

OnTheMarket

Spreading the word

Final results

Media

7 June 2018

Price 162p
Market cap £98m

Net debt (£m) at 31 January 2018, pre £30m fund raise on listing February 2018 9.3

Shares in issue 60.5m

Free float 41%

Code OTMP

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 10.6 4.9 N/A

Rel (local) 8.2 (2.7) N/A

52-week high/low 181.0p 107.5p

Business description

OnTheMarket is an estate agent-backed company, which operates a synonymous property portal. It is the third largest UK residential property portal provider in terms of traffic.

Next events

Half-year end 31 July 18

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OnTheMarket is a research client of Edison Investment Research Limited

OnTheMarket has released full-year results to January 2018, just prior to its listing. Of greater interest is the strong progress in recruitment of estate and letting agencies, with listing agreements now signed with over 8,500. This is driving good levels of traffic to the portal, which in turn should demonstrate its value to the agency customers ahead of the end of the discounting. We maintain our revenue forecasts, but have dialled back the anticipated marketing spend in view of the success to date. Our longer-term modelling indicates a return to profit in FY21. On EV/revenue and DCF modelling, the shares have good potential upside.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/17	17.8	1.0	(1.4)	0.0	N/A	0.0
01/18	16.0	2.7	7.4	0.0	21.9	0.0
01/19e	18.0	(16.8)	(28.8)	0.0	N/A	0.0
01/20e	35.0	(9.5)	(12.5)	0.0	N/A	0.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Good increase in reach

OnTheMarket has added agency branches at a good pace, with over 8,500 now participating, up 3,000 since listing. The recent (May 2018) high-profile TV and outdoor marketing campaign has boosted market recognition and traffic to the portal. YTD, there have been 42.2m visits, up from 21.9m for the comparative period. Management indicates that feedback from the agents is that this is good-quality traffic, with a high proportion of genuine interest, rather than simple browsing. New branches are coming on to the roster on free or discounted fees, rather than in exchange for equity. The group is achieving the quantum of scale needed to make it a credible alternative to the two main UK incumbents, Rightmove and Zoopla. It will also be extending its remit to include new home developers and online agents, as well as advertisers of commercial and overseas properties.

Marketing requirement trimmed

The key financial variables are number of branches, level of listing fee discounting and marketing spend. For the remainder of FY19e, we anticipate slightly more branches than before (see [initiation](#)), with a lower ARPA, to give the same revenue number. We have reduced the anticipated marketing spend to £18.5m (was £22.5m) in FY19e and £22m for FY20e (£25m), accelerating the move back to profitability and improving the cash profile.

Valuation: Good potential upside

The share price has recovered to close to its 165p issue price after initial opportunistic selling and currently trades at 3.7x forecast EV/revenue to January 2019, compared with Rightmove at 16.9x and Zoopla at 7.9x current year forecast revenue (9.1x average for a broader global peer set). We have also modelled the DCF, based on a WACC of 10.2%. This derives a value of 355p per share (was 323p), but, given the potential variability of outcomes, we would suggest an execution risk discount of 30% would be appropriate, indicating a price of 249p.

Gaining competitive advantage

The recruitment drive has been successful to date, with joining OnTheMarket an increasingly attractive option to agents as prices for listing their properties on Rightmove and Zoopla continue to increase, albeit at a slower pace. Rightmove's ARPA on agency property for CY17 was £879, up over 10% on prior year (fees for new home developments are higher; an ARPA of £1,201), while ZPG's property ARPP (average revenue per property partner) was £484 in H118, up over 6% like-for-like, year-on-year. While there will be regional variations, this bodes well for negotiations later in the year as agencies move toward the end of their discounted period.

With the underlying property market under pressure from fewer transactions taking place and little, if any, house price inflation, estate agents' commission will be likely to continue to drift. This will inevitably mean that expenses will be more closely scrutinised, putting the value obtained from portal fees into the spotlight. Our model builds an overall ARPA from £163 in the current year to £193 in FY20e and £297 in FY21e (previous assumptions were £176, £198, and £303 respectively); a reasonably cautious progression but very clearly an attractive proposition against the majors, provided that the traffic and conversion statistics remain strong.

Building the team

As well as the marketing effort, February's fund raise was designed to support building the group's infrastructure to grow its customer base and support them once on board. The field sales team has been built from 15 to 32 people, while the IT team has increased from 21 to 40. These additional costs are built into our financial modelling and there are no changes to our numbers in this regard.

Changes to forecasts

The FY18 results are for the year ended 31 January, just prior to the listing on 9 February and the £30m capital fundraise, so are, of themselves, of limited interest. Revenue was in line with our earlier forecasts, but the level of administrative expenses was lower than we had anticipated, as was the interest charge.

Exhibit 1: Changes to forecasts

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018	6.2	7.4	+19	2.2	2.7	+23	5.0	5.4	+8
2019e	(35.3)	(28.8)	N/A	(21.4)	(16.8)	N/A	(19.7)	(15.2)	N/A
2020e	(16.7)	(12.5)	N/A	(12.6)	(9.4)	N/A	(10.8)	(7.8)	N/A

Source: Company accounts, Edison Investment Research

As outlined above, our revised numbers maintain our top line forecast (though with more branches and lower ARPA as a result of the successful recruitment campaign). The main adjustment is in our assumptions on the level of marketing spend needed to drive the recruitment of branches and increase awareness amongst their potential clients. We still forecast the group to move into profitability in FY21, but to a greater degree, with it also turning cash generative in that year.

