

Chair and CEO Letter

Pat O'Sullivan
Non-Executive
Chair

Cameron McIntyre
Managing Director
and CEO



We are very pleased with the Company's performance and our ability to respond to challenging market conditions in order to deliver continued growth while investing for the long term. This result is testament to the strength, resilience and diversified nature of our business, as well as our investment in new products and entry into new markets.

We are pleased to report another year of solid financial performance with revenue up 11% on pcp to \$417.5m. In more challenging economic conditions, our core classified businesses continue to perform well, with our dealer business proving resilient with 7% revenue growth on pcp. Our international companies continue to grow and we are pleased with the contributions each has made over the past 12 months.

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) was up 7% to \$210.1m with EBITDA margins contracting slightly to 50.3%. This performance reflects the ongoing expansion of margins in our core business, as the Company continues to utilise its operating leverage, offset by lower margins in our early stage businesses.

Adjusted Net Profit After Tax (NPAT) increased 3% to \$131.3m reflecting strong returns to shareholders in a year of continued investment in the business for long-term growth.

Our Purpose and Strategy

Over the past 12 months we have refreshed our purpose and strategy to reflect the evolution of global automotive and mobility markets and focus on the opportunities that lie ahead. Our purpose, "empowering people to move freely through world-leading marketplaces" reflects both our heritage as a classified advertising business and the complementary products and services that are now vital to consumers as they make mobility choices. Our strategic evolution reflects the growing significance of our international businesses as part of the Group's operations and future as we leverage more of our Australian IP and technology globally.

Operational Performance

The continued growth of the business over the last 12 months has been particularly pleasing given the impact of challenging economic conditions on consumer sentiment during the period.

Our diverse revenue streams and ongoing commitment to developing new products and entering new markets have stood the business in good stead at a time when Australian market conditions for new vehicle sales have been adversely impacted by economic uncertainty, tightening credit availability and the impact of falling property values. At an industry level, changes to lending regulations for dealers, challenges in sourcing new car stock from Europe and car companies reducing advertising budgets have all been headwinds.



Whilst the market for new cars has been challenging, the used car market has continued to grow. During the year we recorded growth in used car lead volumes, a decline in average time to sell and excellent growth in traffic to the carsales site. This is a testament to the ongoing strength of the carsales brand as Australia's No.1 site for buying and selling cars and demonstrates the counter cyclical characteristics of our business model and strength of our diversified earnings base.

As the market leader, we have been working hard to develop new car advertising solutions for our customers. Innovation in this area has culminated in several changes to our new car advertising products which has led to a positive customer response and an increase in new car inventory on the carsales site.

Our international businesses have continued to show great progress over the past 12 months. In January last year we acquired the remaining 50.1% of SK Encar from the SK business in South Korea and since then we have helped the business define its growth agenda and potential. Webmotors in Brazil is going from strength to strength and is in an excellent position to continue to grow over the coming years. Our investments in other parts of Latin America are also progressing well as we focus on driving operational performance and move towards strengthening earnings.

The past 12 months have seen significant technology innovation and development for both our Australian and international markets. Our technology hub in Chile has continued to improve its product development capability and technical operational support (increased support outside of the normal operational hours). At the same time the business has undergone significant investment in globalising its technology platforms. We expect to see global platform parity across much of our technology from early FY20 which will be beneficial for our existing markets and enhance our ability to enter new markets.

In December 2018 we elected to write down our 50.1% investment in Stratton Finance largely due to the impact of regulatory changes in lending, the tightening of credit availability and impact that this was having on Stratton's core business.

Following a strategic review in June, the Board took the decision to treat the Stratton business as an asset held for sale on the carsales FY19 Balance Sheet. We continue to believe that the finance market is attractive in supporting our core business over the long-term and will continue to develop opportunities for customers in this part of the market in the future.

“Our international businesses have continued to show great progress over the past twelve months”

Chair and CEO Letter continued

At the Annual General Meeting we announced a disappointing start to the financial year for our display advertising sales which had been partly the result of market conditions as well as our upfront trading performance. The team worked hard throughout the remainder of the year to address these challenges and it's pleasing to see this performance improve particularly in Q4 of FY19.

Board & Governance Changes

Over the past 12 months there have been a number of developments at Board level. In January 2019 Richard Collins retired as Chair of the Board after 19 years of excellent service as a Director and was replaced by Pat O'Sullivan. Pat has been a Director since 2007 and was previously the Chair of the Audit and Risk Management Committee.

As the business has continued to evolve in size and complexity the Board took the decision to establish a separate Risk Management Committee. The newly formed Risk Management Committee is now being chaired by Edwina Gilbert.

In May 2019 we announced the appointment to the Board of David Wiadrowski. David brings to carsales 25 years of experience with PricewaterhouseCoopers where he had a focus on technology, infocoms, entertainment and media and was the lead audit partner for a number of major media companies. David was appointed to the position of Chair of the Audit Committee in May 2019.

People & Culture

Our people and culture have always been critical to the business' success. Our staff turnover levels have remained at near record lows and staff engagement measures have continued to be strong, as demonstrated by our Great Place To Work® certification in July this year.

The success and popularity of the carsales Graduate Program has continued this year as demonstrated by more than 1,000 applications being received for four positions available. Pleasingly, the Company was ranked fourth on the AAGE (Australian Association of Graduate Employers) Top Graduate Employers list for 2019 after only our first year of running the graduate program.

As a business we pride ourselves on our inclusive work environment. In fact 93% of our people feel that our work environment is open, inclusive and that we accept individual difference. This inclusiveness is not only important to our culture but provides us with a distinct competitive advantage in attracting and retaining talent. Aside from our ongoing WGEA Employer of Choice accreditation, we also became proud members of Welcome Here and Inclusive Australia in 2019.

Driving greater employee engagement with our strategy and purpose was identified as a key priority during the year. The Executive Leadership Team led a campaign to engage employees on our strategic program called GPS2022 which included focusing on the things that are important to us as an organisation as well as where we see ourselves in the future.

As part of the journey to becoming a truly global company this year we included the international businesses in our CEO Scholarship awards and Employee Opinion Surveys (EOS) and launched a global code of conduct and a whistle-blower policy to ensure that we maintain the high standards of our organisation at a global level.

Debt & Capital Management

The Company regularly reviews its capital structure to ensure we are maximising shareholder returns. The Group's \$545m debt funding facility provides significant flexibility when considering future capital management opportunities as well as corporate development. The Board has declared a final FY19 dividend payment of 25.0 cents per share fully franked, bringing the total FY19 dividends to 45.5 cents per share and representing an increase year on year of 3%. The Board believes that the current dividend payout ratio of 85% reflects an appropriate balance between profit distribution to shareholders and reinvestment in the future growth in earnings.

Towards a Successful FY20

FY20 promises to be another year of significant opportunity for carsales. We anticipate that the Company will continue to perform strongly and are confident that it is well placed for future growth. This is a direct result of the passion, talent and dedication of our people and we would like to publicly thank each and every one of you for what you bring to our business each day.

Finally, on behalf of the Board we would like to thank all of our customers, partners and shareholders around the world for their support and engagement over the past 12 months and we look forward to working with you all in FY20.



Pat O'Sullivan
Non-Executive Chair



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