



**Company:** carsales.com Ltd.  
**Analyst:** Alistair Cowley  
**Date of Analysis:** 19/11/2020

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## carsales.com Ltd.

### Checklist Overview

<u>Overall Checklist Result</u>		<u>Number of Risks</u>	
91.9%		3	
<u>Business Characteristics</u>			
Moat	Acquisitions		Overall
90%	80%		90%
<u>Financial Characteristics</u>			
Income Statement	Balance Sheet	Cash Flow Statement	Overall
95%	78%	92%	90%
<u>Management Characteristics</u>	<u>Competitor Characteristics</u>	<u>Ethical Characteristics</u>	<u>Growth Characteristics</u>
89%	91%	100%	100%

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## 1 Business Description

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carsales.com is Australia's leading online automotive, motorcycle, truck, caravan and marine classifieds website and was established in 1997. Its websites receive over 1 billion users a year across Australia, South Korea, Brazil, Argentina and Chile. There are over 750,000 cars listed across the 6 countries in which carsales.com has an interest. Within Australia, people spend twice the amount of time on carsales.com's website when compared to the next closest competitor. carsales.com also sees over 2 times as many unique visitors to their site each day when compared to the next closest competitor. These statistics have been increasing each year over the last three years.

As well as a platform to buy and sell a vehicle, carsales.com also provides other services such as data analysis to help dealers and consumers view pricing and market trends, vehicle reviews to help buyers choose the best car for themselves, inspections, finance, vehicle warranties and also provide access to tyre products. carsales.com has over 1,200 employees, 600 of whom are in Australia and is said to have a good culture within its workforce. It is a certified "Great Place to Work" and 93% of employees feel the environment is open and inclusive and 85% believe management genuinely cares about their wellbeing.

carsales.com is broken up into 8 different websites/business units (data listed below taken from FY20 Annual Report):

1. soloautos.mx is Mexico's #1 auto site and has 45,000 listings and 4 million visits per month. The Mexican business has the capacity to increase Revenue to \$293m per annum based on the Australian business market share. Revenue was up by just 5% this year to about \$2.1m but has been growing at an annual rate of over 40% a year since carsales.com over the last 5 years.

2. chileautos.cl is the #1 auto classified site in Chile and has 75,000 listings and 4.5 million visits per month. Revenue for FY20 was \$4.8m with a 15x potential growth through increasing market share.

3. demotores.com is the #1 site in Argentina with 18,000 listings and 0.9 million monthly visits. It has a 56x Revenue growth potential.

4. SK ENCARSALES is South Korea's #1 site with 113,000 listings and 22 million monthly visits. There is a 7x Revenue growth potential.

5. Webmotors is Brazil's #1 site with 500,000 listings and 31 million monthly visits. carsales.com has a 30% stake in the business. Revenue has a 9x growth potential.

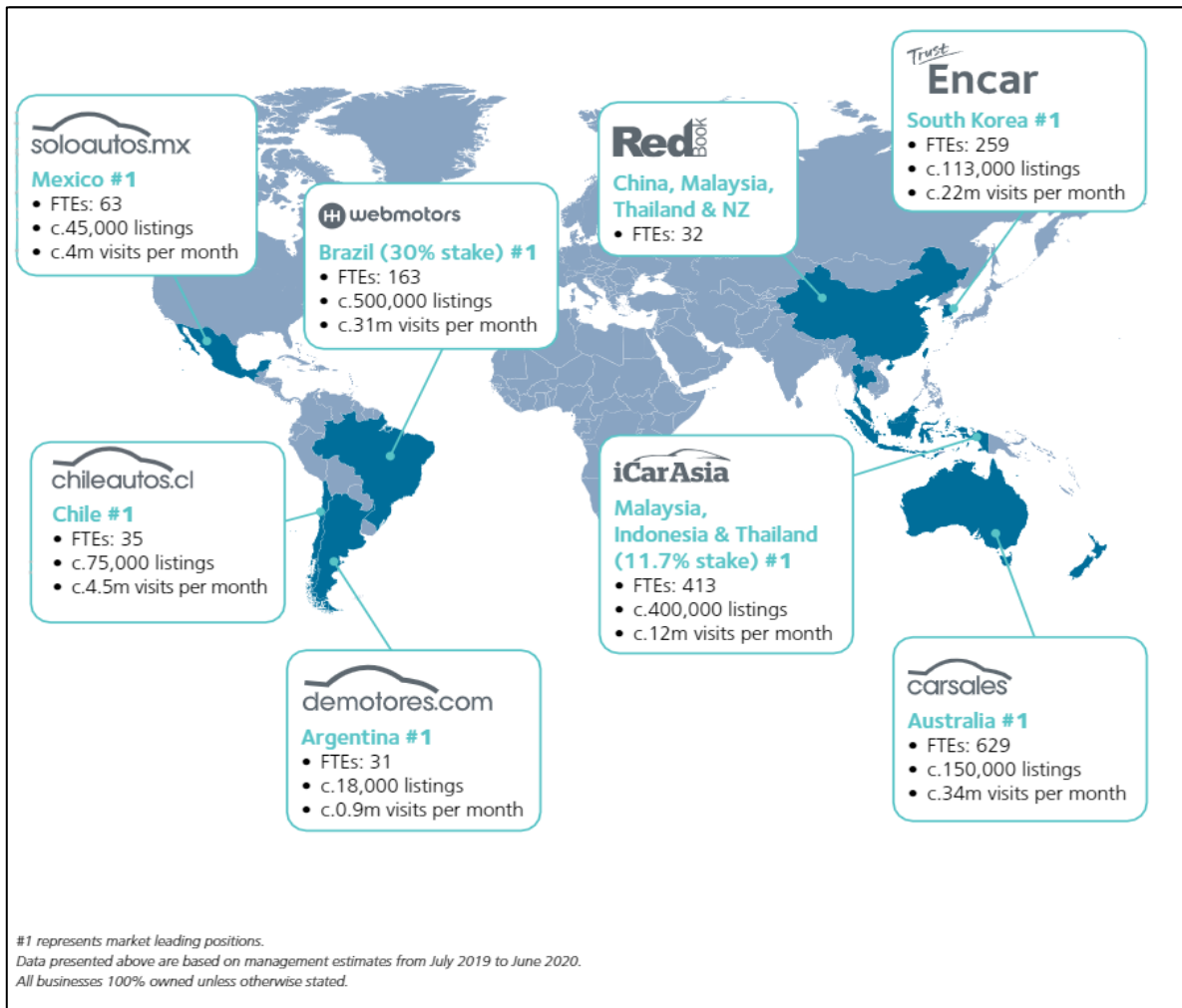
6. caresales.com is Australia's #1 site with 150,000 listings and 34 million monthly visits. This market is at full saturation and carsales.com is the clear leader with almost 80% market share.

7. caresales.com has an 11.7% stake in iCar Asia, which has 400,000 listings and 12 million monthly visits.

8. RedBook provides market data and analysis as well as providing services like vehicle inspections. It provided over 144,000 inspections in FY19 across Australia.

About 79% of Revenue was generated from the Australian business, with 69% of that from online advertising and 10% from data and research. Online advertising is broken into three segments with Dealers generating about 37% of Revenue, Private about 20% and 12% from businesses such as manufacturers/importers or finance and insurance companies paying to advertise their business on the carsales.com website. The remaining 21% of total Revenue comes from international sales with 19% from Asia and 2% from Latin America.

**Locations**



**2 Why I like this investment**

carsales.com is the clear leader in its markets, owning the number one site across most regions in which it operates. The Australian business, which accounts for about 80% of carsales.com's total Revenue has seen its market share steadily increasing over the last 10 years, from approximately 67% in 2010 to approximately 77% in 2020. Its nearest competitor is eBay (Gumtree), which has experienced a decline in market share over this same period from approximately 9.0% to approximately 6.6%. carsales.com's expansions into Latin America and Asia have strategically targeted the number 1 or 2 online classified website already established in the region. There are mixed results among these investments in terms of profitability, with SK ENCARSALES (South Korea) providing over 50% EBITDA margins, its 30% stake in Webmotors (Brazil) has seen its EBITDA margins increasing to over 40%, carsales.com Chilean website has seen decreasing EBITDA margins, however, margins have levelled over the past two years and are currently at about 33%. The Mexican and Argentinian businesses have yet to make a profit. These international investments are still relatively new and currently account for approximately 20% of carsales.com total Revenue. Over time and given carsales.com's proven formula, these investments should begin to provide an increasing component of Total Revenue.

carsales.com's ability to return high profit margins and return on invested capital is still very strong and although ROIC has been falling over the last few years, it appears the rate of decline has been decreasing with ROIC currently at just over 15%. The Company has been able to provide solid returns and profit margins due to its strong reputation/brand as well as its large client base across its retail and commercial customers. This network effect has enabled them to increase prices, even whilst their competitors offer a predominantly free service.

At the right price, I believe this company will prove to be a wonderful investment.

**3 Greatest Risks of Ownership****Total Risks 3**

I identify three major risks in owning carsales.com; first is the move from private car ownership to ride sharing, second is the competition the business faces from free classified ad providers such as eBay (Gumtree) and social media platforms such as Facebook's Market Place, and third the rising debt level is also of some concern.

**Ride sharing:**

As the economy moves towards ride sharing, there will be less demand for cars. Driverless vehicles will also allow commuters to order a car to take them to their destinations. Technology also allows for commuters who are traveling in the same direction to be collected along the way, reducing the cost to travel and increasing efficiency. Uber already provide this type of ride sharing service as just one example. If/when this technology becomes commonplace, the need for cars will reduce and along with it the need to buy and sell cars via online classified sites like carsales.com and eBay.

**Competition:**

Competition from eBay and Facebook could prove to be very challenging as they are both well known businesses with great brands and a wide audience. Both companies offer free listings regardless of price, whereas carsales.com is a paid for service for vehicles priced over \$5,000. To date, based on the number of listings across the platforms, it seems the paid for service offered by carsales.com has not been impaired by the free listings offered by some of its competitors. It appears sellers are prepared to pay to access the targeted audience offered by carsales.com.

**Debt:**

carsales.com's level of debt has steadily increased each year since FY13 when the Debt to Equity Ratio increased from 0 to 0.35. In FY20 the Debt to Equity Ratio had increased to 2.0, the highest level recorded. This leverage results in an increase in shareholder returns (Return on Equity), but it is only adding increased risk to the business and with a Dividend Payout Ratio of around 80% it could utilise some of this cash to pay down its debt, thus reducing risk. Notwithstanding the higher Debt to Equity Ratio in recent years, the business still has a very high Interest Coverage Ratio of over 12 times, indicating the risk of the business experiencing liquidity issues is still very low.

**4 Long term prospects**

Although there are some risks as indicated above, I believe the growth potential in overseas markets far outweighs these risks in the medium term. The carsales.com business has proven resilient over the last few decades and given the continued roll out of its business plan across its overseas platforms we can expect strong growth into the foreseeable future.

