

Networking

OnTheMarket (OTM) continues to make good progress in building its market share and improving its brand recognition both with agents and the public. The group now has over 11,000 agency branches under listing contracts – a 58% share of the total. This increased reach is driving higher levels of traffic to the portal and delivering good leads to agents. The challenge now is to convert these agents to paying clients and grow the proportion holding OTM shares. We continue to model the group moving into profit and becoming cash-flow positive in FY21. On an EV/revenue basis, backed by DCF modelling, the shares have good potential upside.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/17	15.6	1.0	(1.4)	0.0	N/A	N/A
01/18	13.5	2.7	7.4	0.0	18.6	N/A
01/19e	15.0	(16.0)	(27.4)	0.0	N/A	N/A
01/20e	32.0	(9.4)	(12.5)	0.0	N/A	N/A

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

Financials on track

Revenue for the six months to July was 2% up year-on-year, with the operating loss of £5.7m reflecting the heavier investment in marketing, as expected. The changes to our forecasts are primarily on the back of the adoption of IFRS15, which takes £3m off our revenue figures for both FY19e and FY20e, matched by a similar sum coming off the administrative costs (FY17 and FY18 are also adjusted). We have also taken a further £0.8m off our anticipated marketing costs for the current year in view of the success of the campaign to date. OTM had cash of £24.3m (no debt) at the half year and our modelling suggests net cash of £10.3m at the year-end, with £1.7m at end FY20, after which we expect the group to move into profit.

Focus shifting to driving commercial revenue

The first phase of the strategy has been agent recruitment and this has gone well, as shown by the branch numbers. With the prices charged by more established portals still moving ahead and the fundamentals of the agency market challenged on a number of fronts (falling commissions, tenant fee bans, Brexit uncertainty etc), OTM's proposition has been attractive. The emphasis now shifts to building deeper engagement with the agencies ahead of end of the free-listings periods.

Valuation: Overstating execution risk

The shares are trading at 4.1x forecast EV/revenue to January 2019, compared with Rightmove at 16.2x (8.1x average for a broader global peer set of property portal businesses). We have also modelled the DCF, based on a WACC of 10.2%. This derives a value of 332p per share (was 355p) but, given the potential variability of outcomes, we would suggest an execution risk discount of 30% would be appropriate, indicating a price of 232p.

Media

11 October 2018

Price 137.5p
Market cap £84m

Net cash (£m) at end July 2018	24.3
Shares in issue	61.3m
Free float	41%
Code	OTMP
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(7.4)	(12.9)	N/A
Rel (local)	(6.4)	(7.5)	N/A
52-week high/low	181.0p	107.5p	

Business description

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

Next events

Full year results	April 2019e
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Cementing the attractions

The current financial results are not the crux of the investment case, beyond the rate of cash absorption. The slight dial-down of the anticipated marketing spend (after the earlier spend achieved greater impact than anticipated) means the group should have comfortably enough cash resource to see it through to profitability, based on our current assumptions.

The key divergence from the plan as set out at the time of the IPO (and described in [our initiation note](#)) has been that more agencies and agency groups have opted for the discounted/free listing model, rather than for the equity option, which was designed to attract key agents into long-term contracts, allowing them to share directly in the benefit of the group's success. The short-term objective must therefore be to convince those agents of the efficacy of continuing listing on the OTM portal sufficiently that they convert at the end of their trial periods, preferably to shareholders with an ongoing vested interest.

Building profile

A key objective has been to build sufficient market share to raise the group's profile. OTM has achieved particularly strong penetration in the mid-sized regional agents (a 96% share in agents with between 13–19 offices, for example; 84% current share of properties listed in Herefordshire). This in turn drives traffic to the website, as has the marketing campaign. This was initially focused on digital/SEO, then supplemented with TV and out of home in London in early summer and again in September. Web traffic in September was 17.4m visits, up from 11.9m in March.

Commercial advantage

While price is inevitably a crucial part of the equation, value is increasingly relevant in a market-facing external economic, regulatory and commercial pressures. Hence OTM's marketing proposition is putting more emphasis on its 'new and exclusive' listings, which gives agents a higher-traction route to market (and which featured in the September marketing campaign). The current average revenue per agency (ARPA) of £153 is a reflection of the mix with agencies on free/discounted deals, and is further diluted by the IFRS 15 adjustment to £132. This compares with Rightmove's latest published agency ARPA, up £75 year on year at £940, with rises reflecting additional advertising products as well as price increases to over half of its customers. Its number of agency branches was broadly unchanged, at 17,585, compared with OTM's 11,210 by end-September 2018. Visibility on ZPG's metrics will likely decrease now it has gone into private equity ownership, but its H118 property average revenue per property partner was £484, up over 6% like-for-like, year-on-year (NB: this figure includes non-comparable revenues).

