

grayscommercegroup

# Annual General Meeting

28 November 2016

**Jonathan Pinshaw**  
Chairman

**Mark Bayliss**  
Executive Director and CEO



# Putting in place the right growth foundations

Well positioned to continue our growth trajectory

Questions

Formal proceedings



# 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, substantially up (+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
- ▶ 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

The screenshot shows the graysonline.com homepage. At the top, there's a navigation bar with 'HOME', 'MY GRAYS', 'ABOUT GRAYS', 'SELLERS', and 'HELP'. A search bar is present with the text 'Enter keywords'. Below the navigation bar, there's a 'CATEGORIES' section with a list of items including Computers & Electronics, Audio, TV & Home Theatre, Wine & More, Manufacturing & Engineering, Automotive, Trucks & Marine, Home, Garden & Tools, Appliances & Whitegoods, Jewellery & Watches, Beauty, Fashion & Accessories, Mining, Construction & Agriculture, Catering & Hospitality, Warehousing & Forklifts, Office Furniture, Sports, Toys, Bicycles & Musical Instruments, Fine Art & Collectibles, and Gift Cards, Tickets & Charity. There's also a 'Subscribe to Graymail' button and a 'Find us on Facebook' button. The main content area features a 'MAJOR INSOLVENCY EVENT' for Civil Contracting & Transport, a 'Your Top Auction Picks' section with a table of items, and a 'RECOMMENDATIONS FOR YOU' section with four featured vehicles. At the bottom, there's a 'MAIN EVENT SALE' for Unreserved Trucks, Passenger & Commercial Vehicle Sale, starting at \$9.

Your Top Auction Picks			
Automotive Trucks & Marine			
Motor Vehicles	Unreserved Party/BBO Boat	3h 58m left	<a href="#">VIEW ALL &gt;</a>
Motor Cycles	Unreserved 2014 Landrover Range Rover Sport	4h 28m left	
Transport, Trucks & Trailers	Unreserved vehicle auction	4h 38m left	
Auto Accessories			
Boats, Marine & Aircraft			

RECOMMENDATIONS FOR YOU			
1990 International S2600 6x4 Prime Mover	1987 Approx. Kenworth C500 6x4 Prime Mover	Scania R560 6 x 4 Prime Mover, Toowoomba	1996 Kenworth Prime Mover
\$20,000	\$22,000	\$69,500	\$18,000
2d 2h 58m left	2d 2h 58m left	2d 2h 58m left	2d 2h 58m left

The screenshot shows a section of the graysonline.com website. At the top, there's a banner for 'LOVE YOUR CAR? HERE'S SOMETHING FOR YOU!' featuring car modification kits, rims, and decals. Below this, there's a 'MANUFACTURING & ENGINEERING' section. It includes two listings: 'Kilns, Screen Printers, Racking, Office Furniture & More' and 'Business Closure - Engineering Equipment, Office Furniture'. Both listings show images of the equipment, a pickup location (NSW), auction closing times, and 'BID NOW' buttons with sale numbers.

