

# REVERSE CORP LIMITED

## Annual General Meeting 27 October 2016

Management Presentation



# Agenda

- ❑ Group Snapshot
- ❑ 1800-Reverse
- ❑ OzContacts.com.au
- ❑ NetOptical.com.au
- ❑ Company Growth Plans
- ❑ Capital Management
- ❑ Priorities

# Full Group Snapshot

Year to 30 June (AUD)	2016	2015	Year-on-Year
Revenue	\$6.9m	\$8.8m	↓ 21%
EBITDA	\$2.4m	\$3.1m	↓ 22%
EBIT	\$2.2m	\$2.8m	↓ 21%
NPAT	\$1.5m	\$2.1m	↓ 24%
EPS	\$0.017	\$0.022	↓ 23%
Dividend per Share	\$0.01	\$0.01	-

- ❑ Result impacted by reducing demand for 1800-Reverse 'out-of-credit' calling as market dynamics make reverse charge calling less relevant
- ❑ Losses reduced in the OzContacts business where the priority in FY17 is building on the acquisition of the Net Optical business to achieve scale
- ❑ Cash position to improve by \$2.67m in November when investment gains are realised on our stake in OnTheHouse Holdings Limited (ASX: OTH)
- ❑ Our contact lenses business is now our key vehicle for growth in the year ahead

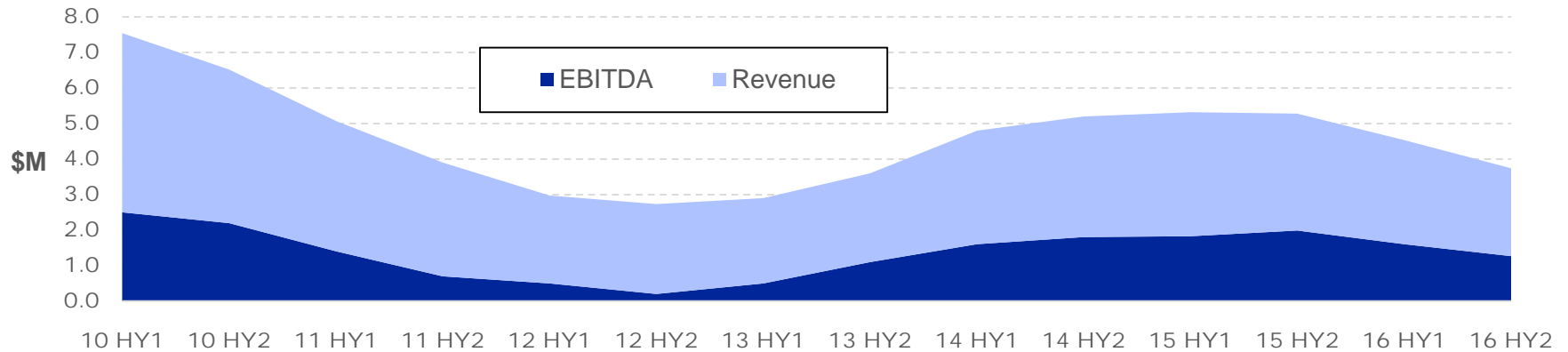
# 1800 Reverse - reverse charge calling

Year to 30 June (AUD)	2016	2015	Year-on-Year
Revenue	\$5.4m	\$6.8m	↓ 20%
EBITDA	\$2.8m	\$3.7m	↓ 24%
EBITDA margin	53%	56%	↓ 5%

