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23 January 2020

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~~Private and confidential~~

Dear Mr Leuner

APPLICATION FOR MERGER AUTHORISATION - PROPOSED ACQUISITION OF COX AUSTRALIA MEDIA SOLUTIONS PTY LTD BY GUMTREE AU PTY LTD

We refer to the Application for Merger Authorisation filed by Gumtree AU (**Gumtree**) in relation to its proposal to acquire 100% of the ordinary share capital of Cox Australia Media Solutions Pty Ltd (**Cox Media**) by way of a share purchase agreement (**Authorisation Application**).

By way of supplementary material in support of the Authorisation Application, Gumtree **encloses** a statement from its current Chief Financial Officer, Mr Remi Mascio.

Certain material contained in the enclosed statement is confidential to Gumtree. Information that is confidential to Gumtree AU Pty Ltd and its related bodies corporate is marked as **[Confidential to Gumtree] [.....]**. This information may not be provided to Cox Media or disclosed on the ACCC's public register. However, this information may be shared on an external counsel only basis with Gilbert + Tobin and RBB Economics.

Gumtree is filing two versions of the statement:

- a version marked so as to show clearly the parts in respect of which confidentiality is claimed (**confidential version**); and
- a version with the parts in respect of which confidentiality is claimed masked so that these parts are not disclosed (**public register version**).

Please let us know if you have any queries in relation to the above or the enclosed statement.

Yours faithfully
Gilbert + Tobin



Elizabeth Avery
Partner



Louise Klamka
Special Counsel



Statement in support of application for merger authorisation

RE: PROPOSED ACQUISITION OF COX AUTOMOTIVE MEDIA SOLUTIONS PTY LTD

GUMTREE AU PTY LTD

Applicant

Statement of: **Remi Mascio**

Address: Level 18, 1 York Street, Sydney NSW

Occupation: Chief Financial Officer, Gumtree AU Pty Ltd

Date: 21 January 2020

This document contains confidential information which is indicated as follows:

[Confidential to Gumtree] [.....] for Gumtree AU Pty Ltd and its related bodies corporate

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A INTRODUCTION

1. I am the Chief Financial Officer (**CFO**) of Gumtree AU Pty Ltd (**Gumtree**) and I am authorised to make this statement on Gumtree's behalf.
2. The matters set out in this statement are based on my knowledge of Gumtree's operations, my participation in the Gumtree Executive Leadership Team, my involvement with Gumtree's business and my experience in the operation of online platforms for over 15 years, which is set out in **Part B** below.

B BACKGROUND**B.1 My role at Gumtree**

3. I have held the role of CFO of Gumtree since April 2014. I am a member of Gumtree's Executive Leadership Team and was appointed as a Director of Gumtree on 24 January 2017, and later appointed as a Public Officer of the company on 4 January 2019.
4. I commenced my employment with Gumtree in November 2011. Since this time, I have held the following roles at Gumtree:
 - (a) Business and Strategy Manager from November 2011 to January 2013;
 - (b) Head of New Business Development from January 2013 to April 2014; and
 - (c) Head of Finance (CFO) from April 2014 to the present day.
5. In my current role as CFO, I am responsible for:
 - (a) directing all budgeting, target setting, and forecasting processes across Australia, and annual, quarterly and in-quarter financial architecture (that is, internal company agreements to regulate the budget) and resource allocation decisions;
 - (b) partnering with the Managing Director to support the development of Gumtree's strategy and long-term strategic priorities;
 - (c) working closely with business partners and corporate teams to capture, structure and deliver insightful analytics and reporting, including streamlining processes and building out consistent reporting infrastructure;
 - (d) leading analysis projects, both strategic and tactical, that deliver key insights to inform critical business decisions; and

- (e) overseeing accounting activities and ensuring compliance with statutory requirements (including ensuring the accuracy and timeliness of monthly and quarterly close processes).
6. I report directly to the Regional CFO and Head of Mergers & Acquisitions for eBay Classifieds Group, Roderik Hylkema, and lead a team of eight Gumtree employees who form two sub-teams:
- (a) **Business Insights** which performs analytical functions. The members of the Business Insights team act as consultants to the marketing, product and commercial divisions. They utilise internal and external data to develop a deep understanding of customer, competitor and marketplace dynamics. They partner with these divisions to address business challenges and guide strategic responses.
 - (b) **Financial Planning & Analytics (FP&A)** which prepares management accounts and forecasts. The team leads the weekly, monthly and quarterly financial reporting processes and enforces expense controls. It supports the eBay Classifieds Group Financial Controlling Team (based in Amsterdam) with the integrity of financial information and in execution of accounting and financial controllership processes.

