

WESTPEAK RESEARCH ASSOCIATION

Offerpad Solutions, Inc. – Target (NYSE:OPAD)

Opendoor Technologies, Inc. – Acquirer (NASDAQ:OPEN)

Real Estate – Property Technology (“PropTech”)

Hypothetical M&A: Opendoor acquiring Offerpad

December 7, 2021

As the largest player in the iBuying (“instant” buying) market, Opendoor benefits from strong residential real estate growth and its lead competitor, Zillow’s, failure. With the proposed acquisition of Offerpad, Opendoor benefits on key strengths and gains greater market data access, an expanded portfolio, and operational efficiencies across both established and new markets. Furthermore, an acquisition would convert a growing rival into a key asset and solidify Opendoor’s position as an iBuying leader.

Target Company Strategic Objectives

Offerpad’s current strategy consists of achieving further market penetration into its existing markets. This would be achieved by gaining a total market share of 3%-4%, up from 1%. Furthermore, Offerpad intends to expand into new markets across the U.S., starting with a California expansion in 2022, and continuing to build on innovative ancillary services, which include mortgage and title services, and bundle rewards.

Acquirer Company Strategic Objectives

Opendoor’s current strategy is to further establish its presence as a leading iBuying platform in the residential real estate market, building off strong financial results through Q3 2021. Opendoor seeks to further consolidate its market share, particularly through its three key areas of investment: expansion in existing markets, nationwide expansion at scale, and digital platform development.

Synergies

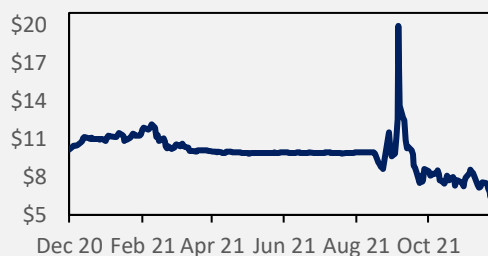
Key acquisition benefits include an expanded property portfolio and market data. Other benefits include operating efficiencies, built on a winning combination of past technology, recruitment, and marketing investments. Potential revenue upsides are real estate markets.

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Key Statistics – OfferPad

52 Week H/L	\$20.97/\$6.27
Market Capitalization	\$1.909B
Average Daily Trading Volume	\$3.57mm
Net Debt	\$634.4mm
Enterprise Value	\$2.26B
Net Debt/EBITDA	36.4x
Diluted Shares Outstanding	\$238.24mm
Dividend Yield	-

1-Year Price Performance



Key Statistics – Opendoor

52 Week H/L	\$39.24/\$13.44
Market Capitalization	\$9.618B
Average Daily Trading Volume	\$14.1mm
Net Debt	\$4.6B
Enterprise Value	\$13.19B
Net Debt/EBITDA	-
Diluted Shares Outstanding	\$604.64mm
Dividend Yield	-

1-Year Price Performance



Business Overview – Offerpad Solution Inc. (NYSE: OPAD)

Offerpad Solutions provides a data-driven platform that assists customers in buying and selling residential real estate properties. Offerpad has a simple process that allows homeowners to sell their homes quickly and easily. The company has a service fee between 6% and 10% and buys properties in Alabama, Arizona, Colorado, Florida, Georgia, Illinois, Indiana, Kansas, Missouri, Nevada, North Carolina, Ohio, South Carolina, and Texas. In Q3 2021, Offerpad acquired 2,753 properties and sold 1,673 properties.

LTM Financial Highlights

Since Q3 2020, Offerpad has seen significant growth in its financial performance. In the last twelve months, it has seen 190% growth in revenue to \$540.3mm, and a 169% increase in gross profit, to \$53.1mm. Furthermore, Offerpad has now achieved single quarter positive EBITDA, from -\$0.8mm in Q3 2020 to \$6.1mm in Q3 2021. With the recent release of its Q3 financials, Offerpad has updated its FY2021 projections. Its new FY2021 projections for revenue are \$1.85B-\$1.90B, up \$100mm from previous outlooks. Its projected adjusted EBITDA for FY2021 is now \$0mm-\$10mm, up from an outlook between -\$6mm and -\$15mm.

Offerpad's Real Estate Solutions Center

While fundamental real estate expertise is one half of Offerpad's value proposition, data-driven digital solutions run through its "Solutions Center" is the other half. The Solutions Center is a guided experience that is meant to provide sellers with more real estate solutions. It includes advanced home listing options that have free concierge services, free show-ready home services, advance funds for home improvement, and a back-up instant cash offer.

