

Grays eCommerce Group Limited 2016 Annual General Meeting

Executive Director & CEO's address – Mark Bayliss

Thank you, Jonathan.

The 2016 financial year has been a pivotal period for Grays and I'm delighted to present to our shareholders the operational and financial achievements of the past year in more detail, and the outlook for the current financial year.

Before I begin my presentation in detail I'd like to thank every member of the Grays' team. We have successfully transformed the business into a strong, highly focused business operating in attractive growth sectors. It's been an incredibly busy 12 months and every member of our team has had a hand in what we've been able to achieve. To all the staff at Grays, I'd like to personally thank you for your commitment and hard work.

Slide 2: Putting in place the right growth foundations

As you will see from this presentation, Grays now has the right growth foundations in place, and is well positioned to continue its growth trajectory.

Slide 3: FY16 – a year of transformation

- As you've heard from Jonathan and myself, FY16 was a year of transformation.
- Grays has changed from a business with a mix of consumer retail and auction businesses to a predominantly Business to Business, or B2B, auction focussed business.
- I will discuss the company's financial performance in more detail shortly, but two key metrics that highlight the success of the transformation and the benefit from focusing on what we do well:
 - Revenue from our Continuing Operations, that is excluding the performance of our fixed price retail business that was sold to MySale in the first half of FY16, grew at 13.7% to \$124.9 million, with significant growth in B2B of 30.7%
 - EBITDA from Continuing Operations was up 32.8% to \$14.3 million.

Slide 4: Delivering on B2B growth strategy

- Grays has a very strong position in B2B online auctions, and the transformation that we have successfully undertaken ensures we play to our key strengths that provide us with a competitive advantage in a market with attractive fundamentals.

- Revenue in our B2B business was up 30.7% on FY15 driven by growth in our key Corporate categories of Auto, Mining & Contracting and Transport
- The operational activities undertaken in B2B auctions over FY16 included:
 - Expanding into South-East Asia, with early feedback showing a solid pipeline of sale activity
 - Successfully integrating DMS Davlan, facilitating our growth in the Agriculture category
 - Investing in new facilities in South Australia and Northern Territory, and expanding our auto yards in Queensland, Victoria and New South Wales
 - Increasing the number of Business Development Managers by 50% to leverage the growth opportunities that we see.

Slide 5: A refocused profitable B2C auction business

- With a strength in online auctions, we made the strategic decision to exit our consumer fixed price business and sold it to MySale. This allowed us to focus our consumer business on online auctions.
- For Grays B2C, Wine is the strongest category in terms of profitability and brand awareness. We sell around 55,000 cases of wine per month, which equates to around 2% of all bottled wine in Australia.

- In line with our strategy to refocus B2C on online auctions, the operational activities undertaken in this business segment over FY16 included:
 - Launching GraysOnline eBay store in the second half
 - Cutting warehouse space by approximately 20% and commencing selective outsourcing to reduce costs
 - Introducing a mobile app with notification functionality.
- These activities, and others, saw our B2C business' Net Promoter Score, which is a measure of customer satisfaction, improve by 32% year-on-year to an encouraging score of 37. The increased NPS, saw a reduction in customer churn of 27% year-on-year.

Slide 6: Growth in Continuing Operations

- I would now like to take a few minutes to walk our shareholders through the financial results achieved by Grays over FY16
- It is important to note that the financial results you see on slide 6 split out our Disposed and Continuing Operations.
- Our Disposed Operations are the B2C fixed price retail business sold in the first half of FY16 to MySale.

- Our Continuing Operations are our B2B and B2C auction businesses.
- Revenue from Continuing Operations was up 13.7% to \$124.9 million due to growth in our B2B business, particularly the Auto, Transport and Mining segments and the DMS Davlan acquisition.
- EBITDA from Continuing Operations was up 32.8% to \$14.3 million due to revenue growth in B2B partially offset by increased investment into B2B resources to support growth initiatives.
- The significant items of \$25.3 million (pre-tax) were predominantly non-cash and related to the disposal of our B2C fixed price business. These one-off significant items drove the \$20 million net loss for the period.

Slide 7: B2B growth reflects successful execution of strategic plan

- On Slide 7 we show you the performance of our B2B business.
- B2B has two key revenue streams:
 - Corporate, which is regular recurring revenue
 - Banking, Insolvency and Finance revenue, or BIF, which is transactional based revenue that can fluctuate

- B2B segment revenue for FY16 was up 30.7% to \$73.4 million due to:
 - A 41.3% increase in gross sales across our core vertical markets of Auto, Mining & Contracting, and Transport, following successful operational initiatives
 - Growth in the agricultural category following the successful integration of DMS Davlan
 - Offset by lower BIF revenue in FY16 versus FY15, even though we maintained market share in this segment
- Given the investment made in facilities and business development staff over FY16 to support future revenue growth, expenses were up \$10.8 million to \$53.1 million. However, B2B was still able to grow EBITDA by 27.7% to \$16.5 million.

