Classified

Most preferred
Adevinta | TP NOK 200

Least preferred
Rightmove | TP 600 p

Classified ads or how to play structural and protected growth

Publication date 09/06/2021 14:39
Writing date 08/06/2021 18:04

Price 06/07/21	Reco.	Curr.	Price	TP
Adevinta	Outperform	NOK	160.00	200.00
Auto Trader	Neutral	GBP	565.60	585.00
Prosus NV	Outperform	EUR	85.46	126.00
Rightmove	Underperform	GBP	619.00	600.00
Scout24	Outperform	EUR	65.10	80.00

Next Events		
21/06/2021	Prosus NV	FY Results
24/08/2021	Prosus NV	Annual General Meeting
22/11/2021	Prosus NV	H1 Results

We are initiating coverage of the classifieds sector with four new stocks: Adevinta (Outperform, target price NOK 200), Scout24 (Outperform, target price € 80), Auto Trader (Neutral, target price 585p) and Rightmove (Underperform, target price 600p). This report also features Prosus (Outperform, target price € 126) whose classifieds division is its main consolidated asset. Factoring in this division, the market capitalisation of the segment is € 41bn. The sector offers several strengths (barriers to entry, pricing power, margins) and benefits from structural catalysts (penetration of the online space, monetisation of the transactional model, M&A) which will allow it to maintain very solid operating profit growth (+15% per year over the last 5 years).

A sector characterised by high barriers to entry and a very solid model for the leaders

The classifieds market is marked by significant entry barriers (brand, IT links with sellers, technological strength, etc.) and a very sizeable leader premium - the so-called network effect). The leader can capitalise on its position to squeeze out its competitors. It thus boasts high and sustainable EBITDA margins (>60%), which allows it to secure significant cash returns to its shareholders. The competitive environment is stable for now in view of these entry barriers. The GAFAM have yet to establish positions in the classifieds market, with the exception of niches like employment (see Linkedin). We do not identify any new initiatives that could jeopardise the positions acquired in recent years. The key to monetising these platforms is data and transactional models.

M&A will continue and a pan-European leader could emerge

The last few years have seen several major deals, with an average EV/EBITDA multiple of 24, which is consistent with current stock market valuations. The European market is still fragmented, and we anticipate fresh combinations. Adevinta and Prosus are likely to be the most active players. We do not rule out a possible link-up between these two groups going forward.

Valuations are high and stock picking is key

The sector has substantially outperformed the market in the last few years (+22% per year vs Stoxx 600 at +6% per year over five years), in line with the rest of the tech sector, spurred by strong and regular operating profit growth (+15% per year). But valuations are still demanding (27x NTM EBIT EBIT vs Nasdaq at 24x) and stock picking is key.

Our stock hierarchy: Adevinta (+), Prosus (+), Scout24 (+), Auto Trader (=) and Rightmove (-)

We prefer the players with the strongest growth potential: **Adevinta** (rationale behind merger with eBay Classifieds, world leader position, M&A catalysts), **Prosus** (market recovery, M&A outlook and undervaluation) and **Scout24** (DACH region leader, ramp-up of the product range, expansion in the addressable market). We have a Neutral rating on **Auto Trader** (a very solid model but fairly valued) and an Underperform rating on **Rightmove** (given limited upside on ARPU and the likelihood of growth slowing).

	Currency	Market Cap (m)	Rating		TP		EPS		PE (x)	
			Revised	Former	Revised	Former	2021e	2022e	2021e	2022e
Adevinta	NOK	10 906	Outperform		200.0		0.16	0.29	102.5	55.8
Auto Trader	££	5 486	Neutral		585.0		12.65	22.54	43.3	25.1
Rightmove	££	5 404	Underperform		600.0		20.79	22.70	29.8	27.3
Prosus NV	€	168 934	Outperform	Outperform	126.0	125.0	3.14	3.87	31.8	26.8
Scout24	€	6 650	Outperform		80.0		1.63	1.91	39.9	34.0

Martin Marandon-Carlhian (Analyst)
+33 (0)1 55 35 42 54
martin.marandon-Carlhian@oddo-bhf.com

Jerôme Bodin (Analyst)
+33 (0)1 55 35 42 49
jerome.bodin@oddo-bhf.com

Conflict of interests:
ODDO BHF CORPORATES & MARKETS, a division of ODDO BHF SCA, limited sharepartnership - Bank authorised by ACPR. ODDO BHF and/or one of its subsidiaries could be in a conflict of interest situation with one or several of the groups mentioned in this publication. Please refer to the conflict of interests section at the second page of this document.
This is a non-contractual document, it is strictly for the private use of the recipient, and the information it contains is based on sources we believe to be reliable, but whose accuracy and completeness cannot be guaranteed. The opinions given in the document reflect our appraisal at the time of publication and may therefore be revised at a later date.

Contents

Valuations are high and stock picking is key 3
Performance in line with tech stocks and largely outpacing broader indices 3
Positive momentum to continue as economies open up again 4
Valuations are demanding but they have tracked EBIT growth 5
We are playing the leaders and growth, with Prosus, Adevinta and Scout24 6

A market that guarantees strong entry barriers and a high margin for the leader 9
What is the classifieds market? 9
A market that hinges on a network effect ensuring high barriers to entry 13
A network effect that guarantees dominant players high margins and strong cash generation 16

The sector nonetheless continues to change 18
The COVID period has reinforced the network effect of these platforms 18
The keys to increasing the monetisation of these platforms (transactional model, data, software, etc.). 20
The sector remains fragmented and M&A should continue 21

Company profiles 25
Adevinta 26
Auto Trader 46
Prosus 66
Rightmove 81
Scout 24 96

VALUATIONS ARE HIGH AND STOCK PICKING IS KEY

The sector has substantially outperformed the broader market in the last few years (+22% per year vs Stoxx 600 at +6% per year over five years), in line with the rest of the tech sector, spurred by strong and regular operating profit growth (+15% per year). But this masks an underperformance since March 2020 (+35% vs + 49% for the Nasdaq). Indeed, while the crisis has accelerated the demand transition from physical to online, the underlying markets of the main classifieds players (real estate, automotive, job search) have been more severely impacted (notably in relation to e-commerce groups) by the health restrictions (sluggish economic growth, limited movement, etc.). The gradual reopening of economies should, however, see a return to stronger growth and we expect positive momentum until 2022. Against this backdrop, sector valuations remain demanding (27x NTM EBIT vs 24x for the Nasdaq). We prefer the players with the strongest growth potential: Adevinta (rationale behind merger with eBay Classifieds, world leader position, M&A catalysts), Prosus (market recovery, M&A outlook and undervaluation) and Scout24 (leader in DACH region, ramp-up of the product range, expansion in the addressable market). We have a Neutral rating on Auto Trader (very solid model but reasonably valued) and an Underperform rating on Rightmove (given limited upside on ARPU and the likelihood that growth will slow).

Performance in line with tech stocks and largely outpacing broader indices

To analyse the stock market trend of the online classifieds sector, we have created an 'ODDO BHF Classifieds' index. It is comprised of 15 players, some of which we cover: Adevinta (Norway), Auto Trader (UK), Rightmove (UK), Scout24 (Germany), Recruit (Japan), eBay (US), Zillow (US), REA (Australia), Schibsted (Norway), AUTO1 (Germany), Seek (Australia), Carsales.com (Australia), CarGurus (US), Headhunter (Russia) and New Work (Germany). The weighting of each player in the sample depends on its market capitalisation.

Sector stock market performance over 5 years (vs Nasdaq and Stoxx 600)

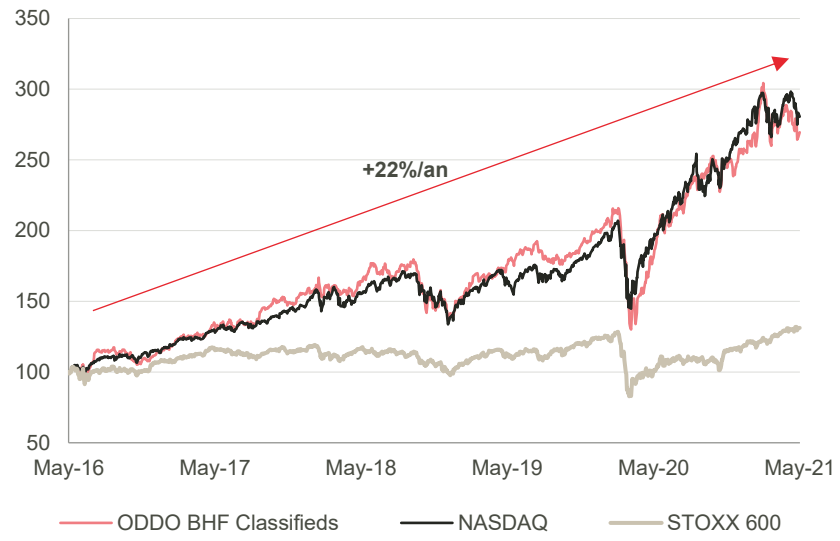


Chart 1 - Sources: ODDO BHF Securities, FactSet

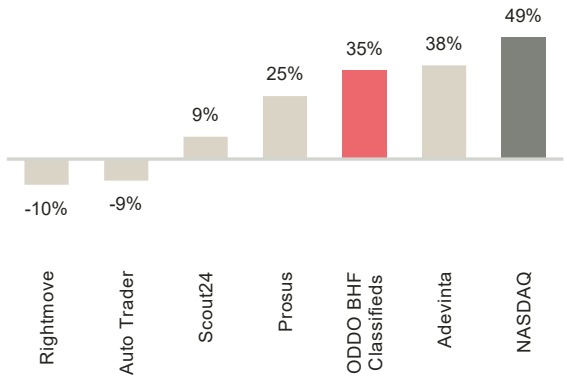
Over the last five years, the online classifieds sector has performed very robustly, at 22% per year on average, largely in line with tech stocks (Nasdaq at +23% per year) and well ahead of broader indices (Stoxx 600 at +6% per year).

Positive momentum to continue as economies open up again

It is worth noting, however, that whereas the sector had tended to slightly outperform the tech index before the COVID-19 crisis, it has underperformed since then. Since the start of 2020, our index has gained 35% vs 49% for the Nasdaq.

Within our coverage universe, Adevinta is the best performer (+38% since the start of 2020, or three points above the overall index), mainly thanks to the announcement of the deal with eBay Classifieds (July 2020), followed by Prosus (+25%, with 4% of its NAV exposed to the classifieds segment). Scout24 has also held up (+9%) with its sales proving especially resilient in 2020 (+1.1%), unlike Auto Trader (-9%) and Rightmove (-10%) which had to grant hefty discounts on their subscriptions (sales down 32% in 2020-21e and 29% in 2020, respectively).

Share performance since start of 2020



Share performance since start of 2021

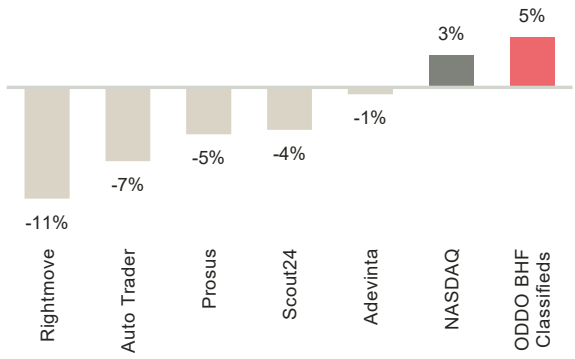


Chart 2 - Sources: ODDO BHF Securities, FactSet

We attribute this recent underperformance to the fact that these online platforms have not benefited as much as other online players (especially e-commerce) from the sharp increase in demand.

Indeed, while the crisis has accelerated the demand transition from physical to online, the underlying markets of the main classifieds players (real estate, automotive, job search) have been more severely impacted by the health restrictions (sluggish economic growth, limited movement, etc.). The classifieds market has nonetheless held up well, with the lion's share of these players' revenue stemming from recurrent subscriptions.

The gradual reopening of economies should, however, see a return to stronger growth in the main underlying markets for the classifieds sector.

Note also, as highlighted on page 14, that the network effect from these platforms has been strengthened and we think there has been a structural change in the perception of the value added of these platforms (the marketing budget of professionals is thus likely to be reallocated more to online marketing).

We therefore believe that this underperformance relative to tech stocks was temporary and that a catch-up is probably on the cards. Bearing in mind that price negotiations on subscriptions are mostly carried out on an annual basis, we anticipate a gradual upswing in prices this year and positive momentum extending at least until 2022.

Valuations are demanding but they have tracked EBIT growth

Over the last five years, the NTM EV/EBIT multiple has gradually expanded, in line with the rest of the technology sector which has also re-rated. The sector now averages a NTM EV/EBIT multiple of 27x, vs 24x for the Nasdaq.

EV/EBIT multiple over 5 years* (x)

Chart 3 - Sources: ODDO BHF Securities, FactSet

**Given the low or negative profitability of Zillow and AUTO1, these players are not included in the calculation*

Sector valuations are thus demanding, but it is worth noting that they have been driven by strong and regular operating profit growth from the main classifieds players over the last five years (+15% per year, before COVID-19 crisis).

Sector operating profit growth over five years

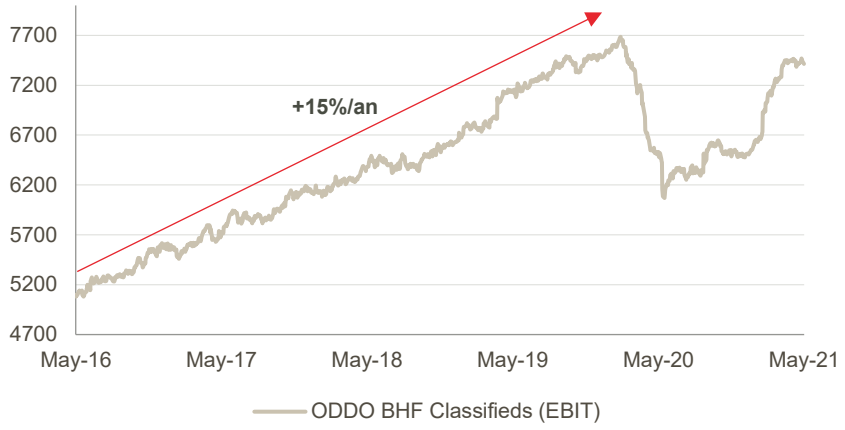


Chart 4 - Sources: ODDO BHF Securities, FactSet

We are playing the leaders and growth, with Prosus, Adevinta and Scout24

The following table sets out the main players in the classifieds sector. We use data from the consensus (FactSet) and our own estimates for the players in our coverage universe (Adevinta, Auto Trader, Prosus, Rightmove and Scout24).

While the classifieds sector is fairly valued overall (median EV/EBIT 2022e multiple of 22x), it is worth noting substantial differences in valuation between the various players in the sector.

Moreover, most of the companies have a fairly attractive dividend payout ratio for a high-growth sector (median dividend yield of 1.2% in 2022e).