**5 Key findings in relation to the Business****Rating 90%**

carsales.com has managed to build a strong brand over the last two decades and has captured almost 80% market share of the Australian auto classifieds industry. In the process, carsales.com has almost eliminated printed media as a competitor. Over this period it has also been in competition with online classified site eBay (Gumtree), which is a \$30 billion global business generating over \$10 billion in revenue a year. The last decade has seen carsales.com increase its Australian market share by 10% whilst over the same period, eBay's online auto classified business within Australia has lost 2.5% market share. Notwithstanding that eBay is a \$30 billion company with an interest in the Australian online auto classifieds, it has been unable to prevent carsales.com from continuing to increase its market share and profitability. This is testament to the full range of services and strategic focus of carsales.com which has allowed it to maintain its competitive advantage.

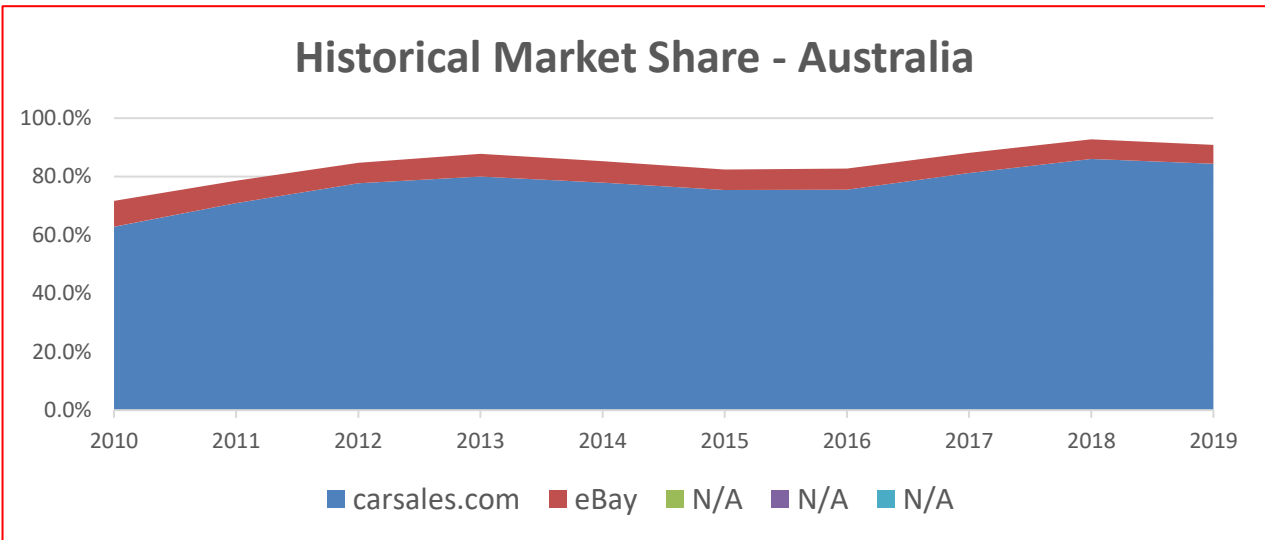
The classifieds industry has thousands of small business and individual customers and carsales.com's online auto classified business is no exception. In Australia, carsales.com is used by over 90% of automotive dealers as well as thousands of private users. carsales.com generates approximately 20% of its Revenue from its overseas subsidiaries, with Revenues from overseas investments growing by around 95% per annum over the last 5 years, about 20% per annum on a "like for like" basis accounting for the impact acquisitions have on boosting revenue. Although this annual growth has been trending down (20% in FY19 and 12% in FY20), given the potential market share that is available, there is still large upside for carsales.com to continue its current growth trajectory. Also, having such a wide and growing customer base reduces the risk of relying on only a few large customers to generate the majority of sales.

The business has produced impressive returns over the last decade or so with Return on Invested Capital currently just over 15%, Return on Equity is 37% and Return on Assets 13%. Although these are impressive results, they have been trending down over recent times to more sustainable levels. Even though Return on Equity has been falling since FY12, this trend appears to have levelled out due to increased leverage employed by management. These borrowings are reflected by

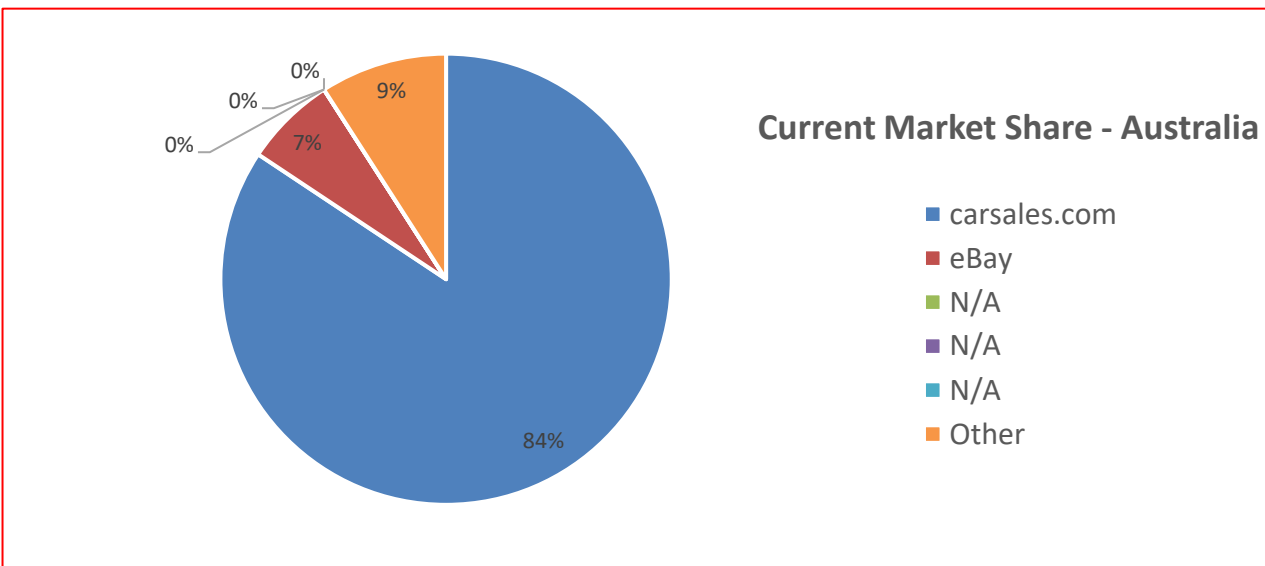
...and appears to have retained its due to increased leverage employed by management. These borrowings are reflected by an increase in Debt to Equity Ratio to 2 times currently. Although the Debt to Equity Ratio is relatively high, Management is confident this increased leverage will help support strong future returns from the overseas assets funded by these borrowings.

Given eBay (Gumtree) and Facebook's Market Place platforms are free, there is no real incentive for customer loyalty. Although carsales.com offer free listings for vehicles under \$5,000 there is a potential for customers to opt for the free services offered by eBay and Facebook where their listings exceed \$5,000 in price. Therefore, it is important that carsales.com continues to be perceived as the "the number one site" in the market place. Enhancements to carsales.com's platform such as RedBook and the availability of extensive industry data, together with a continuation of their targeted marketing should ensure this remains the public perception, if not reality.

carsales.com has made a number of investments in other businesses over its history. It has made some successful investments and expansions, including its 2007 purchase of RedBook, which originally provided data services and has now evolved to also include vehicle inspections. Also, many of its overseas investments into leading online classified sites including ENCARSALES (100% ownership) in South Korea and webmotors (30% stake) in Brazil have proven to be sound investments, providing strong Profit Margins and growing Revenue. The 50% investment in financial services business Stratton Finance, which was purchased in July 2014 with the intention of providing an end to end service which included financing for customers, has proven to be the most costly investment made so far, with a \$47.8 million impairment charge in FY19. Stratton Finance was sold in April 2020 for just \$7 million, a far cry from its \$60 million investment in 2014.



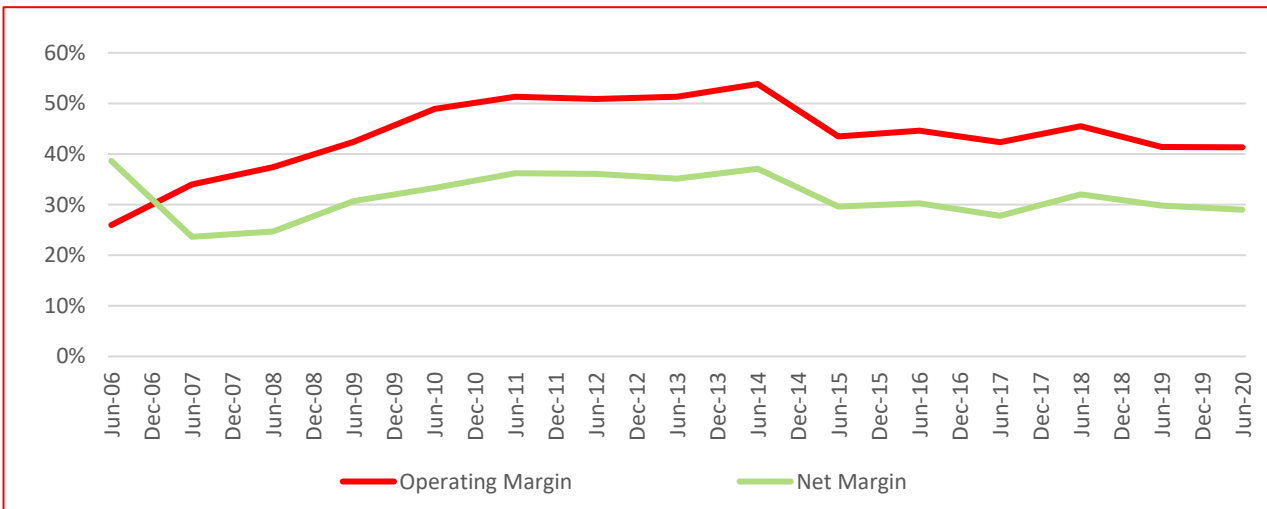
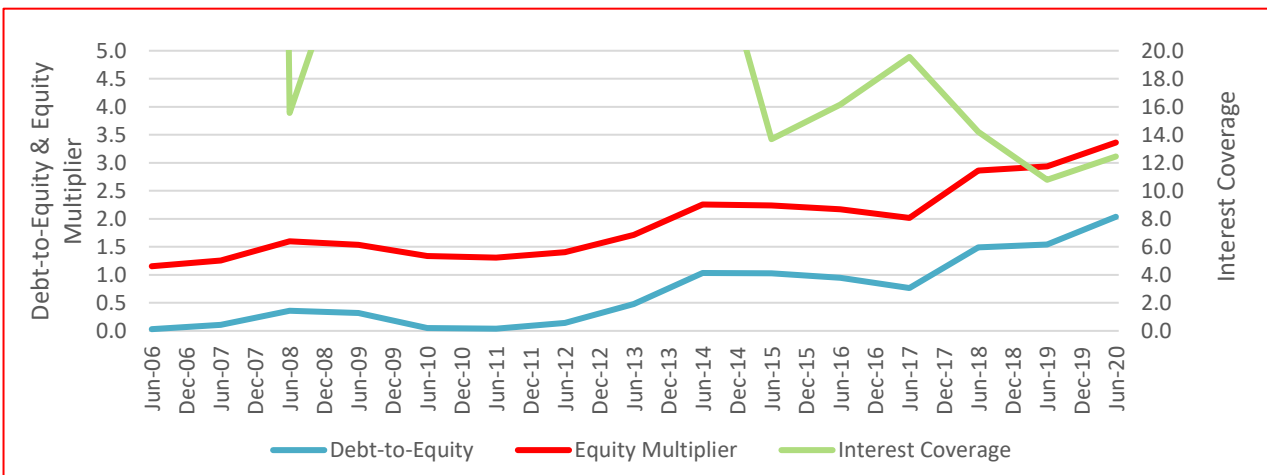
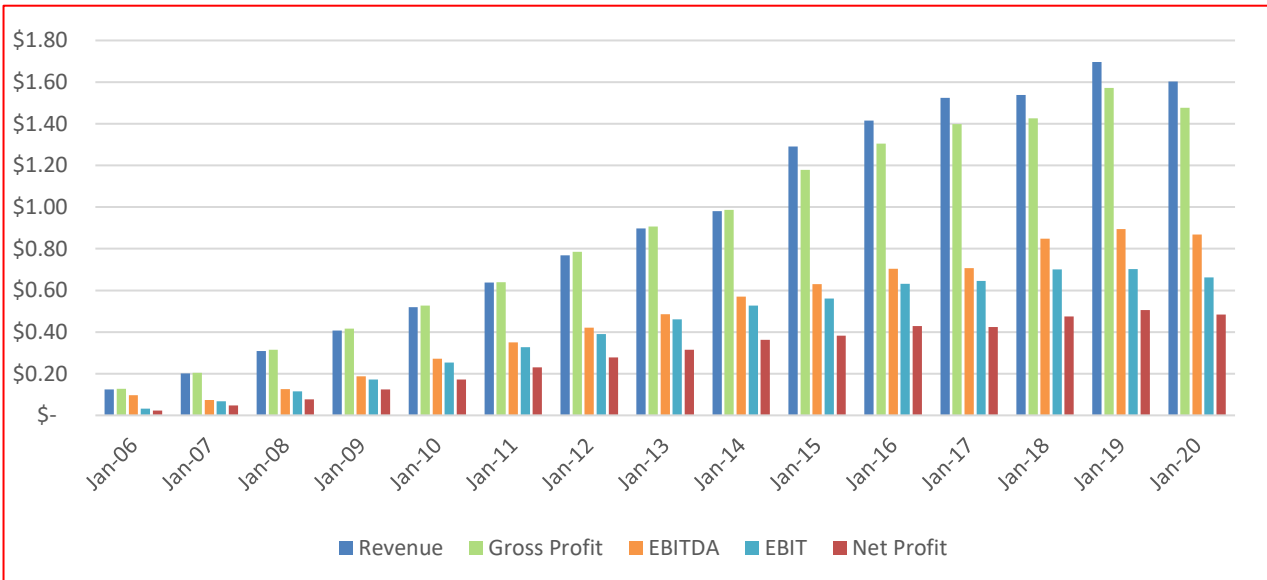
**Note:** FY20 Results are not yet available