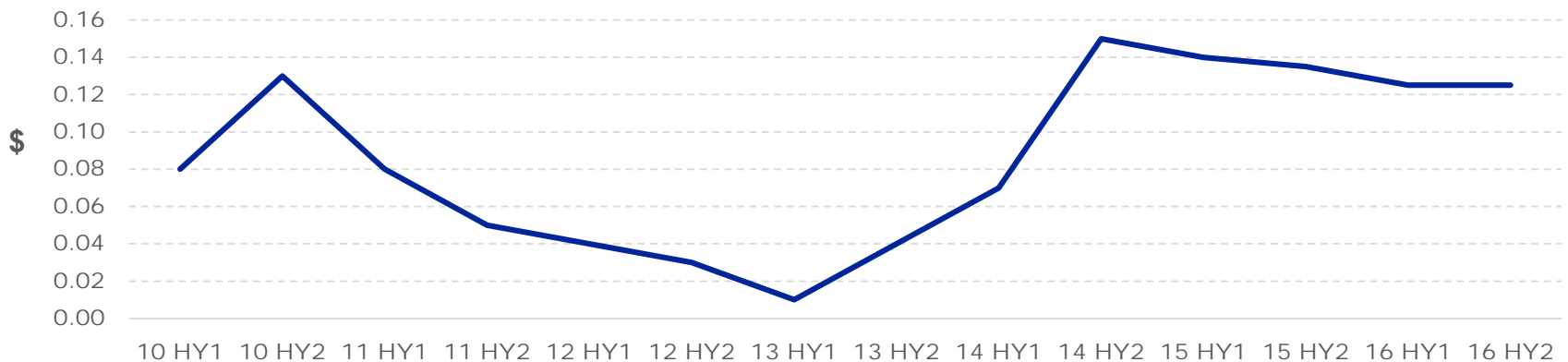
- ❑ Key driver of the result was total calls declining 17% over the previous year; this compared to a 5% increase from FY14 to FY15
- ❑ Whilst Calls-to-Fixed lines have been in long term decline, in previous years this has been offset by growth in Calls-to-Mobiles and operational improvements. In FY16 Calls-to-Mobiles declined 13% and Calls-to-Fixed Lines declined 37%
- ❑ Volume declines are driven by the flow through of continuing downward price pressure in the consumer mobile market reducing demand for out-of-credit calling
- ❑ Additional demand pressures from consumers having greater access to substitutional VoIP services (calls and messages) from smart phones using free public Wi-Fi
- ❑ Ongoing focus is profit maximisation at the end phase of the life cycle

# 1800-Reverse continues to underpin Group earnings

## 1800-Reverse Half Year EBITDA & Revenue Since FY2010



## REF Share Price\* by Half Year Since FY2010



\* Share price is at the last day of each half year period

# OzContacts.com.au – FY16 performance

Year to 30 June (AUD)	2016	2015	Year-on-Year
Revenue	\$1.5m	\$1.8m	↓ (16%)
EBITDA	(\$3,215)	(\$41,860)	↑ 87%

- ❑ Breakeven achieved excluding NetOptical.com.au legal costs. FY16 focus has been to retain our profitable base customers whilst targeting growth via business acquisitions
- ❑ Base revenues impacted by the loss of unprofitable customers acquired via uneconomic channels and offers, plus the need to improve our mobile experience
- ❑ New responsive website which will provide a great mobile experience will launch in November as the start of growth marketing activity
- ❑ Market differentiation remains proactive Australian based customer service plus rapid order dispatch – we are a specialist, independent contact lens replacement provider
- ❑ Further platform investment (CRM & ERP) underway to further improve the user experience whilst enabling the right efficiencies in managing a multi-brand operation
- ❑ Reverse Corp has a 95% stake

# NetOptical.com.au acquisition completed in August 2016

- ❑ Net Optical Australia was founded in 1999 by Optometrist Graham Bohl
- ❑ \$750,000 asset sale completed 12<sup>th</sup> August 2016 with the purchase price representing a 3X multiple of net profit before tax
- ❑ Core customer base underpins \$1.3m in revenue and \$250k estimated EBITDA
- ❑ Complementary to OzContacts with no significant variation in product set or pricing
- ❑ Focus since completion has been business continuity and transition to our existing contact lens operations in our Brisbane office
- ❑ Business improvements already identified include:
  - Platform. Shifting away from the existing unreliable legacy infrastructure
  - Experience. Improving the mobile and general online buying experience
  - Marketing. Integration of learnings from OzContacts in customer management
  - Efficiencies. Medium term gains from consolidating systems, processes & policies

# Company growth plans have evolved, focus in FY17 is online contact lenses

## **FY15 & Prior – Original Plan**

- ❑ Over the last 2 years across the wider market, we have not been able to complete a company transforming acquisition for an established business in a new sector to replace and grow our earnings from reverse charge calling

