HD **REA Group Ltd Investor Briefing - Final**

WC 9,937 words

PD 1 July 2014

SN CQ FD Disclosure

SC FNDW

LA English

LP

Presentation

OPERATOR: Thank you for standing by. The conference will get started in just a few moments time. Thank you for your patience. Please stand by.

TD

Thank you for standing by and welcome to the REA Group investor briefing. At this time all participants are in a listen only mode. There will be a presentation, followed by a question and answer session. (Operator instructions).

I must advise you that this conference is being recorded today, July 2014. I would now like to hand the conference over to your speaker today, Pete Tonagh , interim CEO. Please go ahead.

PETER TONAGH , INTERIM CEO, REA GROUP LIMITED : Good morning everyone and welcome to today's investor briefing. I'm joined today here by Paul Burrows , who is the Group Financial Controller at REA and I'd also like to pass on the apologies from our Chairman, Hamish McLennan , who unfortunately is on vacation and couldn't join us today.

Our purpose today is to clarify some of the elements of our business strategy, as it relates to agents in the Australian market and to respond to some of the comments which have recently been reported in the media. We've got a presentation for this discussion, which is available on our website and also available on the ASX website. I'll run through that. I think if you don't have the presentation in front of you, hopefully it won't matter. I'll try and describe it as best I can.

My anticipation is that it will probably take around 15 minutes to run through the presentation and then we'll provide an opportunity to ask questions. I would note that, although it's a start of a new financial year, we won't be talking about results. There will be no price sensitive information that's communicated during this briefing and it's not a results call. We will only be responding to questions which relate to the details outlined in this presentation, whereas later on, in August, we'll have a separate briefing to talk about the financial results for the year just past.

For everyone who has the presentation, I'll move onto the first part of the presentation. I think the important thing we want to convey here is that our strategy for 2015 in relation to agents remains completely unchanged. We've got a very clear vision. Our purpose is to empower people by making properties simple, efficient and stress-free. That continues. It's been approved by the Board and will be our strategy for the foreseeable future. I think the important thing about that is that we believe that there is great opportunity to deliver on this purpose. We do that in a couple of ways.

We do that first of all through stimulating the market by providing consumers with the digital tools and the information that will assist them throughout the property process and providing them with the capability to connect with agents when they're ready to transact. We do these things really because, in our view, they're critical to delivering the service that we deliver to our customers, who are the real estate agents. We provide our agents access to a large and engaged audience of property seekers and movers, by creating products which increase the amount of interest in property.

We assist agents in generating leads and enquiries and we work with agents to create tools and services required to build brand profile and renew listings. But the most important point I'd like to make today is that despite commentary in the media questioning our commitment to agents, there has been no change in our position. Real estate agents are critical to the property process and critical to our strategy and they always have been and they always will be and any commentary that counters that in the media is simply false. I would like to correct it.

We fully support the role that agents play in the property process. That's why we're so committed to them and that's why all of our business revolves around them. Our plans for 2015 financial year include a greater emphasis on the partnership we have with agents and we look forward to sharing some of the detail, as I go through this presentation. We've got a fantastic leadership team who have all committed to the ongoing growth and success of the business. Hopefully you'll see, as we run through this, that REA remains very well positioned to deliver on our business mission and we remain very well positioned because we have a commitment to agents.

I'll now turn to the following slide. I think the current media commentary really needs to be considered on balance. There are a lot of personal opinions of individuals and a lot of commercial agendas that are being spun, that needs to be measured alongside the facts. I think the facts are very simple. There's no move to change our strategic directions and any suggestion that we're trying to disintermediate agents are simply not true.

Our strategic objectives have never included taking an active role in the property transaction process and we've openly stated that we're not seeking to take a percentage of agent commission. Agents are critical to the property process and they remain core to our strategy. We believe we deliver exceptional value to agents through the products and the sources that we provide. We provide great measurement tools to enable agents to clearly evaluate the ROI across both digital and traditional media. We will continue to work with agents to ensure the maximum return on investment.

Clearly, we are the clear market leader and I think being a market leader brings with it some obligations and it brings with it the criticisms that every now and then we'll encounter. We don't apologise for being the clear market leader. By being the clear market leader we're able to deliver more traffic, more leads, more buyers to agents, to enable them to sell the properties of their vendors and to build their agent profiles.

We've got more than three times the site visits of our closest competitor and that drives the brand exposure and the increased level of enquiry. We support the long-term health and growth of the industry and we support our agents. Finally, I'd say that it's very important to note that we welcome competition. We think it keeps us sharper. It keeps us focussed on our goals and it means that we work harder to ensure that we deliver both the leads that are important to agents and also to improve our agent relationships.

One thing I think is very important to note, which is highlighted on this slide, is the facts around digital media. Clearly more and more buyers are using digital as the main way in which they identify properties that they're interested in purchasing. Some recent research that we have would say that 85% of buyers use digital as their primary purpose or primary way of accessing property. Yet the revenue in the marketing split in the real estate industry is more like a quarter to a third of the money spent on digital. That's why we believe that digital still represents terrific value and continues to represent value in the property buying process.