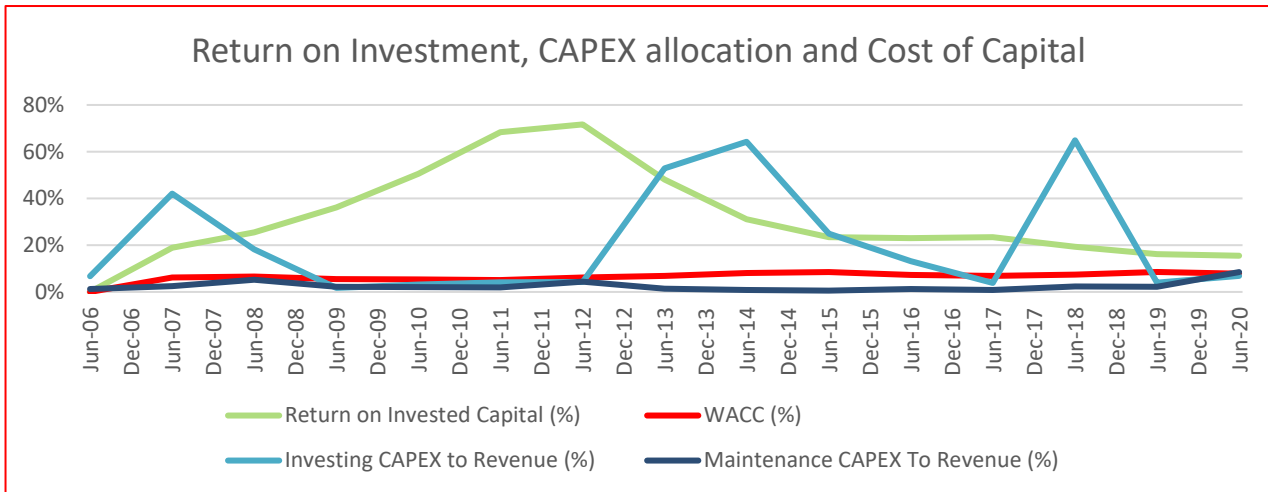


# GROWTH WITH VALUE

## Company Analysis

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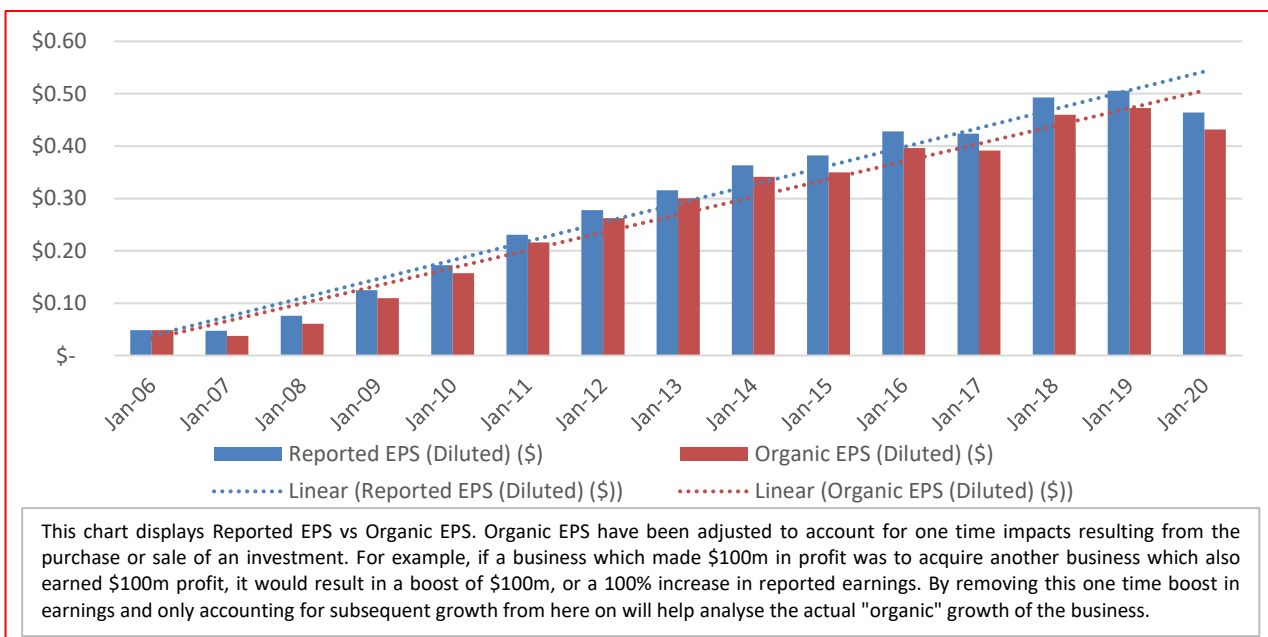
**6 Key findings in relation to Growth**

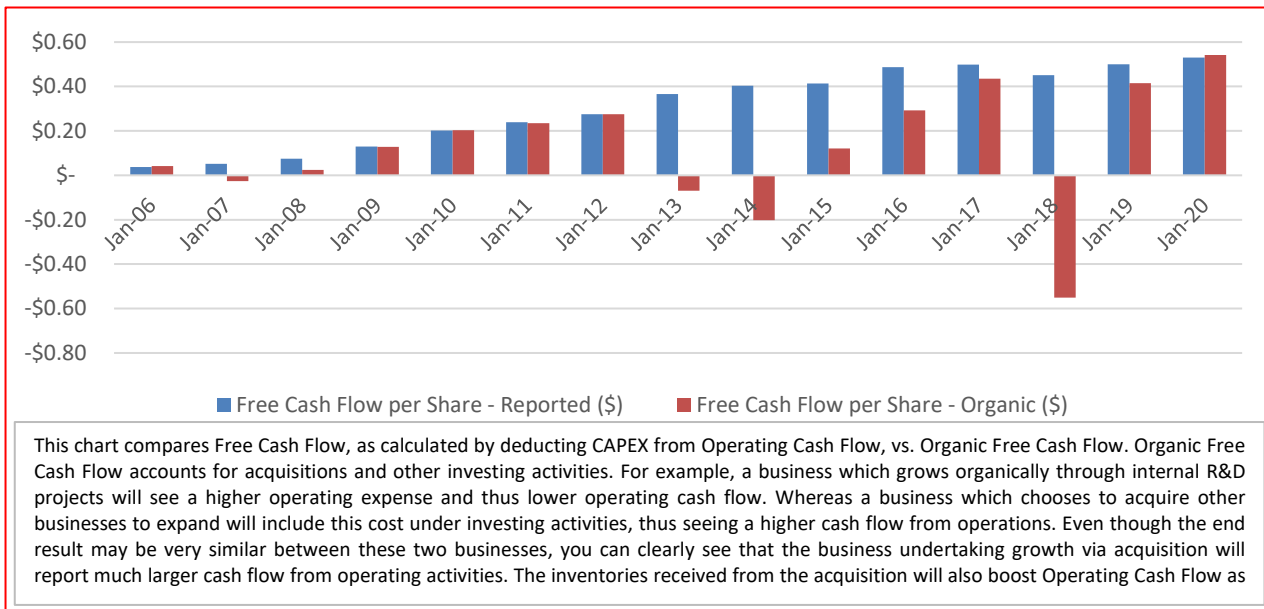
Rating

100%

The online classifieds industry has been growing at 5% a year in Australia over the last five years. Over that same period, carsales.com's Australian business has increased Revenue by 8% a year and Operating Profit by 5.5% a year. This is above the industry average, resulting in the Company increasing its market share from 58% in 2009 to 77% in 2020. Given the Australian Market is almost at saturation with carsales.com having 77% market share, future growth for the business will come from its overseas investments.

