

2012 ANNUAL SHAREHOLDER MEETING: CHAIRMAN'S SPEECH (DAVID KIRK)

Some of you may know that I was the Chief Executive of Fairfax when Fairfax bought Trade Me for \$750 million back in early 2006.

Sam and I had negotiated the deal in a couple of telephone calls after meeting once in November of the previous year. I had started at Fairfax a month or so before that.

It was obvious to me from the beginning that Trade Me was an extraordinary business. I tried to play it cool in that meeting in November 2005 – and I succeeded it seems – because Sam later told me he came away from the meeting thinking we had no interest in Trade Me.

Anyway we got the deal done. It wasn't easy convincing the Fairfax Board at the time. After all it was a lot of money to pay for a business that made \$26 million in 2006.

For the mathematically inclined, at \$750 million the price was 29x earnings before interest tax and depreciation. That was the number all the expert analysts and most of the other Fairfax shareholders focussed on at the time, and they thought I was out of my mind. And they told me so.

A few months later the Board came across to see the business. Trade Me was in Anvil House opposite here back then. A scungy old building with a creaky old lift.

When the Fairfax Board got out on the second floor there was a flapping piece of A4 paper pinned to the wall opposite the lift with a picture of Kevin the Kiwi on it, and an arrow pointing to the right. "What is this?" they all thought.

The Board walked in and saw a lot of old computers on old desks and about 60 kids dressed in jeans playing on the computers.

I could feel the unasked question: "Why did we pay \$750 million for this?!"

The rest is history I guess. Trade Me has grown to become one of the truly great New Zealand companies of this and any time, and I was delighted to be asked to become the Chairman of the company when Fairfax decided to sell a part of Trade Me to the public last year.

Just recently Trade Me entered the index of the Top 20 companies in New Zealand. Not bad for a bunch of kids playing on computers.

Since Trade Me became a public company in December last year, the Board has been supporting management to develop and grow the business, but we have also been setting Trade Me up for life as public company.

This is very largely now complete.

We have established Board committees responsible for audit and risk management, remuneration, nominations (that is: the appointment of future directors) and a committee of the independent directors. These committees have worked on a wide range of initiatives associated with establishing the appropriate systems and processes for a publicly listed company.

I won't run through what all these systems and processes are, as that would send you to sleep, but the highlights include appointing our new CFO Jonathan Klouwens (who is here today of course, so say hello to him), appointing auditors and establishing audit processes (we have had two comprehensive and clean audits since listing), establishing a new remuneration system including a long-term incentive plan, setting up a protocol for information sharing with our major shareholder, and ensuring all our obligations to both the NZX and ASX are met and will be met in the future.

I am confident that we have comprehensive and high quality governance procedures in place.

Governance is of course a very important part of ensuring that your company is well run. It's important to ensure risks are understood and well-managed, and that the company fulfils its obligations and grabs its opportunities – not only to deliver good and sustained financial returns to you the owners, but also to be a company that understands it is part of a much wider community of New Zealanders.

However governance is not an end itself.

Good governance is the enabler of good results. We have established all the appropriate processes for oversight and support of management in order to fulfil legal obligations certainly, but more pertinently for you as investors, so that we are set up to generate an acceptable long-term increase in the value of your investment.

So how do we think about providing you with this return? Or better put, how do we measure whether or not we are providing you with an acceptable long-term return on your investment?

First, we focus on the long term and we want you to do the same.

We know there are a fairly large number of investors who focus on the short-term – trading types and institutions who manage to computer models and who need to beat indices on a quarterly basis.

These sorts of investors are always ready to take a profit and move on. Their mantra is ‘no one ever got poor taking a profit’. Our response is, ‘no one ever got rich selling out of a company that gets more valuable every year’.

Trade Me is well-positioned in markets that will continue to grow. Trade Me will grow with those markets and because of the strong position Trade Me has in these markets – online marketplaces and online classifieds in particular – Trade Me will capture the great majority of the profits generated by revenue growth.

The Board has chosen two metrics to measure financial performance. These are “relative total shareholder return” and “earnings per share”. The long-term incentive scheme we have established for the senior management team is based on performance against these two metrics.

“Relative total shareholder return” measures the returns the company achieves for shareholders relative to other companies listed on the NZX. “Earnings per share” measures how well management have done in improving the earnings of the company.

In the short-term we remain very committed of course to delivering against the targets set out in the Prospectus.

The way you receive the returns that Jon and the management team work so hard to deliver throughout the year, is by dividend payments and share price appreciation.

Over time the share price will track the underlying value of the company, but with the expected lags and leads associated with the relative optimism or pessimism of our investors. There will therefore be a degree of variability in the returns, realised or not, that you receive from changes in the share price of Trade Me.

The dividend payment, on the other hand, will be consistent. We will pay out to you around 80% of our net profit each year as a cash dividend.

To finish, I want to go back to the beginning and emphasise how important the people and the culture of Trade Me is.

From the first day I set foot in Trade Me – in April 2006, it was the day Fairfax announced the acquisition – it has been obvious that it's all about the people. Smart, fun, focused, humble, competitive, helpful to each other... I could go on and on.

Trade Me hires carefully (and we continue to hire a lot of new people) and the thing Jon and his team take the most care over is in hiring people who understand that Trade Me is not just a business focussed on investment returns, but a business focussed on giving opportunities to hundreds of thousands of New Zealanders to build their own business, to find the right house or car or job, to find a partner, book a trip or simply get a great deal.

There is no secret of success in business, it's mostly knowing what you are doing and working really hard. And it's the same for Trade Me, but if you ask me what's the magic ingredient for Trade Me, I'll say, without doubt, it's the people.

And now, it is time for me to hand you over to the leader of those people and your Chief Executive, Jon Macdonald.

30 October 2012