Comparison of classifieds sector players

x	Market cap (€ bn)	EV/EBIT		P/E		EBIT margin		FCF yield (%)		Div. yield (%)	
		2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e
Adevinta	10	33.8	20.4	95	55	25%	30%	4.7	3.1	0.2	0.3
Auto Trader	6	20.9	18.9	25	22	70%	71%	3.9	4.4	1.3	1.5
Prosus	136	n/a	n/a	26	20	n/a	n/a	0.7	1.2	0.1	0.1
Rightmove	6	23.4	21.3	29	26	72%	74%	3.5	3.8	1.3	1.4
Scout24	6	31.4	26.5	46	38	47%	50%	2.9	2.7	1.0	1.2
Recruit	66	35.8	28.0	48	38	10%	11%	2.1	2.6	0.6	0.7
eBay	34	13.1	11.8	16	13	29%	30%	7.1	7.6	1.2	1.2
Zillow	22	145.9	90.8	101	71	3%	3%	1.0	1.0	0.0	0.0
REA	13	43.3	34.6	60	47	52%	52%	1.4	2.0	0.8	1.2
Schibsted	9	48.5	36.8	56	42	14%	18%	0.8	2.0	0.5	0.5
AUTO1	9	n/a	n/a	n/a	n/a	n/a	n/a	-2.8	-2.2	0.0	0.0
Seek	6	36.4	38.4	76	57	20%	27%	1.7	1.6	1.0	1.2
Carsales.com	3	24.9	22.4	30	27	51%	51%	2.6	-0.2	2.9	2.9
CarGurus	3	19.7	17.4	26	24	22%	21%	4.7	5.5	0.0	0.0
Headhunter	2	29.7	21.9	39	28	44%	47%	3.8	4.9	1.6	2.3
New Work	1	23.6	20.6	35	31	19%	20%	2.6	4.7	1.2	1.3
Median		**30.5**	**22.1**	**39**	**31**	29%	30%	**2.6**	**2.7**	**0.9**	**1.2**
Average		**39.0**	**29.9**	**48**	**36**	35%	37%	**2.5**	**2.7**	**0.8**	**1.0**

Table 5 – Sources: ODDO BHF Securities, FactSet

We attribute the varying valuations in the sector mainly to a contrasting growth outlook, depending on:

- Country exposure and underlying market penetration: in Europe, the UK, the target market of Rightmove and Auto Trader, is, for example, more extensively penetrated (hence EBIT margins in excess of 70%) than Germany or France, the two main markets of Scout24 and Adevinta, respectively.
- A different revenue mix: this can relate to the target market, with growth in real estate having been stronger than in automotive in recent years, for example, or to the nature of revenue generation (Zillow is a player specialising in real estate like Rightmove and Scout24 but it is also involved in buying and selling property).

We therefore think that the fairest indicator to gauge the valuation level of companies in the sector is EBIT growth.

For more mature players (such as Auto Trader, Rightmove, Scout24, Carsales.com or REA) and which are already quite profitable (EBIT margin >50%), the P/E is also important to factor in as it takes account of the different tax regimes (tax rate of 19% in the UK vs 30% in Germany).

EV/EBIT 2022e vs EBIT CAGR 2021e-2023e

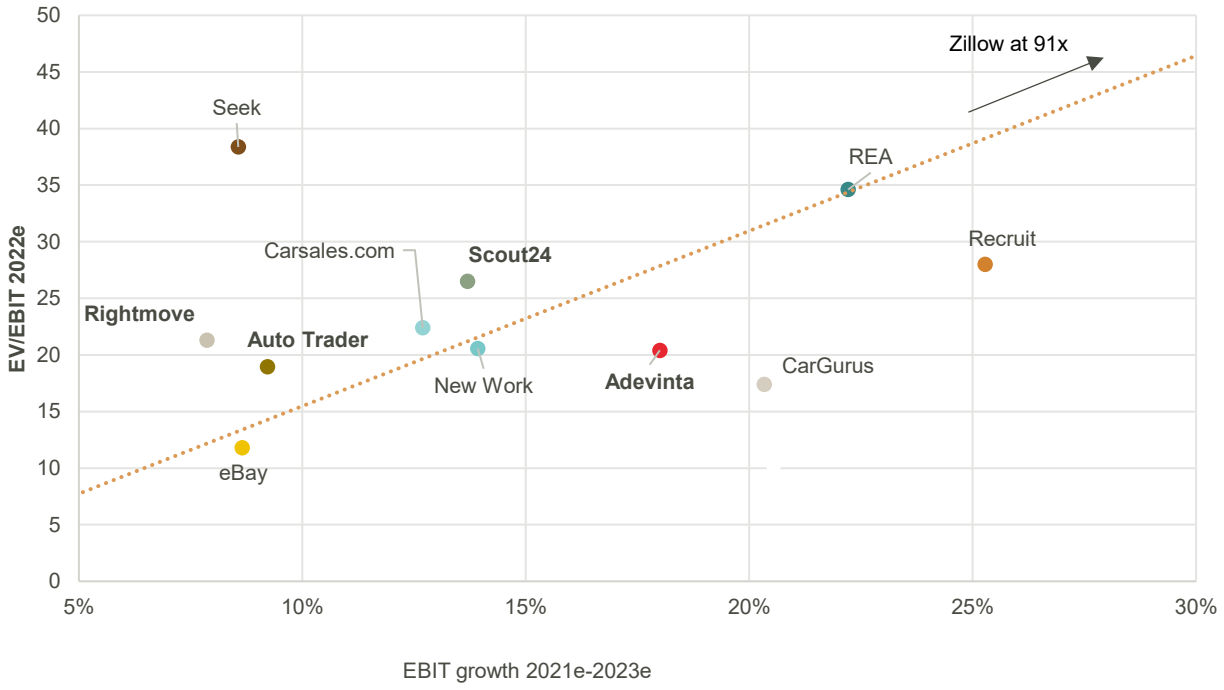


Chart 6 - Sources: ODDO BHF Securities, FactSet
**Pro forma ODDO BHF Securities pour Adevinta (including eBay Classifieds deal)*

Most of the stocks in the sector are valued on a consistent basis around the straight-line regression. Based on an analysis of this straight-line regression, Adevinta looks to be the most undervalued player in our coverage universe while Rightmove seems to be the most overvalued relative to the sector. Auto Trader also lies above the straight-line regression as does Scout24 (but we think that the group's EBIT growth will be affected in the short/medium term by higher capex).

The sector's median 2022e EV/EBIT stands at 22x for median 2021-2023e EBIT growth of 13%. The median EBIT PEG (EV/EBIT ratio / 2020-2023e EBIT CAGR) therefore works out at 1.5x (average of 1.7x).

Our stock hierarchy (Adevinta, Prosus and Scout24 on Outperform, Auto Trader on Neutral and Rightmove on Underperform) is confirmed by this indicator (EBIT PEG of respectively 1.1x and 1.9x for Adevinta and Scout24 vs 2.1x and 2.7x for Auto Trader and Rightmove).

Sector EBIT PEG (EV/EBIT/EBIT CAGR 2020-2022e)

€ m	2022e EV/EBIT	EBIT 2021-2023e growth	PEG EBIT
Adevinta	**20.4**	**18%**	**1.1**
Auto Trader	**18.9**	**9%**	**2.1**
Rightmove	**21.3**	**8%**	**2.7**
Scout24	**26.5**	**14%**	**1.9**
Recruit	28.0	25%	1.1
eBay	11.8	9%	1.4
Zillow	90.8	74%	1.2
REA	34.6	22%	1.6
Seek	38.4	9%	4.5
Carsales.com	22.4	13%	1.8
CarGurus	17.4	20%	0.9
Headhunter	21.9	32%	0.7
New Work	20.6	14%	1.5
Median	**21.9**	**16%**	**1.5**
Average	**29.4**	**21%**	**1.7**

Table 7 – Sources: ODDO BHF Securities, FactSet

On this basis, we prefer the players with the strongest growth potential: Adevinta (rationale behind merger with eBay Classifieds, leader position in nearly all its target markets, M&A catalysts), Prosus (market recovery, M&A outlook and undervaluation) and Scout24 (leader in DACH region, ramp-up of the product range, expansion in the addressable market). We have a Neutral rating on Auto Trader (very solid model but reasonably valued) and an Underperform rating on Rightmove (given more limited upside on ARPU than at Scout24 and the likelihood that growth will slow).

Recap of our recommendations

Companies	Rating	Target price	Upside
Adevinta	Outperform	NOK 200	25%
Auto Trader	Neutral	585p	3%
Prosus	Outperform	€ 126	47%
Rightmove	Underperform	600p	-3%
Scout24	Outperform	€ 80	23%

Table 8 – Source: ODDO BHF Securities

A MARKET THAT GUARANTEES STRONG ENTRY BARRIERS AND A HIGH MARGIN FOR THE LEADER

The classifieds market is marked by significant entry barriers (brand, IT relationships with sellers, technological strength, etc.) and a very sizeable premium for the leader. These characteristics are due to the so-called network effect that can be found on all markets on digital platforms. The leader can capitalise on its position to squeeze out its competitors, making it very difficult for challengers to catch up. For this reason, the sites in our universe of stocks that are the current leaders have been so for the past decade. The leader boasts high and sustainable EBITDA margins (>60%), which enables it to secure significant cash returns to shareholders.

The competitive environment is relatively stable for now in view of these entry barriers. The GAFAs have yet to establish positions on the classifieds market, with the exception of niches such as jobs (i.e. Microsoft's Linkedin). We do not identify any new initiatives that could jeopardise the positions established in recent years.

What is the classifieds market?

Background

There is no uniform development model among the current classifieds players. Each group in our universe has developed according to its own trajectory.

However, we have observed two main development paths:

Players from the "analogue" world

The best example is Auto Trader. As we state on page 47, the group originally published a classified ads magazine (1976). Since the physical publication went out of print in 2013, the group has been active on the Auto Trader website only. In the automotive segment, other websites have experienced a similar trajectory, notably Argus (Adevinta) and La Centrale (Axel Springer - KKR). Lastly, bear in mind that the Schibsted (not covered) and Axel Springer (unlisted) groups originated on the press market.

Also worth a mention is Rightmove, born of a link-up between several real estate agencies in 2000. In both cases, it is the strength of the founding groups that cemented the leadership on the digital segment.

The generalist players then developed on verticals

Several examples can be mentioned: leboncoin.fr (Adevinta), OLX Poland (Prosus), Finn (Schibsted) and Avito (Prosus). Each group used a historic dominant position on the generalist segment to then develop verticals and a diversified group.

The main exception to the two models mentioned is Scout24, which developed directly on the real estate sector and digital. It did not have analogue beginnings. This is quite rare, but the group managed to establish a position very early on (1998) in the earlier days of the internet. Another example is Seloger.com (Axel Springer, unlisted).

A mainly BtoB model

The aim of classified ads groups is to put buyers in contact with sellers, and to ensure maximum liquidity for this asset.

In most cases, the group is not remunerated via a commission (unlike auction sites such as eBay) but through invoicing the seller (an automotive dealership, real estate agent or individual). This is significant as the site remuneration is thereby decorrelated from transactions. The client pays for the advertisement to be posted on the site, not for the transaction to be finalised. However, this model is evolving and players on the classifieds segment are increasingly shifting towards the transaction model (see page 14).

Most of the classifieds groups' clients are professionals. The share of individuals is very marginal (<10% of revenues in our universe of stocks).

Nonetheless, in this regard, the consumer goods segment should be isolated from the others (automotive, real estate, jobs and services) as the client base is dominated by individuals. For example, on leboncoin.fr (as at 14 May 2021) there are 7,300 times the number of ads posted by individuals than by professionals in the fashion category. Although leboncoin.fr holds a position that is more focused on individuals, this shows a real structural difference between the consumer goods segment and that of real estate, for example. For the latter, leboncoin.fr has three to four times the number of ads posted by professionals than by individuals.

Share of individuals in advertising revenues for classifieds players

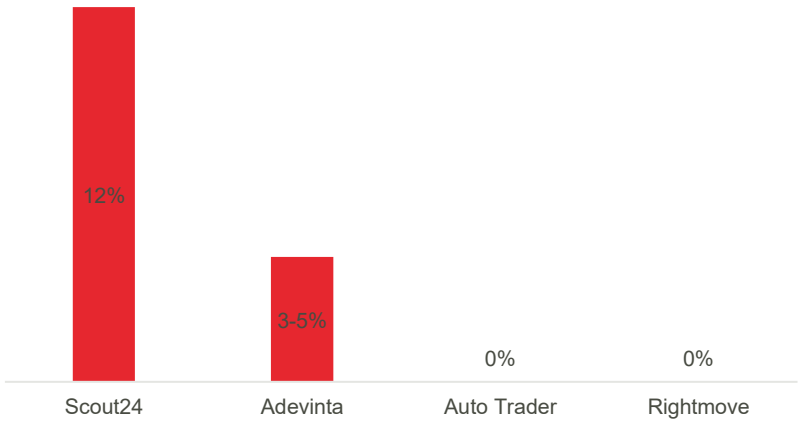


Chart 9 – Sources: companies

A generalist or vertical position

There are two main models on the classifieds market:

- The generalist model, which encompasses all classified ads regardless of category (automotive, goods, real estate, etc.). This is the position of leboncoin (Adevinta) and Avito (Prosus). This does not prevent sites from then developing offerings by category within the site (real estate, etc.) or owning another vertical site (like Adevinta with AVendreALouer.fr). This model is the least profitable as it often offers high volumes but of goods with little value (second-hand sales). The challenge is therefore to generate as much traffic as possible and to direct this audience towards the most profitable verticals and categories (automotive). Competition for this model has intensified a little in recent years, notably with the arrival of Facebook Marketplace (see following point).
- The vertical model, which is based on specialisation and is the position of Auto Trader, Rightmove and Scout 24 in our universe of stocks.
    - Automotive: this vertical is characterised by a strong technological relationship between the advertiser (concession) and the platform. The challenge is to sell goods as fast as possible, as the value falls over time. The concessions therefore contract a series of software offerings that enable them to manage their stocks and promote sales. The main challenge for retailers is therefore destocking in a context of an offering that is often massive. This is not the case in real estate, where all goods are unique and the buyer pool is very limited.
    - Real estate: the market situation is different to that of automotive. The challenge for the seller (real estate agency) is ensuring that it will find the right buyer. The concept of a leading site is therefore key and justifies a higher pricing policy than the competition. The software relationship between the platform and sellers is therefore less successful, notably because stock management is much less critical for real estate agencies (the risk lies with the owner, not on the balance sheet - unlike in automotive).
    - Jobs: the players in our universe of coverage are barely present on the jobs segment. The three main exceptions are Avito (no. 2 on the Russian jobs market and owned by Prosus), OLX Poland (Prosus) and OLX India.

A vertical position is more profitable than a generalist one as it offers lower volumes on more expensive goods. Professionals are therefore prepared to pay to post ads and liquidate their stocks as fast as possible. Bear in mind that in automotive, the speed of sales is essential as the value of the good falls over time (which is not so much the case for real estate).

A strictly local market

The classifieds market is characterised by a strong local dimension. The reference market is a country, while brands mainly remain local. Several players have developed continental positions but have done so by acquiring assets in several countries, such as Adevinta and OLX Group (Prosus). As it stands, there is no global player present in all regions like GAFAs (eBay is not a pure player in classifieds as it is remunerated mainly at the transaction stage).

This local dimension is reflected in the size of the groups on this market. The new leader Adevinta/eBay Classifieds should thus generate revenues of around € 1.7bn in 2021 (vs € 100bn for Facebook, for example). This segment therefore remains niche at the global level.

Revenues of European classifieds players vs Google and Facebook in 2021

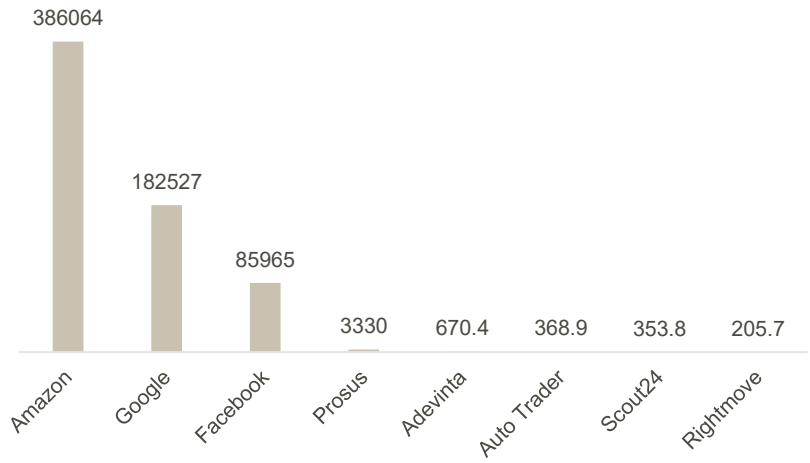


Chart 10 – Sources: ODDO BHF Securities, FactSet

We forecast that consolidation will continue at the global level. For example, an ultimate link-up between Adevinta and Prosus is credible in our view. Nonetheless, we think that the local dimension of this market should continue, especially at the brand level. This does not prevent the development of synergies at the technology level, for example.

However, anti-concentration assessments remain an obstacle to European consolidation. The eBay-Adevinta tie-up accordingly underwent assessments in the UK and the entity had to separate from the Gumtree, Motors and Shpock platforms. This is why not all transactions can be envisaged.

What is the difference between e-commerce and classifieds? Blurred lines?

There are two main models on the classifieds market:

The original difference between e-commerce and classifieds

Although at the outset there was a clear distinction between e-commerce and classifieds businesses, today the digitisation of players and shifts to integrate platforms have blurred the lines separating the two activities.