Management has indicated it is looking to continue its impressive growth by expanding the market share of its overseas subsidiaries. Management anticipates their South Korean investment has the potential to generate annual Revenue of around \$388 million. In the South American market where carsales.com also has a strong presence, Management expects the Company to generate sales of over \$900 million per annum. Management estimated these Revenue figures by replicating the level of automotive sales comprised in the Australian GDP figures. In FY20 carsales.com reported revenue of \$70 million in its South Korean business and \$30 million in its Latin American businesses. Implying plenty of room for growth, especially in Latin America.





**7 Key findings in relation to the Financials**

Rating

90%

Shareholder's Equity (Net Assets) has continued to increase each year and Profit Margins remain high and consistent over the long term. Over the last 8 year, the business has experienced a decline in returns generated on Assets and Invested Capital, albeit they are still at very acceptable levels. Debt has been increasing since 2014. In the last few years the level of debt has become concerning, with a current Debt-to-Equity Ratio of 2, which is high for a business with few Tangible Assets.

Return on Assets has been steadily declining, falling from highs of 45% in 2012 to 13% in FY20. Due to the increasing levels of debt over the last 7-8 years, the percentage of assets funded by liabilities has increased from about 29% in FY12 to 70% in FY20. The increase in leverage has assisted in levelling out the decline in Return on Equity, which had been evident since FY14. Return on Equity has been around 37% - 40% since FY17, down from its highs of 60% in FY11, FY12 and FY13. Return on Invested Capital is 15% and has been declining. The decline in these metrics over the last 5 or so years is a reflection of carsales.com having now achieved a significant market share within Australian (77%) as well as the underperforming investments in Stratton Finance and iCar Asia.

The international expansion has been performing well with organic growth of about 20% a year. As the international investments continue to achieve higher market share within their respective markets, their contribution to total Revenue should grow from the current level of around 20%.

**INCOME STATEMENT**

The Income Statement indicates strong and generally steady Profit Margins with Earnings and Revenue continuing to grow each year. Long term, Revenue has been running at an annualised rate of about 18% - 20%, notwithstanding this growth slowing to approximately 4% - 5% a year over the last 5 years. Although the recent growth rate is of concern, it is to be expected given the increased market share that carsales.com now commands in the Australian market. Earnings growth tells a similar story with a long term annualised rate of 20%, but slowing to around 4% - 5% a year over the last 5 years.

As stated, Profit Margins are high and have been quite consistent over time. The Operating Margin has ranged between 41% and 45% since FY15, double what eBay has achieved. Net Profit Margins have hovered around 30% per annum. On a segmented basis we can split the business into three separate units, Australian Online Advertising, Australian Data and Research and International. All three segments have strong EBITDA Margins, the Australian Online Advertising segment has an EBITDA Margin of 52%, down from 56% in FY15. This segment makes up 69% of Total Revenue. Australian Data and Research has produced steady EBITDA Margins of just under 60% for the last 5 years. This segment accounts for about 10% of Total Annual Revenue. Finally, the International segment operates at an EBITDA Margin of 43% with this segment making up the remaining 20% of Total Revenue. As the Revenue contribution from international markets improves, we would expect to see some expenses reduce and efficiencies improve thereby increasing the EBITDA Margin. As many of the expenses are fixed costs such as advertising and hosting/internet service expenses, these will be spread out across greater amounts of Revenue resulting in increased profit margins (economies of scale).



### BALANCE SHEET

The Balance Sheet remains sound, however the higher debt levels evident reflect the decision to expand into international markets which are now beginning to provide an increasing proportion of the company's Annual Revenue. As this contribution continues to grow and becomes more profitable, we expect management will have the option of using this higher profitability to begin reducing debt. Currently the Debt to Equity Ratio is 2 which could be seen as an issue for a business with a low level of Fixed Assets, however as stated above we expect the higher cash profits will allow for this potential issue to be addressed. We also note, notwithstanding the Debt to Equity Ratio, the Interest Coverage Ratio remains at a very sound 12 times for FY20.

The increased debt has been used to fund the following investments:

FY13 a mix of cash and debt was used to purchase a 20% stake in iCar Asia for \$13.4m and a 30% stake in webmotors for \$90.5m

FY14 a mix of cash and debt was used to purchase an additional 3% stake in iCar Asia for \$7.179m and a 50.1% stake in SKENCARSALES for \$126.475m

FY15 \$59m in debt to purchase a 50.1% stake in Stratton Finance (this business currently up for sale)

FY16 a mix of cash and debt was used to purchase a 65% stake in SoloAutos Mexico for \$10.624m and a 83.3% stake in Chileautos Chile for \$19.657m

FY17 a mix of cash and debt was used to purchase 100% of Demotores for \$6.667m

FY18 a mix of cash and debt was used to purchase the remaining 50.1% stake in SK ENCARSALES for \$243.428m

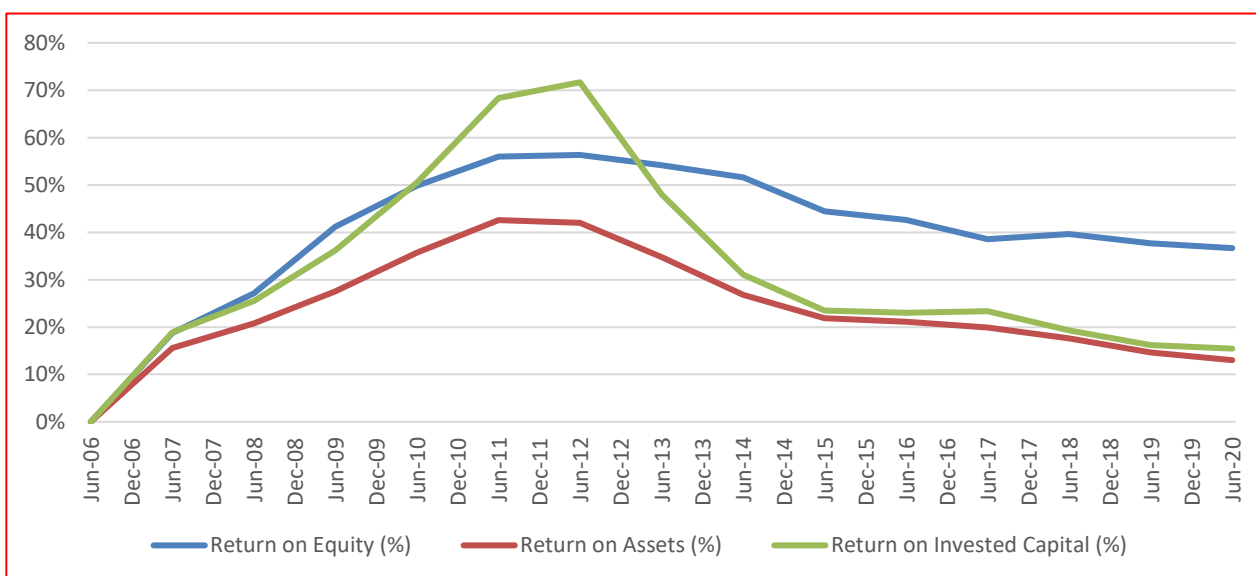
FY19 no investments were made

FY20 no investments were made

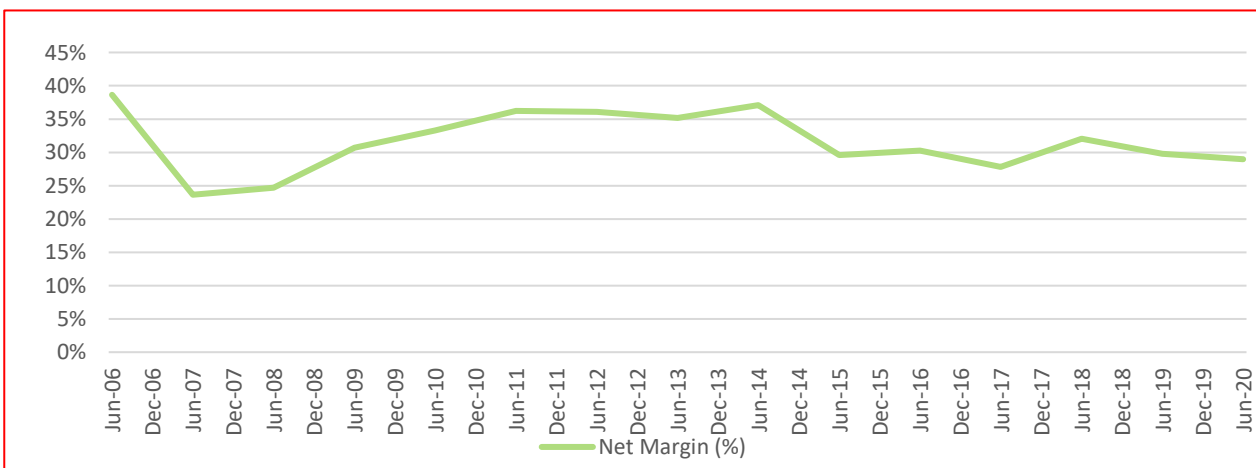
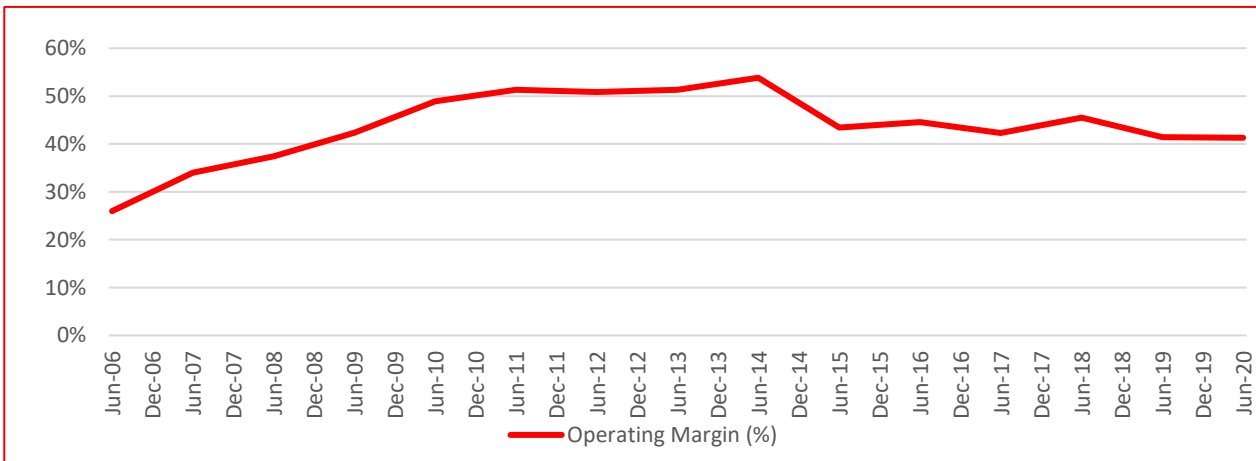
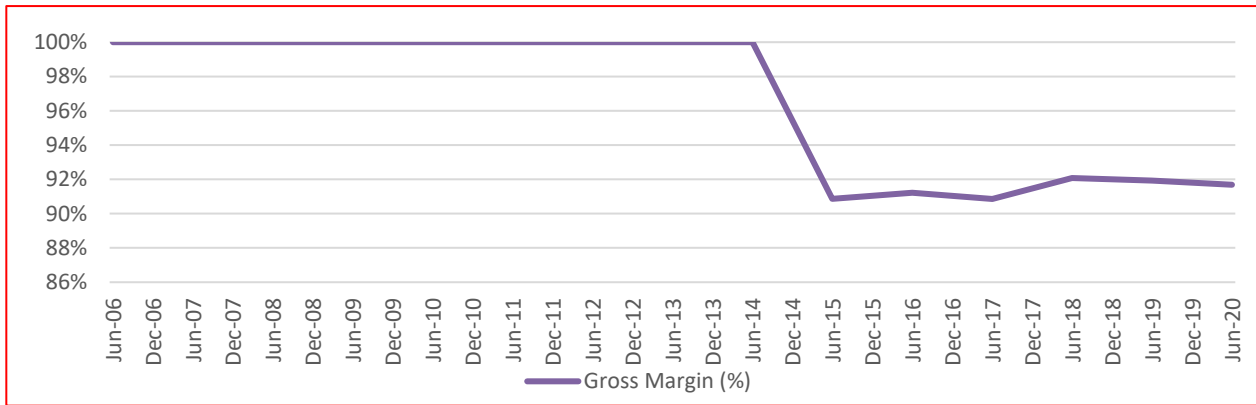
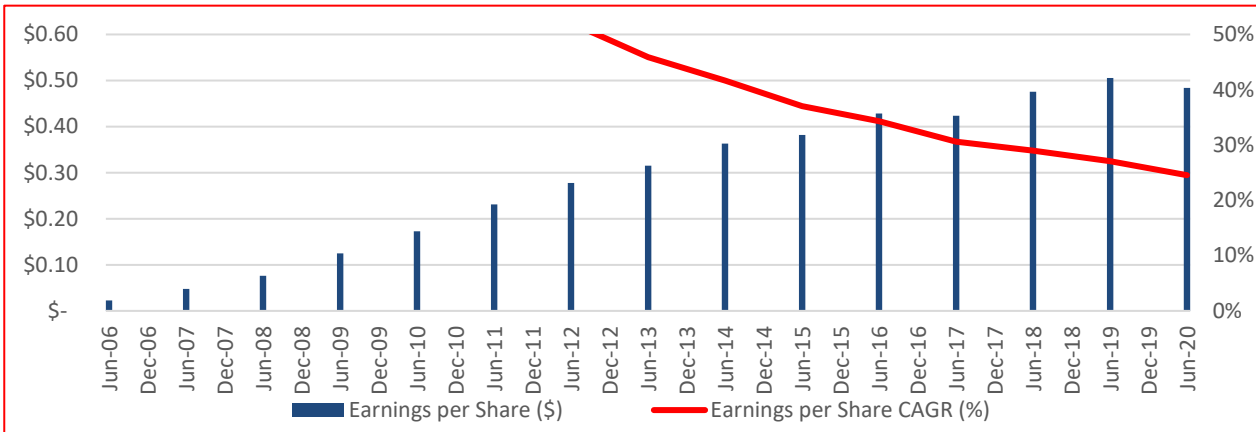
The company's Net Cash position in FY20 was negative \$364m, reflecting Management's decision to use debt to fund a significant proportion of the company's expansion.

