

OnTheMarket PLC

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Three property portals the golden scenario for website group OnTheMarket

Searching for a new property to buy or rent used to mean traipsing around all your local estate agents and collecting bundles of listing details to pour over back at home.

But with the onward march of the internet, potential buyers can now do all that searching from the comfort of their armchair, surfing property portals which do much of the hard work for them.

Many of those search portals were initially backed by groups of estate agents which provided the essential listings content and fee revenues in their formative years.

READ: OnTheMarket says listing agreements now signed with over 8,500 estate agents' offices

In the noughties, there were around 6 or 7 of them in the UK, but over the last five years or so, that number had been whittled down to just two giants - Rightmove PLC (LON:RMV) and Zoopla, owned by ZPG PLC (LON:ZPG).

But there is now a third player, albeit much smaller but growing quickly, providing property buyers with more choice and, as importantly, cutting the costs for the estate and lettings agents which are under pressure from weaker house prices, falling transaction numbers, and tougher regulation.

OnTheMarket PLC (LON:OTMP) is the parent company of Agents' Mutual Limited which was itself launched in 2013 as a mutual company, backed by estate agents who were sick of paying the ever increasing costs charged by the portal duopoly to access their services. The OnTheMarket.com portal launched in January 2015 and OnTheMarket PLC floated on the London Stock Exchange's AIM in February this year.

The challenger company was formed by a group of leading estate agents, including Savills, Knight Frank, Strutt & Parker, Chestertons, Douglas & Gordon and Glentree Estates, and four founding managers from one of the original property portals, PrimeLocation.com, which in 2006 was sold to Daily Mail & General Trust PLC (LON:DMGT) and merged by that business into Zoopla in 2012 to create the current giant.

Yearning for another competitor

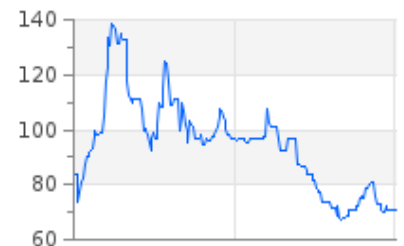
Ian Springett, OnTheMarket's chief executive officer, was one of the quartet approached to set up the new portal and he could instantly see the issues that made estate agents, frustrated by both Rightmove and Zoopla, and yearn for another competitor in the market.

With around 90% of property buyers now using a portal to search for a home, estate agents very much have to rely on them to provide their leads, new business, and an online profile.

Price: 71

Market Cap: £49.47 m

1 Year Share Price Graph



January 2019 June 2019 January 2020

Share Information

Code: OTMP

Listing: LSE

52 week High Low
140.88 60

Sector: Real Estate

Website: www.onthemarket.com

Company Synopsis:

Launched in January 2015, OnTheMarket.com is the simple way to search for property. We aim to provide all potential buyers, sellers, landlords and tenants with an exceptional property search service.

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However, with just two big players, Springett says, the estate agents had no bargaining power and OnTheMarket's growth has given them more leverage in their dealings with the big incumbents.

Whilst the seeds of the new group were sown in 2013, the venture gained momentum early in 2014 when hundreds more estate agent firms joined the founders to create a group with over 1,800 branches which contracted to pay listing fees to the new start-up for five years and to provide over £5m in loan capital.

By the time of the launch of OnTheMarket.com in 2015, a total of 4,600 branches had signed up to be members of Agents' Mutual and provided another £4m in loan capital to help the business grow.

'One other portal' listing rule

A key condition of contracting with Agents Mutual was that estate agents could only list property on one other portal - which meant either Rightmove or Zoopla.

The aim was to disrupt the powerful duopoly which existed by creating a position where some switching by their agent customers took place and where consumers could not necessarily access all the properties on the market via one portal.

In the event, most agents chose to retain Rightmove as their 'one other portal' and Zoopla lost thousands of customers, prompting it to compete more vigorously with its new upstart rival.

During 2016, the 'one other portal' rule was challenged in a legal case between Agents' Mutual and a subsidiary of estate agency chain Connells which - along with Zoopla - funded the litigation. Whilst Agents' Mutual won a ruling in its favour in July 2017, the diversion of resources inevitably impacted business momentum.

Against a background of intense portal rivalry and with limited financial resources Springett said: "The collective act of faith which would have been required by many more agents to enable OnTheMarket to go all the way as a mutual was not forthcoming."

