price levels has 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

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

SE Asia

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

B2C growth opportunities

Only pursuing categories where there are sustainable margins at auction and where GEG has a competitive advantage. Each category has a successful track record on the GEG auction platform

T2 AV/IT & Appliances

- GEG has the only integrated repairer sales channel in Australia and NZ. Our scale and customer base provide solid margins and make it hard for others to compete

Indoor/Outdoor Furniture and BBQ’s

- Direct sourcing of high end branded product and a low cost "available now nationally" model ensures auction is viable and maintains our competitive advantage

Direct import of branded AV & Electrical

- Sourcing name brands from the European Union exclusive to GEG ensures we have a reliable supply for auction at good margins

Direct import of Premium Jewellery

- GEG now has expert Jewellery buying capability and is sourcing direct from the wholesale market to increase margin and ensure a reliable supply

Wine

- GEG is investing heavily in the improvement of the Grays Wine user experience, creating an alternative channel to major retailers for both consumers and vendors alike

FY17 key priorities

- A growing and sustainable business from
  - Continued delivery of the B2B growth strategy across the key categories of Auto, Mining & Contracting, Agriculture and Transport
  - Measured offshore expansion in B2B
  - Enhanced B2C offering and further reduction in operating expenses
  - Upgraded marketing capability to leverage our marketplace
  - Continued investment in technology to improve our customers' experience and scalability of our operations
- Capital management
  - Announced the introduction of a dividend policy, linked to growth in earnings per share with an expected dividend payout ratio around 40% of net profit after tax. It is anticipated dividends would commence following the release of H1 FY17 results and be fully franked
  - Unable to pay a dividend for FY16 due to statutory NPAT loss

In summary…

- Transformed from a mix of retail and auction businesses to a predominantly B2B auction focussed business
- Delivering on our growth strategy
  - B2B EBITDA has increased significantly
  - Investment during FY16 in new sites, technology and people to provide a full year benefit in FY17
  - Refocused and profitable B2C auction business
  - Sale of FPR de-risks continuing operations, reduced the fixed cost base and allows management to focus and reinvest cash into our growing and profitable auction business
- We expect solid growth in EBITDA from Continuing Operations in FY17 compared to FY16
- Announced the introduction of a dividend policy. It is anticipated dividends would commence following the release of H1 FY17 results and be fully franked

Questions

Appendices

Sale of FPR business in H1 FY16

- 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 November 15, with remaining $2.2m received in early February 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
- Financial results of FPR reflected in “Disposed Operations” with $9.7m EBITDA loss (in-line with the H1 FY16 forecast) and $25.3m significant item, largely booked in H1 FY16
- Run down of net inventory from $11.6m at 30 June 15 to $0.2m at 30 June 2016. Remaining balance to be sold in H2 FY17
- 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

Revenue analysis

Revenue* $'000 AUD	B2B	B2C	Corporate	Continuing Operations	Disposed Operations	Total GEG
H1 FY16	36,050	26,125	-	62,175	52,536	114,711
H2 FY16	37,357	25,037	343	62,737	3,831	66,568
Full Year FY16	73,407	51,162	343	124,912	56,367	181,279
H1 FY15	29,750	30,454	-	60,204	39,915	100,119
H2 FY15	26,412	23,019	231	49,662	42,672	92,334
Full Year FY15	56,162	53,473	231	109,866	82,587	192,453
Annual Variance $	17,245	(2,311)	112	15,046	(26,220)	(11,174)
Annual Variance %	31%	-4%	48%	14%	-32%	-6%

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

- B2B: H2 FY16 pcp benefited from increased BIF, Auto, Transport and Major Corporate sales activity.
- B2C: H1 FY16 pcp one-off liquidation event sales down. H2 FY16 pcp growth focusing on key categories and GraysOnline ebay store
- Seasonality: B2B H1 generally exceeds H2 due to quiet January holiday period. B2C has higher Christmas/Summer sale period in H1

Significant Items – majority non-cash

A$'000 (Pre-tax)	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	(1,526)		(1,526)
Other costs including employment terminations	(3,807)	(3,807)	
Disposal of FPR	**(24,989)**	**1,393**	**(26,382)**
Acquisition and integration costs	(288)	(288)	
Total significant items	**(25,277)**	**1,105**	**(26,382)**

Lidcombe NSW distribution facility lease

- Post the sale of FPR, Lidcombe NSW facility has been downsized. The surplus space is considered "onerous" under accounting standards, crystallising a liability equal to the present value of future lease payments. This liability was taken up as a Significant Item at H1 FY16
- Continuing Operations FY16 lease expense for Lidcombe was 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 compared to FY16
- Cash lease cost will remain at c. $6m over FY17

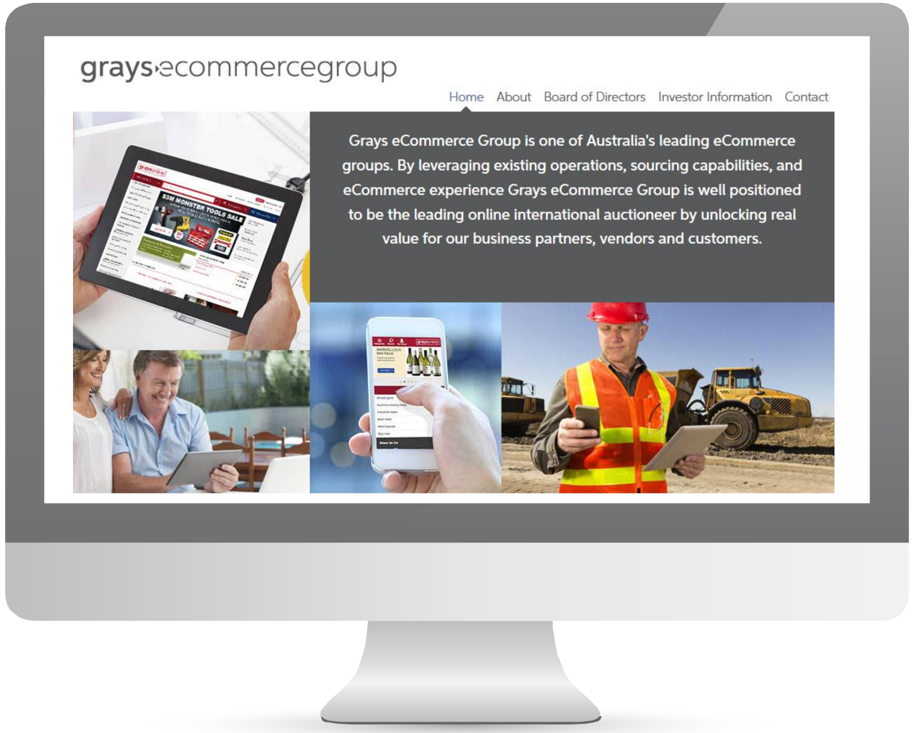
B2B guarantees and buys

- Guarantees and buys leverage GEG's distinctive capabilities to unlock value for vendors and utilise our efficient and liquid marketplace
- Around $46.4m in guarantees were written during FY16 (9.8% 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 30 June 16 outstanding guarantees totalled $15.0m

End

DISCLAIMER Some of the information contained in this presentation contains "forward-looking statements" which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Grays eCommerce Group Limited current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of Grays eCommerce Group Limited.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Grays eCommerce Group Limited current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.



graysasset services | graysonline.com | graysMINING.com

Grays wine.com.au | BRYAN ANDREWS (MGAANZ) AUCTIONEER | dms davlan