B.2 My experience and employment history

- 7. Prior to joining Gumtree, I was employed by RedBalloon, an experiential gifts company, as the Head of Product & Categories from August 2009 to September 2011. I was responsible for building the site's experience inventory, which included sourcing and expanding new and existing experiences.
- 8. I was the Online Business Manager for Qantas from December 2006 to August 2009, where I was responsible for setting up Qantas' holiday package booking engine. I took this role after moving to Australia from France over the course of 2006.
- 9. I was the Marketing & Business Development Manager for Amadeus, a Global Distribution System utilised by airlines for inventory management and bookings, from May 2003 to January 2006, in France. My role was broad, providing best practice consulting on e-commerce and other functions, to drive airline customer acquisition and retention.

B.3 Qualifications and education

- 10. I hold a Master's (1st Class Honours) Degree in Chemistry from the University of Edinburgh.
- 11. I also hold a Master's Degree from SKEMA Business School.

C OVERVIEW OF GUMTREE

C.1 Internal Structure of Gumtree's business

12. Gumtree operates a multiple category general classifieds website which connects buyers and sellers of goods and services through online listings. Gumtree displays listings across several categories including Home & Garden, Baby & Children, Sport & Fitness and Clothing & Jewellery. It also operates Gumtree Cars, a specific section of the Gumtree site for online automotive classifieds, and Gumtree Jobs, a specific section of the Gumtree site for employment classifieds, and a mobile application.
13. Gumtree is a company limited by shares that is incorporated and domiciled in Australia. Until 29 November 2017, Gumtree's immediate parent entity was eBay International AG, a company registered in Switzerland, which was responsible for the development and operations of the non-US marketplaces businesses. On 29 November 2017, eBay Classifieds Holding B.V, a company registered in Netherlands, acquired 100% of the share capital of Gumtree, resulting in it becoming the new immediate parent entity of Gumtree. The ultimate parent entity of Gumtree is eBay Inc., a company registered in the US.
14. Gumtree's business consists of five divisions:
 - (a) **Marketing:** The Marketing division is made up of employees responsible for Gumtree's brand and public relations management, marketing, communications and customer retention.
 - (b) **Product Management:** The Product Management division oversees the analysis, design and management of Gumtree products and customer facing platforms (including the website and applications).
 - (c) **Commercial Business:** The Commercial Business division manages programmatic advertising by setting the floor price of display advertising space on the Gumtree website and managing contracts with its programmatic partners (including Google Ad Exchange). The Commercial Business division also manages the direct sales of advertising solutions (product listings or display advertising), which primarily occur through media agencies or otherwise directly with the advertiser.
 - (d) **Technology:** The Technology division is an internal-facing division, responsible for the technical maintenance and product delivery of the Gumtree platform and consumer facing website.
 - (e) **Motors:** The Motors division is responsible for the management of Gumtree's commercial car dealer relationships. The division is made up of Regional Managers

in Queensland, Victoria and New South Wales and their reports (known as Business Development Managers), a team responsible for commercial development, and a team responsible for operations and account management.

15. These divisions are supported by internal corporate function areas including Human Resources, Finance and Legal.

C.2 Gumtree Operations

16. The Gumtree website generates revenue for the business through three different streams. These are:

- (a) online display advertising which is explained at **Section C.2.1** below;
- (b) private online classifieds which is explained at **Section C.2.2** below; and
- (c) commercial online classifieds which is explained at **Section C.2.3** below.

17. When Gumtree first launched, it was solely a general online classifieds provider, displaying listings for items for sale. Its main sources of revenue were featured listings and text links provided by Google AdSense. In 2014, Gumtree began offering further paid display advertising, so it could generate more revenue.