Business Overview – Opendoor Technologies Inc. (NASDAQ:OPEN)

Opendoor Technologies is a leader in the U.S. residential real estate iBuying market, with a focus on enabling homeowners to buy, sell, and move at the tap of a button. Opendoor accomplishes this by making an instant cash offer through its website and app platform, charging a 7% service fee (slightly above industry average). This timeliness and simplicity of service – supported by extremely robust market data, an increasingly diversified property portfolio, and strong presence across 41 U.S. markets – has made Opendoor an iBuying market leader. This was further accelerated with the departure of Opendoor's lead rival Zillow. Despite its youth, Opendoor has a considerable acquisition track record, with prior acquisitions including Open Listings, OS National, Pro.com, Skylight, and e-mortgage brokerage RedDoor.

Q3 2021 Financial Highlights

While previous quarters have also been strong, Opendoor recognized particularly impressive growth during Q3 2021. With revenues of \$2.3B (up 91% over Q2 2021) and \$35mm in adjusted EBITDA (up from \$26M in Q2 2021), Opendoor easily beat quarterly expectations. The company's customer base grew an average of 90% per quarter. Diving deeper into growth drivers, Opendoor more than doubled its markets from 21 to 44; during the same period, the company acquired 15,181 homes (up 79% over Q2 2021) and sold 5,988 homes (up 72% over Q2 2021). Opendoor further expanded on one of its key

strengths – real estate data analysis – with 100 new data sets. Finally, Opendoor’s inventory grew 130% over the quarter to 17,164 homes, which was worth \$6.3B,, representing a strong launchpad for the company’s further plans for diversification and growth.

Opendoor’s Past M&A Transactions & Strategic Acquisitions

Opendoor has built a strong acquisition track record since its 2014 inception, with several strategic M&A ventures over the past three years. In 2018, Opendoor acquired Open Listings (a similar iBuying platform) for an undisclosed amount, enabling Opendoor to incorporate purchase functionality into its platform and expand into several of Open Listings’ key markets. Opendoor followed its first acquisition with its purchase of OS National (OSN) in 2019, allowing Opendoor to adopt OSN (previously Opendoor’s title/escrow partner) as a wholly owned subsidiary. On September 7th, 2021, Opendoor acquired Pro.com, which is a tech-enabled general contractor, and Skylight, an integrated, technology-powered home renovation service, to boost its repair and upgrade capabilities in tandem with its growing inventory levels. Most recently, Opendoor acquired RedDoor, which is a digital-first mortgage brokerage, as an extension of its in-house Opendoor Home Loans service.

Opendoor’s Keys to Success

Opendoor has successfully leveraged its strong advantages in data technology and integrated digital services to effectively disrupt the iBuying market and avoid the pitfalls that have claimed rivals such as Zillow. By offering simplicity, certainty, and cost-effective methods for U.S. home sales and purchases, along with a raft of integrated features (e.g., mortgage, title, and escrow services), Opendoor dramatically simplifies residential real estate sales. Thanks to its strong fundamentals and past acquisitions to integrate its value chain, Opendoor is perfectly positioned to continue to capitalize on the COVID-19 impact (i.e., low interest rates, rising prices, and record housing demand). As Opendoor continues to expand its core service offering, it will continue to affect the U.S. real estate market, which has been relatively slow to adopt the data technologies that Opendoor has successfully built its value proposition on.

Industry Analysis

Offerpad and Opendoor are real estate companies focused on residential properties operating in a niche of the property technology (“proptech”) space: iBuying. iBuying is an emerging market with the aim of disrupting the current real estate market by reducing the number of selling transactions associated with the sale of a home. iBuying involves allowing individuals to sell their homes directly to an iBuyer who then takes on the responsibility of owning, marketing, and reselling the home. The process requires these iBuying companies to algorithmically estimate and set home prices. Homes purchased by iBuyers currently make up just 1% of the \$156B US residential real estate market.

Competitive Landscape

The residential real estate industry is highly competitive and fragmented with retail buyers/investors competing with institutional investors and iBuyers, generating over 5 million transactions per year. Average sales prices of homes in the US increased by over 11% in 2020 and are expected to grow by an additional 6% by the end of 2021. This has made it more difficult for those looking to buy and sell properties to achieve a good return on investment.

Currently, the iBuying space is comprised of 3 publicly held companies: Opendoor, RedfinNow and Offerpad. Opendoor is currently the biggest iBuyer with 4 times the number of transactions compared to its leading competitor, RedfinNow. This niche of the industry is an oligopoly largely due to the high barriers of entry for competitors. There is a need for significant amounts of cash to purchase and flip homes, as well as large stores of data for algorithms to parse through when determining home values. Additionally, the already competitive residential real estate market makes it even more difficult for companies to enter. Zillow was previously involved in the iBuying space but abandoned it due to its inability to accurately predict home values. However, other companies still in the industry claim that their proprietary data and more narrow focus on certain types of homes allows them to predict home values more accurately.