## **FY16 - Broadening Our Approach**

- ❑ Our approach was broadened to consider minority stake investments where we believed there was a strategic opportunity – following this we invested \$1.9m in OnTheHouse Holdings Limited (ASX: OTH)
- ❑ Our rationale for the investment was our belief that the Real Estate Agent software division of the business had good upside potential from improved execution and disposal of the Consumer website business; and we had the ability to increase our stake over time with future potential to influence through Board representation

## **FY17 – Focusing on Online Contact Lenses**

- ❑ Following a recent Board review, decided that our company growth plans will focus on the online contact lens market



# Why the online contact lenses market?

## Growing Sector

- Market revenue estimated to be \$52m\* pa according to IBIS World with lenses the largest product in the \$88m\* total AUS online optical market
- Growth of 5.7%\* in last year as sales migrate online (online estimate is 25%-35%^ of total market); contact lenses well suited to direct fulfilment

## Fragmented Market is Opportunity

- Market is fragmented with independents (sole trader Optometrists) estimated to be approximately half the market ahead of the major players Specsavers, OPSM & Clearly (our estimated total share = 5%\*)
- Our existing cash reserves available to support the right targets

## Scale Benefits & Extensions

- Cost base synergies expected for all competitor acquisitions in addition to product buying benefits from increasing volumes
- Platform investment consolidating backend systems will support the right efficiencies in operating multiple customer facing brands
- Online frames a small market but expected to grow in the next 5 years; clear cross sell opportunity if we maintain good customer relationships

## Leverage Existing Investment

- Expertise and experience of MD Mike Aarts from 4+ years OZC trading
- Opportunity to exploit our new e-commerce platform offering the best customer experience in the market to gain market share
- Process learnings from the August acquisition of NetOptical.com.au

\* IBISWorld Industry Report OD4089 Online Eyeglasses and Contact Les Sales in Australia – Sept 2016

^ IBIS World Industry Report Q8532 Optometry and Optical Dispensing in Australia – March 2016

# What does success in our contact lenses business look like?

## In 2 to 3 years our aim is to build a business achieving...

- ❑ \$10m in annualised revenues underpinned by 4-6 brands; and continuing to hunt for value accretive acquisitions (potentially full product set online optical retailers)
- ❑ Estimated \$1m in annualised EBITDA
- ❑ Providing the best pureplay contact lenses customer experience in Australia
- ❑ Multi brand operations underpinned by efficient and consolidated systems - Customer Relationship Management (CRM), Inventory (ERP), Finance
- ❑ Agile and committed team of great people (and partners) with expertise across all key domain areas
- ❑ Capability to test product extensions to frames, sunglasses and other potential opportunities leveraging our strong customer relationships
- ❑ An acquisition target for Bricks & Mortar Retailers and the major Online players warranting potential re-rating

# Capital Management

Year to 30 June (AUD)	2016	2015	Year-on-Year
Total cash flow to 30 June	(\$1.4m)	\$2.4m	↓ 158%
Cash on hand as at 30 September	\$4.5m	\$6.6m	↓ 32%

## FY16 cashflow impacted by:

- ❑ Fully franked Dividend of \$0.01 per share paid on 17-Sept 2015 (\$934,000)
- ❑ Investment in OntheHouse of \$1,980,394 for 3,143,000 shares (3.8% holding)
- ❑ CAPEX of \$50,000 in OzContacts new web site
- ❑ Reduced 1800-Reverse profitability

## FY17 known movements:

- ❑ Fully franked Dividend of \$0.01 per share paid on 9-Sept 2016 (\$934,000)
- ❑ Acquisition of Net Optical Australia for \$750,000 on 12-Aug
- ❑ CAPEX on business platforms of \$185,000 to complete the OzContacts new website, migrate NetOptical to a new site and deploy consolidated CRM and ERP systems
- ❑ Proceeds of \$2,671,551 from OntheHouse stake due 3-Nov

# Priorities for the Year Ahead

**1. Complete further online contact lens business acquisitions to achieve scale**

**2. Invest in our online contact lenses Team and platforms to...**

- **Improve the customer experience and enable efficient organic growth through marketing by moving to new responsive websites and implementing a customer relationship management system**
- **Ensure we can efficiently support a larger business operating multiple customer facing brands managed by a single team utilizing consolidated backend systems**

**3. Maximise profitability of the mature 1800-Reverse service**

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