### CASH FLOW STATEMENT

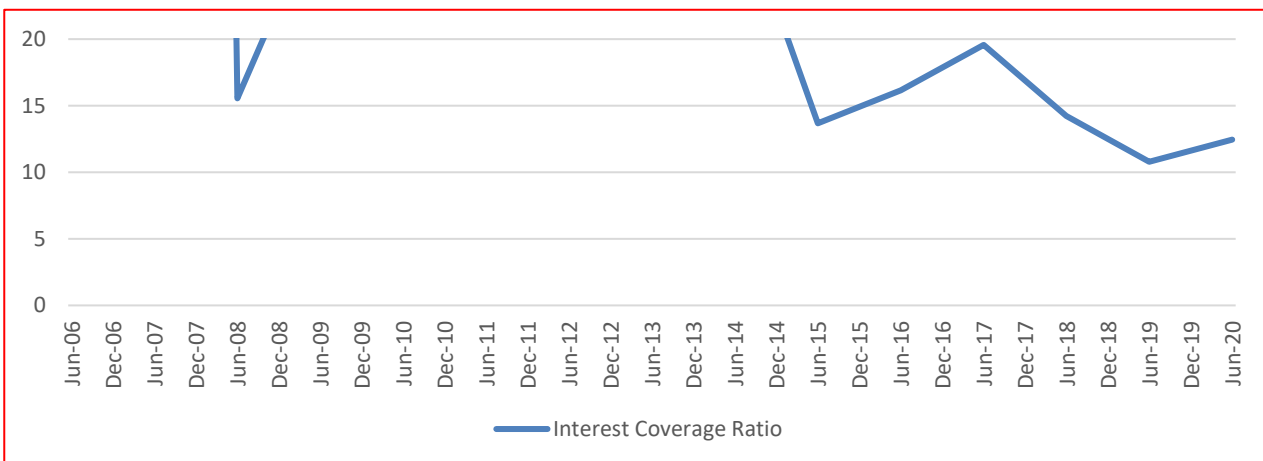
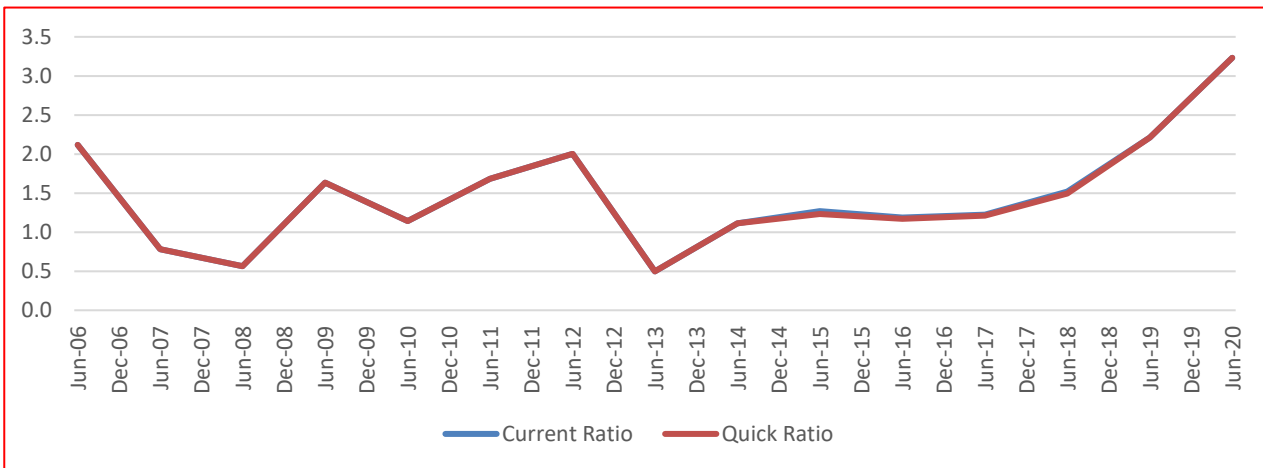
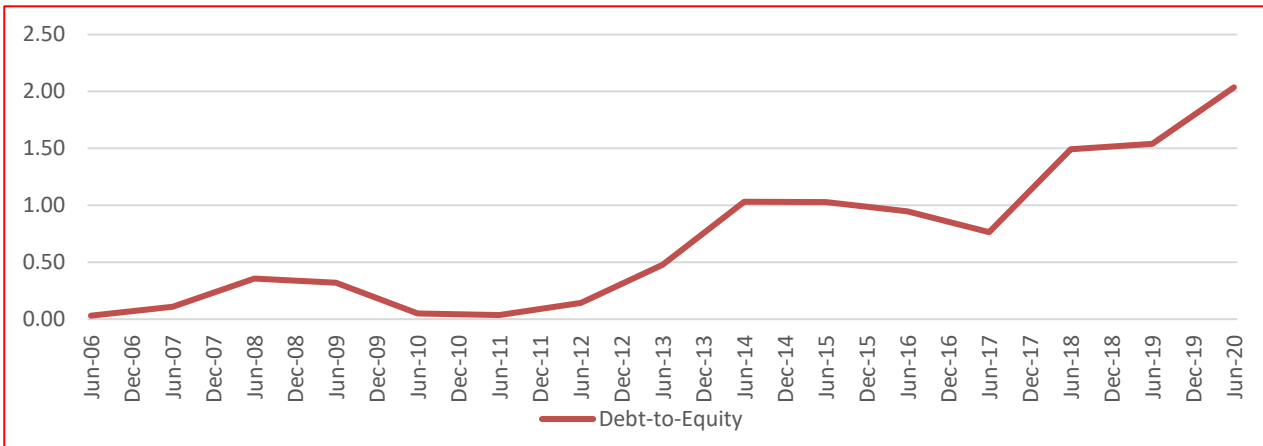
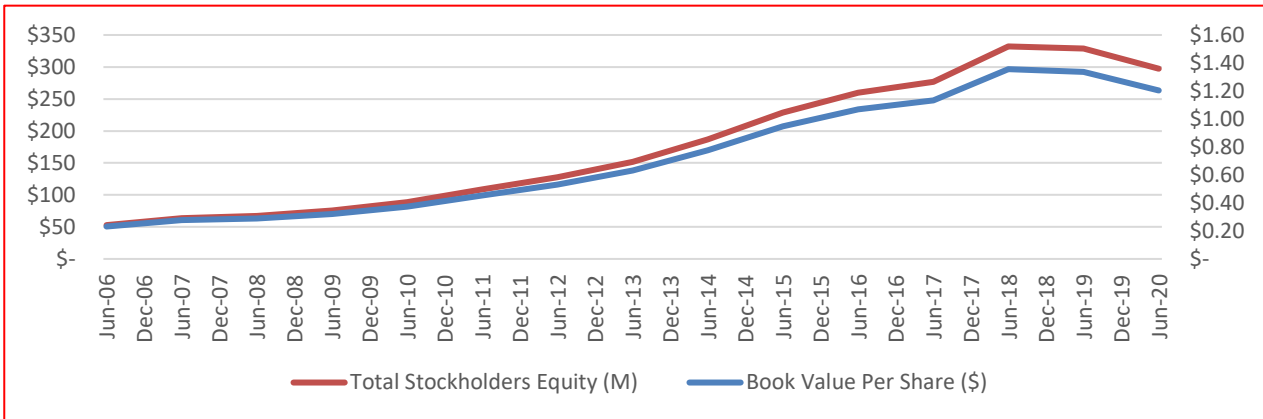
Growth in Operating Cash Flow, like the other financial metrics, has begun to slow from an average of 20% per annum to just under 10% a year over the last 5 years. As mentioned previously, this reflects the changes in the business over the last 5 years. Maintenance Capital Expense up to FY15 was running at about 2.5% of Revenue, however, over the last five years this has now increased to the current level of 8.5% of Revenue. The implications being that growth in Free Cash Flow has fallen over the last 3 to 5 years, again reflecting the changes in the business. The Free Cash Flow Margin has been consistent, averaging around 30% per annum and reflects the high level of profits generated by the business.



