

# Trade Me Half Year Results

For the 6 months ended  
31 December 2013

Jon Macdonald      CEO

Jonathan Klouwens      CFO



# Disclaimer

This presentation may contain projections or forward-looking statements regarding a variety of items. These forward-looking statements are based upon current expectations and involve risks and uncertainties.

Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks.

Although management may indicate and believe the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect. There can be no assurance that the results contemplated in the forward-looking statements will be realised.

A number of non-GAAP financial measures are used in this presentation due to the fact they are widely accepted financial indicators used by investors and analysts to analyse and compare companies. You should not consider any of these in isolation from, or as a substitute for the information provided in the consolidated financial statements.

While all reasonable care has been taken in compiling this presentation, Trade Me accepts no responsibility for any errors or omissions. This presentation does not constitute investment advice.

# Presentation agenda

---

Overview	Jon Macdonald
Divisional Performance	Jon Macdonald
Financials	Jonathan Klouwens
Trading and Outlook	Jon Macdonald
Questions	Jon Macdonald and Jonathan Klouwens

---

# Overall Results: Highlights

- Revenue of \$85.7m delivering YoY growth of 6.6%.
- NPAT of \$38.0m, up 1.7% YoY. EBITDA of \$60.4m with YoY growth of 2.1%
- Interim dividend of 7.6 cps, fully imputed, up 1.3% YoY.
- **Classifieds** continue to be strong: \$38.6m revenue (up 16.5% YoY). Continue to be driven by yield and premium uptake.
- **Marketplace** continues to be flat as we work to improve the offer to buyers and sellers: \$32.6m revenue (down 1.6% YoY, but up 0.8% YoY removing the one-off accounting benefit in F13).
- **Underlying performance:** on a like-for-like basis, revenue grew 9.2%, and Net Profit Before Tax was up 5.1% (removing the one-off accounting benefit in F13, Treat Me, LifeDirect and MotorWeb).
- **Investment:** has been focused on product development, promotion and people in our bigger businesses as we begin to fill them out for their next phases of growth.
- **Outlook:** on track, and in line with guidance in August & October. EBITDA and NPAT growth to remain subdued for the full year as we continue to invest. H2 has started in line with expectations. We expect stronger profit growth over the course of F15.

# Overall Results: Financials

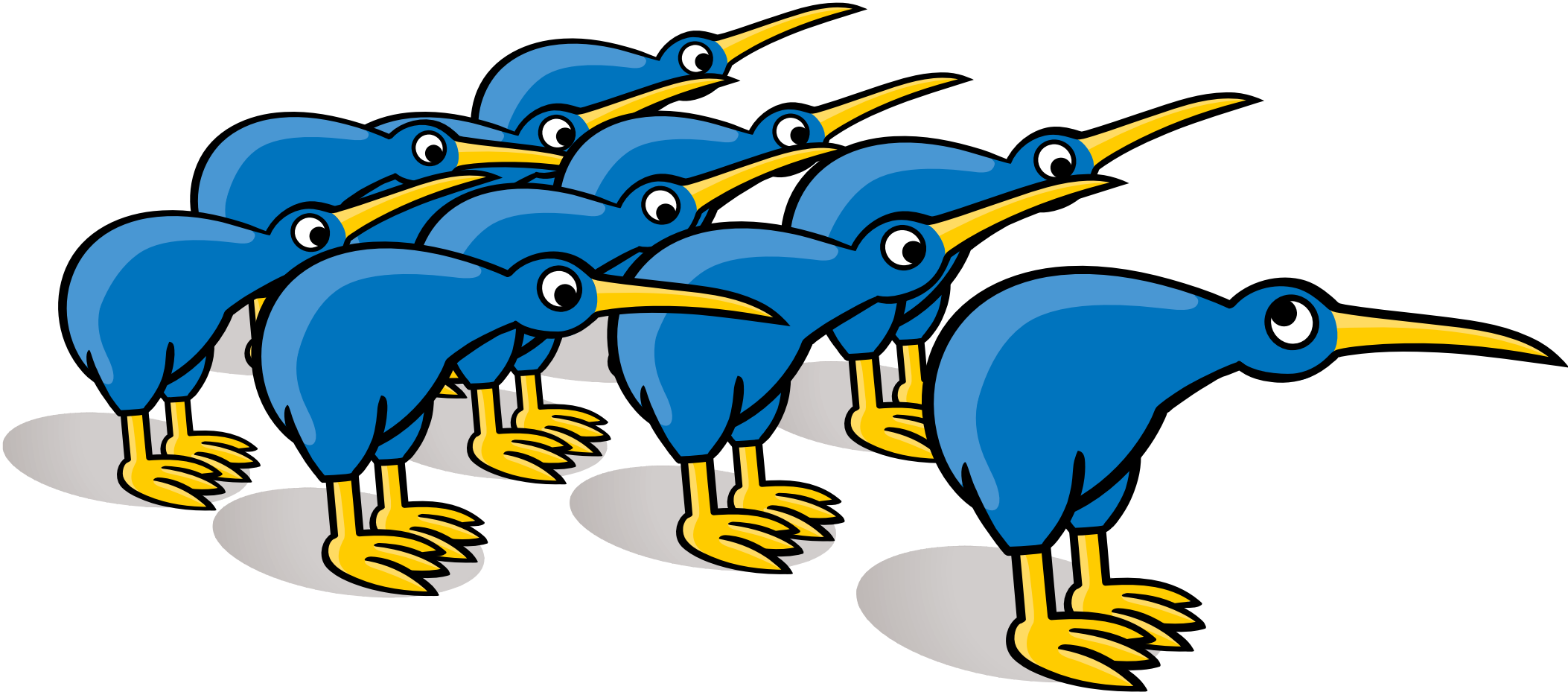
NZD \$000's		Actual	F14 H1	
				Prior year variance
Revenue		85,651	5,271	6.6%
Expenses		25,220	4,052	19.1%
EBITDA		60,431	1,219	2.1%
	<i>EBITDA margin</i>	<i>70.6%</i>		
Depreciation and amortisation		5,339	1,015	23.5%
EBIT		55,092	204	0.4%
	<i>EBIT margin</i>	<i>64.3%</i>		
Net finance costs		2,016	(917)	(31.3%)
Income tax expense		15,056	469	3.2%
NPAT		38,020	652	1.7%