I'll turn now to the following page and I wanted to give a little bit of background on our market based pricing model. I think there is a couple of important points to note on market based pricing. I think first of all, a lot of the commentary that you will have seen in the media focuses on our most premium product. We make no apologies for the fact that we have some fantastically rich products. But we also think it's important to note that we have a full range of products. We have products which are much, much cheaper, right through to products which are very expensive, just as anyone who advertises in a newspaper will pay more if they take a double page spread and take much less if they take a very small ad. In a similar way, what we offer to agents and to their customers is a full range of product offerings.

The other point I'd note is that prior to the change that we'd made -- so someone taking our depth products, they paid about the same amount in selling a AUD400,000 property as they paid if they were selling a AUD1.4 million property. As a result of that, many of the people who were taking AUD1.4 million property would take our absolute premium product and very few, if any, who were selling a AUD400,000 product could afford to take our premium product.

Our view is that, like any product that's sold, we need to adjust to the supply and demand of that product. Hence we launched our market based pricing model. It takes effect from 1 July 2014. It better aligns the pricing to local market conditions and to supply and demand and it reflects the premium value that's delivered by premium product. We're very transparent in that value. We're very transparent in the additional leads that are generated through the premium products and we're also very transparent in the ROI that we think that delivers.

The new model does see some prices remain the same. It sees some that increase and it sees some that decrease. But again, I'd emphasise there is a full range of products that are available to agents and to their vendors. But for people who don't want to pay for the premium product, there are plenty of products which are much cheaper and available to all. Our view is that the agents are the experts in their local markets and it's the agents that decide what's right for their vendors and what's right for their brand.

I'll just turn now to page five. I want to emphasise that realestate.com.au is the clear market leader and our lead is increasing. There has been a bit of noise in the market about measurement bases. We continue to use the IAB Australia-approved Nielsen audience measurement system. We believe that this is the right audience measurement system to use for a digital product and it's the most commonly accepted measure of digital success.

Under virtually any measure that you look, it's very clear that we deliver greater value in terms of audience than our competitors. You can see from this chart, we have increased our audience significantly. The reason we increased our audience is not by chance. We've increased our audience because we make very significant investments in our products. We spend over AUD45 million a year enhancing our products to make sure that they're attractive to consumers and therefore attractive to vendors.

Equally, we've invested very heavily in media and we continue to invest in advertising and driving traffic to our sites, including a number of partnerships. We have partnerships, such as the partnership in China with soufun, to drive interest from Chinese buyers. We have our partners with Yahoo . We have partnerships with Microsoft MSN -- sorry, with MSN and finally, we have a recently announced partnership, the one we announced yesterday, with APN, which makes us the exclusive online partner for their publications in Northern New South Wales and South East Queensland. All of these partnerships involve us spending money, in order to make sure we generate the maximum traffic possible, so that we deliver the leads to our agents.

If I flick now to the following page, I've just got a few more facts around the metrics. The first point here is on the right-hand side of the page. You see the visits to M-sites. I think it's a universally acknowledged fact in digital products that more and more traffic is moving from traditional desktops and laptops to mobile sites and Apple applications.

You'll see, just from the chart here, how quickly the number of visits to our M-sites have grown. Similar [value] is true with our tablet apps, even though they're not captured by Nielsen. We've had over 3.2 million of our realestate.com customers download IOS and Android apps. We are 3.3 times bigger than our nearest competitor, based on traffic to our main and mobile sites. That's based on the Nielsen market intelligence data.

We own 99.9% of all suburbs based on share of searches within New South Wales, Victoria and Queensland, based on the Experian Hitwise data. Almost 70% of our monthly audience don't visit domain.com.au and finally, we're the number one digital property advertising business and we accounted for 84% share of total time spent on property portals. We are clearly the market leader.

On the following page, page seven, I just wanted to touch a little on some of the feedback that we've had over the last few years from agents and we do, despite the media commentary, engage heavily with agents to understand their concern. One of the concerns that we had from agents is that agents say that we expect them to do more and more in terms of providing content around their agency profiles and their sales results into our business. This is very important to us because it's very important to the consumer experience. There are two-thirds of our potential vendors in our research say the most stressful and difficult part of selling their house is finding the right agent.

Our view is we need to help them to overcome that and that means the investment in new products like agent profiles, enables agents to build and promote their brands, to attract potential vendors. We've developed this product based on consumer and customer feedback. But for it to work effectively, we need the agents to be contributing the data and the content that's required, in order to make it most effective. In order to encourage that, we've introduced a new services agreement, which recognises how important this is and rewards the agents for providing that content, to enhance the experience on our side. Agents who sign up to this program and fulfil the content requirements will receive an appropriate payment to reward them for that effort.

I'll just turn now to the final page, page eight, just to summarise. We are hearing a lot of information in the media at the moment. We think it's important for us to correct. It's important for us to correct because it's misinformation. We welcome the competition and we always welcome competition and we do believe that it makes us sharper. But we don't welcome misinformation. We think it's very important that we emphasise that we deliver a market leading world-class experience to consumers. We do that through our world-leading, award winning sites and apps, which drive more audience and more enquiry.