The original difference between e-commerce and classifieds is based on whether the transaction process is integrated or not. Simply put, classifieds consist merely of posting an advert on a media platform (newspapers, magazines, outdoor advertising, and no websites). The parties involved in the transaction arrange the transaction and terms themselves. In contrast, e-commerce consists of integrating the transaction into the form of media used (the platform). The transaction (and sometimes the delivery, like in Amazon's case) is taken on by the platform rather than the parties.

This creates a distinction between classifieds and e-commerce in terms of the products available on the platform. Generally speaking, classifieds tend to be focused on second-hand products that are relatively expensive (vehicles, real estate, etc.) and services (jobs, moving services, etc.). E-commerce businesses are more focused on new, relatively affordable products (clothes, multi-media, etc.). Bear in mind that this is not a clear distinction: it is possible to find second-hand products on Amazon and new products on Auto Trader.

The reason for this separation is that transactions for services and second-hand goods require a level of trust that is difficult to convey over a platform. Scams involving books are naturally cheaper than those involving cars, apartments and jobs. In the same vein, scams are less likely for new products than second-hand ones. Platform users should therefore be more inclined to make a transaction for a relatively cheap, new item.

Blurred lines between the two sectors; classifieds moving towards the e-commerce model

As classifieds players are now mainly websites rather than newspapers, the integration of transactions is now possible. Sites such as leboncoin, originally a classifieds player, can also now be considered an e-commerce player as it is possible to directly purchase items on this platform There is therefore some overlap between the classifieds and e-commerce sectors.

Companies such as Auto Trader therefore aim to move towards e-commerce by pushing the transaction integration process as much as possible. Bear in mind that the elements of trust and product accessibility are essential in this respect, and that Auto Trader has implemented various measures to resolve this problem: a vehicle verification partnership (Experian), vehicle delivery, new car offering, upcoming in-sourcing of financing and insurance with the integration of Auto Convert.

Amazon: a threat?

Due to the blurred lines between e-commerce and classifieds, consumers can choose between the two when looking for a product. There is therefore competition between players in classifieds and e-commerce when the various players are present on the same kind of goods.

For example, leboncoin (generalist classifieds) and Zalando (e-commerce) are in competition on clothing. Rightmove (real estate classifieds) is not in competition with Amazon, on which it is not possible to buy an apartment in the UK.

However, it is possible that Amazon may want to expand into segments that are still under-penetrated by e-commerce, which also tend to be the main vertical segments: automotive, real estate and jobs. The company's strengths are its size (ultimate investment capacity and pricing power), logistics network, technological power and brand.

That said, Amazon's possible venture into the classifieds segment is not guaranteed to be successful. For example, Amazon's venture into clothing did not threaten Zalando (or leboncoin). It seems that for certain kinds of products, it is difficult to topple the leading brand. Amazon is currently the multimedia leader, but Zalando is the leader in clothing in France.

In light of this, we think Amazon's entry onto the automotive and real estate segments does not represent a major threat for Auto Trader and Rightmove. The impact is more difficult to estimate for diversified players such as Prosus and Adevinta.

A market that hinges on a network effect ensuring high barriers to entry

The classifieds segment is characterised by high barriers to entry. It is difficult for a new player to establish itself against a leading site. This is due to what we call the network effect: the leader capitalises on this positioning to "squeeze out" its competitors. It therefore becomes very difficult for the challengers to catch up their lag. This is why the current leading sites in our universe of stocks have held their positions for the past ten years. For example, there has been no complete reversal in the competitive landscape in Europe. Whilst changes in market share are possible a complete reversal is unlikely. Moreover, we note the very modest development of GAFAM in this market. The only major exception is in the recruitment segment but this is a relatively marginal vertical for the groups in our universe of covered stocks.

What is the network effect?

The network effect can be defined as the capacity of a platform to bolster its value depending on the number of its users. The more users that are recruited by a platform the more attractive it is to consumers. As such, the increase in user traffic on the platform enhances its appeal with professionals, who by joining the platform provide a broader choice, which in turn attracts more users (virtuous circle). In other words, its leadership position is self-sustaining. This is an illustration of the adage “the winner takes all”.

In the classifieds domain, this effect is fundamental and constitutes high barriers to entry for all players that are not leaders. A site is only attractive to a buyer or seller because it offers sufficient liquidity. They will probably not use a competing platform if it fails to offer a large enough range of opportunities. For sellers, the risk and therefore the cost of abandoning the leading platform is very high.

An effect that ensures very high barriers to entry

The network effect therefore enables the leading site to break down the barriers to entry. This makes it very difficult for challengers to catch-up their lag, without having to approve substantial investments.

These barriers to entry are of several types:

The brand

The brand is a component that is essential to the success of a classified ads site. leboncoin is a good example, it is a leading brand and very well known in France. The consumer must have full confidence in the platform and associate searches with this site alone. All of the leading groups made substantial investments in marketing (> several tens of € m) during the early years of their existence in order to ensure this advantage. Building a new brand is therefore particularly costly for a new entrant. Granted, marketing charges may be a shade lower than in the past due to the strictly digital approach (e.g. use of Google) but at some point, we think that TV advertising campaigns will be indispensable in order to catch-up the lag on the leader. However, these campaigns are far more expensive (minimum of > € 10m/year).

The client and user base

The client base is the second barrier to entry and constitutes an advantage to historic players and those which were the first to have invested in the segment. Thereafter it becomes very costly to close the gap. Note that the majority of generalist players have for a long-time followed a strategy that aims to recruit the maximum of uses (without billing them). This has enabled them to create a reservoir of potential clients which is very important for the professionals.

Robustness of the technological platform

This is the last barrier to entry, and probably the weakest. Indeed it is possible for a player to penetrate a new market thanks to the solidity of its platform. For example, we can imagine Auto Trader developing in a new European market. The main obstacle is marketing costs and the difficulties in migrating the user base.

These three competitive advantages are not independent of one another. Indeed, confidence in the brand should help to maintain the client and user bases, which themselves help to underpin the brand. This is also true for the robustness of the technology platform, which underpins the two previous advantages.

It should be noted that in the long term, it is therefore important to invest in both marketing, in order to maintain and improve the brand's image, and in the technology of the platform in order to offer a broader panel of functions than competitors, which “locks in” clients (like Auto Trader with its website offering). For example, one player that has not made these investments is Craigslist, and this has facilitated the emergence of competitors like Letgo, Offerup, and even CarGurus.

GAFAMs have not destabilised the market

GAFAMs are active in the classifieds market. However, with the exception of LinkedIn in the recruitment segment, they have failed to make an impression. As such, the competitive landscape of the classifieds sector has remained more or less unchanged for the past ten years.

- **Facebook** is the GAFAM that has clearly established itself on the traditional classifieds segment with its Facebook Marketplace offering. This is a horizontal offering, present in all segments, notably automobile and real estate. Facebook offer different options for advertising placement (notably with the “recommended” option which targets potential buyers, with effectiveness dependent on the price paid by the advertiser. The budget is fully adjustable by the advertiser), as well as for audience monitoring. In Q1 2021, Facebook announced that Marketplace had 1bn visits per month worldwide. That said, in Q1 2018, Facebook Marketplace already had 800m visitor per month, which represent growth of around 12% per annum. However, it is difficult to estimate what this represents in terms of sales for Facebook. We nonetheless the estimate a mixed success for Facebook in terms of monetisation, insofar as the “other revenue” segment has grown since 2016 but essentially driven by the performance of Oculus (virtual reality segment).

- Facebook also provides an e-commerce service, Facebook Shops. The offer consists of a platform that is accessible to clients (merchants) from which they can advertise and sell their goods on Facebook and Instagram.

- **Microsoft** is present via LinkedIn and its LinkedIn Jobs offering for classified jobs adverts. The entry-level offer (publication of job adverts) is free. LinkedIn (Microsoft) begins to receive payment when the advertiser (the company looking to recruit) wants to improve its visibility and the targeting of its advert. This comes under hiring revenues at its talent solutions segment.

  Note that Microsoft and Facebook have two competitive advantages vs traditional classifieds sites: a larger audience, linked to their core social media activity, and the resulting possibility to target clients. Note that advertising targeting is attractive insofar as it considerably increases the capacity of advertising packages.

- **Amazon,** leader in e-commerce in Europe and the US, is as such present in an adjacent market and therefore in competition with the classifieds segment. In this respect, note that 1/ Amazon generates revenue on a B2B model and only businesses can post advertisements on the platform; 2/ it is not possible to buy vehicles, real estate or services on Amazon. As such, Amazon represents a specific substitution risk for the generalist classifieds sites (horizontal, like eBay, leboncoin, Avito and OLX) but not (yet?) for specialist players (“vertical”, like Auto Trader and Rightmove). The main concrete difference between Amazon and the classifieds are 1/ Amazon is principally active in new products (whilst the classifieds are mainly active in second-hand goods); 2/ Amazon takes full charge of the transaction for users (which is not the case for eBay for example).

- **Alphabet (Google)** launched Google For Jobs in June 2017. It is fairly difficult to evaluate either the success of this project or the real degree of threat that it poses for classified players in the employment segment. Indeed, Google For Jobs is not a site in itself, but an SEO service (targeting internet users who are potential candidates) for advertisers who have already published job offers on the site or on a third-party site. As such, Google For Jobs will not drain audience from classifieds sites overall, but play on the share of audience between the sites.

A network effect that guarantees dominant players high margins and strong cash generation

A recurring model based on a subscription model

The model used by all players in the sector is essentially based on subscriptions. The dealerships and estate agents sign up for a subscription, which ensures a recurring source of revenue. Bear in mind that the share of advertising revenues varies between 1% and 18% in our universe of stocks.

Share of advertising sales for classifieds players

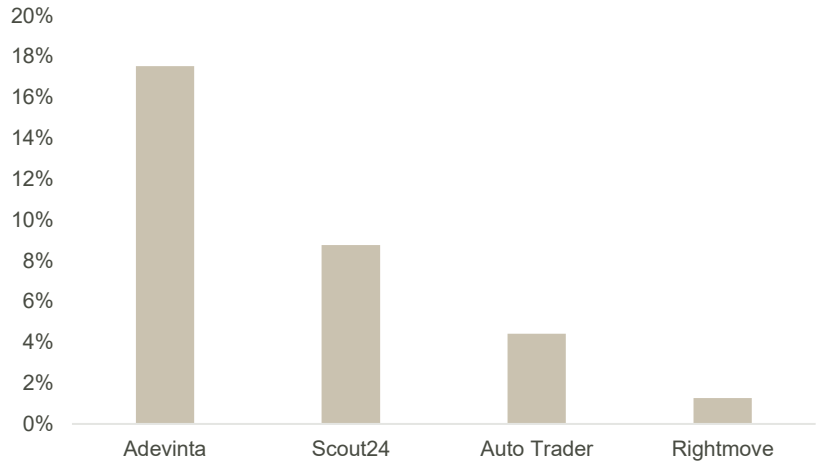


Chart 11 – Sources: companies

A sector characterised by low variable costs and benefiting from substantial economies of scale

All of the classifieds players have a relatively similar cost base. The bulk of costs are fixed (around 85% on average, on our estimates). These costs are principally payroll related (developers, marketing team, etc.).

The second characteristic of the sector in terms of costs hinges on economies of scale. Groups with multi-local coverage have the capacity to pool certain costs, notably technology costs. For example, this is the case of Adevinta and Prosus which have circulated their latest innovation between the countries in which they operate, notably in payments and deliveries. This provides a major support to continued M&A and the creation of continental or even global groups.

Very high margins for leading players...

The groups post very different operating margins depending on their competitive positioning. The most profitable groups are those with the largest market share (Rightmove and Auto Trader for instance). An uncontested leader in the classifieds segment therefore benefits fully from the network effect and largely absorbs its fixed costs. Its EBITDA margin is therefore generally above 60%. Conversely, a second- or third-ranked player generally posts margins of below 15%. The difference between the leader and second-ranked player is therefore significant.

EBITDA margin of listed players in the classifieds sector

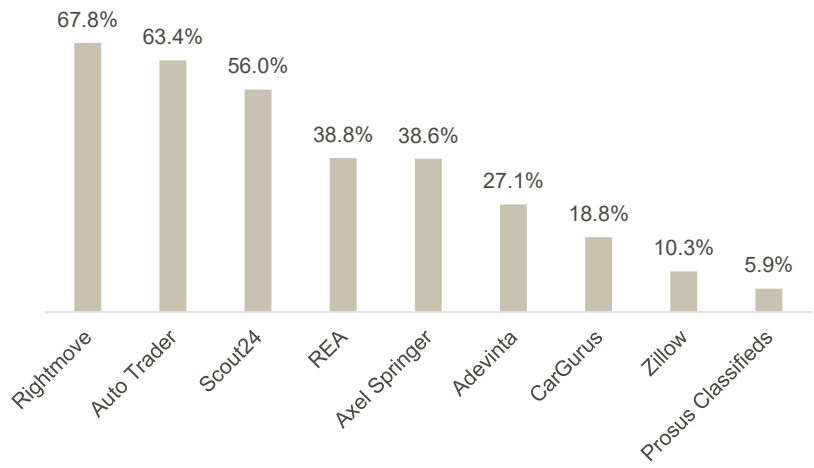


Chart 12 – Sources: companies

The consolidated margin at Adevinta and Prosus is lower because these groups consolidate very solid competitive positions (in France for the former and in Russia for the latter) and challenger positions in a number of countries.

...which guarantees strong cash generation and regular shareholder returns

This network effect therefore enables leading groups to generate very high margins, in an environment of high barriers to entry. Costs and investment to underpin this situation are therefore relatively limited once the leadership position is secured. The bulk of investment is generally allocated upstream (via very attractive pricing policies, for instance, to attract users and vendors). This could be relatively costly since the aim is to attract the maximum possible number of users. The goal is domination, and once this has been achieved, the costs should therefore remain under control.

This domination should thereafter ensure cash generation and structurally high shareholder returns. Rightmove and Auto Trader are two perfect examples of this situation.

THE SECTOR NONETHELESS CONTINUES TO CHANGE

Despite the very high barriers to entry and stable leadership positions over the long term, the sector continues to change and, above all, grow. Despite a sharp decline in sales in 2020 (free service offered for several months), the COVID-19 crisis constitutes an accelerating factor in the adoption of the services on the platforms. Audiences grew strongly over this period and we think that, as a result, the leaders should be even more powerful in 2021 and 2022. At the same time, they should continue their investment, notably in data but also in transactional services. The model used by these players should therefore continue to develop and solidify. Lastly, M&A should continue, notably after the acquisition of the eBay's classifieds division by Adevinta. We expect Adevinta and Prosus to pursue acquisitions and a merger between the two players could be a possible scenario further out.

The COVID period has reinforced the network effect of these platforms

A marked increase in traffic on the classifieds platforms in line since the beginning of 2020

Despite the health restrictions (few house moves in the real estate segment and travel restrictions affecting the automobile segment), the classifieds platforms in our coverage saw a significant increase in traffic in 2020 +7% for Scout24, +38% for Rightmove (in the context of tax incentives in the UK) +7% for Adevinta and +3% for AutoTrader. We think that they illustrate a change in the habits of many consumers who have turned towards these online platforms. The absence of other activities (leisure, sports, etc.) also explains the rebound in internet consumption and therefore the platforms.