Note: all figures are derived from the statutory financial statements and should be read in conjunction with the accompanying notes

# Our purpose and priorities

- Purpose:
  - We provide online marketplaces that connect people to undertake a transaction or form a relationship – in a way that is trusted, great value, and empowers the consumer.
- Business priorities:
  - Capture the opportunity in our classifieds businesses, through new products and pricing changes.
  - Defend and grow our general items marketplace, through product improvement, on-boarding relevant inventory and smart marketing.
  - Extend into new businesses and grow new revenue lines from our core.
  - Ingrain mobile into all our product and business decisions.
  - Make our products better.
- Capability growth:
  - Improved product development and project delivery.
  - Strengthening the team – especially product development and senior leadership.
  - Better use of data to improve our products and decisions.

# Divisional Performance



# Revenue by segment

NZD \$000's	Actual	H1 F14	
		YoY variance	
		Var \$	Var %
General items	32,629	(520)	(1.6%)
Classifieds	38,563	5,469	16.5%
Other	14,459	322	2.3%
<b>Total</b>	<b>85,651</b>	<b>5,271</b>	<b>6.6%</b>

- **General Items:** Flat with YoY revenue declining \$0.5m, however up \$0.3m on a like-for-like basis. Investment continues but payoff not expected for some months.
- **Classifieds:** YoY revenue growth of \$5.5m (16.5%) spread across the Classified businesses. Motors maintains its strong market position, Jobs was a surprise over-performer, and Property maintains strong future prospects.
- **Other:** YoY revenue growth of \$0.3m (2.3%). On a like-for-like basis (excluding Treat Me and Life Direct), revenue is up \$1.3m (10.2%) with Pay Now and Holiday Houses growing revenue at >30%.



# Expenses – investing to build the business

NZD \$000's	H1 F14	Prior year variance	
Employee benefit expense	13,004	1,593	14.0%
Web infrastructure expense	1,608	(4)	(0.2%)
Promotion expense	3,206	1,938	152.8%
Other expenses	7,402	525	7.6%
<b>Total</b>	<b>25,220</b>	<b>4,052</b>	<b>19.1%</b>

- Building product development capability. Product development, design and technology headcount has increased from 80 in Dec 12 to 105 in Dec 13.
- Building the senior team. Senior Management Team hires in Analytics, Design and FindSomeone, with hires in Property and Advertising coming.
- Building more stand-alone strength in our Classifieds verticals.
- Building our brands. Increase in promotions expenditure driven by above the line campaigns in Jobs and Marketplace, with more planned for Property.
- Building out our business lines. The additions of LifeDirect and MotorWeb have both been EBITDA-positive, but both increase our expenses and reduce our margins.

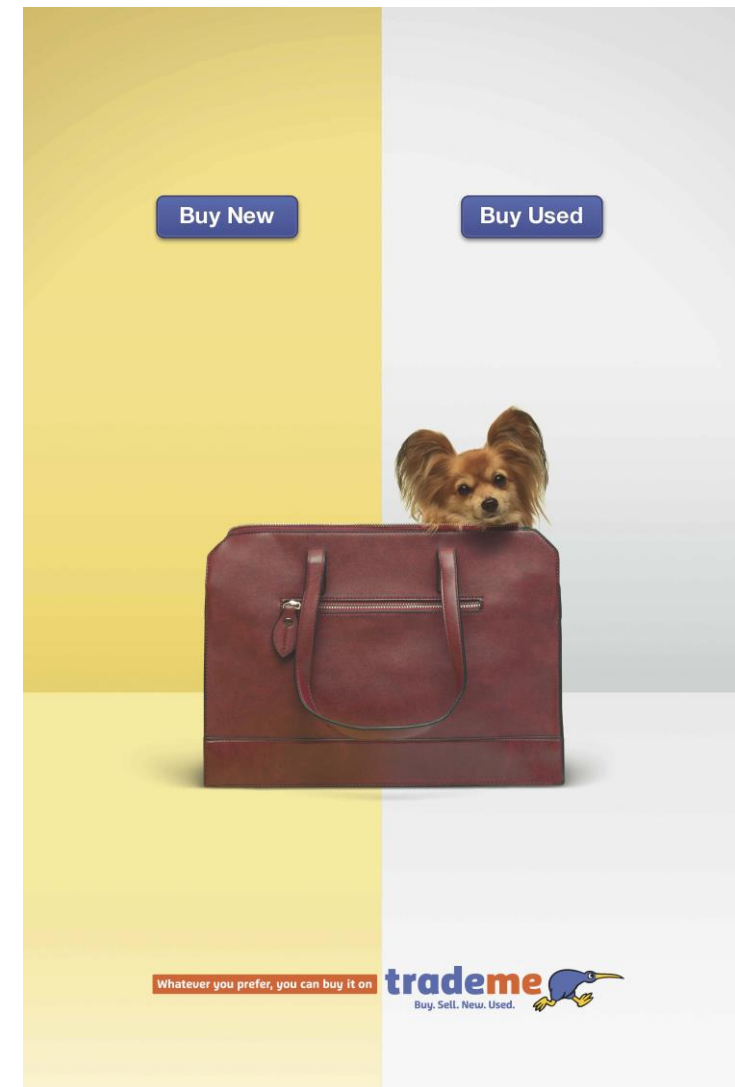
# General Items: Performance

- Revenue fell \$520k YoY (note H1 F13 included a one-off accounting adjustment of \$800k).
- **GMS** up 0.4% YoY. Better recent performance over December (+4% YoY) and January (+2% YoY). New goods and used goods both flat when aggregated across all categories.
- **Items sold** declined 3.9% with fewer lower priced items being transacted (e.g. clothing)
- **Average sale price** increased 4.3% overall due to category mix. ASP for used increased 7.5% to \$70; new goods ASP rose 0.7% to \$47.
- **Categories:** Farming (+14%), Building & Renovation (+7%), and Home & Living (+4%) enjoyed growth. Laggards include non-digital media e.g. DVD's (-17%) Books (-11%) and Gaming (-6%).
- **Investment:** An additional ~\$1.4m invested in promotion and people in H1 YoY (capitalised development additional to this). Focused on the buyer experience and functionality, and consumer promotions.