We deliver it through products like our neighbourhood suburb profiles, which showcase local areas and attracts more buyers and we do it through a full range of products and content across buying, selling, investing, renting, sharing, a whole range of things which are important to property purchases. We also -- and this is probably the most important point we'd like to make -- is that we continue to support the real estate industry and we continue to have agents at the core of our strategy. We have no intentions to disintermediate the agent. Rather than just look at what we say about that, we also encourage agents to look at what we do. We are one of the few digital real estate sites that only accepts listings from licensed real estate agents. While others take listings direct, we insist that they go through a licensed real estate agent, because we respect and value the role that an agent plays in our business.

We offer agent branding and profiling tools. We reward agents for agency related content. We invest very significantly in marketing events, in sponsorships, in an agent education. We invest significantly in our partnerships to maximise quality leads and our new partnership with APN is just the most recent of those. We deliver access to a growing number of Chinese buyers, very significant buyers in the Australian market, through our investment in myfun.com and through our partnership with soufun.com.

So, if I can -- just to summarise, we welcome the competition. We think it keeps us sharp. We do want to correct though the misinformation in the market. Agents are very, very core to our strategy. They always have been and they always will be. We need to earn their business. We think we deliver the products and we think we deliver the leads through our marketing, which attracts customers to the properties that agents are selling and that's our value proposition. We'll continue to focus on that and we'll continue to demonstrate that a position with REA will deliver a better outcome for vendors via the agents that they list their properties with.

So I think at that point I might open for questions.

Questions and Answers

OPERATOR: Thank you. (Operator Instructions) The first question today comes from David Cann from Merrill Lynch . Please go ahead.

DAVID CANN, ANALYST, MERRILL LYNCH : Thanks Peter. Can you perhaps talk us through the process you use to set pricing for each area? Is it really as -- potentially, as simple as high demand for premier and highlight is a signal that prices should be adjusted and if that's the case, how do you then gauge how big an increase is appropriate for each area?

PETER TONAGH : I think it's like any price setting of any product. It is based on supply and demand. I think there has been a lot of comparisons that we've seen drawn of, for example, one I saw, I think was Toorak versus Double Bay and the fact that the median house prices are the same in those suburbs. The reality is median house prices is a major driver of supply and demand because clearly, if you're selling an AUD4 million house, you're going to have a bigger media spend. So you are more likely to take our premium products. Whereas, if you are selling a AUD400,000 house you are unlikely to have as big a media spend and so you are unlikely to spend money on the premium products.

So that is important. But it's more than just that. If you look at the supply and demand, supply and demand is based on not just the value of the property, it's based on competitive intensity in the market. It's based on other available ways to advertise the product. So all of those factors come together to create really what is in effect supply and demand. In terms of setting the prices, I think, like everything, price setting is a combination of science and a combination of art.

What we've done is we've done our best to create the -- I guess, you'd call it formula -- but the formulas is to determine what we think is appropriate for the particular suburb. Clearly suburb is not the perfect metric, but it's a very easy way of categorising, because it's the one thing that is crystal clear and you -- it's -- whatever we come up with has to be simple enough that it can be applied effectively and not create too much confusion.

DAVID CANN: Okay. Perhaps another way -- sort of a similar way of looking at it, I guess. When you look at take up of premier ads that's been particularly high in some Melbourne suburbs versus other areas, does it -- from my perspective, one of the big selling points on that product was that you are at the top of the search results. If you're selling a high proportion of ads in a suburb all in that top category, does that devalue the product in some way?

PETER TONAGH : I think that goes back to the point I was making around we offer a full range of products and actually, if I use the print analogy, basically the reason that people take double page spreads if they want to sell a property is they want their property to stand out. The people who aren't taking double page spreads would typically take an ad that would be later in the book. It would be a smaller ad potentially, maybe not in colour, maybe not with the fancy borders, etc.

Really, our product is no different. If everybody is taking the premium product then, from our perspective, we think there is a supply demand imbalance. The premier product doesn't have the same impact if everybody is taking it. So therefore, if no one is taking it, we think the price must be too high. If everyone is taking it, the price must be too low.

DAVID CANN: Do you have a view internally about what the right balance is? What proportion of ads should be in each category?

PETER TONAGH : No, I don't think we have a firm view on that.

DAVID CANN: Okay, thank you.

OPERATOR: Thank you. The next question comes from Jacqueline Thai from Goldman Sachs . Please go ahead.

JACQUELINE THAI, ANALYST, GOLDMAN SACHS : Hi Peter. Thanks for your time this morning, three questions. In terms of the percentage of listings that have a depth product attached, would you be able to give us a rough guide on that? Also, what percentage of real estate advertising do you think is still in print? The third question is basically the introduction of this new pricing model is a bit earlier than what we had expected. We were wondering what drove the decision to launch this new pricing model now, at the start of FY15 and what the next -- what are the next steps in the implementation strategy of dynamic pricing.

PETER TONAGH : Thanks Jacqueline. Sorry, I missed your second question. Could you just repeat that?

JACQUELINE THAI: Yes, so the second question is -- what percentage of real estate advertising is still in print? So basically the split between online and print according to REA.