Accelerated Rate Hikes anticipated to Cool Down Industry Growth

Due to the pandemic, interest rates were reduced to 0.25%. This has increased demand for houses as individuals seek to lock in low mortgage rates. However, the US Federal Reserve is anticipated to raise interest rates more quickly than expected with two rate hikes expected in 2022. This is expected to decrease demand for houses significantly, leading to a cooldown in home prices.

Big Data driving Success

Given that proptech companies focus on using information technology to bolster their performance in the market, it comes as no surprise that more data and better algorithms is what is driving the success – or failure of companies in the space. This is evidenced by the failure of Zillow's iBuying segment which simply did not have enough data points to properly predict and price market values. This is contrasted with firms like Opendoor which collect additional qualitative data unavailable to its competitors through home inspections (e.g. countertop materials, open/closed concept rooms etc.) which have allowed them to become market leaders in the space. In general, the market for advanced and predictive data analytics software is growing steadily at a rate of almost 10% annually. All firms using technology are needing more detailed analysis as they collect additional datapoints on their consumers to have more efficient and effective algorithmic models.

iLending Services lend a hand to iBuying

iLending ("instant" Lending) is considered a strong counterpart to iBuying services. This space comprises of fully digital mortgage brokers which can approve homebuyers for a mortgage at any time and provide buyers with the ability to bid with all-cash offers. Notably, iBuying firms like Opendoor also provide iLending services through its 'Opendoor Home Loans' service and recent acquisition of RedDoor. This allows these iBuying companies to provide a synergistic experience for anyone interested in buying, selling, or trading in a home digitally. Given the significant cash pressures in iBuying, iLending is seen as a way for these firms to generate revenues on mortgages.

M&A Rationale

Strategic Objectives

In acquiring Offerpad, Opendoor would be acquiring the third largest company in the iBuying space. This would strengthen its position as the market leader and further distance themselves from any competition, including Redfin. Opendoor already operates in all 21 cities that Offerpad currently serves. Therefore, through this acquisition, Opendoor would be able to achieve deeper market penetration into key areas of overlap. The cities where Opendoor will see its market share increasing the most will be Las Vegas, Phoenix, Raleigh-Durham, Charlotte and Atlanta. Offerpad has its strongest markets in these areas, and they are considered the most popular markets for iBuyers. Therefore, Opendoor will stand to gain a significant increase in its market share in these cities.

Furthermore, Opendoor, which has recognized considerable growth in its property portfolio over the past quarter alone, would gain access to Offerpad's significant existing property portfolio across its 21 existing markets. Property portfolio expansion would directly serve two of Opendoor's primary investment objectives: 1) expansion in existing markets and 2) nationwide expansion at scale. Opendoor would be able to strengthen existing holdings with overlap (i.e., markets where Opendoor already has a strong presence) and enable easy entry into Offerpad's existing markets.

Knowledge Advantage

Offerpad was one of the latest proptech companies to go public via SPAC earlier this year, merging with Supernova Partners, led by Spencer Rascoff. Rascoff is a serial entrepreneur who co-founded hotwire, Zillow, Dot.LA, and Pascaso. He led Zillow as CEO for nearly a decade from 2006 to 2016. With the merging of the two companies, Rascoff has also acted as an advisor to Offerpads' management team. With Rascoff's extensive experience and inside information on Zillow, the knowledge advantage would be invaluable to OpenDoor upon acquisition of Offerpad.

Increased Data to improve Predictive Algorithms

One of Opendoor's major competitive advantages is its ability to leverage data to accurately predict home values. Machine learning algorithms are reliant on either large stores of data to pull from or strong algorithms. Currently, Offerpad offers its services in a greater number of locations than Opendoor, with some overlap on major cities. This acquisition would allow Opendoor to improve its general understanding of the housing market and factors contributing to market values. More importantly, it would allow the company to disrupt new real estate markets more easily within the US as it would have access to the data associated with homes under Offerpad. Overall, acquiring Offerpad would allow Opendoor to further strengthen its algorithms and increase its market share in the PropTech and even Residential real estate space.

Valuation

Since this industry is still early-stage, there were not precedent transactions for us to refer to. This is why we used comparable companies.

Comparable Companies

For comparable companies, we used the peer companies Zillow Group, Refin Corporation, Opendoor Inc, and Carvana Co.