Growth YoY	H1 F14
Items sold	(3.9%)
Gross sales value	0.4%
Revenue	(1.6%)

# General Items: Progress

- Significant team changes over the past six months
  - New product, marketing and supply roles; existing business development team restructured.
  - Marketplace tech team bolstered to speed up product development and project execution.
- Refocus on product development to improve buyer experience – to keep our active buyers and convert passive visitors to engaged buyers – expanded upon on the next page.
- Focus on targeted international vendors to meet unrequited demand:
  - A more targeted approach to securing new supply has been more effective (and efficient).
  - Secured major Ebay sellers including Shoe Metro, Eforcity, Toolking, Beauty Seller, Gem Avenue.
- Run our first above-the-line campaign – achieved increasing awareness and consideration for new goods as measured by independent market research, but only small sales stimulation.



# General Items: Product development

- Refocus on product development to improve buyer experience to retain active buyers & convert passive visitors into engaged buyers:
  - Category infrastructure work complete – ongoing category improvements continue
  - Major refresh of our clothing offering under way
  - Payments significantly improved, with new and improved Buy Now/ Pay Now purchasing
  - Presentation changes to promote free shipping, more to come
  - Raised the profile of New Goods via renovated filter bar & homepage changes
  - Many other small user improvements

**trade me** Where Kiwis Buy and Sell [Browse](#) [Sell](#) [My Trade Me](#) [Community](#)

Search  in tops & shirts [Q](#) [Watchlist](#) [Favourites](#)

**BOX B**

Box13 > Clothing > Womenswear > Tops & shirts Listing #: 696105515

**Superdry Vintage Logo Tank - Cherry** new

CLEARANCE SALE: was \$39.72 NOW \$19.26

Price: **\$19.26** Closes: Thu 20 Feb, 3:14 am [Watchlist](#)

[Buy Now](#)

Colour: Red  
Size: 10  
Style: Sleeveless

Superdry Vintage Logo Tank - Cherry Red

Update your everyday essentials with a classic tank from Superdry!  
Traditional tank shape with vintage Superdry chest logo  
Soft touch fabrication, ideal for transeasonal dressing  
Colour: Cherry Red  
Composition: Cotton  
Machine washable  
Model's height is 168cm  
Model is wearing size XS

Returns Policy:  
100 days (with original packaging and tags).

About Box13:  
Yes we're based Aus... but please don't hold that against us :-). We love the surf, skate and street culture just like you! We have a small warehouse in Sydney (not too far from the beach :-).

Standard Shipping:  
For all orders under \$120, Orders will be delivered through standard post via Australia Post.

FREE EXPRESS Shipping:  
We'll automatically upgrade any order over \$120 (including combined orders) to EXPRESS Delivery from Australia - for free!

Delivery Timeframe:  
Deliveries can take anywhere between 3-10 business days to reach you. If you find after 10 business days your order hasn't shown up - Please let our customer service team know.

[Add to Watchlist](#) [More stuff you may like](#) [Print](#) [Email](#) [Facebook](#) [Twitter](#)

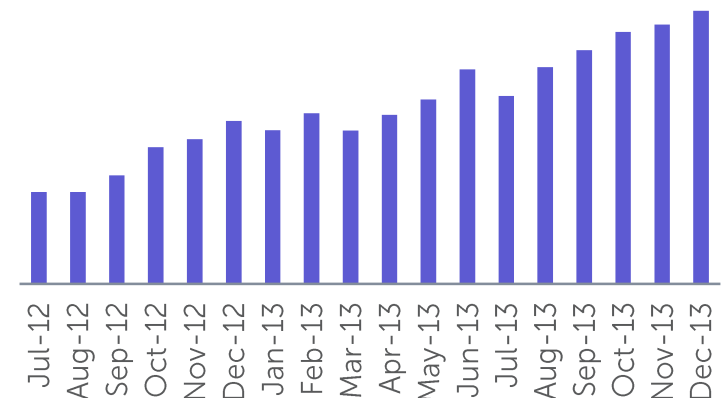
# Classifieds: Motors

- Revenue up 16% YoY lead by dealer revenue and premium uptake.
- Listing volumes grew 1.8% (directs +0.8%; dealers +3.5%) - expect this to remain flat.
- Yield increased from ongoing premium products & dealer price increases. Direct yield +9.2%, with Dealer yield +23.3%.
- Premium spend: average spend per dealer was \$288/month (+38% YoY).
- Delivered innovation: sell process improvements, DealerBase, boats category & new premium products.
- Future growth levers include product enhancements (sell process and data), yield opportunities (premium products) & people (account management & tech).
- Investment: MotorWeb acquisition and some promotional and Trade spend.

Motors Superfeature product



Monthly dealer premium revenue





# Classifieds: Property performance

- Revenue up 15% YoY – a strong result given the headwinds from falling For Sale listings in the NZ property market.
- Direct listings decreased in line with market - corresponding mix impact.
- Agent revenue grew strongly with premium products & a small rate-card impact. Volumes declined slightly (2.1%) as per expectation.
- Product enhancements include agent branding on super-feature, automatic reporting for agents & introducing the API.
- ATL campaign – clearly articulating the benefits of listing on Trade Me Property.
- Investment: an additional ~\$800k H1 YoY expense. Additional people, infrastructure and promotional spend to increase capability, improve usability, and defend our leadership position. Capital Development spend additional to this.