## Charts concerning the Income Statement



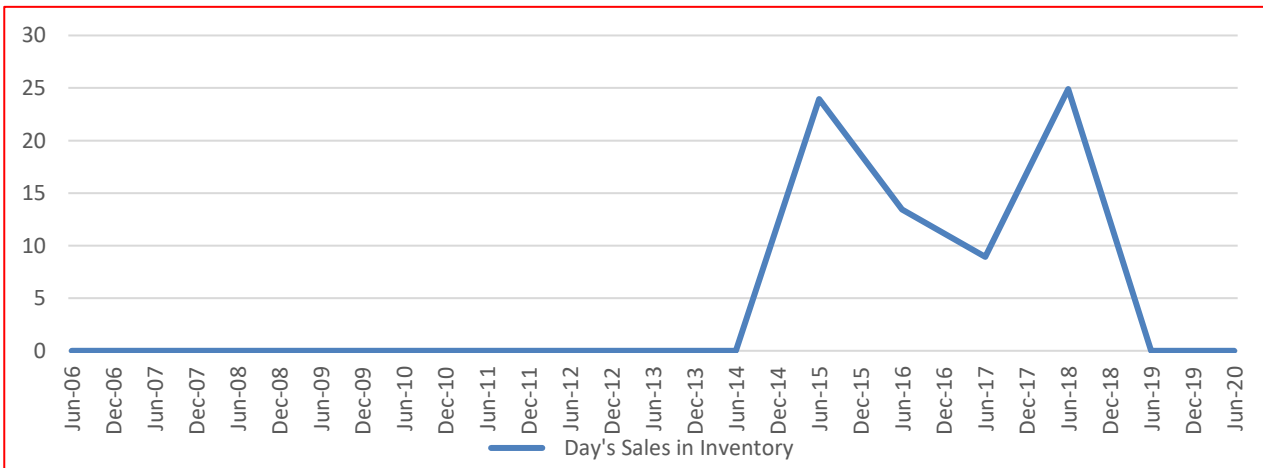
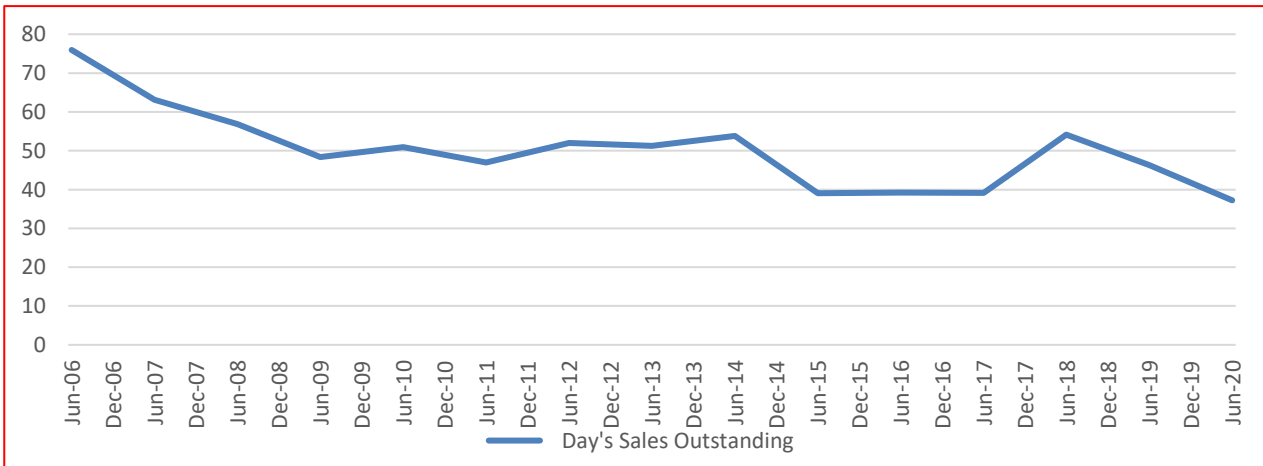
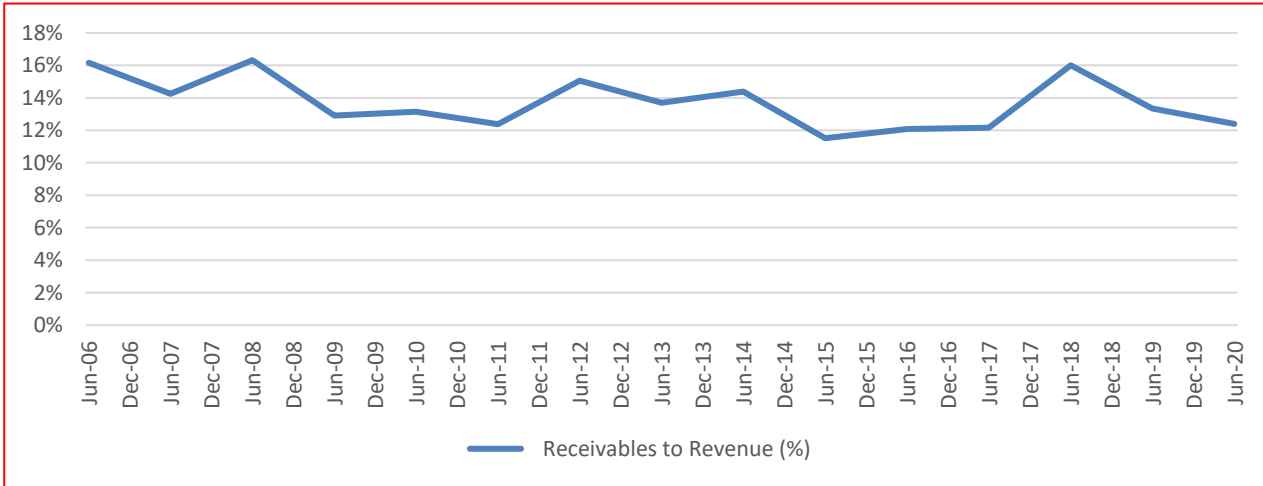
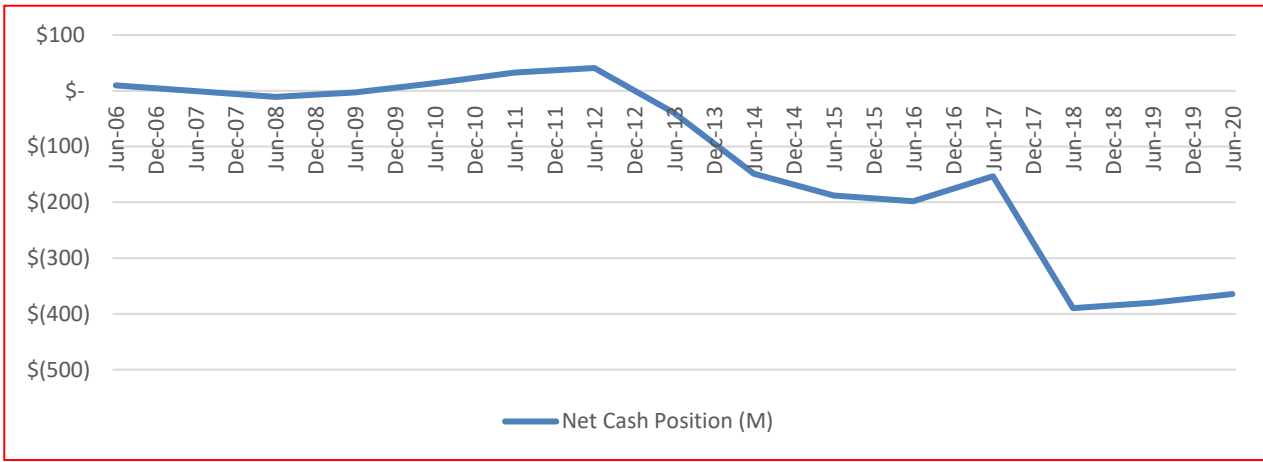
## Charts concerning the Balance Sheet