Exhibit 1: Financial summary

	£'k	2017	2018	2019e	2020e
31-January		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		15,631	13,546	15,000	32,000
EBITDA		3,292	5,353	(14,423)	(7,808)
Operating Profit (before amort. and except.)		2,324	3,886	(16,200)	(9,723)
Amortisation of acquired intangibles		0	0	0	0
Exceptionals		(3,506)	(1,436)	(2,900)	0
Share-based payments		0	(13,290)	(400)	0
Reported operating profit		(1,182)	(10,840)	(19,500)	(9,723)
Net Interest		(1,351)	(1,231)	201	298
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		973	2,655	(16,000)	(9,425)
Profit Before Tax (reported)		(2,533)	(12,071)	(19,300)	(9,425)
Reported tax		(1,486)	(22)	(605)	1,885
Profit After Tax (norm)		(513)	2,633	(16,605)	(7,540)
Profit After Tax (reported)		(4,019)	(12,093)	(19,905)	(7,540)
Minority interests		0	0	0	0
Discontinued operations		0	0	0	0
Net income (normalised)		(513)	2,633	(16,605)	(7,540)
Net income (reported)		(4,019)	(12,093)	(19,905)	(7,540)
Average Number of Shares Outstanding (m)		36	36	61	61
EPS - normalised (p)		(1.4)	7.4	(27.4)	(12.5)
EPS - normalised fully diluted (p)		(1.4)	7.4	(27.4)	(12.5)
EPS - basic reported (p)		(11.3)	(34.0)	(32.9)	(12.5)
Dividend per share (p)		0.0	0.0	0.0	0.0
Revenue growth (%)		-	85.7	109.7	212.3
EBITDA Margin (%)		21.1	39.5	-96.2	-24.4
Normalised Operating Margin		14.9	28.7	-108.0	-30.4
BALANCE SHEET					
Fixed Assets		3,601	3,672	3,895	4,300
Intangible Assets		3,556	3,654	3,887	4,023
Tangible Assets		45	18	8	277
Investments & other		0	0	0	0
Current Assets		5,972	3,704	24,037	8,532
Stocks		0	0	0	0
Debtors		3,709	530	1,198	3,532
Cash & cash equivalents		2,263	3,174	22,839	5,000
Other		0	0	0	0
Current Liabilities		(7,316)	(5,454)	(4,891)	(6,516)
Creditors		(5,937)	(4,215)	(3,674)	(5,299)
Tax and social security		0	0	0	0
Short term borrowings		(1,379)	(1,217)	(1,217)	(1,217)
Other		0	(22)	0	0
Long Term Liabilities		(11,256)	(11,610)	(11,256)	(2,044)
Long term borrowings		(11,256)	(11,256)	(11,256)	(2,044)
Other long term liabilities		0	(354)	0	0
Net Assets		(8,999)	(9,688)	11,786	4,273
Minority interests		0	0	0	0
Shareholders' equity		(8,999)	(9,688)	11,786	4,273
CASH FLOW					
Op Cash Flow before WC and tax		2,896	5,353	(14,423)	(7,808)
Working capital		(42)	415	(1,208)	(682)
Exceptional & other		(3,506)	(1,436)	(2,900)	0
Tax		(1,486)	(22)	(605)	1,885
Net operating cash flow		(2,138)	4,310	(19,137)	(6,605)
Capex		(1,623)	(1,538)	(2,000)	(2,320)
Acquisitions/disposals		0	0	0	0
Net interest		(937)	(1,393)	(1,099)	298
Equity financing		0	0	42,255	0
Dividends		0	0	0	0
Other		1,516	0	0	0
Net Cash Flow		(3,182)	1,379	20,019	(8,627)
Opening net (cash)/debt		6,747	10,372	9,299	(10,330)
FX		(30)	0	0	0
Other non-cash movements		(413)	(307)	(390)	0
Closing net (cash)/debt		10,372	9,299	(10,330)	(1,703)

Source: Company accounts, Edison Investment Research

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