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Lodgement of Market Briefing**

**25 August 2015**

## Market Briefing

**Grays eCommerce Group CEO on FY15 results and outlook**

**Interview with Mark Bayliss (CEO & Executive Director)**

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*In his first Market Briefing interview, Grays eCommerce Group's CEO & Executive Director, Mark Bayliss, discusses the company's maiden full year results as a listed company, and its outlook, including:*

- *Strong growth in gross sales, revenue and EBITDA over the 12 months ended 30 June 2015 [FY15]*
- *Strong balance sheet to support continued growth*
- *Successful integration of DealsDirect with Grays Online*
- *Positive start to FY16 with momentum continuing in the B2B division and the integration benefits from B2C beginning to flow, ensuring the company is well positioned to continue to grow in FY16.*

### Market Briefing

Grays eCommerce Group's FY15 results showed strong growth, with gross sales up 36% to \$508.6 million, revenue up 31% to \$192.9 million and EBITDA up 87% to \$6.9 million. What were the key drivers of this growth?

#### **Mark Bayliss**

The group's overall performance has been strong, but we have been particularly pleased with the performance of our B2B division. This division is clearly the growth engine for Grays eCommerce Group.

Gross sales provides the best yardstick for the performance of our business as it measures the gross sales value of both consignment assets auctioned and sales of owned inventory. Reflecting the strength of our B2B division, gross sales were up 51% driven by growth across our transportation, mining and construction segments as well as a contribution from South East Asia.

In addition, with a fixed cost base, the increased sales achieved in our B2B business flowed through into even higher earnings growth for this division. The exceptionally strong growth-rate achieved during FY15 is the product of strategic initiatives put in place to drive operational efficiencies across our business.

Offsetting the growth in our B2B division was a weaker result in our B2C division. While we have focused on successfully integrating DealsDirect and Grays consumer business, the consumer fixed price retail category is highly competitive and with the benefits from the integration only starting to flow through in FY16, B2C generated an increased loss.

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With B2C margins tightening as the business has grown the top line, at what point does B2C start generating positive earnings?

#### Mark Bayliss

Based on the strategies implemented in FY15 for our B2C division, we expect FY16 to mark a turning point for this division and see it move into profitability.

Given the integration of DealsDirect and Grays consumer business was successfully completed on time and on budget, we expect to generate \$3 million of annual synergies that will flow from FY16. In addition, the integration also positions us to benefit from cross-selling opportunities across the DealsDirect and Grays' customer bases. We are operating in a very competitive online retail environment, so our focus on driving operational efficiencies is key in turning around this business.

Also, within our B2C category, it is important to delineate between our wine segment which produces a good profit, and auctions and fixed price retail.

Our wine business is the third largest online wine retailer in Australia, and our FY15 wine sales exceeded \$31 million. This is a growth category for Grays and one in which we have a strong market position and differentiated offering. To leverage this, we recently launched [www.grayswines.com.au](http://www.grayswines.com.au), a dedicated online wine buying site. We expect our wine business to continue growing and generating increasing earnings.

Given the strong market fundamentals in the market and operational efficiencies made during FY15, we are expecting our B2C business to generate positive earnings during FY16.

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With B2C in the process of turning around its performance, what are your plans with the B2C division?

#### Mark Bayliss

With success in online consumer retailing driven by scale, we believe that our B2C business must continue to consolidate or alternatively be consolidated. We are looking at all options for this business, and ultimately we will do what is right to ensure shareholder value is enhanced. In the meantime, operational strategies like the successful integration of DealsDirect and Grays consumer business, and the launch of the new dedicated wine site, are important in returning this division to growth.

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You said earlier that B2B was your growth engine. What strategies are you pursuing to drive future growth in this division given it already represents the majority of Grays' earnings?

### Mark Bayliss

We are very well placed in B2B with a business of scale and key strengths that differentiate us from others in the industry, particularly around online auctions. The Australian B2B auction industry is something of a "patchwork quilt". It is highly fragmented and underdeveloped, which means there is a huge opportunity for Grays to differentiate ourselves across a number of key areas where we have identified the greatest potential.

We see a number of exciting growth opportunities for our B2B division and our strategy is to continue to build our position in market segments we currently operate in and expand into new segments and overseas markets.

In terms of segments we are already operating in, we already have key strategic partnerships in place to take advantage of the specific category expertise of Iron Planet, Hilco, Thomas Industries and Equipnet. Over 2010 and 2011, Grays in co-operation with Hilco, project managed the \$13.3 million closure and sale of the Mitsubishi motor vehicle plant at Tonsley Park, SA. In light of this successful plant shut-down and asset realisation, Grays and Hilco are well placed to win future foreshadowed automotive plant closure contracts.