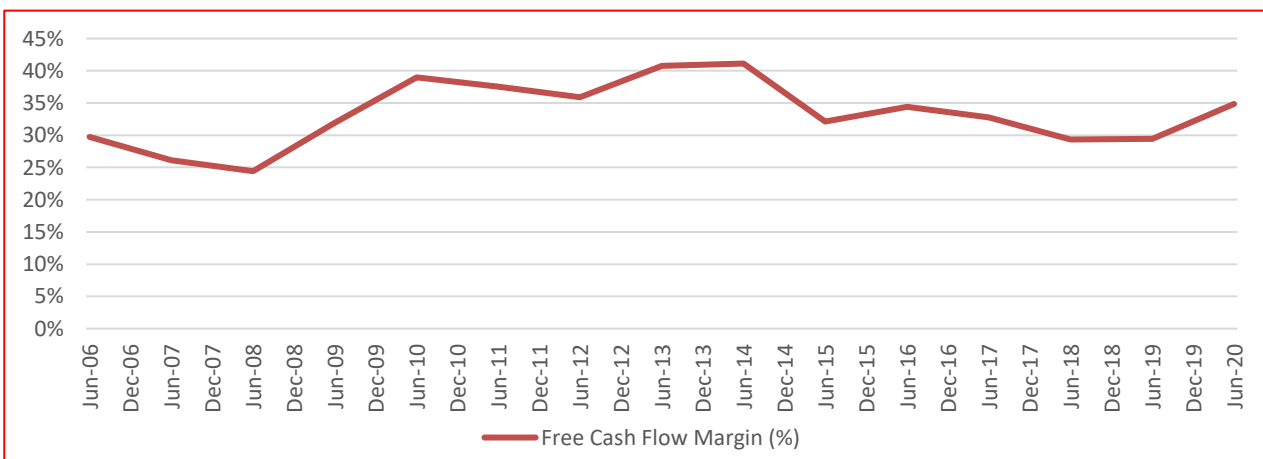
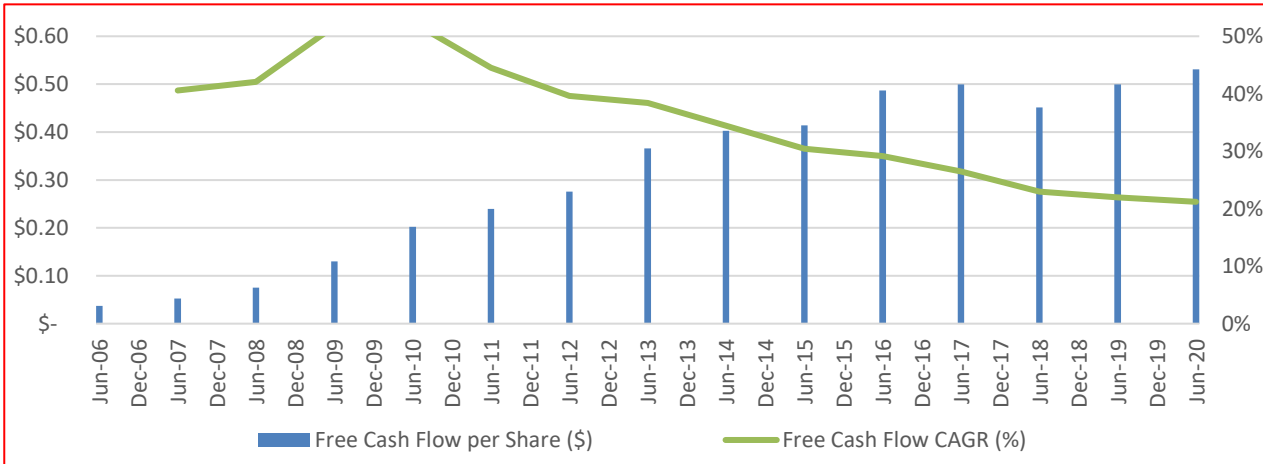
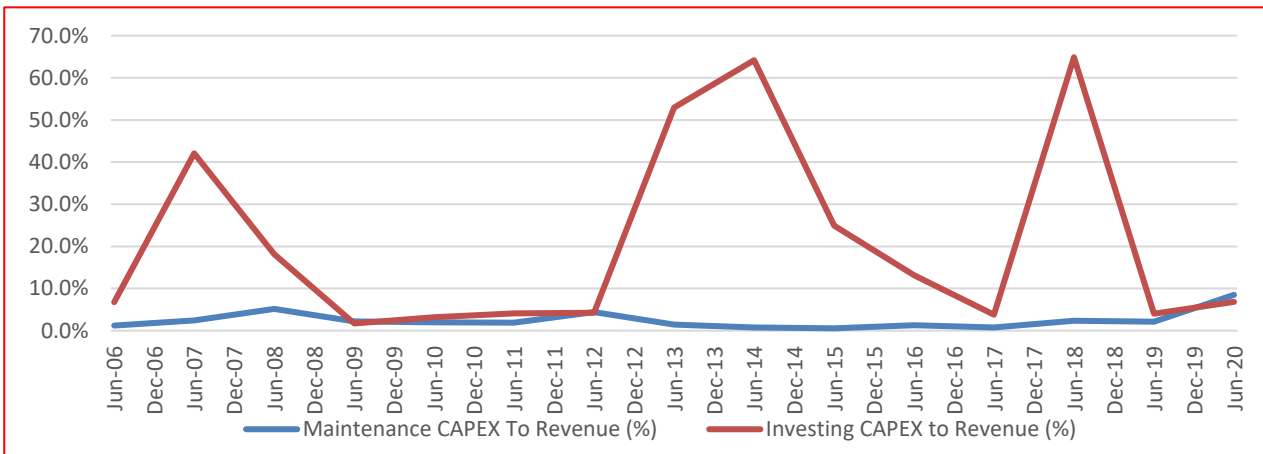
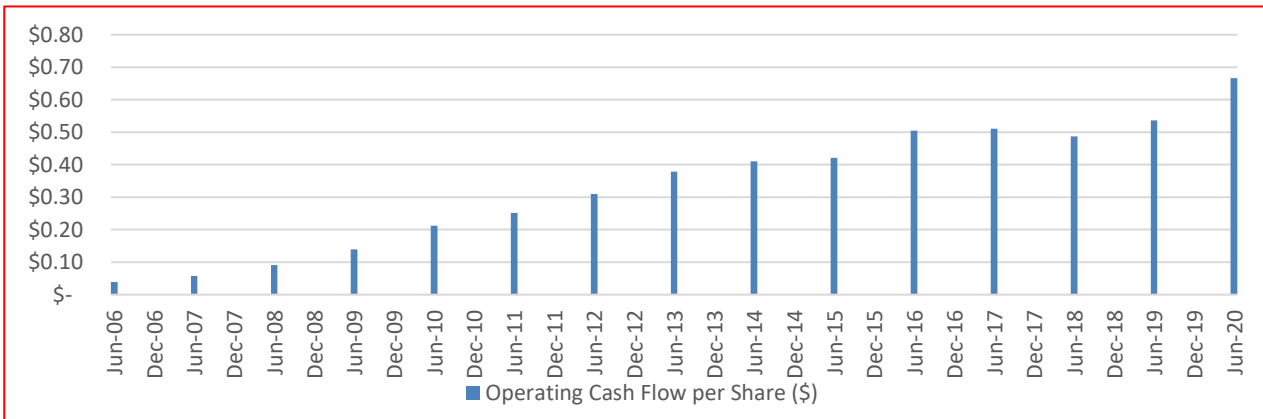
# GROWTH WITH VALUE

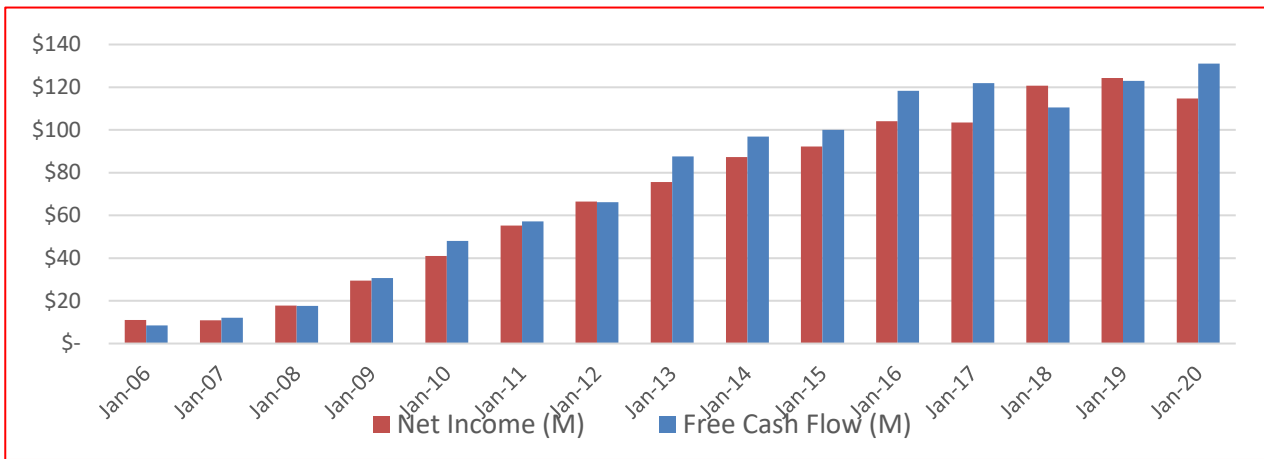
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## Charts concerning the Cash Flow Statement





**8 Key findings in relation to Management**

Rating

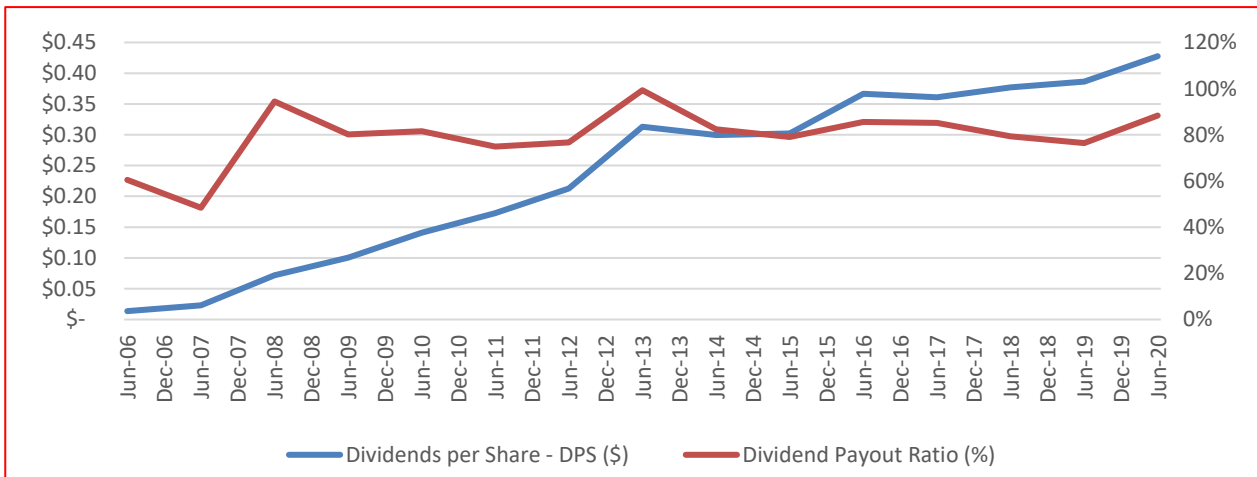
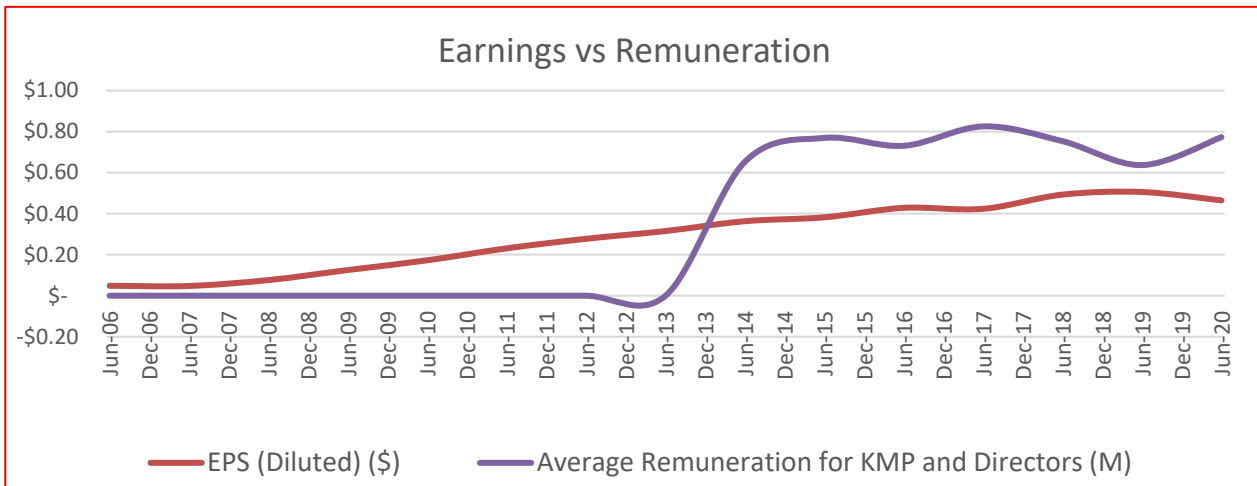
89%

The Management team and Board led by CEO Cameron McIntyre and Chair Pat O'Sullivan consist of many long standing members. The majority of Key Management Personal (KMP) and Board members have been with the company for more than 10 years. CEO Cameron McIntyre has been with the business for over a decade and replaced Co-Founder Greg Roebuck as CEO in 2017. Since 2015 when Co-Founder Wal Pisciotta stood down as Chair of the Board to take on the role as a Non-Executive Board Member, there have been three new Chairs in the last 4 years. Jeffrey Browne was a Board Member for 4 years (2 years as Chair) before he retired in 2017/18, then Richard Collins took on the role as Chair for 1 year before retiring after serving on the board for over 18 years. Currently Pat O'Sullivan is Chair of the Board and has been on the board for 13 years (1 year as Chair - ongoing). There has only been two CEO's with Co-Founder Greg Roebuck serving for 2 decades before current CEO Cameron McIntyre took on the role after already being with the business for 8 years.