In the summer of 2017, the decision was made to change strategy and list the business on the stock market to provide funds to grow it more rapidly.

OnTheMarket floated on AIM in February 2018 at a price of 165p per share, which valued the firm at £100m, having raised £30m in a placing, leaving the founding estate agents with a 70% holding in the group.

READ: OnTheMarket takes on Rightmove and Zoopla as it makes London trading debut

The stock dipped back on its first day of trading but has recovered strongly to trade at around 180p currently as early positive news flow has prompted buying within a relatively illiquid market.

The placing cash has helped drive the business forward quickly, with the group recently revealing that its listing agreements now cover 7,500 agent branches, with more than 2,000 branches added in the three months since flotation.

Along the way, the company also announced that since its AIM admission it has more than doubled its field sales team from 15 to 32 people.

The group said traffic to the OnTheMarket website reached around 12m visits in March, more than double the visits compared with February 2018 and with March 2017.

In April 2018, traffic to the portal increased further to reach 13.7m, up from 5.5m visits in April 2017.

Three portal market scenario

Although that is strong growth, it of course, represents a small fraction of the traffic to both Rightmove and Zoopla's sites, however, OnTheMarket is looking to push its market share up to around 45%, with Springett seeking to establish a three portal market scenario.

He says this will push competition in the market and while the overall cake will shrink - albeit offset by ad spend shifting further online - the prospects to grow in value will be strong.

He sees that scenario bringing "the opportunity for very strong returns for investors".

The CEO pointed out that OnTheMarket's year-end financials for January 2018 are unlikely to be of much significance. Going forward, the monies raised from the flotation will supplement existing contracted revenues to fund the growth strategy over the next two years.

'All you can eat' fees

The group is focused on increasing its share of agents and listings market by market. Springett believes the "tipping point" is when 75% of all property listings in each locality are on the OnTheMarket portal.

"At that point, there is every reason for the remaining agents to join us," he says.

Like its competitors, the group's revenue model is based on 'all you can eat' monthly fees per branch for listings.

Springett said the pricing level for ARPA (average revenue per agent) in three years' time is estimated at around £3,600 per office per year, giving listing revenue of around £60mIn-£70mIn.

In addition, the CEO expects extra revenue streams from providing additional products and services to estate agents and expanding the range of advertising partners to include new homes developers and non-property businesses.

The sustainable break-even point, he added, would be around £40mIn, representing 10,000 agent branches, but noted that the business is hugely leveraged for profit margin - with Rightmove's currently at around 75%.

OnTheMarket's boss pointed out that these massive margins have driven the estate agent's resentment of Rightmove against a background of squeezed margins, less sales, flat prices and the rise of hybrid players such as Purplebricks Group PLC (LON:PURP).

ZPG takeover risks

Springett does not think the three portal scenario will be much affected by the recent £2.2bn agreed takeover bid for ZPG from US private equity firm Silverlake, with only 30% of its business from the property portal following its diversification after the likes of the USwitch price comparison site acquisition.

The OnTheMarket boss said Zoopla was already very aggressive on pricing, especially to avoid attrition, but did acknowledge that the ZPG takeover could enable it to invest more heavily in marketing and technology.

He pointed out that the great majority of estate agents which hold shares in OnTheMarket are locked in for five years and although the stock is quite illiquid, given the big overhang, the float bought a good portfolio of other holders, with fund manager Schroders the biggest, plus a variety of other funds and a number of high net worth individuals.

Springett noted that OnTheMarket has around 60.5mIn shares in issue currently and has the authorisation to issue another 36mIn shares to agents in return for paying contracts.

Share incentivisation

He pointed out that neither ZPG or Rightmove have any material agent shareholders, giving OnTheMarket an advantage in incentivising national, regional and local property market leaders to get on board and reap the rewards of portal ownership as they contribute value to it with their listings and fees.

The CEO said his board believes this move to use shares to buy business will enable OnTheMarket to create a massive core of committed agent support from 10,000 of the leading agency branches, with three deals already done with large agent groups.

The shares are exchanged for long-term listing contracts, with the share value issued materially less than the value to be generated by the deals, he added.

Springett concluded that all of this provides strategic value for the company and its investors, securing listing revenues and providing a base to push for additional discretionary revenue opportunities.

The OnTheMarket boss certainly has big ideas for his business just a few months on from taking the plunge with a stock market listing and investors could be in for a ride as heady as that the UK property market has seen over the past few decades.

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