Growth in the number of visits to the platforms in our sample of coverage in 2020

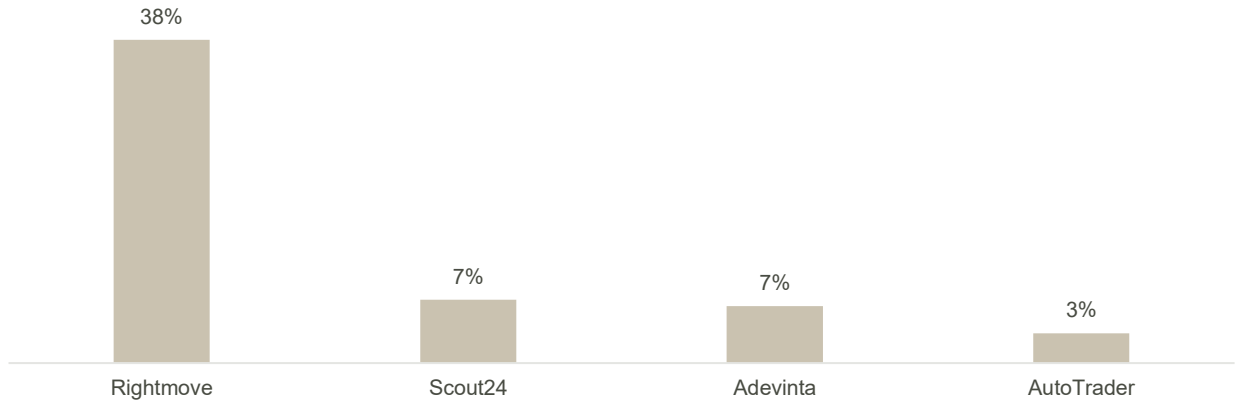


Chart 9 - Sources: ODDO BHF Securities, Scout24, Rightmove, Adevinta, AutoTrader

Moreover, this increase in traffic has enabled the professionals using these platforms (real estate agents, automobile dealerships and other companies): 1/ to continue to exercise their activity despite the health restrictions and 2/ to find new clients.

The network effect reinforced...

Online classified ads therefore proved a very effective marketing tool during the health crisis, which accelerated digitisation for professionals not only in terms of their marketing (a share of their marketing budgets were reallocated to online marketing) but also for the management of their activity (for example, Scout24 and Auto Trader propose a suite of software to help professionals to improve their operational efficiency).

However note that the players in our coverage generate recurring revenue, with the bulk stemming from fixed-rate subscriptions, rather than operating on a per-advertisement billing system. The increase in traffic is therefore not systematically reflected in a significant increase in sales. Given the low number of transactions in H1 2020, the majority of groups granted their clients substantial discounts (several months free of charge, for example). This also explains why revenues were down sharply in 2021. The aim was to conserve the maximum of clients and avoid a marked increase in the number of cancelled subscriptions in the context of pressure on the cash positions of partners.

That said, the increase in traffic on these platforms has strengthened their positioning relative to the physical world and the network effect. Their place in the value chain strengthened significantly in 2020.

We therefore think that there has been a structural change in their perception of the added value of small classifieds platforms and that a greater share of the marketing budget of professionals will be reallocated to online marketing and the use of these platforms in the long term.

...and should accelerate online marketing spend in a market that remains under-penetrated

Lastly, note that the structural transition from paper to online classifieds is happening in a market that remains largely under-penetrated in Europe.

Online marketing spend represents less than 15% of the revenues of the professionals that use these platforms most (estate agents and automobile dealerships), i.e. 6% to 7% in Germany, 3% to 4% in France and ~12% in the UK). The difference is therefore significant in Europe and we estimate that the majority of markets should naturally converge towards the UK model. Note that online marketing generally represents 50% of the marketing of budgets of the players that use classifieds platforms.

Penetration of the online classifieds market in Europe (as a % of revenues of the professionals using the platform)

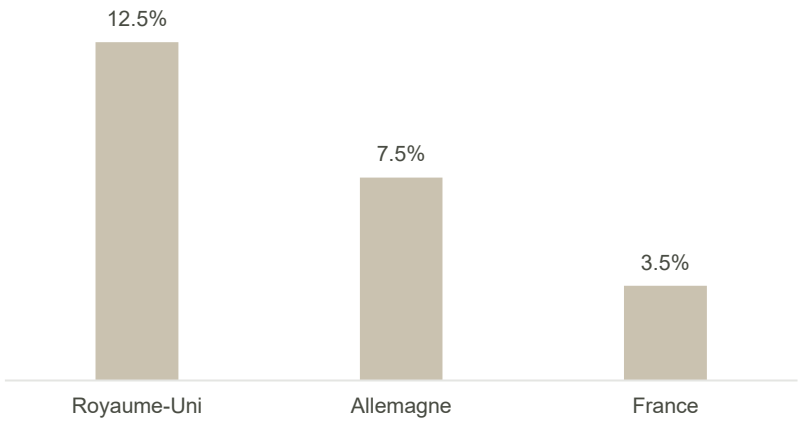


Chart 10 - Sources: ODDO BHF Securities, Rightmove, Scout24, Adevinta

In the long term, we think that the share of spending allocated to classifieds platforms as a share of the revenues of professionals should be close to 15% (new entrants to the real estate market, who are often more digitised, allocate up to 25-35% of their revenue to the use of these platforms).

In this context, we prefer players that are more exposed to the under-penetrated markets like Adevinta (France, Germany, Spain, Brazil), Scout24 (Germany) and Prosus (Poland, Russia, Brazil, India), particularly as they still harbour significant potential for monetisation (please refer to the following section).

The keys to increasing the monetisation of these platforms (transactional model, data, software, etc.).

The transactional model, a new growth driver for players in the classifieds segment

Players in the classifieds segment, originally platforms that were simply designed to list classified ads online, are beginning to shift to a so-called "transactional" model.

This model consists of generating new revenue opportunities by taking part in the transaction and receiving a commission on this service. There are a number of different modes: provision of payment services (in the majority of cases in partnership with specialised players) and/or delivery in the generalist segment (put in place by Adevinta on leboncoin), inspection services/sales in the automobile segment (FCG activity, 91%-owned by Prosus) and client prospecting services in the real estate segment (growing strongly at Scout24).

This activity generates new opportunities for monetisation but will nonetheless be dilutive by nature in terms of the margin, given that the transactional model is more capital intensive than the simple listing of classified ads. However, note that this model is not in opposition but rather adds to the existing model and that the margins at the listing activities should remain unchanged.

The different categories of platform: from listing to direct-to-customer

Demand	Customer acquisition	Listings	Transactions incl. payment	Logistics and software tools	Own inventory	Production	Examples
Listings	Asset light, profitable Low revenue per user						Rightmove
Transactional marketplaces	Still asset light Possible long-term strategic disadvantage						Airbnb Booking.com eBay leboncoin
Full-stack marketplace	Control over user-experience Operational risk, requires market density						Uber Deliveroo Glovo
eCommerce	Create new supply Capital intensity & risk, requires homogeneous market						Zalando Allegro
Direct-to-consumer	Own entire product identity / experience / sometimes with physical stores High capital intensity, limited assortment						Asos Amazon

Chart 11 – Sources: ODDO BHF Securities, Adevinta

As we detailed in our profile on Prosus, **OLX Group** (100%-owned by Prosus) is developing in the transactional segment via FCG (91%-owned). This asset is comparable to the German group **Auto1** and offers a second-hand vehicle inspection/sale service. The aim is not simply to advertise the sale of a vehicle, but to acquire, inspect, improve and then sell it. FCG's business model is therefore different to the traditional OLX model. It implies far more significant fixed assets and investment (inspection centres and automotive stocks). This explains the current high level of EBITDA losses (~$ 90m/year). **Prosus** considers this development as strategic and indispensable to the classifieds model in the long term. It is targeting an EBITDA margin of 10-15% in the long term. We think it likely that the group will make new acquisitions in this domain to strengthen its regional coverage (currently Latin America, US and south-east Asia).

The use of data, an increasingly differentiating element

The long-term IT relationship between the classifieds group and its clients (automobile dealerships and estate agents) is key. The aim is to establish a relationship which enables it to generate the maximum of data based on an extremely solid software relationship.

It is in this context that the majority of the groups in our universe of stocks have made substantial investments in the robustness of their IT solutions. The groups in the classifieds segment are not solely suppliers of digital media buying for advertising/sale but also providers of marketing software.

As we described on page 14, this relationship is a strong barrier to entry for new entrants. However, it is also a means to gain access to the maximum of data and therefore a clearer view of the market. In short, if Auto Trader works with far more vehicle dealerships than its rivals, it therefore has clearer overview of the dynamics of supply, demand and thus prices in the local UK markets.

The ramping-up of the tools that are based on the use of data therefore represents: 1/ an opportunity to extract more value from these platforms; 2/ a means to underpin the network effect and the domination of the leading players.

The sector remains fragmented and M&A should continue

Numerous tie-ups over recent years...

Several major deals have been undertaken over recent years with two categories of buyer:

- **Investment funds:** we can notably cite the acquisition of 45% of Axel Springer's capital in 2019 by KKR. Granted the target was not solely present in this sector but it did represent its main assets with 75% of its 2019 EBITDA (and was the primary reason for interest from the fund). We could also note the acquisition of AutoScout24 by Hellman & Friedman at end-2019. As we have already said, this market presents very attractive characteristic for an investment fund: substantial FCF, barriers to entry, growth and the prospect of consolidation.
- **Regional and worldwide players** Adevinta and Prosus. The two groups have made numerous acquisitions over recent years. The two principal acquisitions were eBay's classifieds division for Adevinta and Avito (Russia) for Prosus:

Local players (Auto Trader, etc.) have also made a number acquisitions but of far smaller scale and often in niche segments and technology. For the time being, these players have made no transforming or international deals. We have also often seen consolidation amongst the challengers. In Spain, Scout24 merged its activities with Vocento to create the second-ranked player in the automobile market behind Adevinta (with Coches.net)

It is interesting to note that the multiples revealed by these recent transactions are more or less in line with our valuations, around 10x sales and 20x EBITDA.

Principal and recent transaction in the classifieds domain

Date	Buyer	Target	EV	Revenues	EBITDA	EV/revenues	EV/EBITDA
30/09/2014	News Corp / REA	Move	952.0	227	29	4.2x	32.8x
14/10/2016	Cinven, Permira, Mid Europa	Allegro & Ceneo	12556.6	1663	644	7.6x	19.5x
21/06/2018	Recruit Holding Co	Glassdoor	137.0	16	-3	8.6x	
28/07/2018	Zillow	Trulia	6000.0	225	-7	26.7x	
25/01/2019	Prosus	Avito	3850.0	322	177	12.0x	21.7x
24/11/2019	Viagogo	Stubhub	4050.0	1121	-41	3.6x	
10/12/2019	KKR	Axel Springer	8592.9	3112	631	2.8x	13.6x
17/12/2019	H&F	AutoScout24, FinanceScout24, FINANZCHECK	2892.0	264	111	11.0x	26.1x
20/07/2020	Adevinta	eBay Classifieds	9200.0	980	277	9.4x	33.2x
30/10/2020	OLX Brazil	Grupo ZAP	2900.0	232	-16	12.5x	
Medium						**9.8x**	**24.5x**

Table 12 - Sources: companies, press

...but the market remains fragmented

However, the market remains fragmented. In the majority of countries and on the majority of verticals, there are many small players. As such, sector leaders could be interested in acquiring some of these players, notably for generalist platforms to strengthen positions on a number of verticals. The leaders may also look to acquire certain solutions adjacent to the classifieds market to continue to move up the transaction value chain. This is precisely the move undertaken by OLX Group with FCG (see company profile).

With data and technology is becoming increasingly important, it is difficult for small players to remain competitive.

Adevinta and Prosus, the main players in the continued consolidation

Adevinta and Prosus are expected to remain the two main acquirers in the classifieds market. Furthermore, as we also detail on page 48, a merger between Adevinta and OLX Group seems quite credible in the long term. This operation would lead to the creation of a world leader, present in emerging and mature geographies.

In the meantime, the two groups should continue their acquisitions:

- Prosus: instead, we anticipate niche acquisitions for OLX Group, notably technology. We do not anticipate a major acquisition in a mature European market. The group should also continue the development of FCG (automobile inspection and transactions) and it is possible that it will acquire competitors in a number of countries.
- Adevinta: the group's main targets should be: 1/ small/midsized players which could strengthen the group's positioning on the technology front or on certain verticals, in a region in which the group is already present (like the Brazilian real estate platform Grupo Zap acquired for ~$ 550m in 2020); 2/ midsized leaders in new regions that are still under-penetrated (e.g. the generalist sites xe.gr in Greece or Bazos in the Czech Republic); 3/ pure players in the employment recruitment market like HeadHunter (EV of € 1.7bn) and New Work (EV of € 1.2bn), i.e. a market that is not very consolidated but under strong competitive pressure from LinkedIn.

Are certain players targets for the groups IT?

We are interested to know whether certain specialised players (like Rightmove, the domains of marketing and CRM. Indeed these players have developed an extremely strong IT link with their clients (estate agents and dealerships). As such, Auto Trader manages its clients' accounts but is also moving further up its clients' value chains.. In other words, Auto Trader is establishing itself as the leading IT provider to its dealerships. This situation is a departure from the initial of promise of classified ads.

Auto Trader (Scout24 and Rightmove) are increasingly becoming IT and software companies and are therefore attractive to groups in this industry. A specialised publisher in the automobile segment could easily be interested by the acquisition of such a vertical which should thus enable it to strengthen its position in the automobile market. GAFAM could also be interested in this market, even though we note no acquisitions to date in this domain.

ESG: we have identified one point to watch (data management) and one opportunity (circular economy)

Data protection and fraud: a key point for the classifieds platforms

We think that data protection and protection from fraud for the users of classifieds platforms constitutes the biggest risk of controversy for these groups.

The different groups in our sample of coverage (Adevinta, Auto Trader, OLX, Rightmove, Scout24) are therefore all responsible for the data protection and subject to GDPR regulations in Europe (including in the UK until 1 July 2021, but the regulations could change in the wake of Brexit). As such, Auto Trader has recently indicated that it has migrated all of its systems to the Cloud in order to more effectively ensure its security. The group has a team of 19 people dedicated to security, i.e. 2.3% of total headcount.

Specific confidentiality policies and directives have also been put in place in local markets, where other regulations may apply, as is the case for the JV between OLX (Prosus) and Adevinta in Brazil (LGPD – Brazil General Data Protection Law).

In our view, the important point is that these platforms use data to improve their internal tools (valuation tools for automobiles and real estate, for example) but do not resell the users' data to third-party organisations. Conversely, they can exchange data with the platform's professional clients, but only on the condition that the consent of users has been obtained.

With regards to protection against fraud (fake adverts), this is also crucial for the classifieds platforms (since the transaction often takes place outside the platform). There are therefore teams dedicated to reviewing listings and deleting them where necessary. In order to minimise these risks, regular "stress tests" are also conducted (hacking tests via "ethical hackers" and preparedness drills for cyber-security risks and the loss of data). In this context, the sector's transition to a transactional model) which, for example, permits secure payments on the platform, is a positive development.

Circular economy: a means to facilitate sustainable and responsible consumption

Classifieds platforms have, in our view, entered into an underlying trend aimed at promoting more durable consumption because it limits the purchase of new goods.

The textile industry, for example, has been particularly targeted by controversies linked to “fast fashion”, i.e. the constant renewal of product ranges (sentiment of scarcity), whilst at the same time continuously producing clothing lines at very low cost, with the aim of inciting consumers to regularly renew their wardrobes. Zara, H&M and boohoo are regularly the subject of controversy on this issue.

In this context, classifieds platforms provide access to second-hand goods, which: 1/ avoids the manufacture of new products and 2/ reduces the costs linked to the transportation of these products (goods are often exchanged close the home for the seller and the buyer), which implies more limited use of energy and natural resources. We would add that the ease of access to these platforms also prompts their users to repeat the experience and therefore favours the circular economy.

Description of the circular economy

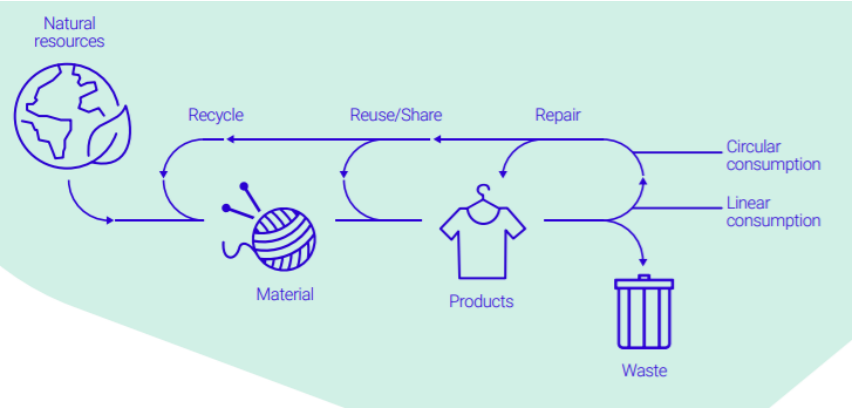


Chart 17 - Source: Adevinta

However, note that the circular economy as an ESG advantage is most relevant for Adevinta (its generalist platforms are competitors to e-commerce, which tends to be a market for new goods) and Auto Trader (since the site essentially deals in second-hand vehicles). Scout24 and Rightmove are relatively unconcerned since real estate is, by its nature, essentially a “second-hand” market, irrespective of the means of access to this type of good (physical world or classifieds platform).