Management and the Board are fairly paid, with the highest paid KMP being CEO Cameron McIntyre who in FY20 took home \$3.3 million which was 2.9% of that year's Net Income. The sum of all payments to KMP and board Members equates to 7.4% of Net Income. The level of KMP payments has been declining each year from FY15 when KMP and Board Members took home 10% of Net Income. This decline in remuneration to KMP and Board Members has coincided with the slow down in Earnings, which indicates management incentives are aligned with shareholder interests.

In terms of capital management, over the past 5 years the company has taken on some large tranches of debt to fund its expansion into international markets. As mentioned above, although the Debt to Equity Ratio is currently high, the ability of the company to service the debt is not in question with an Interest Coverage Ratio of 12x in FY20. Payments to Shareholders have been consistent with dividends growing at a steady rate of about 12% a year for the last 10 years, although this has slowed to 5.8% growth per annum for the last 3 years. The Payout Ratio has been fairly high but consistent, averaging around 80%. Given the current debt levels it may prudent for Management to divert some of this cash to a debt reduction strategy for a period.

In terms of ownership, the majority of shares held by current management and Board Members are held by Co-Founder and Non-Executive Director Wal Pisciotta who holds 8.85 million shares or 3.5% of total shares. Alternate Non-Executive Director Steve Kloss owns 1.1% of the company and another 0.2% is spread out amongst the remainder of the KMP and Board Members. CEO Cameron McIntyre has about 0.1% ownership, worth over \$4.5 million. This is an acceptable level of ownership spread amongst KMP and Board Members and all together totals over \$250 million worth of shares, enough to ensure Management's interests are aligned with those of the Shareholders.



**9 Key findings in relation to Competitors**

Rating

91%

There is little competition between online classified operators within Australia with eBay and carsales.com controlling over 80% of the market. eBay and its subsidiary Gumtree are the closest rivals to carsales.com and together they hold 6.6% market share versus 77% for carsales.com. eBay recently acquired a 70% stake in carsguide.com.au, with the remaining 30% held by Dealer Motive. In terms of pricing, carsales.com has not increased prices for cars valued below \$15,000 and listings for under \$5,000 are free. This is caused by the competition it faces in the lower end market, where Gumtree offer free ad listings for all vehicles. Over the last 3 years, carsales.com has increased listing costs for vehicles valued between \$15,000 and \$20,000 by 4%, prices for listings valued between \$20,000 and \$30,000 have increased by 11.8% and prices for listings valued over \$30,000 have increased by 21%. This is a very positive sign that although the competition offer free ads, carsales.com has still managed to increase prices over the last three year period whilst also increasing their market share by 5%, indicating they have a very strong brand.

The business has been expanding overseas, starting in 2012/13 financial year with investments in Asia and Brazil. The business further increased its overseas expansion with investments in South Korea in FY14, Mexico and Chile in FY16 and Argentina in FY17. The competitive landscape for each of these international businesses is set out below.

In South Korea, carsales owns ENCARSALES which is the leading online auto classifieds site in the country in terms of total listings. SK ENCAR has about 100,000 listings vs its closest competitor in Boba Dream with 85,000 listings. Boba dream sees almost 5 times as many monthly visits, but this site is also a social forum for people to post about cars which would result in increased traffic, whereas SK ENCAR is purely a classified auto site. These two sites dominate the South Korean Market.

In Argentina carsales.com owns demotores.com which is in close competition with 3 other auto classified sites in auto cosmos, autofocus and de autos, but all are far behind the "Amazon" of Latin America in Mercado Libre.

- Mercado Libre has 110,000 listings: 80,000 used and 30,000 new. The website has 5 million monthly visits (auto section only).
- auto cosmos has about 29,000 listings: 3,000 used and 26,000 new. The website has 550,000 monthly visits.
- de autos has about 18,000 listings: 5,000 used and 13,000 new. The website has 190,000 monthly visits.
- demotores.com has about 13,000 listings: 8,000 used and 5,000 new. The website has 320,000 monthly visits.
- autofocus has about 10,000 listings: 6,000 used and 4,000 new. The website has 210,000 monthly visits.

In Brazil, Webmotors, which is 30% owned by carsales.com with the remaining 70% held by Santander Group which is a Spanish multinational commercial bank, is the number 1 site in relation to auto classifieds. It's nearest competitors are picaros and then Mercado Livre the "Amazon" of Latin America. vrum.com is another competitor albeit with a very small exposure with around 4,000 listings.

- webmotors has about 390,000 listings: 365,000 used and 25,000 new. The website has 3.92 million monthly visits (auto section only).
- picaros has about 260,000 listings: 232,000 used and 28,000 new. The website has 1.47 million monthly visits.
- Mercado Livre has 195,000 listings: 180,000 used and 16,000 new. The website has 60 million monthly visits.
- vrum.com has about 4,000 listings: 3,600 used and 400 new. The website has 140,000 monthly visits.

In Chile carsales.com owns chileautos.com which is the number 1 site in relation to auto classifieds. It's nearest competitors are Mercado Libre the "Amazon" of Latin America, autocades, auto cosmos and auto local.

- Chileautos has about 47,000 listings: 46,500 used and 500 new. The website has 770,000 monthly visits.
- Mercado Libre has 19,500 listings: 17,000 used and 2,500 new. The website has 170,000 monthly visits (auto section only).
- autocades has about 8,500 listings: 8,500 used and 0 new. The website has 26,500 monthly visits.
- auto local has 4,500 listings: 4,100 used and 400 new. The website has 19,000 monthly visits.
- auto cosmos has about 4,400 listings: 3,900 used and 500 new. The website has 76,000 monthly visits.

In Mexico carsales.com owns soloautos.com which is the number 3 site in relation to auto classifieds. It's competitors are Mercado Libre the "Amazon" of Latin America, auto cosmos and semiquavers.

- auto cosmos has about 91,200 listings: 13,300 used and 77,900 new. The website has 225,000 monthly visits.
- Mercado Libre has 82,800 listings: 80,500 used and 2,300 new. The website has 1.2 million monthly visits (auto section only).
- SoloAutos has about 45,000 listings: 44,700 used and 300 new. The website has 180,000 monthly visits.
- semiquavers has 30,200 listings: 30,000 used and 200 new. The website has 333,000 monthly visits.

The international business faces much greater competition than does the Australian business as the overseas markets are much more fragmented. This also presents an opportunity to take market share to grow the businesses and increase Revenue. The Mexican and Argentinian business units are not profitable, whereas the South Korean, Brazilian and Chilean businesses are all profitable with strong EBITDA margins. These businesses are also the number one players in their respective countries.

The growing presence of Facebook's Market Place has the potential to become a major threat to the existing operators in the global online classifieds market. Although Market Place is not targeted directly at the auto classifieds market, it still exists as a potential threat to this market, particularly as it does not charge users for listings.

## 10 Key findings in relation to Ethics

Rating

100%

carsales.com has strong surveyed results from its employees in relation to the workplace and culture with 93% of workers feeling the work environment is open and inclusive and 85% of employees believe that management genuinely care about their wellbeing. The business was certified as a great place to work in 2018, 2019 and 2020 and was 2019 and 2020's top graduate employer. carsales.com is also an accredited WGEA Employer of Choice, in relation to achieving gender equality and is also a White Ribbon employer which means the business actively seeks to help prevent and care for those subject to domestic violence. In relation to the WGEA Employer Choice for gender equality, this accreditation is in relation to the business as a whole, where in 2019 45% of employees were female.

The carsales.com Foundation has raised about \$250,000 since its launch in 2016. The foundation is partnered with The Smith Family and together they assist children by sponsoring them with scholarships to school and university and also donating toys and books to disadvantaged children. The foundation has also donated to many other charities including Moverment and the Gutsy Group. These are all positive contributions towards the community however the level of funding/donations is a little low considering the size of the business.



**11 Valuation**

Disclaimer: The valuations provided within this analysis are not to be seen as recommendations or investment advice and are based on my personal opinion and experience. All information, data and valuations are for general information purposes only. Investors are recommended to seek advice from a financial professional before making any investment decisions. My thoughts and opinions will also change from time to time as I learn and accumulate more knowledge. I may hold a position or other interests in the business analysed.

Discounted Cash Flow (Stable Growth Model)

Cash Flow	\$	0.49
Growth Rate		5.0%
Discount Rate		12.0%
Margin of Safety		20%
Start Date		01/07/2020
Intrinsic Value	\$	7.35
Margin of Safety		20.0%

The Intrinsic Value of carsales.com Ltd. using the Discounted Cash Flow (Stable Growth Model) and after applying a 20% Margin of Safety

carsales.com Ltd. Intrinsic Value using the Stable Growth Model: \$ 5.88

Discounted Cash Flow (High Growth Model)

Cash Flow	\$	0.49
High Growth Rate		12.0%
High Period (Years)		10
Terminal Growth Rate		5.0%
Discount Rate		12.0%
Margin of Safety		20%
Start Date		01/07/2020
Dilution from issuance of stock and/or options		-0.3%
Present value of High Growth Period	\$	4.91
Present Value of Stable Growth Period	\$	7.36
Intrinsic Value	\$	12.27
Margin of Safety		20.0%
Dilution/Concentration*		0%

Year	Future Value	Present Value
1	\$ 0.55	\$ 0.49
2	\$ 0.62	\$ 0.49
3	\$ 0.69	\$ 0.49
4	\$ 0.77	\$ 0.49
5	\$ 0.86	\$ 0.49
6	\$ 0.97	\$ 0.49
7	\$ 1.08	\$ 0.49
8	\$ 1.21	\$ 0.49
9	\$ 1.36	\$ 0.49
10	\$ 1.52	\$ 0.49
<b>Total</b>	<b>\$</b>	<b>4.91</b>

The Intrinsic Value of carsales.com Ltd. using the Discounted Cash Flow (High Growth Model) and after applying a 20% Margin of Safety and accounting for dilution/concentration in shares of 0%

carsales.com Ltd. Intrinsic Value using the High Growth Model: \$ 9.81

Note: Dilution/concentration accounts for any issuance of shares or options as well as any share buybacks. If this number is negative, it indicates the company has issued new shares or options, which has resulted in a devaluation of the pre-existing issued shares by that amount. Share buybacks will effectively increase the per share value of the remaining issued shares. If this number is positive, it indicates the company has implemented a share buyback which has consolidated the number of issued shares resulting in a positive revaluation of those remaining shares.

12 Historical Valuations

The graph below illustrates the historical Discounted Cash Flow valuations in comparison to the historical share price. The graph highlights periods in time when the shares became cheap and also how the business value has tracked market prices.