PETER TONAGH : Okay, let me start with the first question first. Clearly there's a lot of discussion -- a lot of questions we often get on penetration. We don't reveal that number and so I won't answer that question. So sorry about that.

On the second one, my understanding and I will stand corrected, but I'm pretty sure this is right, is about 50% based on Frost & Sullivan data of the marketing advertising goes into print. Now I should say that that's of the pool that Frost & Sullivan measure and so I don't think Frost & Sullivan necessarily capture things like sign boards and brochures printed by agents. But of the traditional paid media, I believe around 50% is in print.

Then the third thing is, in terms of timing of introduction, I can't comment on whether it's earlier than what was expected. It's certainly in line with the REA plans. As you probably know, I've only been involved with realestate.com.au for about eight or nine months. It was certainly on the agenda when I took my role on the Board and so it's been in the planning process for many years and it's certainly been in the plan to launch it on 1 July this year for as long as I've been associated with the Company.

JACQUELINE THAI: Peter just on that, just a follow up, so I understand you can't give us exact percentage of penetration levels, but in previous times management has commented that the depth or penetration is quite low. Would you still say it's very low?

PETER TONAGH : Again, I don't think I can comment on that. I think we should leave that and we'll consider whether we can include that in the full year results discussion.

JACQUELINE THAI: Okay, sure. Thanks.

PETER TONAGH : Thanks.

OPERATOR: Thank you. The next question comes from [Encho Wilkovski] from Deutsche Bank . Please go ahead.

ENCHO WILKOVSKI, ANALYST, DEUTSCHE BANK : Good morning Peter. My question is just regarding some specific market commentary around a number of the agents having engaged a media buyer to negotiate on their behalf. I mean I just wanted to check what your response was to that, whether you're willing to engage with that media buyer or whether you would still look to negotiate directly with the agents. Actually, if I can just throw in a second follow up, obviously there's the new CEO starting in September when Tracey comes in, but I just wanted to check, has she been involved in the formulation of the strategy or is it given that she's not on board yet, this is at this stage independent of her input?

PETER TONAGH : Yes, thanks Encho. Let me comment on each of those in turn. In terms of the media buying approach, to be honest, I think it's too early for us to comment. I would say that we've traditionally had the practice that we only sell our advertising to licensed real estate agents; it's a very important part of our strategy to support agents. So this is, I guess, a new concept to us. We don't understand enough yet about this unusually formed real estate marketing buying agency. We've had our first communication from them only a day or so ago and we don't yet fully understand the ownership of that business, the mandate that it has, who it's acting for or what it actually wants from us. So I think until we have greater clarity on that, all we can do is respond to the specific communications we have with them.

ENCHO WILKOVSKI: Sorry to kind of harp on this point, but is this -- are you finding that a large proportion of the agents that you deal with have engaged that media buyer or are you still seeing direct communications with a lot of the agents that you deal with on a daily basis?

PETER TONAGH : We aren't aware of who's engaged and who hasn't engaged with that media buying agency. I have seen some communication that says that the level of engagement may not be as high as what's being portrayed, but I'm not aware of the facts on that.

In terms of your second question around Tracey, clearly this is a strategy that's been in place for a long time. It's a strategy that was fully endorsed by the Board while Greg was still the CEO of the business. So nothing's changed in that and I think we were very clear when Greg left the business that we didn't intend to change our strategy. What we have done, I think, is to focus a lot more on the balance between a consumer focus to drive leads, et cetera and a customer focus, as we call it, to respect the important role that agents play in the business. The agent focus has always been there and will always be there and, as I mentioned before, it's evidenced in the fact that we don't take listings from anyone but licensed real estate agents.

Tracey, obviously, as she went through the interview process, was exposed to the strategy of the business and where we're heading and the fact that we're not looking for a CEO to come in and to change the direction of the Company; we want to continue the great momentum that we've got. So obviously she's not yet an employee of the Company, so she doesn't know the details of the strategy, but she's obviously staying very close to how the business is evolving.

ENCHO WILKOVSKI: Okay, thanks.

OPERATOR: Thank you. The next question comes from Daniel Blair from CIMB Securities. Please go ahead.

DANIEL BLAIR, ANALYST, CIMB SECURITIES: Hi Peter, hi Paul. Thanks for this. Look firstly, just on the strategy, how should we think about the sort of AUD7 billion or AUD8 billion opportunity that Greg talked about, half of which was from targeting agent commission, Paul, as you said, to make the purchase process easier?

Secondly, just on mobile search, you talked about that, Peter, just want to understand what proportion of searches are from mobile devices, including tablets. Related to that, how do you enforce the depth proposition under mobile searches, where to me it appears that one listing looks much like the other, particularly under the map view.

Then lastly, just on the price increases, if we just take the Toorak example that you gave, Peter, I think your premier product's gone from 2000 to 8000. How should we -- obviously if the market is vendor paid advertising, there's probably not a massive risk there for agents, but have you done any research to look at how agent, excuse me, how the vendors think about the price increase and whether [100% DPA] is still a likely outcome or whether they might start to question that value proposition? Thanks guys.