Marketing spend was one of the variables that we identified in our earlier report in the context of the theoretical valuation. The reduction (on what remains a sizeable figure of £18.5m) naturally has a beneficial impact to the cash flows. Under the new scenario, our DCF (based on unchanged assumptions of a WACC of 10.2% and a long-term growth rate of 0.5%) suggests a value of 355p (was 323p). We then add a 30% discount to reflect the implementation risk, giving an indicative price of 249p, 54% ahead of the current price.

Exhibit 2: Financial summary

	£'k	2016	2017	2018	2019e	2020e
31-January		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		17,851	17,831	16,046	18,000	35,000
EBITDA		(1,140)	3,292	5,353	(15,223)	(7,832)
Normalised operating profit		(1,729)	2,324	3,887	(17,000)	(9,750)
Amortisation of acquired intangibles		0	0	0	0	0
Exceptionals		0	(3,506)	(1,436)	(2,900)	0
Share-based payments		0	0	(13,290)	0	0
Reported operating profit		(1,729)	(1,182)	(10,839)	(19,900)	(9,750)
Net Interest		(1,394)	(1,351)	(1,231)	185	271
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		(3,123)	973	2,656	(16,815)	(9,479)
Profit Before Tax (reported)		(3,123)	(2,533)	(12,070)	(19,715)	(9,479)
Reported tax		0	(1,486)	(22)	(631)	1,896
Profit After Tax (norm)		(3,123)	(513)	2,634	(17,446)	(7,583)
Profit After Tax (reported)		(3,123)	(4,019)	(12,092)	(20,346)	(7,583)
Minority interests		0	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		(3,123)	(513)	2,634	(17,446)	(7,583)
Net income (reported)		(3,123)	(4,019)	(12,092)	(20,346)	(7,583)
Basic average number of shares outstanding (m)		36	36	36	61	61
EPS - normalised (p)		(8.8)	(1.4)	7.4	(28.8)	(12.5)
EPS - normalised fully diluted (p)		(8.8)	(1.4)	7.4	(28.8)	(12.5)
EPS - basic reported (p)		(8.8)	(11.3)	(34.0)	(33.6)	(12.5)
Dividend (p)		0.0	0.0	0.0	0.0	0.0
Revenue growth (%)		899.2	98.9	89.0	111.2	193.4
EBITDA Margin (%)		-6.4	18.5	33.4	-84.6	-22.4
Normalised Operating Margin		-9.7	13.0	24.2	-94.4	-27.9
BALANCE SHEET						
Fixed Assets		2,946	3,601	3,672	3,895	4,328
Intangible Assets		2,874	3,556	3,654	3,887	4,023
Tangible Assets		72	45	18	8	305
Investments & other		0	0	0	0	0
Current Assets		4,200	5,972	3,704	12,148	6,023
Stocks		0	0	0	0	0
Debtors		638	3,709	530	1,589	4,023
Cash & cash equivalents		3,562	2,263	3,174	10,559	2,000
Other		0	0	0	0	0
Current Liabilities		(3,872)	(7,316)	(5,454)	(6,091)	(7,252)
Creditors		(2,907)	(5,937)	(4,215)	(4,874)	(6,035)
Tax and social security		0	0	0	0	0
Short term borrowings		(965)	(1,379)	(1,217)	(1,217)	(1,217)
Other		0	0	(22)	0	0
Long Term Liabilities		(9,740)	(11,256)	(11,610)	(1)	(704)
Long term borrowings		(9,740)	(11,256)	(11,256)	(1)	(704)
Other long term liabilities		0	0	(354)	0	0
Net Assets		(6,466)	(8,999)	(9,688)	9,952	2,395
Minority interests		0	0	0	0	0
Shareholders' equity		(6,466)	(8,999)	(9,688)	9,952	2,395
CASH FLOW						
Op Cash Flow before WC and tax		(1,140)	2,896	5,353	(15,223)	(7,832)
Working capital		3,509	(42)	415	(392)	(1,246)
Exceptional & other		0	(3,506)	(1,436)	(2,900)	0
Tax		0	(1,486)	(22)	(631)	1,896
Net operating cash flow		2,369	(2,138)	4,311	(19,146)	(7,182)
Capex		(2,008)	(1,623)	(1,538)	(2,000)	(2,350)
Acquisitions/disposals		0	0	0	0	0
Net Interest		(998)	(937)	(1,393)	(1,115)	271
Equity financing		0	0	0	41,255	0
Dividends		0	0	0	0	0
Other		0	1,516	0	0	0
Net Cash Flow		(637)	(3,182)	1,380	18,994	(9,262)
Opening net (cash)/debt		5,714	6,747	10,372	9,299	(9,694)
FX		0	(30)	0	0	0
Other non-cash movements		(396)	(413)	(307)	(0)	0
Closing net (cash)/debt		6,747	10,372	9,299	(9,694)	(433)

Source: Company accounts, Edison Investment Research

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