# Classifieds: Property outlook

- Agent pricing: Changes aim to properly reflect the marketing value we provide through a per-listing structure. Previous model based on a combination of subscription and per-listing, usually with an office or franchise cap.
- Industry reaction has been mixed and negative, with some areas of strong agitation.
- We'll do all we can to retain relationships with agents, including flexibility where it helps, however we're confident in our long-term success and the fundamentals of our proposition:
  - Trade Me has the largest audience – over 4x our nearest online competitor.
  - Around half of all house purchases come from Trade Me Property, and two-thirds of recent property buyers said they used Trade Me Property as their #1 search channel. Trade Me was measured as 10x more effective than print advertising.
  - At \$159 per listing (or less for agents with good volume) we provide outstanding value relative to the overall transaction, agent commissions and the cost of marketing alternatives.
- Appointed a Head of Property – industry expert Nigel Jeffries (recently CEO of Property IQ).
- Opportunities to promote revenue growth remain: depth products and market data.

# Classifieds: Jobs

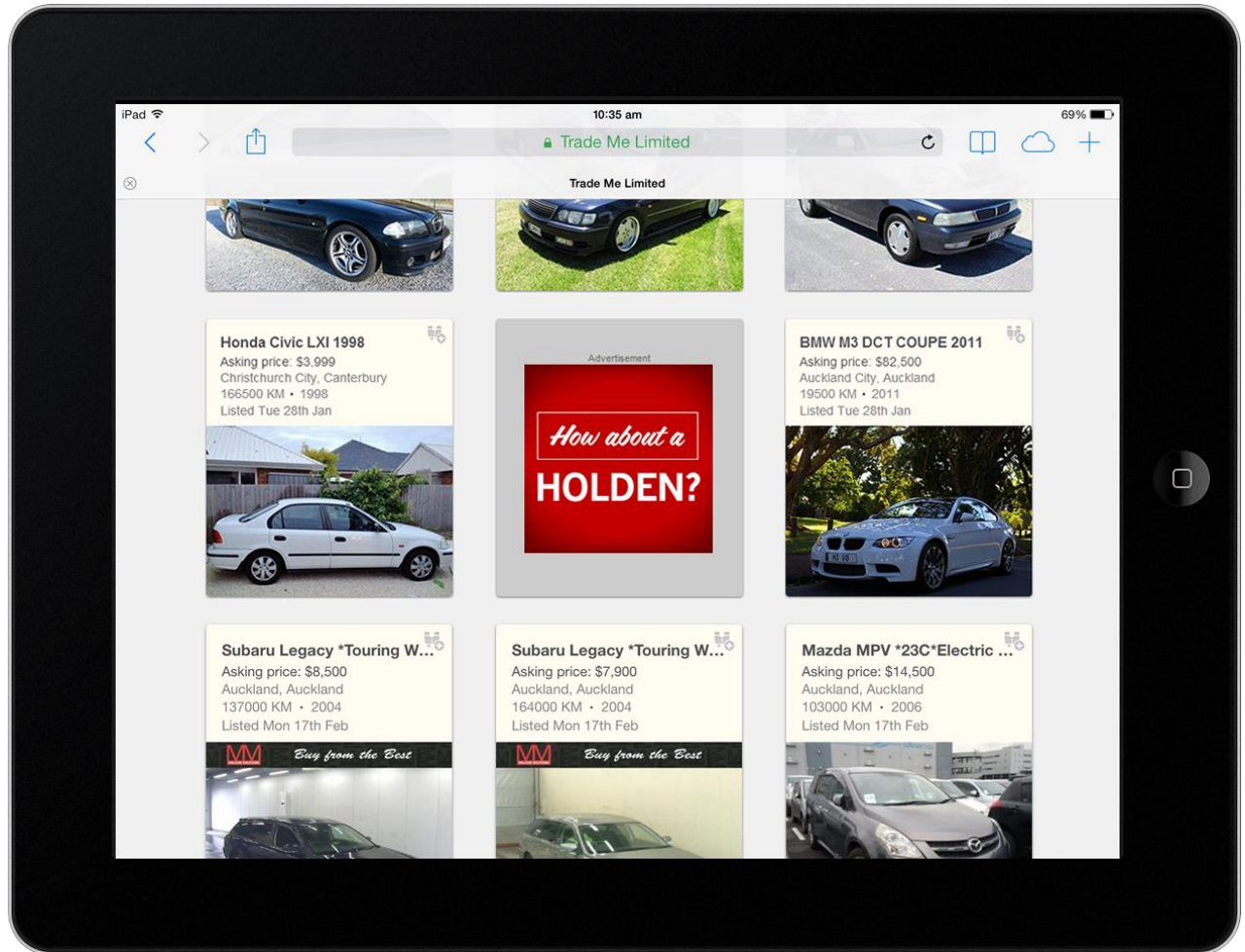
- Revenue up 21% YoY based on both volume and yield.
- **Listings:** Ongoing volume increase; listing growth of 18% YoY. Listings index vs. Seek improved to 82% at the end of H1 (76% six months ago), driven by good account management, advertising and a growing market. 85% share currently.
- **Yield:** both direct and agent grew marginally; outlook flat.
- **New products:** have included agent branding, new >\$100k and Executive categories.
- Targeting revenue growth via improved product and consumer awareness.
- Longer term opportunity to improve the relevance of search results and email job alerts. We're awake to the the threat of disruptive models and the evolution required for jobs boards.
- **Investment:** an additional ~\$430k YoY H1 expense in people and promotional spend to increase capability in management (dedicated product and marketing managers), and continuing to build the brand for both consumers and the trade (recruitment community). Capital development spend additional to this.





