EDISON

Real Estate Investar Group

FY16 results

Data-driven property service provider

Software & comp services

Real Estate Investar (REV) is shifting its strategy, aiming to capitalise on its growing membership base of property investors to generate property-related transaction revenues. We have revised our forecasts to reflect a higher proportion of transaction-related revenues, the three-year agreement with Domain Group for data provision, and the Property Factory acquisition in Q416. Our EBITDA break-even forecast moves to H217 (from H216) and we reduce our DCF valuation to A$0.17 (from A$0.26).

Year end	Revenue (A$m)	PBT* (A$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/15	4.0	(1.1)	(5.2)	0.0	N/A	N/A
06/16	4.9	(1.5)	(2.4)	0.0	N/A	N/A
06/17e	8.3	(0.7)	(0.8)	0.0	N/A	N/A
06/18e	11.8	1.4	1.6	0.0	3.1	N/A

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

FY16 results reflect the strategy shift

REV grew its membership base in line with expectations but generated a lower level of paid subscriptions than we expected in FY16, although this was almost entirely offset by a much higher level of property transaction income. Overall, EBITDA was 37% below our forecast and REV ended the year with net cash of A$2.0m. The revenue mix reflects the company's aim to transition from a SaaS subscription strategy to a data-driven transaction strategy, using the knowledge of its membership base to generate property-related transactional revenues. Recent partnership agreements with Domain Group, eChoice Home Loans, Century 21 and VerdiPlus should help REV to market to new and existing members.

Property-related transactions to make up majority

We have revised our forecasts to reflect this shift in strategy. We now expect subscription income to make up 42% of FY17 revenues (down from 64%) whereas we expect transaction-related income to increase to 58% of FY17 revenues (up from 36%). We reduce our revenue forecasts by 14% in FY17 and FY18 and shift our EBITDA break-even point to H217 (from H216). We forecast net cash to fall to A$0.2m by the end of FY17 before increasing to A$1.2m by the end of FY18.

Valuation: EBITDA break-even key to upside

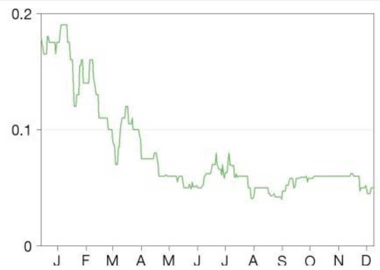
REV is an early-stage company so it is not possible to be definitive on valuation. Our 10-year DCF, based on a WACC of 13.5% and long-term growth of 2%, results in a base-case valuation of A$0.17/share – significantly above the current share price. If REV is able to successfully transition to a transaction-driven business model and achieve EBITDA break-even in line with our forecasts, then we see scope for significant share price appreciation. Key data points that will evidence such progress include: transaction volumes growing on a quarterly basis (particularly direct property sales), increasing penetration of the membership base for paid subscription services and good control of operating costs.

12 December 2016

Price	**A$0.05**
Market cap	**A$4m**

Net cash (A$m) at end FY16	2.0
Shares in issue	84.5m
Free float	35%
Code	REV
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(16.7)	(13.8)	N/A
Rel (local)	(22.3)	(16.5)	N/A
52-week high/low		A$0.20	A$0.04

Business description

Real Estate Investar provides integrated online services to Australian and New Zealand property investors to help them identify and manage suitable properties.

Next events

H117 results	February 2017

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Review of FY16 results

Exhibit 1: FY16 results

A$'000	Forecast	Actual	Variance
Revenue	**5,177**	**4,904**	**-5.3%**
Cost of Sales	(2,663)	(2,811)	5.6%
Gross Profit	2,514	2,092	-16.8%
EBITDA	**(762)**	**(1,046)**	**37.2%**
Normalised operating profit	**(1,227)**	**(1,461)**	**19.0%**
Intangible Amortisation	(166)	(2)	
Exceptionals	276	202	
Other	0	0	
Reported operating profit	**(1,393)**	**(1,261)**	**-9.5%**
Net Interest	12	(34)	-383.6%
Profit Before Tax (norm)	(1,105)	(1,495)	35.3%
Profit Before Tax (FRS 3)	(1,381)	(1,295)	-6.2%
Tax	0	(70)	
Profit After Tax (norm)	**(1,105)**	**(1,565)**	**41.6%**
Profit After Tax (FRS 3)	(1,381)	(1,365)	-1.1%
Net cash	**3,903**	**2,031**	**-48.0%**
Average Number of Shares Outstanding (m)	84.5	65.3	
EPS - normalised (c)	**(0.7)**	**(2.4)**	
EPS - (IFRS) (c)	(1.5)	(2.1)	
Dividend per share (c)	0.0	0.0	
Gross margin	*48.6%*	*42.7%*	
EBITDA margin	*-14.7%*	*-21.3%*	
Normalised operating margin	*-23.7%*	*-29.8%*	