As such, Adevinta estimates that its users have potentially saved 20.7 million tonnes of CO2 emissions through buying and selling on its platforms (with the methodology used based on the idea that one second-hand article bought on a classifieds platform avoids the manufacture of one new article). This represents the annual emissions of 2.3 million European citizens.

COMPANY PROFILES

Adevinta 26

Auto Trader 46

Prosus 66

Rightmove 81

Scout 96

Initiating coverage
Technologie | Norway

Adevinta

Outperform ➔ | Target 200 NOK

Price (07/06/2021) : 160.00 NOK | Upside : 25 %

Revision	2021e	2022e
EPS	ns	ns

Position as n°1 worldwide underpinned by eBay, M&A remains a catalyst

Tuesday 08 June 2021

Capital			
ADE:NO | ADEV.OL			
Market Cap (NOKm)			109 583
Enterprise value (€m)			21 390
Extrema 12 months (€)		95.15 -	175.0
Free Float (%)			37.2
Performance (%)	**1m**	**3m**	**12m**
Absolute	10.5	19.5	45.5
Perf. rel. Country Index	8.4	8.5	20.4
Perf. rel. Media	10.6	9.3	14.6
P&L	**12/21e**	**12/22e**	**12/23e**
Sales (€m)	1 278	1 949	2 170
EBITDA (€m)	403	692	863
Current EBIT (€m)	326	575	733
Attr. net profit (€m)	151	300	420
Adjusted EPS (€)	0.16	0.29	0.37
Dividend (€)	0.00	0.00	0.00
P/E (x)	102.5	55.8	42.5
P/B (x)	2.0	1.9	1.8
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	0.7	1.4	2.0
EV/Sales (x)	16.73	10.82	9.53
EV/EBITDA (x)	53.1	30.5	23.9
EV/Current EBIT (x)	65.6	36.7	28.2
Gearing (%)	25	22	17
Net Debt/EBITDA (x)	6.1	3.2	2.1

Next Events

Adevinta, a global leader and consolidator in the classified ads sector

Adevinta is the entity resulting from the spin-off of the classified ads activities (outside the Nordic countries) of the Norwegian conglomerate Schibsted (2019). Schibsted and then Adevinta were among the main consolidators in the sector, creating or acquiring leading platforms in all segments (generalist, automotive, real estate, employment), such as leboncoin (France), InfoJobs (Spain, Brazil) and OLX Brazil (in a 50/50 joint venture with Prosus). The announcement of the acquisition of eBay's classified ads business in 2020 (€ 10.5bn at the current share price) propelled the group into a new dimension (doubling of revenues). The deal is expected to be closed out in Q2 2021.

Acquisition of eCG, of clear financial and strategic interest

Adevinta's merger with eBay's classified ads business (eCG) is transformative, in our view. It will enable the group to: be the world's no. 1 classified ads company (2021e revenues of € 1.7bn); 2/ recuperate leading platforms (eBay Kleinanzeigen, mobile.de, Marktplaats, Kijiji) in key geographic regions (Germany, Benelux, Canada); 3/ unlock between €130m and €165m of synergies (economies of scale, sharing of best practices, technologies) by year 3 (6% 2024e revenues); 4/ to improve its margin profile (+9 pts); and 5/ to diversify revenue generation.

A merger with Prosus' classifieds business is a plausible scenario and would add ~25% upside to our target price

After eCG, Adevinta is, with Prosus, the ideal candidate to pursue the consolidation of the still fragmented sector. M&A therefore remains a significant catalyst. We think that a merger between Adevinta and OLX Group (Prosus) would be very credible in the longer term. This deal would have the advantage of: 1/ strengthening the group's position as the world's no. 1; 2/ presenting a low regulatory risk (no geographic overlap apart from the JV in Brazil); 3/ balancing Adevinta's mature (and cash-generative) positions (Europe, Canada) and OLX's emerging (high-potential) ones (India, Russia, Brazil). Assuming synergies of € 150m (3% of revenues), a € 10.5bn (OLX valuation) all-stock deal would add 25% upside to our current target price (NOK 50).

Robust EBIT growth (>20% per year) due to improved platform monetisation and synergies with eCG

Although the group was resilient last year (sales down 2%), we expect the business to rebound in 2021 (+18% organic) with favourable comparative bases (-15% in Q2 2020) then annual organic growth of 12% out to 2025 (Adevinta + eCG), driven in particular by the ramp-up of the transactional model and the acceleration of growth in markets that are still under-penetrated (France, Spain and Brazil). While the group will continue to invest significantly in the short term (recruitment, transactional model), EBIT should nevertheless grow by 21% per annum organically to reach an EBIT margin of 42% in the long term (vs 34% in 2022e on the new profile) thanks to 1/ scale effects and 2/ synergies generated with eCG. Our 2022-2023 EPS estimates are 10% above the FactSet consensus.

The new entity is undervalued – Initiating coverage on Outperform with a target price of NOK 200, i.e. 25% upside

We are initiating coverage of Adevinta with an Outperform recommendation and a target price of NOK 200 (DCF), i.e. upside of 25% to the current share price. We think that Adevinta is perfectly positioned to: 1/ pursue sector consolidation (eastern Europe, emerging markets, merger with Prosus?); 2/ more effectively monetise its positions (leader in virtually all of its markets, transactional model as the new growth driver); 3/ maintain robust operating profit growth (>20% per annum) thanks to synergies generated with eCG (€ 130-165m). The stock is trading at 29x 2022e EBITDA (including synergies), which is attractive for this visibility. Note that a CMD on the outlook for the new Adevinta + eCG entity is scheduled for H2.

Martin Marandon-Carlhian (Analyst)
+33 (0)1 55 35 42 54
martin.marandon-Carlhian@oddo-bhf.com

Jerôme Bodin (Analyst)
+33 (0)1 55 35 42 49
jerome.bodin@oddo-bhf.com

Who is Adevinta?

A global leader and consolidator in the classified ads sector

Adevinta is a Norwegian company created by the spin-off of the Norwegian media conglomerate Schibsted's classified ads activities in 2019. Schibsted spun off its international classifieds business (outside Nordic countries) – which are now part of the Adevinta entity – from its traditional media activities (print media, TV), financial services (loans, coupons) and classified ads in Scandinavia.

Schibsted then Adevinta have been amongst the main consolidators in the classifieds sector, notably in Europe (France, Spain, Italy) but also in some emerging markets (Brazil, Mexico). They have been key in the sector's development, both by participating in the creation of certain major sites (leboncoin in France, based on the example of the Swedish site Blocket.se, but also Subito in Italy) and in acquiring leading platforms (InfoJobs, present in Spain, Brazil and Italy, A Vendre A Louer and Argus in France, milanuncios and habitaclia in Spain and Grupo Zap in Brazil).

Adevinta's strategy is therefore to acquire local platforms which either have 1/ leading positions in their respective markets or 2/ an offer that helps strengthen the group's positioning in a country where it is already dominant. The platforms are thus integrated into Adevinta's network, which provides them with the necessary resources to accelerate their growth, while centralising central functions. This facilitates the unlocking of cost synergies and local teams can focus on improving the platform.

Adevinta is led by a group CEO, Rolv Erik Ryssdal (former CEO of Schibsted) and by divisional CEOs, on a country-by-country basis: Antoine Jouteau (CEO France), Gianpaolo Santorsola (CEO Spain and Brazil) and Ovidiu Solomonov (CEO Global Markets). Alessandro Coppo is currently Senior Vice President of eCG.

Adevinta's / Schibsted's historic M&A (classifieds outside Nordic countries)

Announcement date	Company Name	Country	Segment
2006	InfoJobs	Spain/Brazil/Italy	Jobs
2010	leboncoin (full ownership)	France	Horizontal
2013	Fotocasa (full ownership)	Spain	Real Estate
2014	JV with OLX (Naspers) in Brazil (25% stake)	Brazil	Horizontal
2014	milanuncios	Spain	Horizontal
2016	MB Diffusion	France	Horizontal
2017	habitaclia	Spain	Real Estate
2017	OLX Brazil (increased stake to 50%)	Brazil	Horizontal
2017	A Vendre A Louer	France	Real Estate
2018	Videdressing	France	Mode
2019	Locasun	France	Hotels
2019	Argus	France	Auto
2020	Grupo Zap	Brazil	Real Estate
2020	eBay Classifieds Group	Germany, Canada, Benelux, Australia…	Horizontal, Auto

Sources: Adevinta, Schibsted, companies

In July 2020, the group's growth story accelerated with the announcement of the acquisition of eBay's classifieds business (expected to close in Q2 21). The group will become one of the leading global players in the sector along with Prosus and Axel Springer (Germany), who were also interested in the asset.

With this acquisition, Adevinta will have a leading position in 20 countries (Europe, Latin America, Canada). The main platforms of the new group include: the generalist sites leboncoin (France), milanuncios (Spain), eBay Kleinanzeigen (Germany), Marktplaats (Netherlands), Kijiji (Canada) and OLX Brazil (in a 50/50 JV with Prosus), the job search site InfoJobs (Spain, Brazil), the automotive classifieds platforms mobile.de (Germany), motos.net and coches.net (Spain), as well as the real estate pure-player Grupo Zap (Brazil). These platforms cover a population of about 1 billion people, with about 3 billion monthly visits.

Adevinta and eCG's main platforms by country/segment

	Adevinta				eBay Classifieds Group			
Segment / Country	**France**	**Spain**	**Brazil**	**Others**	**Germany**	**Canada**	**Benelux**	**Others**
% sales	**22%**	**11%**	**3%**	**8%**	**27%**	**9%**	**9%**	**11%**
Horizontal	leboncoin	milnuncios	OLX	Willhaben (Austria) Subito (Italia) Jófogás (Hungary) Adverts (Ireland) Segundamano (Mexico)	eBay Kleinanzeigen	Kijiji	Marktplaats (Netherlands) 2dehands/ 2ememain (Belgium)	CarsGuide (Australia) Autotrader (Australia)
Auto	L'argus	coches.net, motos.net		Használtautó (Hungary)	mobile.de, Motor-Talk	Kijiji Autos	Kapaza (Belgium)	automobile.it (Italia) Vivanuncios (Mexico)
Real Estate	A Vendre A Louer	Fotocasa, habitaclia	Grupo Zap	Daft (Ireland)				
Job		InfoJobs	InfoJobs					
Other	Locasun (Hotels) Videdressing (Clothes) MB Diffusion (Tools)							

Sources: ODDO BHF Securities, Adevinta

Adevinta generates its revenue mainly from subscriptions paid by professionals to list ads on the group's sites and more marginally via “premium” functionalities paid by users (~70% of revenue post eCG acquisition, i.e. the "classifieds" segment) and from the ads displayed on the latter (~30% of revenue, i.e. the "advertising" segment).

Share price has outperformed since the IPO, mainly due to the acquisition of eCG

The stock was listed on the Oslo Stock Exchange on 10 April 2019, the largest IPO in Norway since 2006. The share price has since gained 182%, an annualised return of 61%. It has significantly outperformed the other players in our coverage (Scout24, Rightmove, Auto Trader and Prosus), thanks to a very rapid rise in the stock after the announcement of the acquisition of eBay’s classifieds business.

Trend in Adevinta’s share price since the IPO (base 100)

Sources: ODDO BHF Securities, FactSet

SWOT analysis

Strengths	Weaknesses
• Leadership position in the vast majority of its target markets • Group scale effect, accelerated by the acquisition of eCG • Exposure to under-penetrated markets (France, Brazil, etc.) • Portfolio diversification • Excellent track record on M&A • Complementarity (geography, segment) and synergies (core functions, technologies) with eCG	• Lower margin than its peers • No cash redistribution to shareholders yet (dividend or share buyback) • M&A strategy may have fewer synergies than in other industries (local platforms only) • Regulation makes consolidation in a given market more difficult
Opportunities	**Threats**
• Further consolidation in new markets (eastern Europe, emerging markets) • Rollout of the transactional model in other geographic areas • Stronger-than-expected synergies with eCG • Merger with Prosus' classifieds business	• Execution risk with eCG • Ramp-up of local competitors • Faster-than-expected acceleration in spend linked to the transactional model • Currency risk (fairly limited, in our view, see comment page 41)

Source: ODDO BHF Securities

Merger with eBay Classifieds turns Adevinta into a global leader with a very attractive profile

Adevinta's merger with eBay's classified ads business is a transformative one, in our view. It will enable the group to: 1/ become the world's no. 1 player in the classifieds segment (€ 1.7bn sales); 2/ recuperate leading platforms in key geographic areas (Germany, Benelux); 3/ generate between € 130m and € 165m in synergies by year 3 (two-thirds cost synergies and one-third revenue synergies); 4/ improve its margin profile (+9 points) and 5/ diversify its sales generation.

eCG: a highly complementary asset to Adevinta, with leading platforms in key geographic areas

eBay Classifieds Group (eCG) is one of the world's leading classifieds players (revenue of ~$ 1bn). It was created in 2005 as a division of the US eBay Group (~10% of 2019 revenues) to consolidate acquisitions of local classifieds platforms (outside the US), before being sold to Adevinta last year. eCG now operates in 13 different countries.

The group's main positions are as follows:

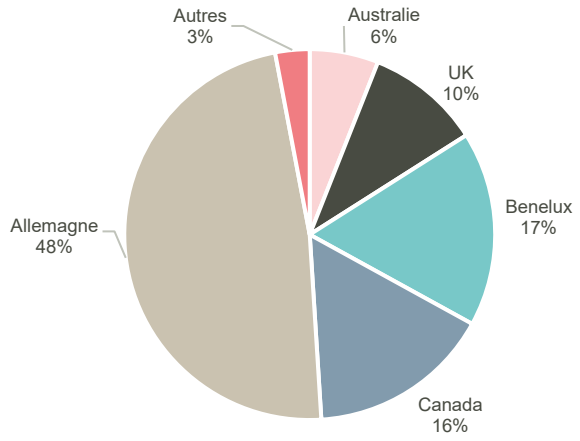
- **Germany** (48% of 2019 revenue): with the generalist eBay Kleinanzeigen platform and the mobile.de automotive platform.
- **Benelux** (17% of sales): with the generalist platforms Marktplaats (Netherlands) and 2dehands/2ememain (Belgium).
- **Canada** (16% of sales): with the generalist platform Kijiji.

These platforms (representing >80% of revenues) are the undisputed leaders in their respective markets and therefore benefit from a powerful network effect (see section on the network effect page 14), thus creating strong barriers to entry for their competitors.

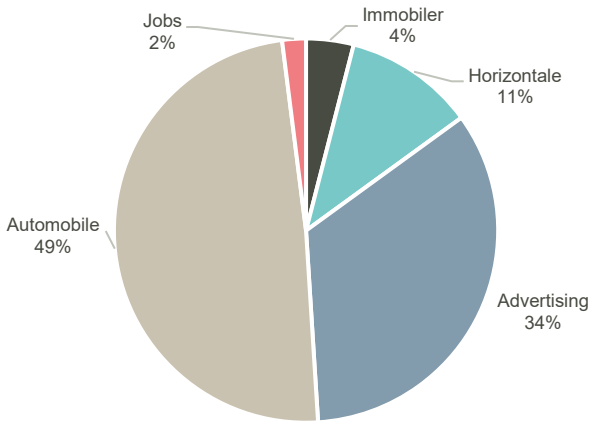
eCG also complements Adevinta's portfolio of assets very well, both in terms of geography (notably with a very significant presence in Germany, the only major European market where Adevinta was not present) and segment, with a strong position in the automotive sector (49% of revenues vs 27% for Adevinta) and the generalist segment (34% of revenues from advertising and 11% from services other than automotive, real estate and employment, vs 19% and 11% respectively for Adevinta).

eBay also has significant positions in Australia (6% of revenues) with the CarsGuide (n°2 on the market after Carsales) and Autotrader Australia platforms, as well as in the UK (10% of revenues) with the generalist platform Gumtree (n°1 on the generalist market) and the Motors.co.uk automotive platform (far behind in terms of market share compared with Auto Trader). Note, however, that the UK activities will be sold as part of this transaction (see our commentary on page 32) and that eCG's operations in Denmark (6% of revenues), with the generalist platform DBA (No. 1 in the market) and the auto platform BilBasen (no. 1 in the auto sector), were sold to Schibsted for $ 330m as part of the transaction.