**LOVE YOUR CAR? HERE'S SOMETHING FOR YOU!**  
Car Modification Kits, Rims, Decals & more!  
**BID NOW >** **\$9 Start**

**MANUFACTURING & ENGINEERING**

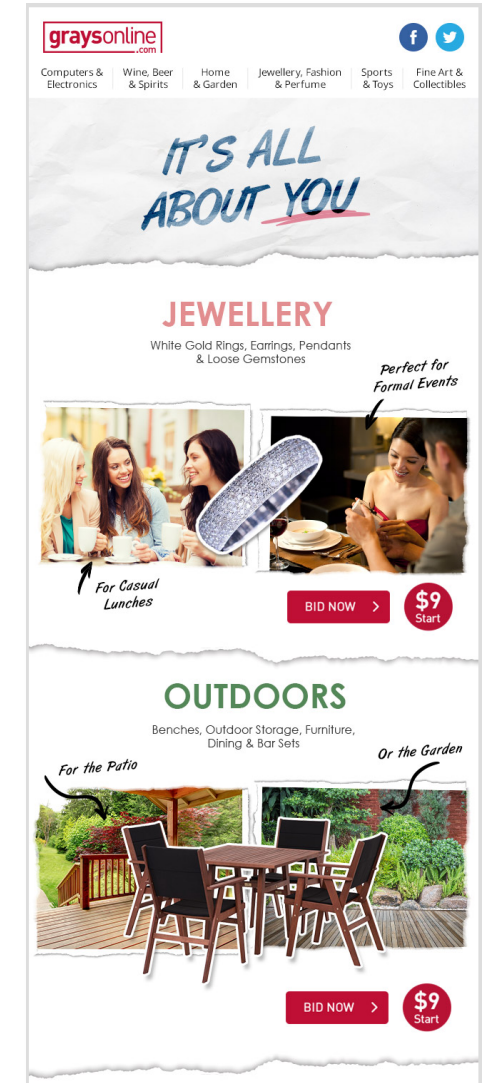
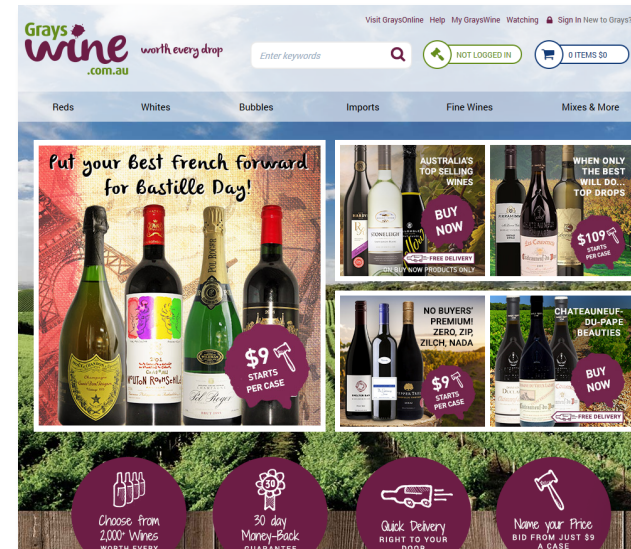
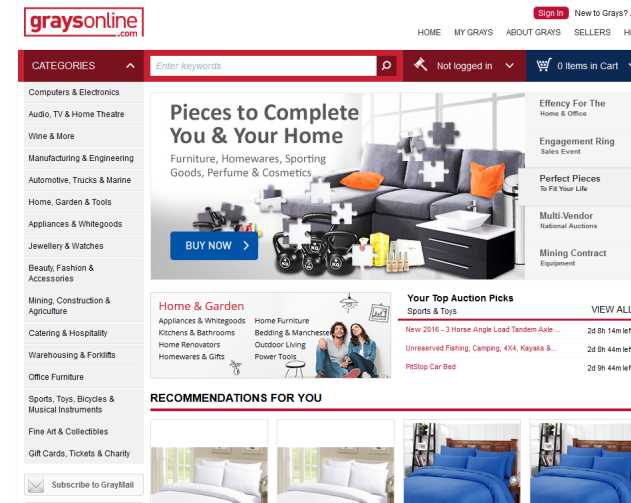
**Kilns, Screen Printers, Racking, Office Furniture & More**  
Pickup Only NSW  
Auction closes 3rd Aug 4:00pm  
**BID NOW >** Sale Number: 5019962

**Business Closure - Engineering Equipment, Office Furniture**  
Pickup Only NSW  
Auction closes 3rd Aug 8:00pm  
**BID NOW >** Sale Number: 5019839



# A refocused profitable B2C auction business

- ▶ 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
- ▶ Cut warehouse space by c. 20% and commenced selective outsourcing to reduce costs
- ▶ Net Promoter Score (a measure of customer satisfaction) improved by 32% year-on-year to an encouraging score of 37
- ▶ Reduction in customer churn of 27% year-on-year
- ▶ Introduction of mobile app and notification functionality



# Growth in Continuing Operations

A\$'000	FY16	FY15	CHG
<b>Continuing operations</b>	<b>124,912</b>	<b>109,866</b>	<b>13.7%</b>
Disposed operations	56,367	82,587	-31.7%
Revenue <sup>1</sup>	181,279	192,453	-5.8%
<b>EBITDA Continuing</b>	<b>14,342</b>	<b>10,800</b>	<b>32.8%</b>
EBITDA Disposed	(9,718)	(3,928)	<(100%)
EBITDA	4,624	6,872	-32.7%
Significant items <sup>3</sup>	(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	
<b>NPAT</b>	<b>(20,019)</b>	<b>(1,205)</b>	