PETER TONAGH : So if I can start, I think, with the view on the market size, I'm not sure what you're referring to in terms of Greg talking about taking agent commissions. I'm not aware of any time in REA's history where we've had a view that our role is to eat into the agency commissions. I know Greg has talked about a larger market size, but when he talks about a large market size, certainly the exposure I've had has been a larger market size in terms of other opportunities in the property process. So rather than just the marketing of properties, there's obviously opportunities in terms of the financing of properties, the connection of utilities and some of the other elements. So I'm not aware of any communication around eating into agents' commissions. It's not part of our strategy. Also, my team here is saying that it was never said, so I don't believe it has been said.

In terms of, if I could jump to your last question, I think, around the research around take up rates of the product at higher prices, I think that's one thing that time will tell. I think we need to observe the market and see the take up rate of these products. As we mentioned earlier, there is a bit of an art to setting prices, as you would be aware. It's not a pure science. Our view is we put the prices that we believe are correct into the marketplace and we'll see how those products are taken up. I think that's the thing that ultimately tells you whether we've got the supply/demand balance right.

Sorry, I think there was one other question, Daniel, I'm just trying to--

DANIEL BLAIR: Yes, Peter, it was just on mobile search. Obviously it's growing, just wanted to understand the proportion of searches that were mobile, including tablet and how do you reinforce the value of depth listings on those devices, given particularly under the map view, one listing looks much the same as the other, so how do you differentiate?

PETER TONAGH : Yes, again, I think we're talking about data on proportionate searches, et cetera. I suggest we hold that off until the full year results announcement and we'll have some data around that then.

DANIEL BLAIR: Okay, but just on a strategy perspective, how do you reinforce the value of depth in mobile searches?

PETER TONAGH : I think as our products evolve, you'll basically see that evolving as well. We've spent a lot of time focused on mobile and how you do differentiate on mobile and equally on tablet apps, I think it's relatively clear. I think the point is, while we are seeing a proportion, an increasing proportion of traffic going to the mobile sites and to the tablet apps, the main site also continues to grow.

DANIEL BLAIR: Okay, thanks.

OPERATOR: Thank you. The next question comes from Justin Diddams from Citigroup . Please go ahead.

JUSTIN DIDDAMS , ANALYST, CITIGROUP : Morning Peter, just two questions from me. First, I just want to understand why the agents feel they're being ripped off by realestate.com because most of the vendors end up paying for the advertising, particularly in the largest market, Sydney and Melbourne, where most of the revenues are. So why do the agents feel like they're being ripped off by realestate? Certainly if I read Domain's letter to the agents stressing that realestate is gouging, I'm not clear. So what's realestate's view on why agents feel they're being ripped off?

PETER TONAGH : So do you want to give me a second question as well or do you want me to answer the first one first?

JUSTIN DIDDAMS : Well I'll give you the second question. The second question is -- when you joined the Board and you first started talking about dynamic pricing and moving from a subscription based model to a per listing type model, what was the justification given for moving from subscription to more of a listings based model? I've got my own views of that, but I'd be interested to understand why the business felt it was necessary to move from subscription to a per unit basis. So they're my two questions.

PETER TONAGH : Yes, so let me start with the first one. In terms of agents feeling ripped off, I think there's a couple of angles to that. I think one of them is there's a lot of noise in the marketplace. Some of that noise is misinformation, but there's enough noise there to say that agents are agitating about this. So I'm not pretending there's not a concern out there. I think to imply that agents shouldn't feel ripped off because the vendors are paying anyway, I think in some ways is frankly disrespectful to the agent. I think the agents want to deliver value for their customers and so therefore they're always going to be looking for lower marketing spend for their agents, sorry, for their vendors.

I think at the same time, you know, the traffic that we drive and the importance of digital to a customer buying -- a consumer buying a house has increased very, very significantly. Along with that increase has come an increase from us in spend on product and spend on marketing. So as a result our prices haven't being going up at CPI sort of levels. They've certainly been going up at higher levels than you would have seen in print, for example and so the percentage increases have been significant.

If you compare the cost of the different media, digital is still a very, very effective spend and it's very transparent in its effectiveness. We have ROA, ROI data that we deliver that shows the effectiveness of our spend. So I think there's a combination, to kind of cut it short, there's a combination of some noise in the marketplace, the fact that the percentage increases have been higher than you see in traditional products because the medium has been growing in importance and the amount of money that's being spent on it has been growing in importance. Then my final point is just one that I'd say I think you should always expect an agent, even if someone else was paying, to fight any sort of price increase because they're acting in the best interests of their vendors.

JUSTIN DIDDAMS : Just quickly on that, Peter, do you think it's fair to say that agents in the old subscription model, when they were charging their vendors a couple of thousand dollars for digital and then they were paying a monthly subscription to REA, do you think those agents were skimming a little clip off the top and now we're moving to this listing model where they're not able to keep a bit of margin there and they've got to pass on the cost to consumers? So do you think they're losing some of their commission or some of their implied commission there?

PETER TONAGH : Justin I'm not even going to answer that question. But thank you anyway.

JUSTIN DIDDAMS : Okay, well maybe we'll move on to question number two, if that's okay.