In terms of new segments, there are opportunities for Grays to move into categories that we're not currently in, and the acquisition of DMS Davlan is right on strategy being Australia's leading agricultural machinery auction house. Growth in other new segments would see us expand into new categories that leverage our current core competencies. For example, we could start Grays Capital or Grays franchise.

And lastly, offshore geographies would see Grays expand into new regions deploying our more than 20 years of experience and world class sales opportunities, plant appraisals and project management. A recent example of this is the acquisition of Bryan Andrews Auctions, in Christchurch New Zealand and our activities in South East Asia. In conjunction with our key strategic partners, we are looking to pursue further opportunities in the South East Asian region.

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How are the integrations of DMS Davlan and Bryan Andrews Auctions progressing?

### Mark Bayliss

We are very pleased with the initial progress that has been made since acquiring these businesses in June 2015. DMS Davlan is Australia's largest regional B2B auction house with a focus on agricultural machinery and the acquisition allows us to expand our offering to customers in a related B2B vertical. DMS Davlan was a strong strategic and cultural fit, and this has greatly aided the integration process.

The acquisition of Bryan Andrews Auctioneers was also a key addition to our B2B growth engine, allowing us to expand our presence into New Zealand, complementing our existing B2B businesses. While still early days, we are pleased with the progress that has been made integrating this business into our group.

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Do you plan on acquiring more B2B businesses?

### Mark Bayliss

Since listing, we have had a very clear business strategy focusing on 3 key themes, namely, optimizing our existing business by driving operational efficiencies, expanding our core businesses and growing our business in areas in new areas. Accordingly, we continue to pursue strategic B2B acquisition opportunities to further enhance our platform.

The opportunities available to us are both in the markets in which we already operate, where we look to defend and grow our current market-leading position in online auctions, as well as new segments, where we seek to leverage our current core competencies. In addition, we remain on the lookout for potential B2B acquisitions in international markets, following our recent entry into the New Zealand market.

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Given the escrow and bonus share arrangement implemented at the time of Grays' listing, based on your current register, what's the potential maximum number of shares that could be issued from this arrangement?

### Mark Bayliss

In relation to the escrow arrangement, Grays' vendors were issued 73,244,952 shares at the time of sale, of which half (or 36,622,476 shares) were released following our 1H15 results announcement and the remaining half are due out of escrow on 1 September 2015.

In relation to the bonus shares, Grays' vendors are entitled to one bonus share for every two shares held by them at the anniversary of the Grays / MNZ Merger on 7 November 2015, provided that the vendors still hold at least 75% of the new shares issued to them. Based on the share register as at 21 August 2015, the current number of new shares that could be issued is 33,086,677 out of the original maximum 36,622,476.

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With the company growing strongly, no debt and cash on the balance sheet, is the company considering paying a dividend in the near term?

### Mark Bayliss

Having already put together a collection of strong online brands, we remain focused on taking advantage of attractive growth opportunities available to us, to ultimately reward our shareholders. We are still in a fairly early stage of our growth phase, are seeing a number of exciting growth opportunities in the B2B segment and have a strong ungeared balance sheet.

The strength in our balance sheet and cashflows means we are well positioned to reinvest in our business to take advantage of potential acquisitions, to broaden our scale and scope of offerings, and drive long term growth. While we see this re-investment as the best use of cash generated by the company in the near-term, the board is conscious of capital management and ensuring Grays has the right mix going forward. Dividends are just one part of that mix.

## Market Briefing

Lastly, given the strong growth in FY15 and focus on putting in place the platform for Grays' future growth, what is the outlook for the company in FY16?

### Mark Bayliss

We are excited by the growth opportunities currently available to Grays. We are seeing strong market fundamentals that will drive underlying organic growth, particularly in our B2B division. In addition, the benefits from our successful integration of DealsDirect and Grays consumer business will start to flow from FY16 with at least \$3 million of annual cost savings to flow.

Our recently acquired businesses, DMS Davlan and Bryan Andrews Auctions, will add revenue and earnings in FY16, having been acquired towards the end of FY15, and given the various strategic initiatives being pursued we expect to see additional benefits from those initiatives.

Given all of this, we expect that the business will grow earnings over FY16, with FY16 EBITDA being higher than FY15.

We have the platform in place and the right people to drive the growth of the business in FY16 and beyond.

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Thank you, Mark.

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For further information, please contact +61-2 9112 9440 or go to [www.graysonline.com.au](http://www.graysonline.com.au) or [www.graysecommercegroup.com.au](http://www.graysecommercegroup.com.au)

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