Breakdown of eBay Classifieds' revenue by region



Breakdown of eBay Classifieds' revenue by segment

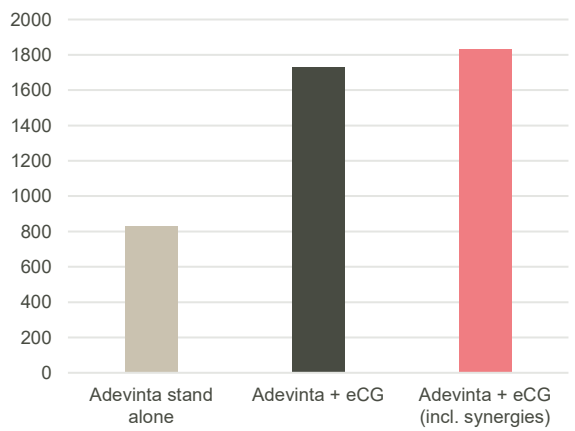


Sources: ODDO BHF Securities, Adevinta, eBay

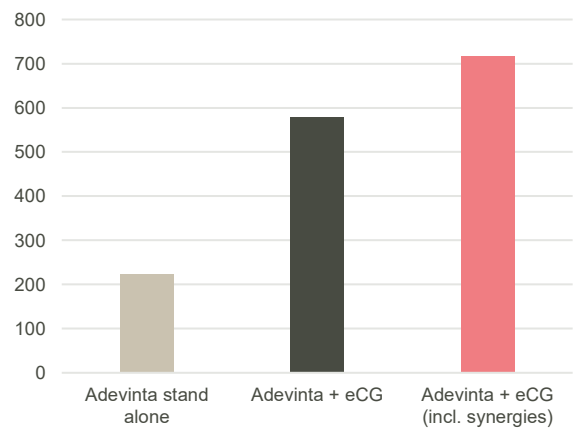
Group doubles in size, and becomes a global leader in the classifieds sector

Following the acquisition of eCG, Adevinta will double in size and the new entity will generate ~€1.7bn in revenues this year, according to our forecasts (vs ~€ 830m on a stand-alone basis) and ~€ 580m in EBITDA (vs ~€ 220m on a stand-alone basis), i.e. ~€ 720m in EBITDA after synergies.

Adevinta's 2021e revenues (€ m) before/after transaction



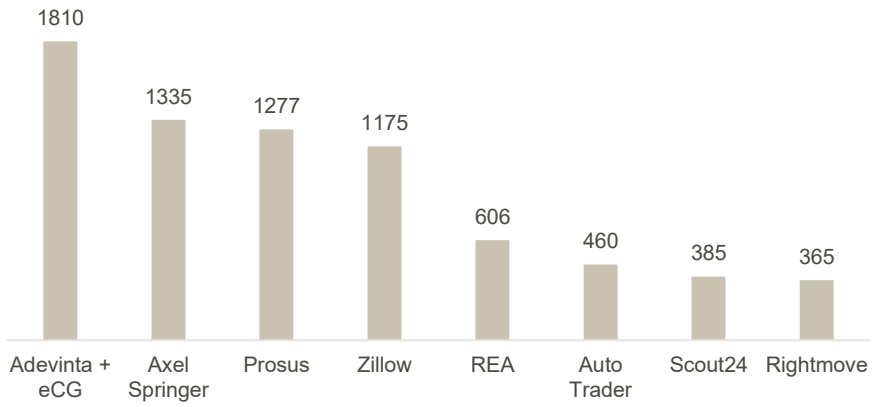
Adevinta's 2021e EBITDA (€ m) before/after transaction



Sources: ODDO BHF Securities, Adevinta, eBay
**eCG consolidated over full-year 2021*

The transaction will create a global leader in online classifieds, ahead of Axel Springer and Prosus ($ 1.3bn in revenues in 2019 vs $ 1.8bn for Adevinta + eCG), covering 20 countries and serving a population of one billion people with an average of 3bn monthly visits.

Ranking of the main classified ads players in the world by revenues ($ m, 2019)



Sources: Companies, Adevinta

A $ 13bn deal, i.e. 17x 2019 EBITDA post synergies. Deal expected to be closed out in Q2 2021

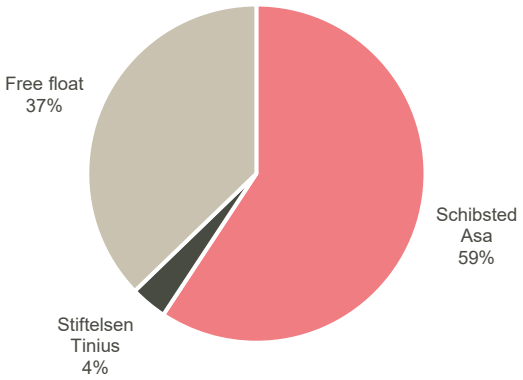
The eBay classifieds transaction was announced in July 2020. The deal is valued at $ 12.6bn (at Adevinta's current share price and exchange rate of NOK 160.00 and USD/NOK 8.27 respectively).

This represents an increase of +42% on the implied amount at the time of the transaction ($ 9.2bn) as the transaction was paid for through a mix of shares (540 million Adevinta shares, which have risen sharply since the transaction) and cash ($ 2.5bn).

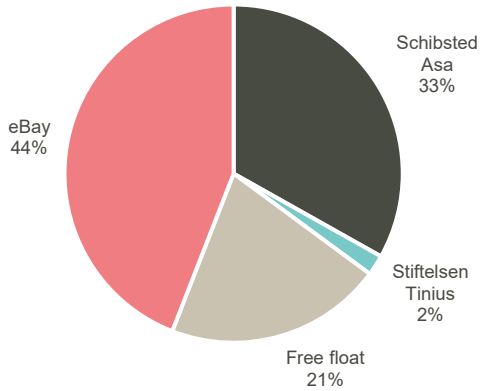
The implied multiple of the deal is 22x 2019 EBITDA (at Adevinta's current share price and current exchange rates), i.e. 17x post synergies ($ 167.5m, the median point of guidance for synergies of $ 150-185m at the EBITDA level in year 3). Note that at the time of the transaction, the multiple was 15x 2019 EBITDA (12x post synergies).

eBay will thus become the group's largest shareholder with 44% of the capital (and one-third of the voting rights). Schibsted will see its stake reduced to ~33% (vs 59% previously).

Adevinta's share ownership structure (pre-deal)



Adevinta's share ownership structure (post-deal)



Sources: ODDO BHF Securities, Adevinta, eBay

The deal was originally scheduled to close in Q1 2021 but was pushed back to Q2 2021 due to regulatory constraints. The UK's Competition and Markets Authority (CMA) was concerned that eBay (which will have 33% of Adevinta's voting rights following the merger with eBay Classifieds) would be able to influence the business strategy of Gumtree (eBay Classifieds) and Shpock (Adevinta) in the UK, as Facebook is the only other competitor in the generalist market.

Adevinta will divest its UK platforms. At the beginning of June, Russmedia Equity Partners acquired Shpock (for an undisclosed sum). The UK regulator approved the eCG transaction, subject to the divestment of Gumtree UK and of motors.co.uk (eBay Classifieds).

Adevinta and eBay still aim to close the transaction in Q2 2021, subject to the final approval of the regulator in Austria (where Shpock is also present).

We estimate the value of these transactions at around $ 1bn but the price could be lower given the context. In any case, this disposal does not call into question the rationale of the transaction given that the UK represents just 5% of the new entity's consolidated revenues (1% of Adevinta's revenues and 10% of eCG's revenues).

Compelling financial and strategic appeal (scale, synergies, margins, platforms, diversification)

At 16.4x 2019 EBITDA (implied multiple at current price), we believe that the eBay classifieds acquisition was too good a strategic and financial opportunity for Adevinta to miss. As evidence of the strategic merits of the deal, eBay has recovered a substantial amount of equity (~70% of eCG's implied value at the time of the buyout and >80% at Adevinta's current price).

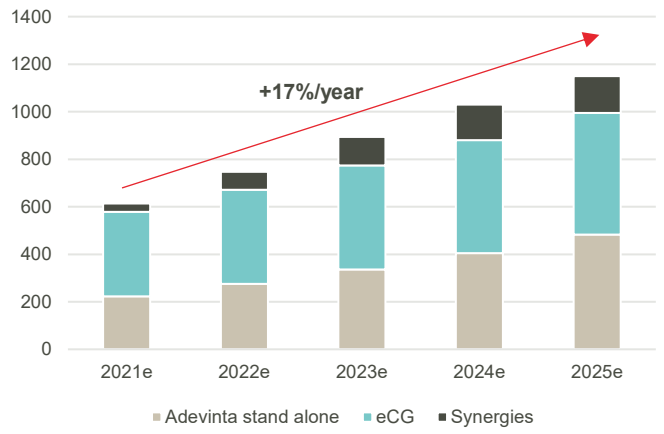
The transaction has a very significant financial appeal, as the group stands to benefit from:

- 1/ Economies of scale: centralisation of certain central and support functions.
- 2/ Sharing of best practices: sharing of data, tools and technologies from each platform, which can be implemented in other geographic regions to improve the effectiveness of ads and create other opportunities for generating revenue (rollout of the transactional model, packaging giving access to several countries).
- 3/ Overlap in certain countries (Italy and Mexico): consolidation will help optimise the cost structure and strengthen the positioning of these platforms. Note that that the business to be sold in the UK (where there is also an overlap) has not been taken into account in the calculation of synergies.

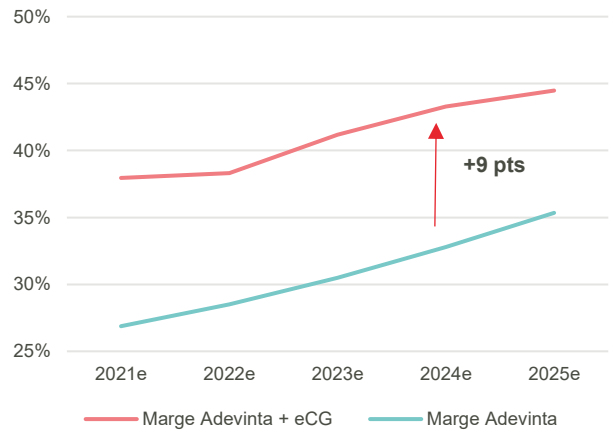
The group therefore expects to generate synergies of between € 130m and € 165m in year 3, i.e. € 147.5m at the median point (6% of 2024e revenues). Two-thirds of these synergies will likely be cost synergies and one-third revenue synergies.

The new entity will also enable Adevinta to improve its margins by around 9 percentage points, thanks to eCG's superior margin profile (39.6% in 2019 vs 29.3% for Adevinta) and synergies (we are targeting € 155m by 2024e). The 2025e EBITDA margin for the new entity is 44.5% compared to 35.3% on a stand-alone basis. The improvement in cash generation should also enable the group to pay a dividend in the longer term.

Trend in EBITDA* of the new entity out to 2025 (€ m)



Adevinta's EBITDA* margin on a stand-alone basis vs new entity

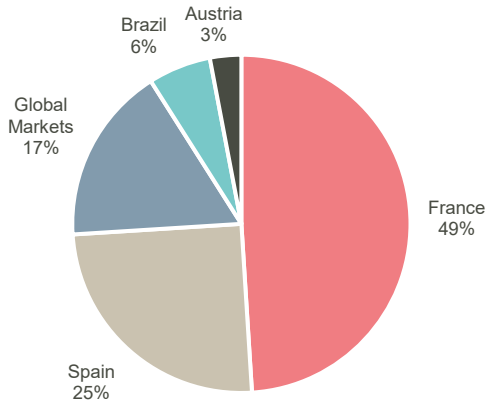


Sources: ODDO BHF Securities, Adevinta, eBay
**eCG consolidated over full-year 2021*
***Restructuring and integration costs (~€ 110m over three years) are not included in the EBITDA calculation*

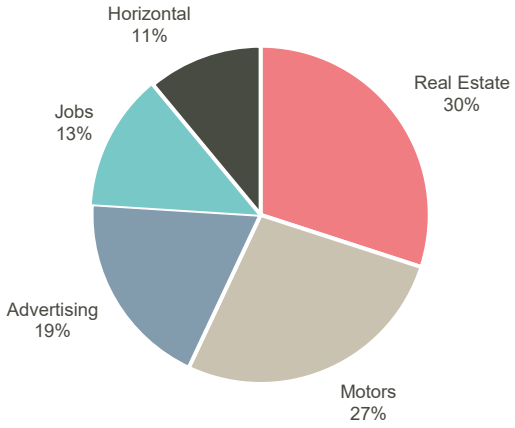
In addition, beyond the financial interest of the operation, eCG was a strategic opportunity that the group should not miss.

eCG has leading platforms (mobile.de, eBay Kleinanzeigen, Marktplaats, Kijiji) in key geographic areas where Adevinta was not present (Germany, Benelux, Canada), with a particularly strong foothold in the automotive sector (nearly 50% of sales). The new group will thus have a much more diversified profile than Adevinta's stand-alone business.

Breakdown of revenues by region on a stand-alone basis (2019)

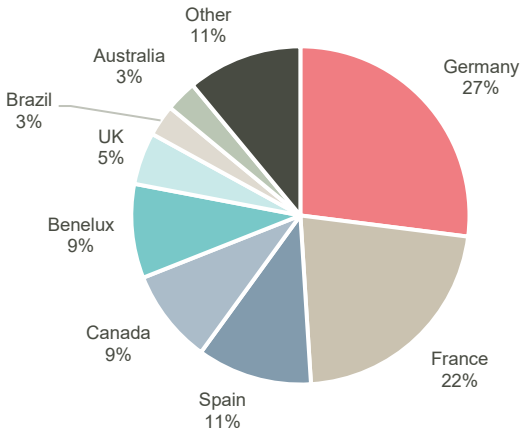


Breakdown of revenues by segment on a stand-alone segment (2019)

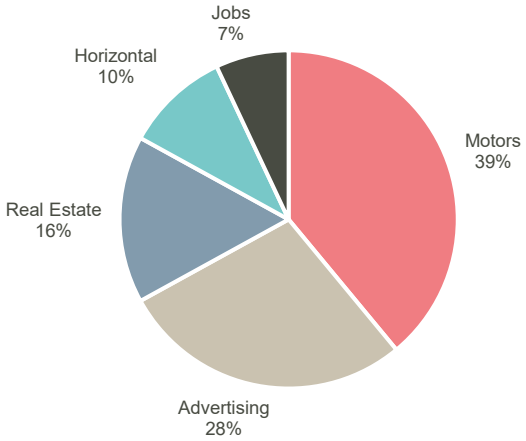


Source: ODDO BHF Securities, Adevinta

Breakdown of revenue by region for the new entity (2019)



Breakdown of revenue by segment for the new entity (2019)



Source: ODDO BHF Securities, Adevinta

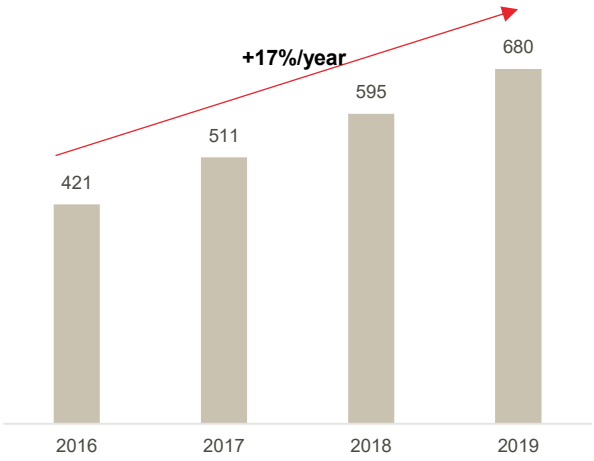
Adevinta is also one of the most credible players to pursue the consolidation of the sector (see our comment on the pursuit of consolidation on page 22).