PETER TONAGH : I thought that actually was your point on question number two, the shift to -- away from subscriptions to direct listings. You said you had a view as to why it might be. I think from my perspective, I think this is a common feature that we're seeing in many digital products, is a shift away from a blanket subscription payment to a payment which better reflects the supply/demand balance. It allows, particularly for an agent, it allows the agents to decide what's right for their vendor at any particular point in time, so therefore allows the agent to take any one of our products and pay accordingly, for the agent to negotiate and agree with their vendors as to what's the appropriate product for them to take, with full transparency of costs.

JUSTIN DIDDAMS : But I guess for realestate.com. that's a structural hedge against the real estate industry seeing some consolidation and the number of offices declining and margins getting compressed, is that you get to be based on the number of listings rather than a per office model where if you're just charging a subscription, you might actually see some declines in future years.

PETER TONAGH : Well I think, again, it comes down to value and if we hadn't moved to a pure listing -- to a listings based model, which we think is the better model, then subscription prices would have gone up. So I think it just gives a greater level of transparency and a pure flow through of value.

JUSTIN DIDDAMS : Okay, well--

PETER TONAGH : Remember we do offer a full product range and so for customers who prefer to take just a straight subscription, they're able to take a straight subscription and to basically list all of their properties on a standard listing basis. They can take a flexi subscription in which case they can list all their properties and they can then take the different premium products. So there's a full range of products that we offer the market and we think, like all good customer focused companies, we should deliver a range of products for the customer to choose that which is most appropriate for them and for their customer.

JUSTIN DIDDAMS : That all sounds very sensible to me, so thanks for your time today guys.

PETER TONAGH : Thanks Justin.

OPERATOR: Thank you. The next question comes from Ivor Ries from Morgans Financial. Please go ahead.

IVOR RIES, ANALYST, MORGANS FINANCIAL: Yes, good morning Peter. Just a couple of questions about the mechanics of the price rise. We're hearing from a couple of small real estate agency chains that under the new deal if they want the cheaper contract prices, the significantly cheaper contract prices, the highlight and premier products, they're having to commit to guaranteeing minimum volumes of those ads to get the contract prices. I wonder whether that is a new innovation in the pricing structure and whether that's universal or just for some businesses.

The second question is also some of them say that they've been told that from FY16 there'll be no more tiers; they'll only bee a flexi subscription available from FY16 onwards. Those are my two questions.

PETER TONAGH : So let me start with the first one. Under our flexi subscription model there's a minimum of three depth products and so you're right, there are minimums, but it's a flexi subscription model with the intent that if you take a flexi subscription model, you will take our best products. I think a minimum of three, we think is a very reasonable ask to have of anybody.

IVOR RIES: So the volume guarantee, for any agency, is no more than three per month?

PETER TONAGH : That's my understanding, yes.

IVOR RIES: Yes and if they commit to more, do they get the contract rate on the volume they commit to?

PETER TONAGH : Yes, that's correct.

IVOR RIES: Also, on the second question, just the decision to abandon tiers from FY16 and move everyone to flexi?

PETER TONAGH : I'm not sure of that, to be honest. I'm not aware of a decision to abandon tiers.

IVOR RIES: Okay, well some of them have stated to me that they've been told that, that flexi will be the only product available from FY16. Be good if you could clarify that, maybe. Maybe someone could call me later.

PETER TONAGH : Sure.

IVOR RIES: Thank you.

PETER TONAGH : Thanks Ivor.

OPERATOR: Thank you. The next question comes from Roger Colman from CCZ Equities. Please go ahead.

ROGER COLMAN, ANALYST, CCZ EQUITIES: Peter, I've got a query on the pickup in the leadership position on total time on **site** to 84% over the last six months compared with the December release which had you around 3.5 times the nearest competitor, sorry, the rest of the market. What have you done in the last six months that's done that?

PETER TONAGH : There's a number of things. I think you've seen, as I've had in the chart here, you've seen the very significant growth in mobile and as mobile grows, we're pulling further away from the competitors. So mobile is an increasing proportion of the visits and we're getting an increasing share of that. So it's really -- part of it is reflective of that shift to mobile. Because we're getting a bigger share, we're getting a bigger share of the overall time.

ROGER COLMAN: There hasn't been a big change in marketing expenditure then?

PETER TONAGH : No, no.

ROGER COLMAN: Between those six months. Okay, that's the first question. The second question I've got is related to the listing depths revenues that you've got. Have you got a guess as to what percentage is paid for by vendors and how much is real **estate** agents chipping into it?

PETER TONAGH : So Roger, just before I answer that, if I can just go back to the 84%, there's -- I was going to continue, it's not just the mobile. Mobile is part of it. There's obviously other product innovations that we've introduced over the last six months or so. There is the **sold** prices, for example, which obviously stimulates demand--

ROGER COLMAN: Right.

PETER TONAGH : --which is one example.

ROGER COLMAN: Okay, so that's that one. Then just moving on to what's your guess at the **Group** for listing depth revenues paid by vendors as a percentage roughly?

PETER TONAGH : I really couldn't say.

ROGER COLMAN: Right and the third question I've got is to do with the agency buying **group** in, I think it's centred in Melbourne. I presume most of these are some of the **equity** holders in the Fairfax joint venture. Is that buying agency also approaching Domain on the same basis?