C.2.1 Display advertising

18. Gumtree features display advertising in the form of images, rich media animations and videos on its website. These advertisements come from different sources, for example, directly from an advertiser or through third party networks such as Google Advertising Exchange (acting as an intermediary between Gumtree and an advertiser). Gumtree categorises advertising revenue into three separate streams:

- (a) **Product Listing Advertising (PLA)** – this type of advertising involves the display of product advertisements on the Gumtree website. Gumtree uses the following products to enable this type of advertising on its site:

- i. **Google AdSense For Shopping (Google AFSH):** Through this Google product, Gumtree allows Google to place relevant Google shopping advertisements (like those featured on google.com) onto the Gumtree website. In return, Gumtree receives approximately **[Confidential to Gumtree]** [REDACTED]

[REDACTED]

[REDACTED]

- ii. **TreeBay:** Through this product, Gumtree earns revenue through the placement of eBay product advertisements on Gumtree. Gumtree receives **[Confidential to Gumtree]** % of eBay's final value fee.
- (b) **Text Advertising** – this category specifically refers to the original text format that Google ran through publishers to serve sponsored text links that are targeted to the site content and audience behaviour and intent (searches). These text advertisements are administered, sorted and maintained by the advertising partner. Through the **Google AdSense** product, Gumtree allows Google to match text advertisements (also known as sponsored links) on Gumtree, based on the content and visitor. These advertisements are created and paid for by the advertiser who wants to promote its product or service via the Google partner network. In return for displaying this advertisement, Gumtree receives approximately **[Confidential to Gumtree]** % of the revenue received from that advertisement.
- (c) **Display Advertising** – all other display advertising featured on the Gumtree website is generated through the following channels:
 - i. **Programmatic – fulfilled by Google:** Gumtree offers advertising inventory space to be sold via the Google Advertising Exchange. It sells this space directly and indirectly:
 - (A) **Direct:** Gumtree's Advertising sales team sets the pricing and conditions for a particular advertisement slot or desired targeting attributes per advertiser. For these transactions, Google takes a revenue share of **[Confidential to Gumtree]**.
 - (B) **Indirect:** The space is sold programmatically via Google Ad Exchange without any interaction from the sales team. However, Gumtree must set a floor price for the particular advertisement slots. For these transactions, Google takes a revenue share of **[Confidential to Gumtree]** %.
 - ii. **Programmatic – fulfilled by platforms other than Google:** Gumtree has a network of other platforms that drive display advertising sales. These providers will serve the advertisement to Gumtree on behalf of the advertiser and facilitate the money exchange. Examples of these advertisement providers with whom Gumtree has partnerships include **[Confidential to Gumtree]**. These advertisement providers will take a share of between **[Confidential to Gumtree]** % of the advertiser revenue.

- iii. **Non-programmatic – Direct:** The sales managers in Gumtree's Advertising team engage directly with advertising agencies or advertisers themselves to sell display advertising space on the website. These provide the advertiser with greater control over the size and position of the advertisement, the users it is targeted at, how often it is displayed and other customised display options.

C.2.2 Private online classified advertising

19. Private advertisers can list an item for sale on the Gumtree website by creating an advertisement with a title, description, price, image and category. These listings will remain on the website for 30 days, or 45 days in Gumtree Cars and 180 days in Business Services.
20. Gumtree allows private advertisers to create and post a listing without charge. However, for certain categories, a private advertiser can only post one advertisement at a time without charge. If a private advertiser wishes to post multiple listings within a certain category, they need to select a paid feature package for subsequent advertisements after the free listing. These categories are: Boats & Jetskis, Real Estate, Jobs, Service for Hire, and Cars & Vehicles (except for the Parts & Accessories sub-category). Gumtree recently amended the listing rules for the Cars & Vehicles category, so that private advertisers may post two free advertisements at a time before they are required to choose a paid feature package for subsequent listings. By allowing private advertisers to create listings free of charge, Gumtree increases its inventory and audience, which in turn makes space on the Gumtree site more attractive for display advertising. This increases the display advertising revenue generated for the business (refer to **Section C.2.1** above).