Exposure to markets that are often under-penetrated and/or under-monetised

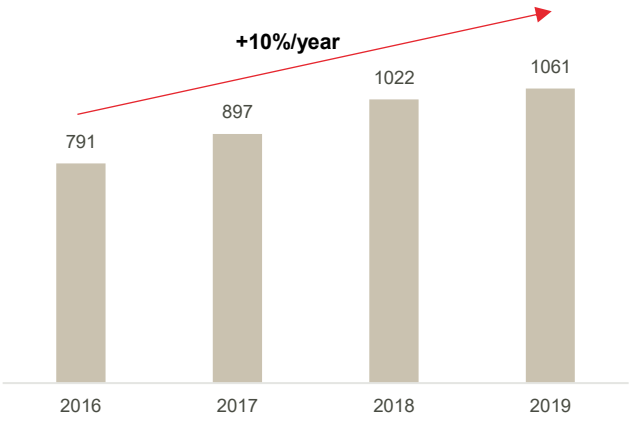
Growth driven by under-penetrated markets (France, Germany, Spain, Brazil)

Adevinta has been driven by strong growth in recent years, i.e. 17% per annum between 2016 and 2019, higher than that of other European players (Auto Trader, Scout 24 and Rightmove), between 8 and 10% per annum. Revenues for eBay's classified business have grown in line with the European market (~10% per year).

Adevinta's revenue growth (€ m)



eCG's revenue growth ($ m)



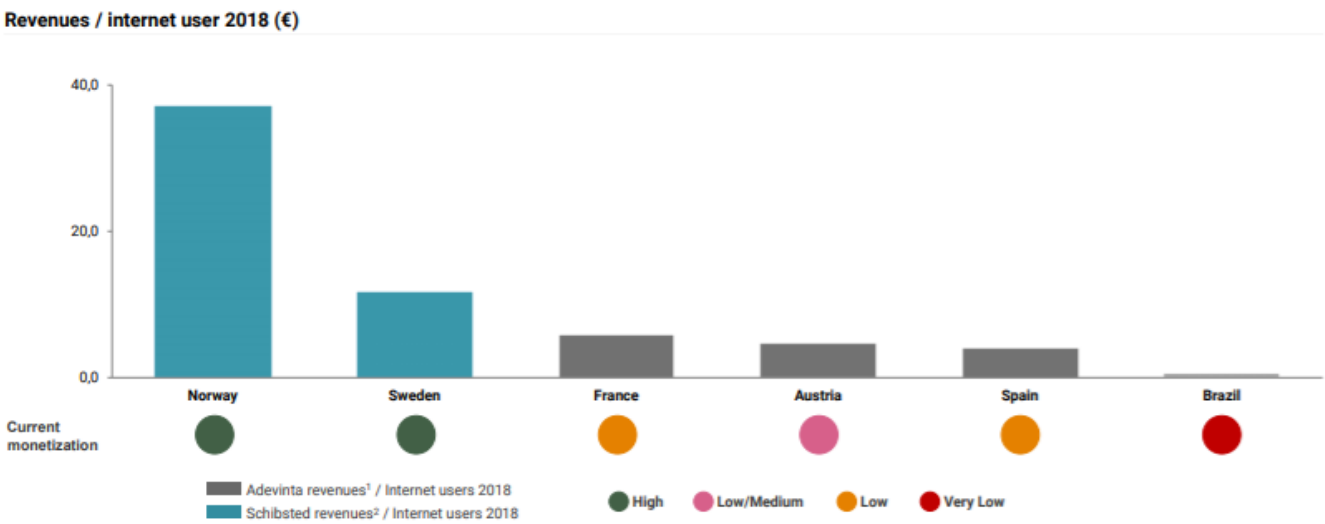
Sources: ODDO BHF Securities, Adevinta

Granted, this robust growth has benefited from a number of small M&A transactions (habitaclia in Spain, A Vendre A Louer and Videdressing in France and the increase in Adevinta's stake in OLX Brazil from 25% to 50%), but it is especially linked to the fact that Adevinta is exposed to markets that are still under-penetrated (France, Spain and Brazil). For example, Brazil represented 3.5% of Adevinta's revenues in 2016 (based on its current 50% stake) but should represent 7.5% of the latter in 2025e (on a stand-alone basis).

eCG is present in countries that are slightly more mature than those of Adevinta (Canada, Germany) but in a market that remains globally under-penetrated in Europe. Online marketing expenditure represents less than 10% of the revenues of the professionals who use these platforms the most (real estate agents and car dealers), i.e. ~1% in Brazil, 3-4% in France, 6-7% in Germany vs ~10% in the UK (see our comment on market penetration on page 20).

The structural transition from paper to online classifieds should therefore continue and Adevinta is perfectly positioned to benefit from this. In the long term, the share of spending on classified ad platforms in the income of professionals could thus approach 15% (new entrants to the property market, often more digital, spend up to 25-30% of their income using these platforms).

Adevinta's target market penetration (revenue per user spent on the internet)



Source: Adevinta (2018)

The transactional model, a new monetisation lever - leboncoin an example to follow

The transition of Adevinta's platforms to the transactional model will generate new revenue opportunities for the group.

Indeed, the new group benefits from a very large user base (~3bn monthly visits) but only monetises the relationship with professionals in the vast majority of cases (via subscriptions paid by the latter to list ads on the group's site). The transactional model then makes it possible to monetise the relationship with private individuals, by taking part in the transaction (via payment services, for example) and by receiving a commission on the latter, which brings it closer to e-commerce (see our comments on the trend in the classifieds model on page 21).

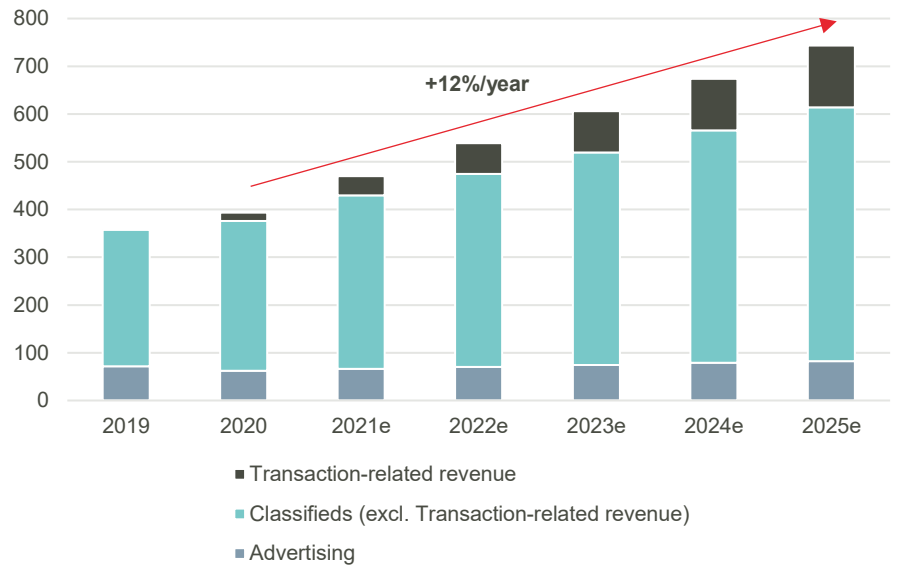
Adevinta started working on the transactional model in 2018 and in 2019 introduced payment solutions as well as delivery services for certain categories on its main platform, namely leboncoin. The use of the service accelerated in 2020, as it was extended to almost all categories (electronics, fashion, holidays, automotive...) and was particularly used in the context of lockdowns (health and travel restrictions), strongly accelerating user adoption of the service.

This service also solves some of the platform's weaknesses compared to traditional e-commerce players (payment security, time saving and geographical limitation related to the fact of establishing a meeting between buyer/seller to finalise the transaction).

We estimate that leboncoin has generated around € 15-20m in revenues from transaction fees alone (not including revenue synergies from increased traffic on the platform thanks to this solution). Bear in mind that the group applies a 4% commission on payment and charges for delivery at the estimated cost to the group. We estimate that the group recovers 3% to 3.5% of the value of each transaction (payment service provider commission rate ~1-1.5%).

The transactional model has enabled the French revenue (>50% of Adevinta's standalone revenue) to be particularly resilient in 2020 at +10% year-on-year. We are targeting transactional revenues of € 40m in 2021 and € 130m in 2025. This will enable the group to benefit from an average of 3 additional growth points each year in French revenues (12%per year vs 9% per year excluding transaction-related revenues).

Trend in revenue France (€ m) between 2019 and 2025e, driven by the ramp-up of the transactional model



Sources: ODDO BHF Securities, Adevinta
**ODDO BHF estimates for revenue from transaction fees*

The group will also likely also extend the transactional model to its other platforms place (already implemented on the Subito generalist platforms in Italy milanuncios over the past several months) and in particular those of eCG (eBay Kleinanzeigen, Kijiji), thus generating new revenue opportunities.

Finally, note that whilst this activity will be dilutive in terms of margin, given that the transactional model is more capital-intensive than the simple listing of advertisements, this model is not in opposition but rather adds to the existing model and will therefore be beneficial to the group in terms of EBITDA in absolute terms. Thus, we expect the EBITDA margin in France to contract from 48.6% in 2020 to 47.6% in 2021, before reaching 51.7% in 2025 (vs 53.5% in 2019) thanks to scale effects.

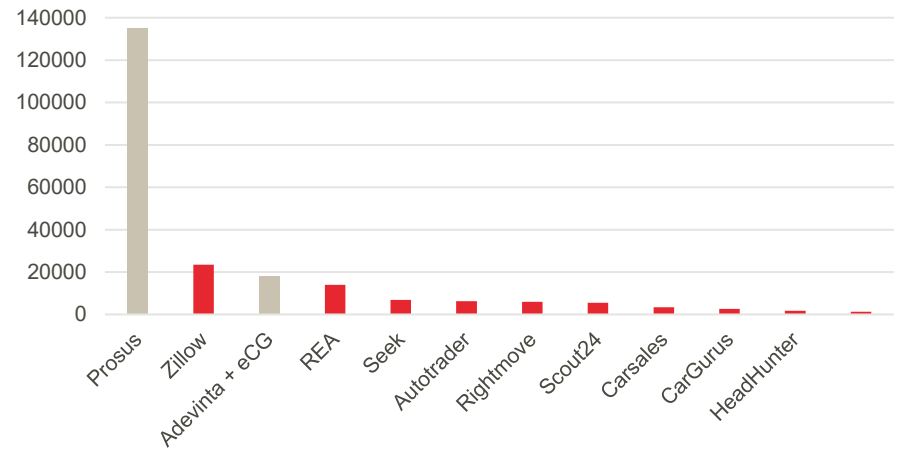
M&A remains a catalyst – endgame: a merger with Prosus' classified division?

After eCG, the group is perfectly positioned to pursue market consolidation

After the acquisition of eBay Classifieds, Adevinta is positioned, with Prosus, as the ideal candidate to pursue sector consolidation.

The group has indeed gained credibility with this operation since: 1/ it will reach a capitalisation close to € 20bn (greater flexibility to carry out large share deals); 2/ it now has a scale effect unrivalled in the sector (combined 2019 revenues > the classifieds division of Prosus and Axel Springer).

Market capitalisation of the main classifieds players, divided between diversified/horizontal players (beige) and pure players (red)



Sources: ODDO BHF Securities, FactSet

The classified market is also still fragmented (see our comments on page 22). There are still many players in Europe that Adevinta could consolidate: 1/ small/medium sized players that could strengthen the group's positioning in terms of technology or in certain verticals, within geographic areas in which it already has a foothold (such as the Brazilian real estate platform Grupo Zap acquired for ~$ 550m in 2020); 2/ medium-sized leading players in new geographic regions that are still not well penetrated (example of the generalist sites xe. gr in Greece or Bazos in the Czech Republic); 3/ pure players in the job market such as HeadHunter (€ 1.7bn in sales) and New Work (€ 1.2bn in sales), i.e. a market that is not very consolidated but subject to significant competitive pressure from LinkedIn.

Note that the group has also optimised the structure of its portfolio by selling (between June 2020 and February 2021) several platforms with little growth prospects (limited market or lack of leadership), such as Corotos in the Dominican Republic, Yapo in Chile, Avito in Morocco, Tayara in Tunisia and Fincaraiz in Colombia.

We do not believe Adevinta will buy large pure players such as Rightmove and Scout24 given their high price (> € 5bn) and what we believe is limited synergy potential. A merger with Axel Springer ($ 1.3bn revenues in 2019) could be credible, but the geographic overlap (in France and Germany in particular) looks too great, in our view, and the risk of competition would be too high. Against this backdrop, a merger with the classified division of Prosus (no overlap in terms of geography) seems much more likely.

What about a merger with Prosus? Additional upside of 25% in the event of a deal

Adevinta and Prosus are expected to remain the two main acquirers in the classifieds market. Furthermore, as we also detail on page 41, a merger between Adevinta and OLX Group seems quite credible in the long term. This operation would lead to the creation of a world leader present in emerging and mature geographic areas.

A share of the consensus has repeatedly alluded to this scenario. The main appeal is the good fit of the two portfolios. Adevinta is mainly present in mature markets (France, Spain and Germany) while OLX is present in more emerging geographic regions (India, Russia, and in a joint venture with Adevinta in Brazil). The two groups have almost zero presence on the same markets and the competitive/legal risk is therefore very low, non-existent even.

They could therefore benefit from a balance between mature positions (that generate high levels of cash) with high potential. We set out hereafter the new group's potential financial profile.

OLX Group (including equity-accounted affiliates, excl. Tradus)

Region	Country	Automotive	Real estate	Jobs	Other goods	Advertising and other
Western Europe	France				Selency	
Southern Europe	Portugal	OLX, Standvirtual	OLX, Imovirtual	OLX	OLX	OLX
Eastern Europe	Poland	OLX, 3.2.1 Sprzedane, otomoto	OLX, otodom	OLX	OLX	OLX, fixly
	Romania	OLX, Autovit.ro	OLX, Storia	OLX	OLX	OLX
	Bulgaria	OLX	OLX	OLX	OLX	OLX
	Russia	Avito	Avito, Domofond.ru	Avito	Avito	Avito
	Ukraine	OLX	OLX	OLX	OLX	OLX
	Bosnia and Herzegovina	OLX	OLX	OLX	OLX	OLX
Middle East	Turkey	letgo oto+	letgo	letgo	letgo	Letgo
	Lebanon	OLX	OLX	OLX	OLX	OLX
	Jordan		Bayut			
	Saudi Arabia		Bayut			
	UAE	Dubizzle	Dubizzle, Bayut	Dubizzle	Dubizzle	Dubizzle
	Oman	OLX	OLX	OLX	OLX	OLX
Africa	Morocco		mubawab			
	Algérie		mubawab			
	Tunisia		mubawab			
	Egypt	OLX	OLX	OLX	OLX	OLX
	Nigeria	Cars45 (OLX Autos)				
	South Africa	OLX, Auto Trader	OLX, Property24	OLX	OLX	OLX
North America	US	Webuyanycar.com (OLX Autos), Offerup	Offerup		Offerup	Offerup
Latin America	Mexico	OLX Autos	Lamudi			
	Brazil	OLX	OLX	OLX	OLX	OLX
	Argentina	OLX, OLX Autos	OLX, Properati	OLX	OLX	OLX
	Chili	OLX Autos				
	Colombia	OLX, OLX Autos	OLX, Properati	OLX	OLX	OLX
	Ecuador	OLX Autos	Properati			
	Peru	OLX, OLX Autos	OLX, Properati	OLX	OLX	OLX
	Uruguay	OLX Autos	Properati			
Central Asia	Kazakhstan	OLX	OLX	OLX	OLX	OLX
	Uzbekistan	OLX	OLX	OLX	OLX	OLX
South Asia	Pakistan	CarFirst (OLX Autos)	Lamudi, Zameen			
	India	OLX, OLX Autos	OLX	OLX, Waah!jobs	OLX	OLX
	Bangladesh		Bproperty			
	Thailand	Kaidee	Kaidee		Kaidee	
Asia-Pacific	Indonesia	OLX, OLX Autos	OLX, Lamudi	OLX	OLX	OLX

Source: ODDO BHF Securities

Consolidation of Adevinta and OLX Group

$ m or € m	2020	2021e	2022e	2023e	2024e	2025e
Revenues OLX Group ($)	1 281	1 473	1 879	2 343	2 768	3 225
Revenues OLX Group ($)	1 059	1 217	1 553	1 937	2 288	2 665
Revenues Adevinta	674	1 278	1 949	2 170	2 379	2 586
Revenues NewCo	1 732	2 496	3 502	4 106	4 667	5 250
EBITDA OLX Group ($)	82	60	160	327	450	527
EBITDA OLX Group (€)	68	50	132	270	372	436
EBITDA Adevinta	183	403	692	863	1 030	1 150
EBITDA NewCo	250	453	824	1 133	1 402	1 586
Costs NewCo	1 482	2 043	2 678	2 973	3 265	3 665
Synergies (€ 150m)			50	50	50	
o/w revenues			16.7	16.7	16.7	
o/w costs			33.3	33.3	33.3	
Revenues after synergies			3 573	4 227	4 833	5 416
Costs after synergies			2 699	2 994	3 281	3 680
EBITDA after synergies			**874**	1 233	1 552	1 736

Source: ODDO BHF Securities

The potential synergies are particularly significant in our view. We estimate it to be between € 150m and € 200m, of which approximately two-thirds on costs and one-third on sales. Bear in mind that the total synergy envelope for this operation is € 130-165m. While some synergies will already have been generated with eCG, we believe it is reasonable to assume a baseline assumption of € 150m for an OLX Group / Adevinta merger (3.0% of 2025e revenues).