Zillow Group, Inc: Zillow is a digital real estate company that operates real estate brands on mobile applications and websites in the United States. It operates through three segments: Homes; Internet, Media & Technology; and Mortgages. Zillow Group, Inc. was incorporated in 2004 and is headquartered in Seattle, Washington. After a public failure, Zillow recently shut down its iBuying operations.

Redfin Corporation: Redfin Corporation operates as a residential real estate brokerage company in the United States and Canada. The company operates an online real estate marketplace and provides real estate services, including assisting individuals in the purchase or sell of home. It also provides title and settlement services; originates and sells mortgages; and buys and sells homes. Redfin Corporation was incorporated in 2002 and is headquartered in Seattle, Washington.

Carvana Co: Carvana, together with its subsidiaries, operates an e-commerce platform for buying and selling used cars in the United States. Its platform allows customers to research and identify a vehicle; inspect it using company's 360-degree vehicle imaging technology; obtain financing and warranty coverage; purchase the vehicle; and schedule delivery or pick-up from their desktop or mobile devices. The company was founded in 2012 and is headquartered in Tempe, Arizona. We chose it given its similar to Offerpad's business model.

Comparable Company Analysis				
(Figures in mm USD)				
Company	Ticker	Enterprise Value	EV/REVENUE	
			2022E EV/Revenue	2023E EV/Revenue
Redfin	(NASDAQ: RDFN)	5,325.4	4.4 x	3.3 x
Zillow	(NASDAQ: ZG)	17,355.2	2.2 x	1.2 x
Opendoor	(NASDAQ: OPEN)	14,019.2	2.1 x	1.4 x
Carvana	(NYSE: CVNA)	26,259.0	4.4 x	3.6 x
Offerpad	(XCH: TCK)	2,435.3	1.0 x	0.6 x
Median			3.3 x	2.4 x
Mean			3.3 x	2.4 x
High			4.4 x	3.6 x
Low			2.1 x	1.2 x
			EV/Revenue Implied Price	
Median			\$ 35.96	\$ 25.61
Mean			\$ 35.68	\$ 25.88
High			\$ 47.94	\$ 39.23
Low			\$ 22.88	\$ 13.08

Results: From the comparable companies, it seems that Offerpad is valued at \$35.68 assuming Opendoor purchases it in 2022. Given that its current trading price is \$7.82, we believe this is a good opportunity for Opendoor to acquire as Offerpad is severely undervalued. Given this, Opendoor should consider structuring a part of the deal with stock.

Risks

Special Purpose Acquisition (SPAC) Risk

Offerpad recently went public this past September by merging with special purpose acquisition company, Supernova Partner Acquisitions inc, in a deal that valued the company close to \$3B at the time. SPACs provide a way for privately held companies looking to go public access to public markets faster than the traditional IPO. They have recently come under scrutiny from investors as the companies taken public do not undergo the same intensive vetting process compared to the traditional IPO process. The lack of vetting creates the potential for misappropriation of financials or even fraud. The fact that Offerpad has gone public via SPACs rather than the traditional IPO process increases the likelihood of such actions occurring. While it is unlikely, it poses a significant risk towards Opendoor and should be addressed.

iBuyer Market Fears

Both Opendoor's and Offerpad's business and results can be significantly impacted by general market conditions, the health of the U.S. residential real estate sector and the inherited risk associated with their real estate assets. Their success, directly and indirectly, relies on the cost associated with homeownership and the broader health of the U.S. residential real estate industry, which is beyond the control of the two companies.

Overall, it is likely to expect an increase in overnight rates sometime between now and the next few years. The Federal Reserve is currently purchasing \$120B of assets each month. In early November, the Fed's policy-setting committee said it would immediately "taper" asset purchases by \$15B each month. Changes in government financing programs or increases in mortgage interest rates would reduce customers' ability to obtain financing and increase their overall cost associated with homeownership, negatively impacting the iBuyer industry.

Offerpad's History of Losses

Since its inception, Offerpad has had a history of losses, and there is no guarantee that they will be able to achieve or maintain profitability in the future. The company incurred a net loss of \$6.3mm for the nine months ended in September 30, 2021, and \$21.1mm for the year-end December 31, 2020. While Offerpad is making significant investments in its technology, recruitment and marketing advancements, it is possible these investments may not correlate to an increase in revenue or growth. Factors that could impact the company's ability to achieve profitability include but are not limited to: lack of access to housing market data that is used in its pricing models at reasonable cost, increased competition in the U.S. residential real estate industry, or potential impairments in the value of its assets due to changes in market conditions.

Integration Shortfalls

Post-merger integration is as complex as any other part of the M&A process. Failure to integrate employee personnel, capture synergies, or successfully merge two working cultures could lead to a loss of value and pose a significant risk to Opendoor.

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