21. Gumtree offers private advertisers three paid feature packages to choose from:

Table 1 Gumtree's private advertiser feature packages (example for the Cars, Vans and Utes category)

Plus (\$39)	Featured (\$69)	Premium (\$99)
Up to 10 photos	Up to 20 photos	Up to 20 photos
Weekly 'Bump Up' to top spot	Weekly 'Bump Up' to top spot	Weekly 'Bump Up' to top spot
	Bigger image in search results	Bigger image in search results
	Priority 'Top Ad' listing	Priority 'Top Ad' listing
		3 images in search results
		'Homepage Gallery' ad

22. A private advertiser always has the option to choose a paid feature package to promote their listing. This means that private advertisers may apply a feature package to any listing, not only once their free listing in the categories referred to above have been exhausted.
23. In the Gumtree Cars, Vans and Utes category, private advertisers also have the option to pay for additional features such as having the listing appear at the top of the search results (\$35 for 7 days) or having it highlighted with a colourful background in the search results (\$5.99 for 7 days). The price of additional features varies by categories.

C.2.3 Commercial online classified advertising

24. For the categories of Jobs and Cars & Vehicles, Gumtree distinguishes between its private sellers and commercial sellers through its pricing. Commercial sellers must select from subscription packages in order to list jobs and vehicles on the Gumtree site. Subscription packages have a three-month duration, after which commercial sellers can continue on a rolling basis (i.e. the subscription is rolled over from month to month).
25. In the Jobs category, recruiters and employers wishing to post advertisements on Gumtree can subscribe to a "Plus", "Featured" or "Premium" package. In the Cars & Vehicles category, dealers wishing to post advertisements on Gumtree can subscribe to a "Basic", "Plus" or "Premium" package. The packages vary in advertising features and

carry a different monthly price based on the number of active listings the commercial seller wishes to have concurrently displayed.

D GUMTREE MOTORS

D.1 Launch of Gumtree Motors

26. In or around late 2011, Gumtree's Executive Leadership Team observed that the growth in private car listings on its platform was accelerating. In response to these trends, Gumtree decided to develop a strategy to grow the motors category on its site further by expanding its offering to commercial car dealers. As private listings increased, the number of potential buyers browsing on the site also increased. Commercial car dealers look to list their inventory where they can access auto buyers. For this reason, Gumtree considered that making the platform more appealing to dealer advertisers was a natural progression for the Gumtree site.

27. Gumtree also considered that a tailored offering to commercial car dealers would be attractive because its site was strong in private listings, with the number of used cars on the platform starting to approach the number of private listings on the Carsales.com.au (**Carsales**) platform.

28. It was also generally understood that the commercial car dealership industry was eager to support a new player in this market as the industry considered itself somewhat captive to Carsales' platform and associated dealer tools. This is because Carsales had a leading position as measured by both inventory and audience numbers and was vertically integrated into the car dealership supply chain through its inventory and lead management software. Carsales was also perceived to be expensive by car dealers, and although its products and site worked well, I understood that dealers were not happy with their pricing dominance and wanted a fairer alternative.

29. I was responsible for launching the Gumtree Motors division in 2012. Initially, Gumtree's focus was on marketing its platform 'as a whole' to dealers given the significant audience it attracted to its platform. Gumtree Motors approached dealers with the promise of low subscription-based pricing and offered an exciting alternative to Carsales.

30. I was involved in determining the pricing model Gumtree would offer dealers.

[Confidential to Gumtree] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

- 31. Gumtree established a mechanism for its dealer customers to feed their inventory onto the site using Dealer Solutions and Jeal Easy Cars feeds. I also hired four state-based Sales Managers in NSW, QLD, VIC and WA to engage directly with dealers and secure inventory for the site.
- 32. The development of the dealer offering in these early days was based on feedback from speaking with dealers and was a process of trial and error. Besides the feed for dealer advertisers to list inventory on the site, Gumtree did not offer any other services, functionality or sales support.
- 33. The launch of Gumtree Motors proved successful in its first year, with approximately 300 dealerships listing inventory on the Gumtree platform by the end of 2012.
- 34. I was responsible for Gumtree Motors until the end of 2012 when Gumtree hired a Head of Automotive. However, I have continued to be involved in the Gumtree Motors business through my role as Head of New Business Development, and subsequently as CFO.