# Other: Advertising

- Modest display revenue growth of 6.2% YoY; and a slight decline in partnership income.
- Now selling partnership opportunities in mobile – still a nascent market in NZ, but great potential.
- Invested in new senior team: National sales manager started July 2013, Operations manager started September 2013. Recruiting for new Head of Advertising and Insights Manager.



# Other: Smaller businesses



LifeDirect has exceeded internal targets & continues to benefit from TME ownership and audience. Policy numbers up 50-60% last year.



Holiday Houses delivered revenue growth of 48.5% YoY (including Holiday Homes). The combined business has a strong platform and will benefit from ongoing investment.



Travelbug & BookIt revenue growth of 10.3% YoY.



FindSomeone revenue growth slowed slightly with 9.3% growth. New head of FSO appointed and plans to stimulate activity.



PayNow revenue growth of 32.3%; investing to further expand its use (from ~17% of total GMS currently).



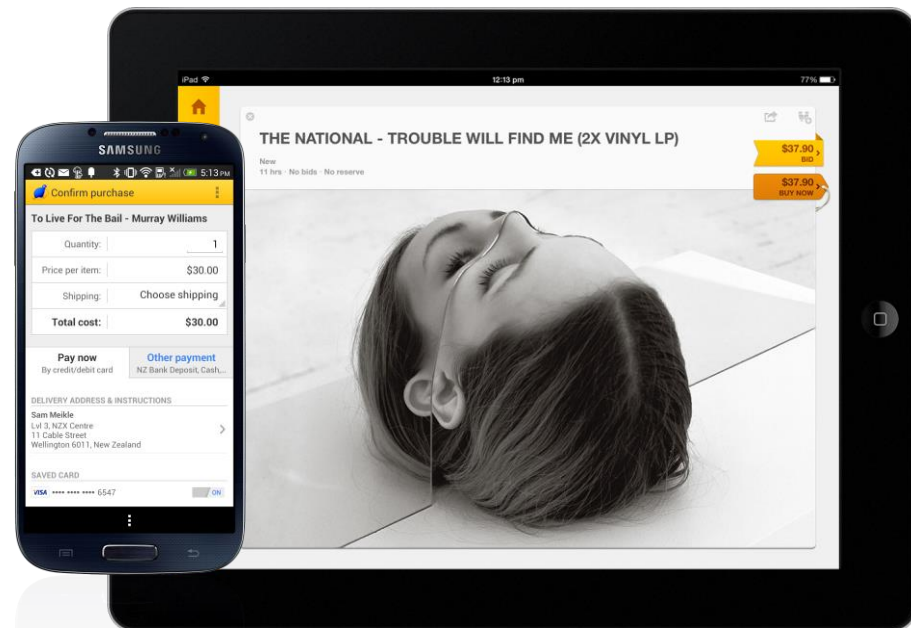
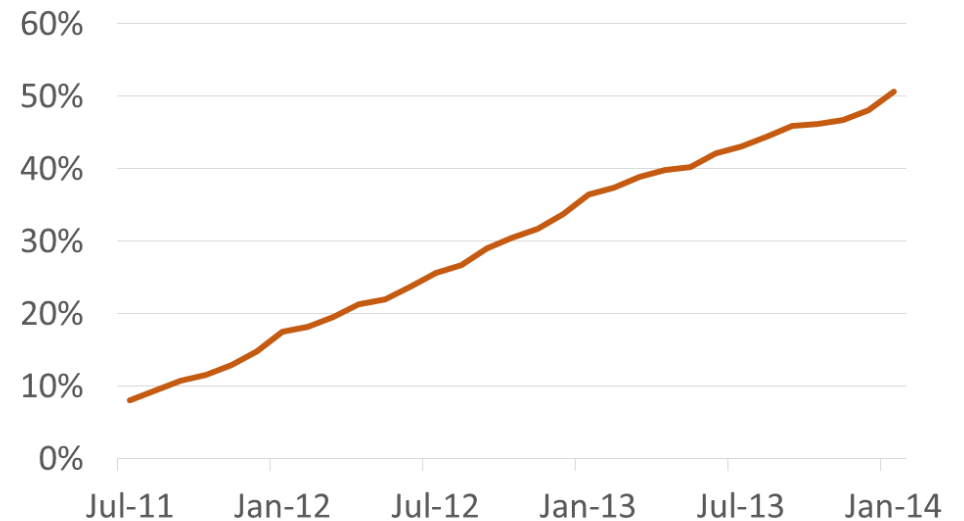
Services revenue growth of 20.9%.



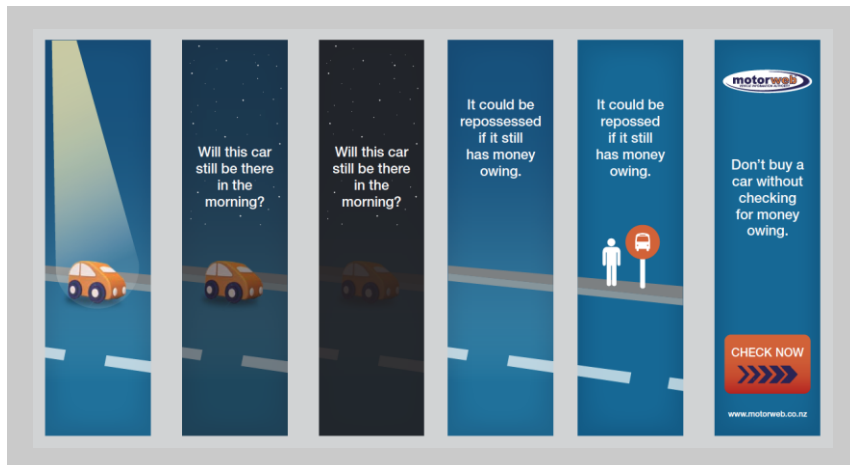
# Mobile

- **Mobile majority:** mobile sessions now outnumber desktop visits with more than 50% of all visits via mobile.
- Substantial updates under way to improve the Browse experience across mobile.
- Substantial changes to mobile home-screens underway, that will provide a personalised experience.
- Mobile-focused staff increasing in line with industry shift.
- PayNow now accessible on all devices: Integration (incl. Pay Now Instant) to all mobile interfaces, including our mobile apps.