Source: Real Estate Investar, Edison Investment Research

REV reported total revenue & income of A$5.30m, which included A$0.39m in negative goodwill from the acquisition of The Property Factory (TPF) in April 2016. We have treated the negative goodwill as an exceptional item, stripping it out of the revenue line. Underlying revenues came in slightly below our forecast: subscription revenues of A$3.29m were 13% lower than our forecast, as contracted subscribers only grew minimally year-on-year. Transaction based revenues of A$1.62m were 16% higher than our forecast as the TPF contributed from Q416 (see below). Cost of sales came in higher than our forecast, mainly due to higher commission costs on revenues generated through partner channels. Operating expenses were 4% below our forecast. Exceptional income consisted of the A$0.39m negative goodwill offset by A$0.19m in listing costs.

Acquisition of The Property Factory increases transaction-based revenues

In April REV acquired the assets of The Property Factory, a licensed New Zealand real estate agency, for NZ$550k/A$523k (A$143k paid in Q416 and A$380k in Q117). In Q416, the acquisition contributed revenues of A$1.11m.

TPF acts mainly as an agent for off-the-plan properties in New Zealand. The company should earn higher net commissions through this model as it will be acting as the agent rather than as a referral partner. REV is aiming to replicate this model in Australia. It now offers off-the-plan, house and land, and existing property for sale in both Australia and New Zealand.

Strategy update

At its recent AGM, REV gave a strategy update where it highlighted that it is shifting from a SaaS subscription strategy to a data-driven transaction strategy. The key focus for the year ahead is to:

- grow the membership base;

- convert members to customers; and
- generate cash to fund future growth, including potential acquisitions in Australia, New Zealand and further afield.

Grow the membership

REV grew its membership base by 48% over FY16, and continues to make good progress towards its target of 250,000 by the end of CY16.

Exhibit 2: Growth in membership

	H115	H215	H116	H216	Sep-16	Mid-Nov 16	H117
	Actual	Actual	Actual	Actual	Actual	Actual	Target
Number of members	106,206	136,815	152,439	202,423	229,109	>240,000	250,000

Source: Real Estate Investar

REV is growing the membership base through digital marketing campaigns as well as promotion by partners such as Domain Group (who promotes REV to its 6.4 million-strong audience in Australia) and NZME.

REV aims to collect 20 data points per member to understand each member's investing intentions and goals - it has managed to collect 24% of all data points so far. The company continues to invest in developing the technology platform to improve the user experience.

Convert members to customers

The emphasis on customer conversion at the time of the IPO was on converting members to paid data subscriptions. The company has shifted its approach – it will still aim to convert members to paid subscriptions, but also sees its membership base as the target market for property-related transactions and services. This includes direct property sales (where it will earn sales commissions), mortgage broking (where it earns up upfront arrangement fees as well as trail commission), insurance broking, accounting, depreciation reports and courses.

Segmentation strategy to grow paid subscriber base

As a reminder, REV operates a freemium model – members can access a certain amount of real-estate data and online tools for free, and can upgrade to more comprehensive data via a monthly subscription. REV signs up subscribers directly and as a result of its 21-day free trial offering.

REV ended FY16 with 2,818 contracted subscribers, up from 2,773 at the end of FY15. As contracted subscribers only grew minimally year-on-year, subscription revenues did not grow as fast as expected. The ARPA (average revenue per account) was c A$100 for FY16.

REV has launched a premium subscription service called Concierge. This costs A$10k over two years (ie ARPA of c A$400/month) and provides the subscriber with all the data they could possibly need as well as assistance in locating property to buy and helping arrange the purchase. The service integrates data services with finance and property sales services. At the same time, REV is considering offering the basic service at a lower rate to convert more members to paying subscribers.