D.2 Scaling Gumtree Motors

- 35. In 2013, Gumtree attempted to scale the Motors offering by implementing scalable back-end office solutions as it had been managing its accounts during the first year using spreadsheets and utilising Dealer Solutions for customer billing.
- 36. From 2013 to 2018, Gumtree Motors continued to grow the number of dealers and inventory on its platform. However, this was not an easy journey for Gumtree as in 2014 it started to see a flattening of its Motors revenue growth trajectory.
- 37. Around 2014, we observed that dealer attrition rates started to increase as the business started to scale and revenues started to fall below forecast. I consider that this was the result of a weak account management function, under which dealers were not being educated on how to use the platform or supported in how to get the most out of the platform. **[Confidential to Gumtree]** [REDACTED]

[REDACTED]

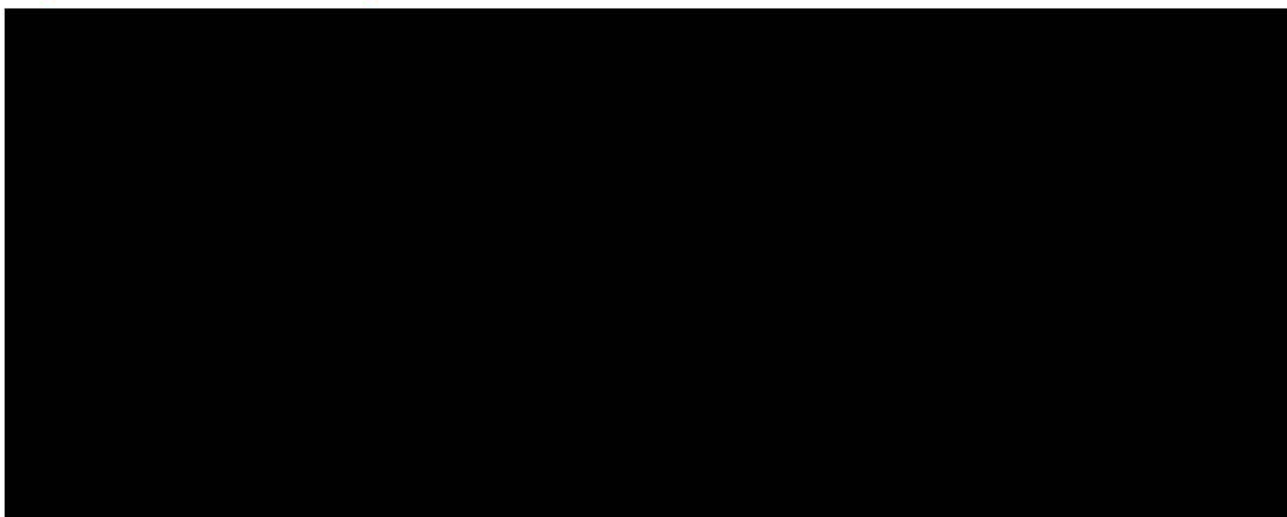
[REDACTED]

38. The next two years were growth years for Gumtree as it started to improve the account management function and retain more dealers. The product was also tailored more to dealers, by leveraging the features offered in the private seller feature packages and including them in the offerings to dealers. These were known as exposure feature bundles. Dealers on standard fee subscriptions would receive the equivalent features of the 'Plus' private seller package. To receive the equivalent features of the 'Featured' and 'Premium' private seller packages, dealers would have to pay an additional fee. I note that by adding more value to the dealer offerings, dealer visibility, customer enquiries and dealer success were improved.

39. In early 2016, the Managing Director (Martin Herbst) and the Head of Marketing at the time identified that Gumtree's appeal needed to be broadened further if it was to grow the platform, and considered rebranding as a way of retaining and growing user share. They decided to phase the rebrand into two key stages to ensure that the customer base was taken on the journey. Stage 1 involved minor changes to the website interface. Stage 2, which was launched in the middle of 2017, improved the user experience and introduced a new logo and the Motors sub-brand. The launch of Stage 2 was tied to the 10-year anniversary of Gumtree which increased media interest. The idea behind creating a standalone vertical brand on the Gumtree platform was to lift credibility, and better compete with Carsales.