- ▶ 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

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

# B2B growth reflects successful execution of strategic plan

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

- ▶ 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)

*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*



# B2C (Continuing Operations) – realigned for growth

A\$'000	FY16	FY15	CHG
<b>Continuing Operations</b>			
Gross sales <sup>1</sup>	84,248	91,202	-7.6%
<b>Revenue<sup>2</sup></b>	<b>51,162</b>	<b>53,473</b>	<b>-4.3%</b>
Cost of goods sold	(18,860)	(17,059)	-10.6%
Expenses	(30,230)	(34,141)	11.5%
<b>EBITDA</b>	<b>2,072</b>	<b>2,273</b>	<b>-8.8%</b>
EBITDA margin	4.0%	4.3%	-7.0%
EBITDA/net revenue <sup>3</sup>	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
  - ▶ Fewer major event sales in FY16 compared with FY15
- ▶ Expenses down \$3.9m or 11.5% from efficiencies in warehousing and logistics

# Disposed Operations (FPR) – ceased trading in H2 FY16

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

- FPR business ceased trading at the end of January 2016

**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

Putting in place the right  
growth foundations

# Well positioned to continue our growth trajectory

Questions

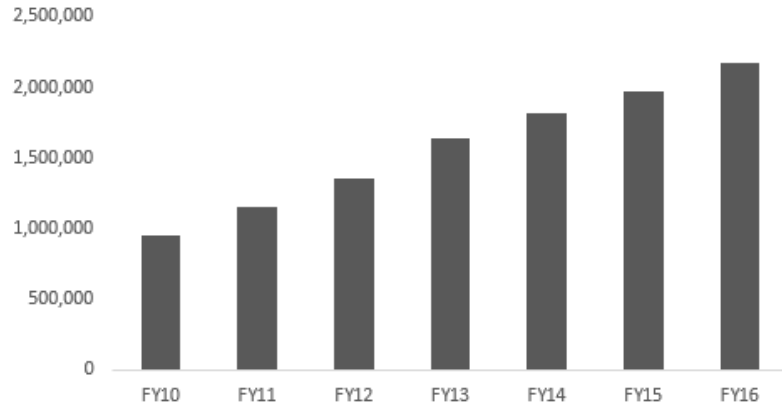
Formal proceedings



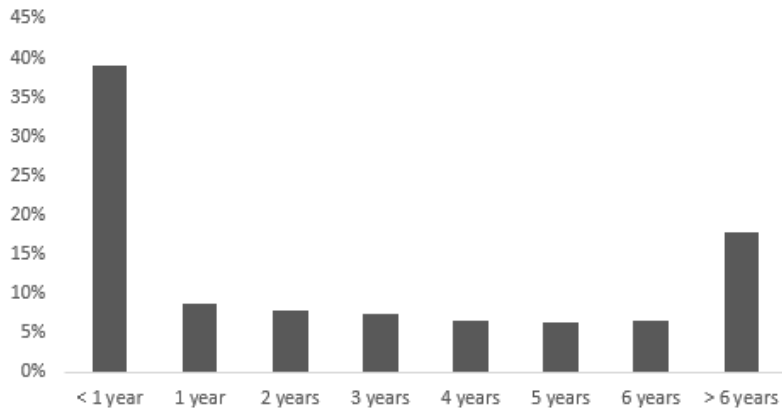


# A growing, loyal and active customer base

## Grays member growth



## Customer tenure<sup>1</sup>



## 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%<sup>2</sup>
- ▶ Strong customer advocacy, with a Net Promoter Score of 37<sup>3</sup>

<sup>1</sup> Customers that purchased in FY16

<sup>2</sup> Monthly average conversion from unique visitors to unique bidders for the 6 months to June 2016

<sup>3</sup> 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

## Adjacent segments

- ▶ New opportunities in related segments that leverage current core competencies



## 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

## Overseas geographies

- ▶ 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

# 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



# In summary...

- ▶ Transformed from a mix of retail and auction businesses to a predominantly B2B auction focussed business
- ▶ Delivered on our growth strategy
  - ▶ B2B EBITDA increased significantly
  - ▶ Investment during FY16 in new sites, technology and people will 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

# 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

**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.

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