Slide 8: B2C (Continuing Operations) – realigned for growth

- Having sold the fixed price retail business to MySale, we realigned our remaining B2C online auction business over FY16 to ensure it has the right footings in place to grow in future years.

- Because of our actions, revenue was down 4.3% to \$51.2 million, reflecting:
 - A reduction in less profitable categories and vendors to refocus on lines with competitive advantage and growth potential
 - Fewer major event sales in FY16 compared to FY15.
- Expenses were down 11.5%, or \$3.9 million, due to efficiencies in warehousing and logistics, and this division generated an EBITDA of close to \$2.1 million.

Slide 9: Disposed Operations (FPR) – ceased trading in H2 FY16

- I won't spend much time on this slide other than to say that the financials you see relate to our B2C fixed price retail business that ceased trading at the end of January 2016 having been sold to MySale.

Slide 10: Well positioned to continue our growth trajectory

- Having covered Grays' financial performance over FY16, I would now like to spend a few minutes taking you through why we believe we are well positioned to continue our growth trajectory, having put the right growth foundations in place.

Slide 11: A growing, loyal and active customer base

- A lot of companies talk about becoming customer centric, focusing on the customer, or putting the customer at the core of everything they do. At Grays the customer is not a buzz word or new strategy. We have always been focused on our customers and growing that base.
- As you can see on slide 12, we have delivered year on year member growth – more than doubling our members over the past six years. In FY16 alone:
 - Total members grew by 10% to 2.17 million
 - New customer registrations grew by 40% year-on-year.
- It's not enough to have a large customer base. You also need them to be active and loyal and we certainly achieved both:
 - 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
 - Over 1 million unique visitors access our site every month, and we achieved a healthy conversion rate of 3.9%

→ Our Net Promoter Score of 37 clearly shows the high level of customer advocacy that we have been able to achieve, which in turn reduces churn and attracts new customers.

Slide 12: B2B growth

- As I previously mentioned, we see the B2B sector as our key growth market.
- Our growth strategy is built around four key areas – horizontal adjacencies, vertical adjacencies, adjacent segments and overseas geographies.
- In terms of horizontal adjacencies, this is structured around the growth of online auctions and our ability to leverage a key strength and competitive advantage of our business.
- In terms of vertical adjacencies, we will continue to expand organically into the Mining, Construction and Transport categories. At the same time, we will look to acquire attractive businesses that allow us to expand into new categories, as we did with DMS Davlan that saw us enter the Agriculture vertical. And lastly, we will look to add new categories like Aviation, Marine, and Parts.
- Adjacent segments provide new opportunities in related segments that leverage our current core competencies.

- Overseas geographies provide opportunities to expand into new regions deploying our more than 20 years of experience. South-East Asia and the Middle East represent attractive market opportunities due to their size and current lower online auction penetration.

Slide 13: FY17 key priorities

- FY17 will be another busy year for Grays as we look to leverage the transformation we have successfully executed in FY16.
- We are looking to further grow our growing and sustainable business by:
 - 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.

Slide 14: In summary...

- So in summary, FY16 was a transformational year for Grays that saw the business refocus on its core strengths and place it in a position to be able to continue its growth trajectory.
- Grays has been transformed from a mix of retail and auction businesses to a predominantly B2B auction focused business
- We are delivering on our growth strategy:
 - The earnings of our B2B business have increased significantly
 - We have invested in new sites, technology and people to continue our growth momentum in B2B
 - We have refocused our B2C business and returned it to profitability, while also derisking our operations, reducing fixed costs and allowing management to focus on our growing and profitable auction business

Slide 15: Outlook...

- We continue to expect solid growth in EBITDA from Continuing Operations in FY17 compared to FY16
- Growth in FY17 EBITDA will be underpinned by H2 FY17:
 - H1 FY17 expected to be below H1 FY16
 - Shift in B2B Major Event Sales and BIF pipeline to H2 FY17
 - Further benefits from investment program to take effect in H2 FY17 with higher recurring revenue growth across major categories.
- Introduction of a dividend policy – expect to commence fully franked dividends following H1 FY17 result.

* * * * *

Thank you for your time today and I would be happy to answer any questions you may have prior to the commencement of the formal business of today's AGM.