40. In 2018, Gumtree Motors' performance plateaued. **[Confidential to Gumtree]** [REDACTED]
[REDACTED]
[REDACTED]

41. Figure 1 below charts the number of dealer advertisers (by subscriptions billed) on Gumtree between 2015 and 2019. **[Confidential to Gumtree]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Figure 1 Number of dealer advertisers (by subscriptions billed) from 2015-2019**[Confidential to Gumtree]****E GUMTREE'S RECENT OPERATIONAL AND FINANCIAL PERFORMANCE****E.1 Gumtree's financial performance**

42. Confidential copies of Gumtree's audited statutory accounts for calendar years 2017 and 2018 are annexed to this statement and marked **Annexure RM01** and **RM02** respectively. Although Gumtree was incorporated on 24 January 2017, it only commenced trading and operating as of 1 July 2017. As a result, the Gumtree 2017 statutory accounts only contain information from 1 July 2017 onwards.
43. Gumtree receives revenue from what it refers to as 'Sell-Side Fees', 'Advertising' and 'Other'.
44. Sell-Side revenue is comprised of:
- (a) **Onsite insertion fees:** derived from the fees private Gumtree users pay to post a listing (or multiple live listings) within certain categories on the site;
 - (b) **Onsite feature fees:** derived from the fees private users pay to promote free listings in order to make their listings more prominent (such as by being at the top of search results or having a wider display image); and
 - (c) **Accounts/subscriptions:** derived from the monthly subscription fees commercial users pay when they utilise the Gumtree Motors and Gumtree Jobs platform to post vehicle and job listings respectively.
45. Advertising revenue is comprised of 'display advertising', 'product listing advertisements' and 'text advertisements' (refer to **Section C.2.1** above).

46. Other revenue is comprised of various ancillary revenue streams, including from the revenue share from financing products and peer-to-peer arrangements (such as with PayPal).
47. Set out in Table 2 below are Gumtree's revenues for the 2017, 2018 and 2019 (with Q4M3 forecast) calendar years. The Q4 2019 forecast is derived from historical based trends in the volume and yield business drivers, adjusted for initiatives that are being worked on. Gumtree's revenue is reported in USD for consistency with eBay Classifieds Group's other businesses. Gumtree applies an effective rate plan to convert these figures into AUD of \$0.7223. However, all figures set out in this statement are in USD.

Table 2 Gumtree total revenue (\$M): calendar years 2017 – 2019

[Confidential to Gumtree]

Calendar year	2017	2018	2019 (Q4M3 forecast)
Revenue (\$m)	█	█	█

48. As shown above, Gumtree's overall revenue has **[Confidential to Gumtree]** █. This is the result of a decline in both "Sell-Side" and "Advertising" revenue.

E.1.1 Sell-Side revenue

49. From 2017 to 2019, Gumtree's overall Sell-Side revenue declined from **[Confidential to Gumtree]** █
 █
 █
 █
50. Set out in Table 3 below are Gumtree's sell-side revenues for the 2017, 2018 and 2019 (with Q4M3 forecast) calendar years.

Table 3 Gumtree Sell-Side revenue (\$M): calendar years 2017 – 2019

[Confidential to Gumtree]

Revenue source		2017	2018	2019
\$M		Actual	Actual	Forecast
		\$M	\$M	\$M
	-	-		
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

E.2 Performance of the Gumtree Motors division

55. I have observed that Gumtree's Motors division has **[Confidential to Gumtree]**

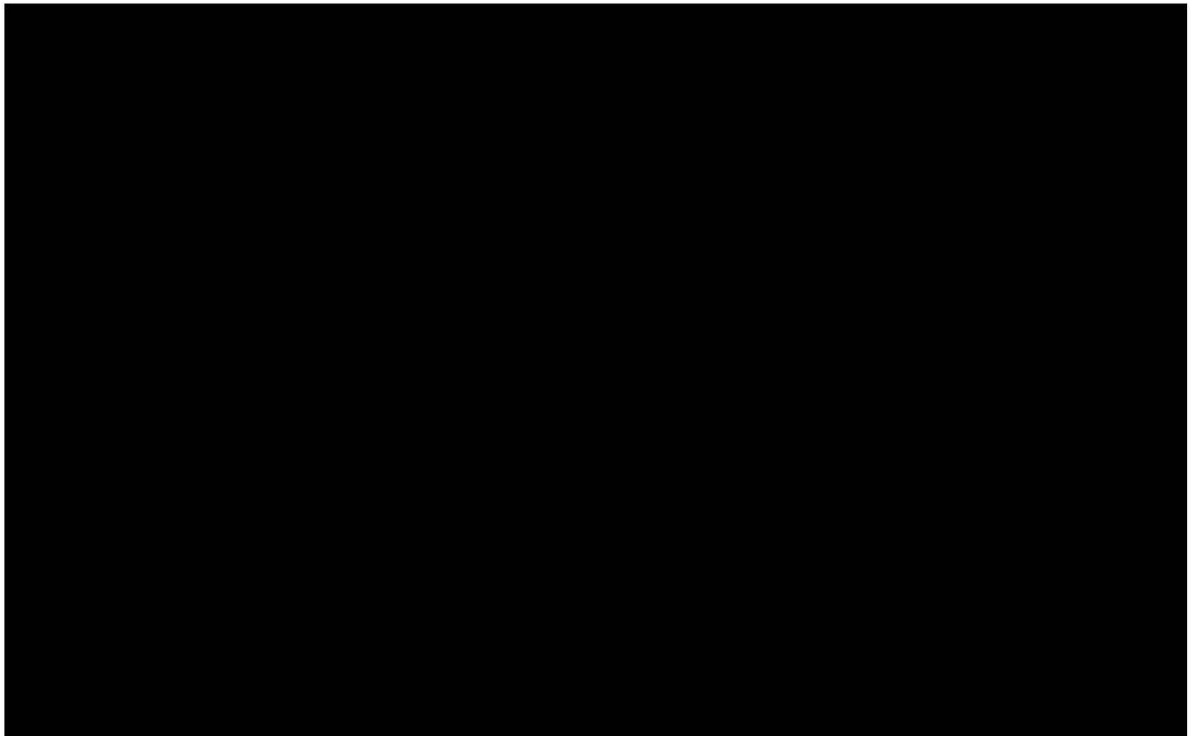
[Redacted]