Mobile sessions on Trade Me



# MotorWeb acquisition



## MotorWeb: an automotive data company

- Uses car data from government registries plus its own IP to create and sell vehicle reports to businesses/public.
- Deal announced & executed in December.
- Modest acquisition cost, clean purchase at an attractive multiple. Earnings accretive, funded from cash.
- Strategically aligned: customers, industry, data
- Opportunity to strengthen our customer connectivity, grow revenue and learnings in a new/growing market.
- Small international exposure to Australia where reports are provided to the insurance industry; attractive future growth options here.
- Key management remaining with the business.
- Annual revenue of approx. \$8m.

# Financials



# Financials: H1 F14 recap

NZD \$000's	H1 F14	YoY variance	
General items	32,629	(520)	(1.6%)
Classifieds	38,563	5,469	16.5%
Other	14,459	322	2.3%
<b>Total revenue</b>	<b>85,651</b>	<b>5,271</b>	<b>6.6%</b>
Employee benefit expense	13,004	1,593	14.0%
Web infrastructure expense	1,608	(4)	(0.2%)
Promotion expense	3,206	1,938	152.8%
Other expenses	7,402	525	7.6%
<b>Total expenses</b>	<b>25,220</b>	<b>4,052</b>	<b>19.1%</b>
<b>EBITDA</b>	<b>60,431</b>	<b>1,219</b>	<b>2.1%</b>
Depreciation and amortisation	5,339	1,015	23.5%
<b>EBIT</b>	<b>55,092</b>	<b>204</b>	<b>0.4%</b>
Net finance costs	2,016	(917)	(31.3%)
Income tax expense	15,056	469	3.2%
<b>NPAT</b>	<b>38,020</b>	<b>652</b>	<b>1.7%</b>
<b>EPS</b>	<b>9.59</b>	<b>0.16</b>	<b>1.7%</b>

Note: all figures are derived from the statutory financial statements and should be read in conjunction with the accompanying notes



# Financials: Net finance costs

- Finance income increased via funds on term deposit.
- Finance cost decreased with smaller net debt and improved effective rates.
- Net finance costs decreased \$0.9m YoY in H1F14.
- Committed cash advance facility extended to September 2016 (& reduced to \$166m).
- Continue to fix a greater portion of our term debt - increased cash flow certainty.

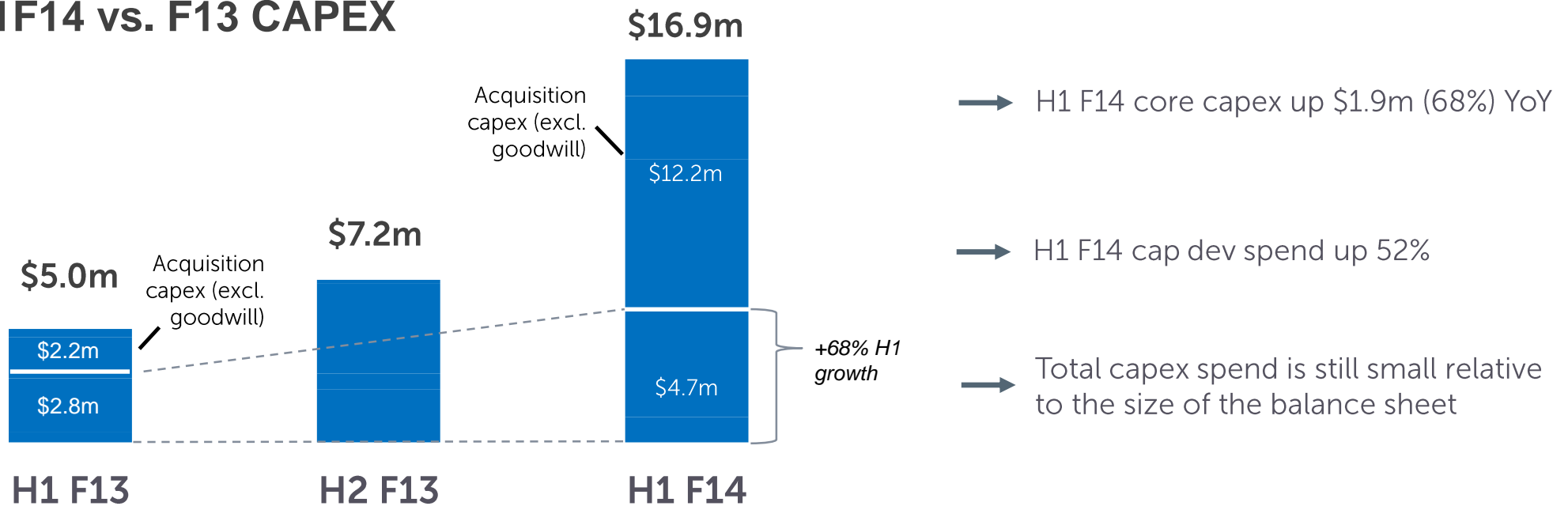
## H1 Net Finance Costs

\$000's	Finance income	Finance costs	Net finance costs
<b>H1 F14</b>	1,052	3,068	2,016
<b>H1 F13</b>	939	3,872	2,933
<b>Var</b>	113	(804)	(917)
	12.0%	(20.8%)	(31.3%)