Transaction-based revenues to make up a larger proportion of revenues

The addition of TPF from Q416 adds direct property sale commissions (reported in Property Income). In addition to this, REV already offers mortgage broking, insurance broking, accounting services (including depreciation reports), training, and property management and earns referral fees when members are directed to partner services. In FY16, REV sold 52 properties to members, the majority of which we believe were transacted in Q416 as a result of the TPF acquisition. We assume that REV will be able to sell these services to any of its members, not just those that have a paid subscription.

Partnerships key to converting members to customers

Growth in the membership base and conversion of members to customers is heavily reliant on promotion of REV by third parties. REV already has a partnership with Domain Group, the second largest property website in Australia, which also provides the real estate data for REV's subscription service. Additional agreements signed in Q117 include:

- eChoice Home Loans – REV now promotes eChoice investment loan and broking services to the membership base. REV will earn 50% of the arrangement fees and trail commissions generated from this relationship. REV is also working with Domain Group to jointly promote these services to the larger Domain audience.
- VerdiPlus – a similar finance broking arrangement in New Zealand.
- Century 21 – joint exclusive listings and marketing services for developers of new investment units in New Zealand.

Generate cash to fund growth

The company is focused on generating cash to fund growth internally (via product development and hiring to support property sales and ancillary services) or via acquisition. The company would consider acquisitions in Australia and New Zealand. In addition, the company is considering partnerships or investment in the UK (for services in the UK) and South-East Asia (for services relating to Australasian property).

Changes to forecasts

We have revised our forecasts to reflect the lower level of paid subscribers as well as the new segmented subscription services strategy. We have also reflected the increased focus on transaction and property income. Our forecasts now show a much higher proportion of revenues being generated from property transactions than subscription income.

In June, REV signed a long-term partnership with the Domain Group and its subsidiary APM Pricefinder. This gives it access to better content for its members and subscribers on a fixed price model for three years. We have reflected this in our cost of sales forecasts (which previously had a much higher variable component).

We forecast EBITDA will turn positive in H217. REV ended FY16 with a net cash position of A$2.0m (gross cash of A$2.27m and convertibles worth A$0.24m). We forecast net cash will fall to A$0.2m by the end of FY17 before rising to A$1.2m by the end of FY18. As the convertible is out-of-the-money (conversion rate of A$0.15/share) we assume that REV will either repay the convertible or negotiate an extension to the term.

Exhibit 3: Changes to forecasts

A$'000	FY 2017 Old	FY 2017 New	FY 2017 Change	FY 2018 Old	FY 2018 New	FY 2018 Change
Revenue	9,619	8,251	-14.2%	13,817	11,835	-14.3%
Gross profit	5,374	4,863	-9.5%	7,942	7,567	-4.7%
Operating expenses	(4,913)	(5,161)	5.0%	(5,868)	(5,760)	-1.8%
EBITDA	461	(298)	-164.6%	2,074	1,807	-12.9%
EBIT	42	(714)	-1800.8%	1,951	1,378	-29.4%
NPAT (norm)	146	(694)	-575.2%	1,724	1,376	-20.2%
NPAT (FRS 3)	146	(702)	-581.0%	1,724	1,368	-20.7%
EPS normalised	0.20	(0.83)	-515.5%	2.00	1.62	-19.1%
Net cash	4,971	159	-96.8%	7,718	1,190	-84.6%
Revenue split						
Membership revenue	6,180	3,479	-43.7%	9,339	4,888	-47.7%
Transaction income	1,167	481	-58.8%	2,067	793	-61.6%
Property income	2,272	4,291	88.8%	2,411	6,154	155.3%
Total	9,619	8,251	-14.2%	13,817	11,835	-14.3%
Gross margin	*55.9%*	*58.9%*		*57.5%*	*63.9%*	
EBITDA margin	*4.8%*	*-3.6%*		*15.0%*	*15.3%*	
EBIT margin	*0.4%*	*-8.7%*		*14.1%*	*11.6%*	

Source: Edison Investment Research

Valuation

We have revised our DCF to take account of reported FY16 results and our new forecasts which reflect the new shift in strategy. Using a WACC of 13.5% and a long-term growth rate of 2% results in a valuation of 17c, significantly higher than the current share price. A 1% increase/decrease in the WACC results in a valuation of 15c/19c. The table below shows some of the key assumptions in our DCF calculation:

Exhibit 4: DCF assumptions

	FY16a	FY17e	FY18e	FY22e	CAGR 16-22e
Membership (at y/e)	202,423	300,000	379,500	471,185	15.1%
Paid subscribers (at y/e)	2,818	3,780	4,782	5,937	13.2%
% of members	1.39%	1.26%	1.26%	1.26%	
Number of transactions	28	119	229	492	60.9%
Number of property sales	52	184	259	333	36.3%
Subscription revenue (A$m)	3.29	3.48	4.89	7.02	13.5%
Transaction income (A$m)	0.41	0.48	0.79	1.73	27.1%
Property income (A$m)	1.21	4.29	6.15	7.96	36.9%
Total revenue (A$m)	4.90	8.25	11.84	16.71	22.7%
EBITDA (A$m)	-1.05	-0.30	1.81	3.90	
EBITDA margin	-21.3%	-3.6%	15.3%	23.3%	

Source: Real Estate Investar, Edison Investment Research

Since the IPO, the share price has declined to 5c from the 20c issue price. As the company is at a relatively early stage of its new strategy, we believe investors are heavily discounting the company's ability to reach break-even and grow to the level of profitability in our longer-term forecasts. Data points that will provide evidence that the new strategy is on track include: quarterly growth in members and subscribers, growth in property sales and other property-related transactions and good control of the operating cost base.

Exhibit 5: Financial summary

A$'000	2015	2016	2017e	2018e
30 June	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	4,023	4,904	8,251	11,835
Cost of Sales	(2,137)	(2,811)	(3,388)	(4,269)
Gross Profit	1,886	2,092	4,863	7,567
EBITDA	(773)	(1,046)	(298)	1,807
Operating Profit (before amort. and except.)	(1,068)	(1,461)	(714)	1,378
Intangible Amortisation	0	(2)	(8)	(8)
Exceptionals	0	202	0	0
Other	0	0	0	0
Operating Profit	(1,068)	(1,261)	(723)	1,369
Net Interest	(37)	(34)	21	(2)
Profit Before Tax (norm)	(1,105)	(1,495)	(694)	1,376
Profit Before Tax (FRS 3)	(1,105)	(1,295)	(702)	1,368
Tax	(989)	(70)	0	0
Profit After Tax (norm)	(2,094)	(1,565)	(694)	1,376
Profit After Tax (FRS 3)	(2,094)	(1,365)	(702)	1,368
Average Number of Shares Outstanding (m)	39.9	65.3	84.5	84.5
EPS - normalised (c)	(5.2)	(2.4)	(0.8)	1.6
EPS - normalised and fully diluted (c)	(5.2)	(2.4)	(0.8)	1.6
EPS - (IFRS) (c)	(5.2)	(2.1)	(0.8)	1.6
Dividend per share (c)	0.0	0.0	0.0	0.0
Gross Margin (%)	46.9	42.7	58.9	63.9
EBITDA Margin (%)	-19.2	-21.3	-3.6	15.3
Operating Margin (before GW and except.) (%)	-26.5	-29.8	-8.7	11.6
BALANCE SHEET				
Fixed Assets	1,838	2,751	2,683	2,295
Intangible Assets	1,656	1,619	1,468	1,339
Tangible Assets	45	89	172	244
Investments	136	1,043	1,043	712
Current Assets	824	4,325	3,604	5,804
Stocks	0	0	0	0
Debtors	695	2,053	3,204	4,373
Cash	129	2,272	399	1,431
Other	0	0	0	0
Current Liabilities	(4,548)	(3,191)	(3,067)	(3,452)
Creditors	(3,841)	(2,951)	(2,826)	(3,211)
Short term borrowings	(706)	(241)	(241)	(241)
Long Term Liabilities	(140)	(113)	(173)	(233)
Long term borrowings	(6)	0	0	0
Other long term liabilities	(134)	(113)	(173)	(233)
Net Assets	(2,026)	3,771	3,046	4,414
CASH FLOW				
Operating Cash Flow	(252)	(2,160)	(1,193)	1,022
Net Interest	(11)	3	21	(2)
Tax	0	0	0	0
Capex	(552)	(205)	(320)	(320)
Acquisitions/disposals	0	(143)	(380)	0
Financing	164	4,549	0	0
Dividends	0	0	0	0
Net Cash Flow	(651)	2,043	(1,873)	701
Opening net debt/(cash)	(68)	583	(2,031)	(158)
HP finance leases initiated	0	0	0	0
Other	0	571	(1)	331
Closing net debt/(cash)	583	(2,031)	(158)	(1,190)

Source: Real Estate Investar, Edison Investment Research

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