I consider that this reduction is primarily due to:

- (a) the introduction of Facebook Marketplace;
- (b) an increase in the volume trade-ins directly to dealerships; and
- (c) Carsales' introduction of free listings for vehicles under \$4,999 (previously \$3,000).

Figure 2 Number of live private advertisements from 2015-2019

[Confidential to Gumtree]



E.2.1 Entry of Facebook Marketplace

56. Facebook Marketplace launched in Australia in October 2016. I first became aware of Facebook Marketplace through some of my colleagues at Gumtree who noticed that it had appeared on the Facebook application on their mobile phones. **[Confidential to**

Gumtree] [Redacted]

57. **[Confidential to Gumtree]** [REDACTED]
58. I consider that Facebook Marketplace's success is in part due to "Buy, Sell, Swap" Facebook groups and Facebook's advanced customer relationship management capabilities. Before the launch of Facebook Marketplace, I recognised that "Buy, Sell, Swap" Facebook groups were popular amongst Facebook users for the buying, selling and swapping of items across various categories. I believe that this "selling" aspect of the Facebook platform enabled Facebook Marketplace to gain traction quickly, as the inventory to be sold was already on the platform in a different way. I also believe that Facebook's advanced data collection, targeting capabilities and technology assisted in Facebook Marketplace's fast rise.
59. Facebook also opened up Facebook Marketplace to car dealer advertisers (through syndication arrangements with other platforms) at the beginning of 2019. I believe that Facebook has one representative in Australia who is responsible for forming partnerships (syndication arrangements) with online automotive classifieds websites. Carsguide/Autotrader was one of the first online automotive classifieds providers to syndicate listings to Facebook Marketplace. Dealers can also list their inventory directly on Facebook Marketplace. However, I believe that the majority of dealers manually posting listings on Facebook Marketplace (as opposed to through a syndication arrangement with another online automotive classifieds provider) are mostly non-franchise and smaller dealer businesses.
60. I don't believe that Facebook directly monetises dealer advertiser listings on Facebook Marketplace. Instead, it uses potential buyers of vehicles (also referred to as auto intenders) to generate revenue for Facebook through display advertising revenue. It does this by keeping its audience on the Facebook platform. I suspect that the reason

Facebook would pursue syndication arrangements with online automotive classifieds providers (such as Carsguide/Autotrader) is because it needs to supplement its current Marketplace inventory with dealer inventory to improve its relevance and retain consumers once they are browsing for cars on Facebook Marketplace.

- 61. I also note that a significant proportion of advertising dollars are spent on auto intenders. The category of "Cars" is in the top three categories in Australia for display advertising spend, based on the IAB Australia Online Advertising Expenditure Report for FY2019 which is compiled by PwC. Auto intenders can also be targeted through associated categories such as financing and insurance.