PETER TONAGH : We don't know yet. I think, as I said before, we've had only one communication from them so far and it was only a day or so ago and so we haven't had a detailed conversation with them.

ROGER COLMAN: Right, okay thank you. All the best Peter, ta.

PETER TONAGH : Great, thanks a lot Roger.

OPERATOR: Thank you. The next question comes from Samantha Carleton from Credit Suisse . Please go ahead.

SAMANTHA CARLETON, ANALYST, CREDIT SUISSE : Hi Peter, hi Paul, just two questions from me. First question, just around the percentage of agents that are building profiles on your **site**, just wondering if you can give us some commentary around how many agents are actually going ahead and building their profiles and if you have any metrics around those that build versus those that do not. Secondly, just a question around the partnership model with soufun, myfun, APN, et cetera. Just wondering the percentage of leads that are coming through those partnerships and also how the partnership model is structured i.e. if it's a revenue sharing agreement or how exactly that model is structured. Thanks.

PETER TONAGH : Thanks Samantha. In terms of agent profile, this is a relatively new product and so I think it's too early to form a view yet on how many agents will adopt it. It was developed in consultation with the agents and so it's a demand driven product, I guess you could call it. So we'd expect to have a good take up, but it's just too early days at this point.

In terms of the partnership model, clearly the partnership arrangements are commercially sensitive and so I won't go into them in terms of the way the economics work, except to say that clearly our view is that we want to maximise the number of leads that we deliver to agents. In order to maximise the leads, we've spent money to actually create these partnerships. From our perspective, we think those -- that money is well spent. It delivers traffic which we would not otherwise get and it's very much in keeping with our strategy, which is the best thing we can do to support agents is to deliver the biggest traffic possible.

Sorry just, if I just go back to the agent profile thing for one minute, clearly the agent profile product is new, but most people do have -- most agents do have agent profiles in our find an agent section of the website. So I think you'd find most, if not all of our customers would have presence in that particular section. But the new more enhanced product is still developing.

SAMANTHA CARLETON: Great, thanks Peter and just a third question if I may, just coming back to that total market question that was asked before and the ability to push into other opportunities such as financing and connection of utilities, et cetera, how does the **Company** think about that in terms of change of management? Will that be put on hold until the new CEO starts or does that discussion and thought process continue at this point?

PETER TONAGH : So I think the first point I'd make is that everything continues. The whole reason that I agreed to step into this role in the short term was to make sure that we maintain momentum in the business. We've got a clear waterproof strategy and I wanted to make sure that we didn't have a gap in the roll out of that. In terms of your question around financing, et cetera, I'd say let's wait for an update at the full year briefing on that. the only thing I would say on that is anything we do in that space that involves agents would be at the agent's election. So the agent will get to opt in if they want to participate in that and we'll update you further in the full year briefing.

SAMANTHA CARLETON: That's great, thanks Peter.

OPERATOR: Thank you. The next question comes from Andrew Levy from Macquarie Securities . Please go ahead.

ANDREW LEVY , ANALYST, MACQUARIE SECURITIES : Thanks, just two questions from me. The first one is I was wondering if you could just talk to the agent reaction and communication you've had since you put the price rises through and whether it's given you a sense that you've overreached on any of your pricing or that you still think the pricing approach is appropriate. The second question was if you could please give a little bit more detail just on how the rewards will work around agency related content and exactly how those incentives will be created and what kind of payments or rebates or otherwise the agents can receive and what kind of content they've got to give for that. Thank you.

PETER TONAGH : Sure, so in terms of agent reaction, it's clear there's been a strong agent reaction. Our view is that it's a reaction to take seriously, but we think -- I guess I'd make a couple of points. One is it's a reaction to essentially the growth in digital and the way in which digital is shaping business. I think the price increases we've put through have aggravated that view, but we don't see them as a the driver of the view. That's not to downplay the importance of working with the agents; we certainly see that as being very important. But we think that the reaction we're seeing is a combination of a long trend in the way in which advertising is shifting across media.

We also see there's a lot of market noise and a lot of misinformation. That misinformation clearly is leading to miscommunication and therefore I think unnecessary reaction in some cases. I'd also add the fact that the new model sees some prices remaining the same, some increasing and some decreasing. It is a strong reaction and we're determined to make sure that we work with agents to help them to understand and see a pathway through this.

In terms of the reward, the service agreement is pretty clearly around encouraging the agents to help to make the experience on our side a better experience for consumers through information they provide around their agency business. So we obviously feel quite strongly that the more complete our **site** is, the more accurate, the more up to date and the comprehensive the information on the agents is, the better the experience will be and so therefore for our customers who keep those details up to date and keep enhancing them we'll make a payment to them.

ANDREW LEVY : Thank you.

OPERATOR: Thank you, the next question comes from Sacha Krien from CLSA. Please go ahead.

SACHA KRIEN, ANALYST, CLSA: Hi Peter, the first question, I just wanted to clarify the impact of the market based pricing model. So you've said that some prices have gone up, some will stay the same and some will go down. Have you guys put a percentage out there in terms of what you think the price rise will be across the **board** if volumes were to remain the same?