# Financials: Capex spend (including Software acquisition)

- Capex including software component of acquisitions: \$16.9m (\$4.7m if H1 F14 acquisitions excluded)
- Capital development increased by ~\$1m (52%) YoY in line with previous guidance that we would focus on building better functionality and product
- H2/F14 capital development spend will continue to increase as more resource invested in functionality of the operating platform (including mobile)

## H1F14 vs. F13 CAPEX





# Financials: Acquisitions – impact on depreciation & amortisation

- YoY increase of \$1.0m in H1F14; driven by recent and historic acquisition activity and capitalised development
- Acquisitions in H1: MotorWeb & LifeDirect
- MotorWeb amortisation is \$260k/month (\$7.8m / 30 months); LifeDirect \$90k/month (\$2.7m / 30 months)

Depreciation & Amortisation (\$m)	H1 F13	F13	H1 F14	H1 % var
Core capex D&A	\$2.6	\$5.1	\$3.2	+21.4%
D&A on acquired businesses	\$1.7	\$3.6	\$2.1	+26.7%
<b>Total D&amp;A</b>	<b>\$4.3</b>	<b>\$8.7</b>	<b>\$5.3</b>	<b>+23.5%</b>



Total D&A will continue to **increase** as we invest more in capitalised development, and as the software component of acquisitions is amortised

# Financials: Cash flow

- Operating cash flow increasing faster than revenue in H1 F14
- \$24m spent on acquisitions in H1 F14
- Cash held decreases; despite increased operating cash flow, it was more than offset by increasing dividends and acquisitions

	H1 F14	H1 F13	Var
<b>Cash flows from operating</b>			
Receipts from customers	95,548	91,744	3,804
Payment to suppliers & employees	(35,909)	(35,578)	(331)
Income tax (paid)	(15,401)	(20,850)	5,449
Interest received	1,084	892	192
<b>Cash flows from operating</b>	<b>45,322</b>	<b>36,208</b>	<b>9,114</b>
<b>Cash flows from investing</b>			
Payment for purchase of PPE	(1,010)	(879)	(131)
Payment for purchase of intangibles	(2,939)	(907)	(2,032)
Receipts from loan	150	-	150
Business acquisitions	(23,500)	(3,327)	(20,173)
<b>Cash flows used in investing</b>	<b>(27,299)</b>	<b>(5,113)</b>	<b>(22,186)</b>
<b>Cash flows from financing</b>			
Dividends paid	(37,111)	(30,888)	(6,223)
Interest paid on borrowings	(3,784)	(3,323)	(461)
<b>Cash flows used in financing</b>	<b>(40,895)</b>	<b>(34,211)</b>	<b>(6,684)</b>
<b>Net decrease in cash</b>	<b>(22,872)</b>	<b>(3,116)</b>	<b>(19,756)</b>
Cash at beginning of period	48,857	39,135	9,722
<b>Cash at end of period</b>	<b>25,985</b>	<b>36,019</b>	<b>(10,034)</b>

# Financials: Balance Sheet

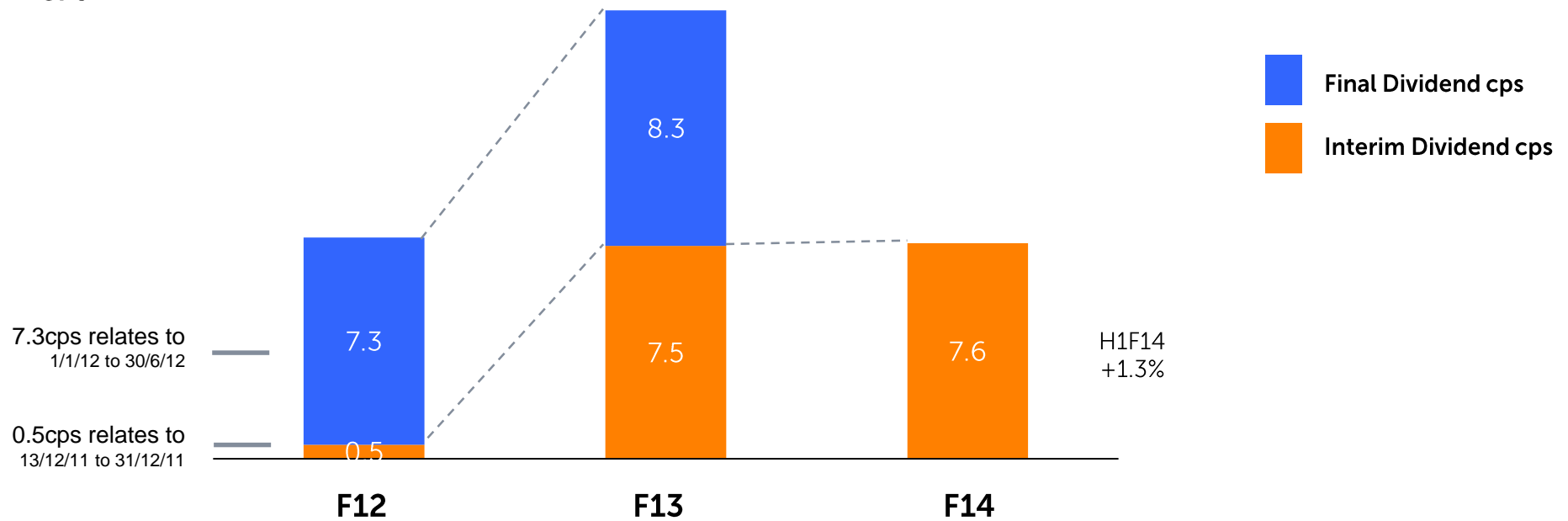
	31 Dec 13	30 June 13	var
Cash & cash equivalents	25,985	48,857	(22,872)
Trade and other receivables	10,217	9,004	1,213
Property, plant & equipment	5,167	5,449	(282)
Goodwill and Intangibles	804,219	776,375	27,844
Other assets	2,635	1,767	868
<b>Total Assets</b>	<b>848,223</b>	<b>841,452</b>	<b>6,771</b>
Trade and other payables	13,447	11,522	1,925
Long Term Debt	165,734	165,858	(124)
Other Liabilities	6,633	7,006	(373)
<b>Total Liabilities</b>	<b>185,814</b>	<b>184,386</b>	<b>1,428</b>
<b>Net Assets</b>	<b>662,409</b>	<b>657,066</b>	<b>5,343</b>

- Cash decreased due to acquisitions
- As previously indicated we lengthened debt facility from Dec 2014 to Sept 2016 and reduced the facility (now syndicated) from \$200m to \$166m
- Increased our debt hedging with ~60% of term debt, and lengthened our debt maturity to secure certainty
- Significant headroom in debt covenants.