E.2.2 Free listings on Carsales

- 62. Historically, private advertisers were charged for all vehicles posted to the Carsales website, regardless of the vehicle listing price. In or around November 2015, Carsales began allowing private advertisers to list vehicles under \$3,000 for free. I suspect that Carsales made this change in response to declining private advertisements on its website.

- 63. The launch of Facebook Marketplace at the end of 2016 provided private advertisers another platform on which to list vehicles at any price point, without being charged. I consider that Carsales was very aware of the competitive landscape and conscious of Facebook Marketplace's ability to attract listings away from its site. I consider that Carsales, in order to ensure that it would not lose lower priced inventory on its platform, decided to increase its free listing threshold. Carsales made this change in the first quarter of 2017, allowing private advertisers to list vehicles under \$4,999 for free.

- 64. **[Confidential to Gumtree]** [REDACTED]

[REDACTED] The attractiveness of Carsales as an online automotive classifieds site has grown for both private and dealer advertisers, as a result of the audience that Carsales has been able to reach and maintain through the increase in lower priced inventory.

E.2.3 Change in consumer behaviour

65. When a consumer purchases a vehicle from a dealership, they are given the option of trading in their existing vehicle. The dealership will price the traded in vehicle according to a market estimate, and deduct this value from the price of the vehicle being purchased by the consumer.
66. I have observed that the practice of trading in a vehicle to a dealership has become increasingly popular amongst consumers. I consider that this is likely due to the minimal administration involved for the private advertiser (as compared to listing and selling their vehicle on an online classifieds website themselves) and a shift in focus from new car dealers to improve their trade-in ratios. **[Confidential to Gumtree]** [REDACTED]

E.3 Online display advertising revenue

67. I have forecast that revenue from online display advertising will **[Confidential to Gumtree]** [REDACTED]

(a) *Google's advertising growth is under pressure:* **[Confidential to Gumtree]** [REDACTED]

Facebook's market share in the supply of display advertising is significant, and growing, and advertisers are increasingly splitting their budgets between Facebook and Google. Consequently, my belief is that Google has less excess advertising inventory (or 'spill-over') to feed on to third parties' sites like Gumtree, as it is retaining this inventory for its own sites.

(b) *There has been a shift in display advertising formats to video and mobile:* There is a general shift in online display advertising inventory from standard advertisement formats to video advertisement formats. **[Confidential to Gumtree]** [REDACTED]

[REDACTED]. There is also a continued migration of users onto mobile applications which monetise less due to the reduced value advertisers place on mobile application inventory.

(c) *General market conditions:* There has been a general softness in the market for online display advertising, partly due to current affairs and other events. For example, Gumtree has historically displayed a considerable volume of

advertisements for financial services including personal loans and insurance.

Following the Federal Election and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries, Gumtree has noticed a considerable decline in spend from advertisers in these categories.

F GUMTREE'S FORWARD OUTLOOK & THE PROPOSED TRANSACTION

68. **[Confidential to Gumtree]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

69. [REDACTED]
[REDACTED]

(a) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(b) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(c) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

70. [REDACTED]

(a) [REDACTED]

(b) [REDACTED]

71. I am aware of Gumtree’s proposal to acquire the share capital of Cox Media Solutions Pty Ltd (**Cox Media**) by way of a share purchase agreement (the **Proposed Transaction**). I am also aware that the Proposed Transaction will be conditional on the parties obtaining merger authorisation under the *Competition and Consumer Act 2010* (Cth).

72. If the Proposed Transaction is authorised, I consider that the acquisition of Cox Media’s brands (known as Carsguide and Autotrader) will strengthen Gumtree by introducing a ‘vertical offering’ (i.e. a specific online automotive classified business), which will help Gumtree to appeal to a wider base of consumers and offer a better value proposition to both dealers and private advertisers.

73. Consequently, I consider that the combination of Gumtree and Carsguide/Autotrader will be more likely to drive traffic to the platforms. By improving the inventory and dealer customer base on its site, I consider that the Proposed Transaction will increase the site's audience reach which will facilitate beneficial network effects. With more traffic on the platform, private advertisers will be more likely to list their inventory on the site. This, in turn, will attract more dealer advertisers as the sites will have enough potential buyers (and therefore likely leads) that they will consider it to be a worthwhile and credible alternative to Carsales.

Signature of Remi Mascio:



Date:

21 January 2020