PETER TONAGH : No we haven't.

SACHA KRIEN: Okay, but we could assume that they are going up (inaudible).

PETER TONAGH : On average -- yes, on average it's safe to assume that the prices are going up and I think that to my earlier point is reflective of the fact that we are seeing a big shift to the use of digital products as a way of investigating property and we are seeing continued very significant investment by us in products and in marketing and as a result we're seeing significant increase in the audiences.

SACHA KRIEN: Yep okay and I've just got a couple of questions also about the -- I guess the use of both digital and print in advertising campaigns at the moment. So is it fair to say that a lot of the suburbs where price increases are going up for your digital

ads -- those are larger than markets where print is still a fairly large part of the marketing budget and probably above that 50% number that you highlighted before?

PETER TONAGH : To be honest I'm not sure of the percentage splits in those areas because I think it's true to say I think that they're probably the suburbs where print is bigger, but I think that comes to my earlier point that if you're selling a AUD4 million home you have a significantly bigger marketing budget and so I don't -- I couldn't say for sure whether the percentage is higher with print. Certainly the absolute spend in total on marketing is higher and the total spend on print is also higher.

SACHA KRIEN: Yep okay and just in terms of the use of print at the moment, do you guys monitor, say in those suburbs, how many listings are using both print and digital and perhaps what the trend's been over the last couple of years and then just a final question on that, do you have any idea in say vendor market research what the tipping point might be at which vendors start to drop print from their marketing budgets?

PETER TONAGH : Oh I think -- obviously I have two hats I wear. I'm wearing my REA hat today. If I had my Newscorp hat on I would be saying that I think there's a -- that two media have complimentary functions and that clearly there's a role for each of them. Having said that it is very clear that the print market is declining and the digital market is increasing as consumers change their behaviours and move to the medium that they prefer.

SACHA KRIEN: Do you guys do any internal monitoring of the use of those five vendors at the moment?

PETER TONAGH : We may do but I don't have access to it today.

SACHA KRIEN: Yep okay. Thank you.

PETER TONAGH : Thanks.

OPERATOR: Thank you. The next question is a follow up from Jacqueline Thai from Goldman Sachs . Please go ahead.

JACQUELINE THAI: Hi, I just want to develop on the third question that I had before, in terms of the next steps in this dynamic pricing model. You're moving to average medium prices per suburb, are you also moving towards being able to change pricing on a month by month basis and then eventually to a day by day basis and if so, I just want to know what the trajectory is? Then another part of the question on the leads business I guess, I want to know what the progress so far has been and whether or not you're still expecting to see revenues come through in FY15, which was guided in the last results, thanks.

PETER TONAGH : So I think in terms of next steps, I think our view is that simplicity in the way in which we deliver our products is very important and to change prices day to day based on supply and demand is an interesting theory but I think from a fiscal perspective it would make life very hard for an agent to be able to effectively sell to your vendor a package when you didn't know how much it was going to cost. So we certainly don't see that in the foreseeable future. In terms of the lead generation exercise, we'll talk about that when we get to the full year results in August.

JACQUELINE THAI: Okay thanks.

OPERATOR: Thank you. The next question comes from Roger Colman from CCZ Equities. Please go ahead.

ROGER COLMAN: Peter, just one last question, looking at the two packages you're putting together, which essentially is the rate increases and your market share and total time onsite moving to 84% It's even higher, the rise is 81. Is this the last gasp for pricing for the Group now? Where are you going to get profit growth from in the medium term future then, if this is the best rate increases or highest you can put through over the next 12 to 18 months?

PETER TONAGH : I think again, that's probably more -- when we get to the full year results we'll give more of an overview of some of the initiatives that are underway. Clearly we have businesses outside of Australia that have good growth trajectories. We have alternate revenue streams within Australia that will see growth over time, but I think I'd hold off for a fuller briefing until the full year results.

ROGER COLMAN: Right, right but if I just come back on that, you're the **Board** -- you're a member of the **Board**, Tracey will be the CEO, but the last five years the **Company**'s missed all of Asia and all of North America development in real **estate**, while your motor vehicle car sales and Seek people have actually made hay in other territories. Has there been any **Board** change in attitude?

PETER TONAGH : I think as I said upfront, I want to just keep the questions to the details outlined in this presentation and we can address other issues at the full year results briefing.

ROGER COLMAN: Okay Peter, many thanks.

PETER TONAGH : Sorry Roger, good try but I'**m** going to cut you off sorry.

ROGER COLMAN: Thank you.

OPERATOR: Thank you. That does conclude our conference for today. Thank you for your participation. You may now disconnect your line.

CO rlesta : REA Group Limited | newsli : News Limited | nnewz : News Corp

IN i834 : Real Estate Agents/Brokers | icre : Real Estate/Construction | ireest : Real Estate

NS ntra : Transcripts | c32 : Advertising | c31 : Marketing/Markets | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | niwe : IWE Filter

RE usa : United States | melb : Melbourne | thail : Thailand | victor : Victoria (Australia) | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | austr : Australia | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | namz : North America | seasiaz : Southeast Asia

PUB CQ-Roll Call, Inc.

AN Document FNDW000020140704ea710002t