# Financials: Proposed Dividend

- Fully imputed interim dividend of 7.6cps; ~80% pay-out ratio of \$38.0m net profit
- Supplementary dividend for non-residents of 1.3412cps
- Dividend record date: 5pm Friday 14 March and payment date of Tuesday 25 March

## DIVIDENDS PAID CPS



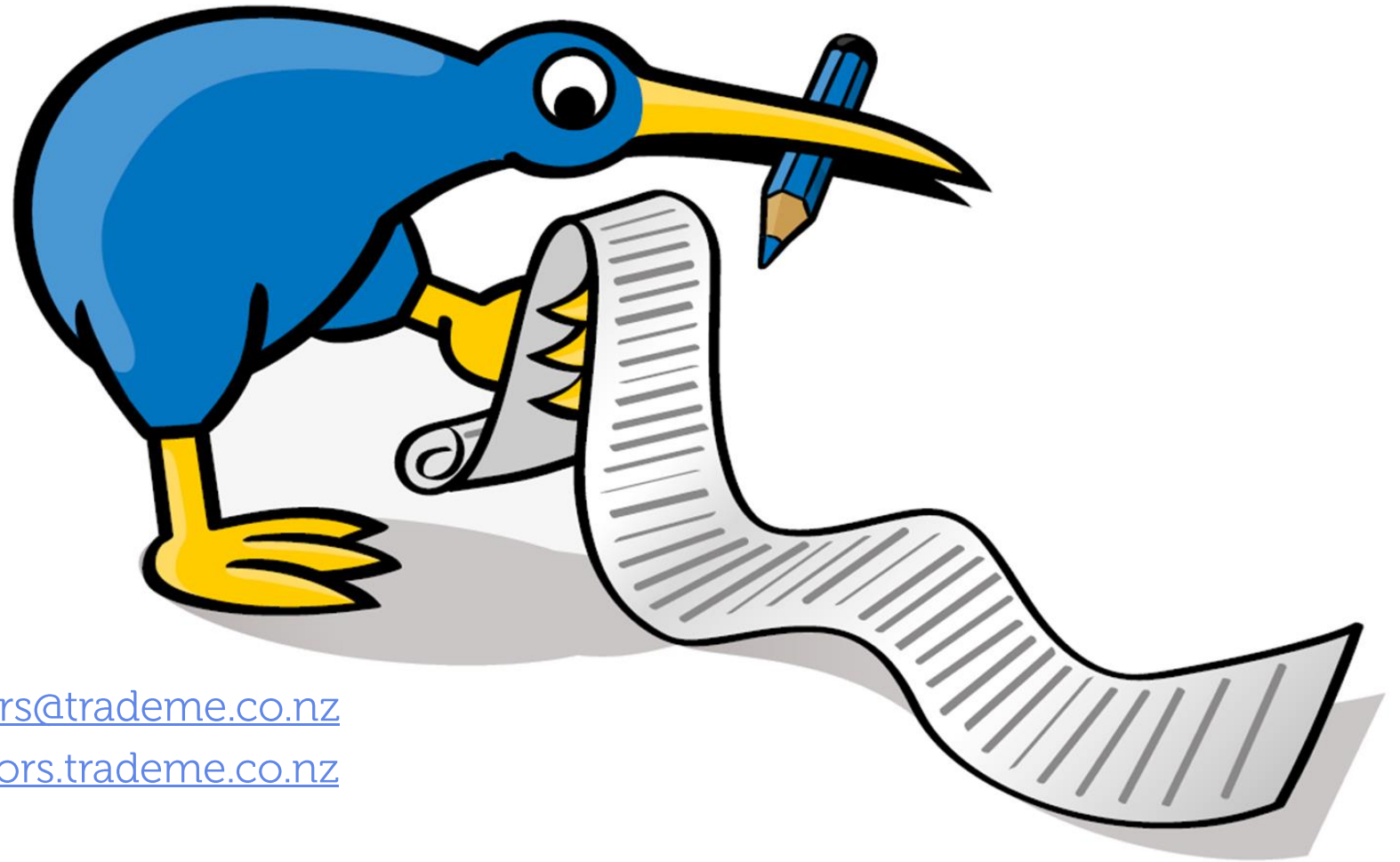
# Outlook



# Outlook

- In H2 F14 we expect a modest increase in revenue growth based on some recovery in General Items (note slow growth of other domestic retailers in NZ) supported by the core strength of our classifieds.
- In H2 F14 we expect our expenses to grow at a faster rate than H1 based on people and marketing investment. The main contributors to this greater level of expense growth:
  - Full-period impact of the hires made in H1
  - Investment to ensure the success of our property yield work
  - Expense contribution of MotorWeb and LifeDirect
- EBITDA and NPAT growth to remain subdued for the full year as we continue to invest. H2 has started in line with expectations.
- Beyond F14: This year's investment will pay off in the coming years. We expect stronger profit growth over the course of F15 as we roll out new products, phase in yield improvements in the Classifieds, and increase activity in our General Items marketplace.

# More information



Email [investors@trademe.co.nz](mailto:investors@trademe.co.nz)

Web <http://investors.trademe.co.nz>