This scenario would be credible in the medium term. The main catalyst would be a strategic agreement between Prosus and Schibsted, which respectively hold 100% and 59% of their assets in classifieds (33% after the eCG operation), but also eBay (which will hold 44% of Adevinta's capital). The challenge would be to reach an agreement that would maintain a kind of parity between the three shareholders. A cash inflow would help to balance these positions and thus create a joint venture or sign a shareholder pact. The collaboration between the two groups seems particularly strong in Brazil and could be the first step in a more complete merger at the classifieds subsidiary level. Bear in mind that we value OLX at € 10.5bn. Based on our valuation for OLX and assuming that no premium is awarded to Prosus, the latter could hold around 35% of the new entity.

Using a DCF approach (combining Adevinta and Prosus' classified business), including synergies (€150m) and assuming a stock transaction (i.e. creation of ~670m shares), we estimate that the deal would add NOK 50 to our target price, i.e. 25% additional upside.

Robust EBIT growth (>20% per year) due to improved platform monetisation and synergies with eCG

Short-term rebound in business (organic growth of +18% this year). Strong growth in revenues out to 2025 (11% per year)

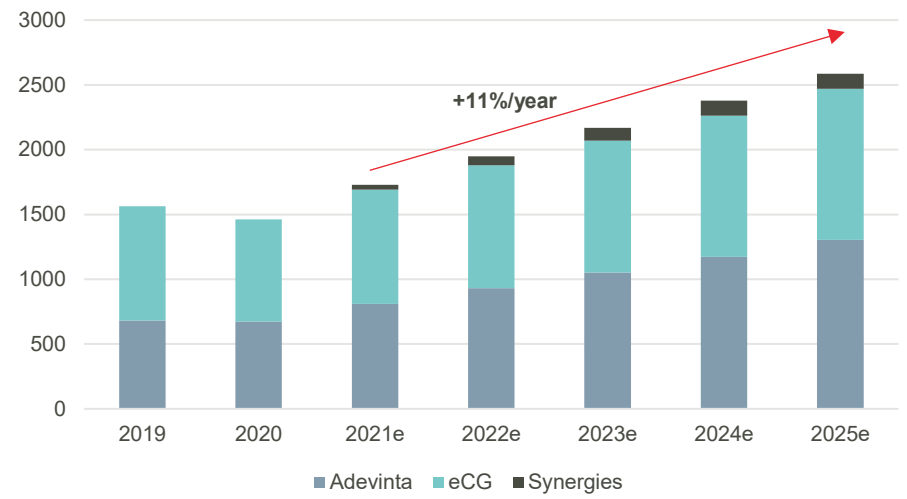
While the group's business has been resilient during the pandemic (revenues down 2% in 2020), thanks in particular to the good performance of France (+10%), we expect business to rebound in 2021 with a favourable comparative base in Q2 (for which revenues were down 15% year-on-year last year).

As such, we expect Q2 to be particularly strong with revenues up 38% to € 200m, in line with the good Q1 results which were resilient despite the continued health restrictions (revenues up 6% vs Q1 2020). We also expect EBITDA of € 55m, up 42% on Q2 2020 but relatively stable compared to Q1 2021 (€ 53m) with the ramp-up of costs on the transactional model (EBITDA margin of 27.4% vs 29.1% in Q1 2021).
We are integrating eCG from Q3 onwards (closing of the transaction expected in Q2) and are targeting revenues and EBITDA of € 450m and € 178m respectively in H2 for eCG. Our full year revenue and EBITDA guidance for the combined group (where eCG

is only consolidated in H2) is therefore € 1,278m (18% organic growth) and € 396m (31.0% margin) respectively.

Over the 2021-2025 period, we expect average annual organic growth of 12% and 11% respectively in France (driven in the short term by the ramp-up of the transactional model) and Spain, 9% in the global markets segment and 25% in Brazil (the most under-penetrated country in Adevinta's portfolio). At the same time, we are targeting growth of 8% per year for eCG over the period. The 2021e-2025e CAGR for organic sales growth is thus 11%, i.e. € 2.6bn in 2025e.

Revenues out to 2025e (€ m)



Sources: ODDO BHF Securities, Adevinta

Revenues for the Adevinta group and eCG by segment

€ m	2019	2020	2021e	2022e	2023e	2024e	2025e
Revenues France	357	393	470	539	606	674	743
Growth		10.0%	19.5%	14.7%	12.5%	11.2%	10.3%
Advertising revenue (estimated)	71	62	66	70	75	79	83
Growth		-12.8%	6.0%	6.5%	6.0%	5.5%	5.0%
Classifieds revenue (estimated)	286	331	404	468	531	595	661
Growth		15.7%	22.0%	16.0%	13.5%	12.0%	11.0%
Revenues Spain	182	164	183	208	232	255	279
Growth		-9.9%	11.8%	13.2%	11.7%	10.0%	9.2%
Advertising revenue (estimated)	27	33	36	38	40	43	45
Growth		20.9%	9.0%	6.0%	6.0%	5.5%	5.0%
Classifieds revenue (estimated)	155	131	147	169	192	213	234
Growth		-15.3%	12.5%	15.0%	13.0%	11.0%	10.0%
Revenues Brazil	86	73	113	147	187	234	281
Growth		-14.9%	55.0%	30.0%	27.0%	25.0%	20.0%
Revenues Global Markets	164	146	159	175	190	207	223
Growth		-11.2%	9.0%	10.0%	9.0%	8.5%	8.0%
Revenues eCG	884	789	900	985	1,068	1,146	1,220
Growth		-10.8%	14.0%	9.5%	8.4%	7.3%	6.4%
Other & Elimination	-109	-103	-97	-104	-114	-137	-160
Consolidated Revenues	1 564	1 462	1 728	1 949	2 170	2 379	2 586
Growth		-6.6%	18.2%	12.8%	11.3%	9.6%	8.7%

Source: ODDO BHF Securities

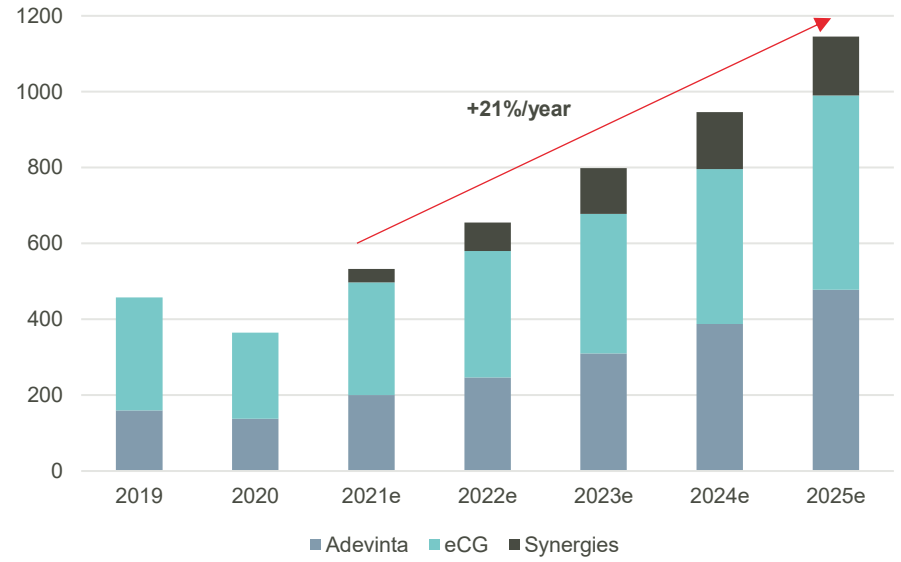
Investments in the transactional model, offset by synergies and the group's size effect

With the return of certain costs this year, notably recruitment (opex down 4% last year as part of a cost reduction plan) and the ramp-up of the transactional model (dilutive in terms of margin), we anticipate an acceleration of costs in the short term (+15% in 2021e). The EBITDA margin of French revenues should therefore fall from 48.6% in 2020 to 47.6% in 2021.

Nevertheless, there is significant operating leverage with: 1/ the group's scale effect (strong economies of scale as expenses are primarily fixed costs related to marketing and payroll), 2/ the acceleration of growth in the group's most under-penetrated markets (notably Brazil) and 3/ the synergies generated with eCG (guidance of € 130-165m in year 3).

The adjusted EBIT margin should thus be 44% in 2025 (vs 31% in 2021 on the profile of the new entity, i.e. a gain of ~13 points). This translates into average annual growth in operating profit of 21%.

Trend in operating profit out to 2025e (€ m)



Sources: ODDO BHF Securities, Adevinta

We are above the consensus in forecasting adjusted EPS of € 0.16 in 2021e (vs consensus € 0.15), € 0.29 in 2022e (vs consensus € 0.26) and € 0.37 in 2023e (vs consensus € 0.34) respectively. Our adjusted EPS for 2025e is € 0.55, representing organic EPS growth of 22% per year on average from 2021 to 2025.

Note that Adevinta is exposed to forex fluctuations on its non-eurozone exposures, the Brazilian Real being the most significant. On a consolidated basis, however, the forex risk is quite low, in our view, as: 1/ Brazil will represent 3% of the new Adevinta + eCG entity's revenues, and the eurozone about 75%; 2/ the group is reducing its exposure by minimising the accumulation of cash in foreign currencies and matching cash inflows and outflows in the same currency when operationally possible; 3/ Adevinta uses derivatives to hedge its forex risk. As a result, the forex effect on cash flow generation has been less than € 1m each year since 2016.

P&L for Adevinta Group + eCG (consolidated as of H2 2021)

€ m	2019	2020	2021e	2022e	2023e	2024e	2025e
Revenues	**680**	**674**	**1 278**	**1 949**	**2 170**	**2 379**	**2 586**
Growth		*-1.0%*	89.8%	52.5%	11.3%	9.6%	8.7%
Synergies			35	75	120	150	155
- as % of sales				1.8%	3.5%	5.0%	5.8%
EBITDA Adevinta stand alone	200	183	230	270	336	404	483
- as % of sales	*11.9%*	*11.7%*	13.3%	13.8%	15.5%	17.0%	18.7%
OPEX Adevinta stand alone	481	491	599	695	766	829	883
Growth		*2.1%*	22.0%	16.0%	10.3%	8.2%	6.6%
EBITDA eCG (estimated)			178	397	437	476	512
- as % of sales			10.3%	20.4%	20.1%	20.0%	19.8%
OPEX eCG (estimated)			272	588	630	670	708
Growth				116.4%	7.2%	6.3%	5.5%
EBITDA Group	**200**	**183**	**403**	**692**	**863**	**1 030**	**1 150**
- as % of sales	12.8%	12.5%	23.3%	35.5%	39.8%	43.3%	44.5%
Tax Rate	-38.5%	-20.6%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
Net income	67	-70	153	302	422	564	661
Adjusted EPS Diluted (€)	**0.15**	**0.01**	**0.16**	**0.29**	**0.37**	**0.47**	**0.55**
Growth		*-90%*	968%	84%	31%	25%	16%

Source : ODDO BHF Securities

**eCG consolidated as of H2 2021*

Our forecasts (vs consensus) for 2021, 2022 and 2023

€ m	2021e			2022e			2023e		
	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.
Revenues	1278	1258	1.6%	1949	1914	1.9%	2170	2131	1.8%
Revenue growth	8.5%	19.7%		52.5%	52.1%		11.3%	11.3%	
EBITDA	403	386	4.4%	692	674	2.6%	863	821	5.1%
EBITDA margin	31.5%	30.7%	82 bp	35.5%	35.2%	27 bp	39.8%	38.5%	126 bp
Adjusted EPS (€)	0.16	0.15	3.6%	0.29	0.26	9.8%	0.37	0.34	10.3%
EPS growth	21%	18%		84%	73%		31%	31%	

Source: ODDO BHF Securities

The new entity is undervalued – Initiating coverage on Outperform with a target price of NOK 200

We value Adevinta at NOK 200 per share by DCF, i.e. upside of 25% (to the share price at Monday 7 June 2021). Our main assumptions are:

- Average annual revenue growth of 7.8% over the next ten years, with organic growth of 12% per annum out to 2025, before gradually moving towards 4%.
- Long-term operating margin of 42%, an increase of around 8 percentage points by 2027e over the 2021e margin (on the new Adevinta + eCG profile, excluding restructuring costs related to the transaction), thanks to the synergies generated with eCG (€ 155m by 2025e) and the group's economies of scale (notably on the transactional part, which is dilutive in terms of margin in the short term).
- A WACC of 6.4% (β of 0.85, risk premium of 7.80% and a risk-free rate of 0.18%).
- A long-term growth rate of 3.0%, linked to the structural growth of the market and the classified. Note that we keep a higher growth rate than Scout24 or Rightmove (2.5%) given the group's exposure to more under-penetrated markets (France, Spain, Brazil).

Adevinta's DCF

€ m	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2022-31 CAGR
Sales	1 949	2 170	2 379	2 586	2 800	3 024	3 251	3 478	3 677	3 824	7.8%
% change	52.5%	11.3%	9.6%	8.7%	8.3%	8.0%	7.5%	7.0%	5.7%	4.0%	
EBITDA	692	863	1 030	1 150	1 318	1 436	1 544	1 652	1 746	1 816	
EBITDA margin	35%	40%	43%	44%	47%	47%	47%	47%	47%	47%	
EBIT	555	733	935	1 075	1 178	1 285	1 381	1 478	1 562	1 625	12.7%
Operating margin	28%	34%	39%	42%	42%	42%	42%	42%	42%	42%	
Depreciation	117	130	131	129	140	151	163	174	184	191	
% of sales	6.0%	6.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
Tax on EBIT	-166	-220	-281	-322	-353	-385	-414	-443	-469	-487	
WCR	-195	-192	-189	-186	-201	-217	-233	-250	-264	-274	3.9%
% of sales	-10.0%	-8.8%	-7.9%	-7.2%	-7.2%	-7.2%	-7.2%	-7.2%	-7.2%	-7.2%	
Change in WCR	3	3	3	3	15	16	16	16	14	11	
Capex	-117	-130	-143	-129	-140	-151	-163	-174	-184	-191	5.6%
% of sales	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Free Cash Flow	391	516	646	755	840	916	983	1 051	1 108	1 148	12.7%
% of sales	20.1%	23.8%	27.1%	29.2%	30.0%	30.3%	30.2%	30.2%	30.1%	30.0%	
% of change	61.5%	31.9%	25.1%	16.9%	11.2%	9.0%	7.4%	6.9%	5.4%	3.6%	
Discounted cash flow	378	469	552	607	635	652	659	662	657	641	

Source: ODDO BHF Securities

Calculation of the target price using a DCF (€ m)

Sum of discounted 2022e-2031e FCF	5,894
Terminal value	20,078
Enterprise value	25,973
Net debt 2021e	-2,459
Financial fixed assets	595
Valuation of shareholders' equity	24,108
Per-share valuation (€)	19.7
(EUR/NOK) exchange rate	10.17
Valuation per Adevinta share (NOK)	**200**
Upside	**25%**

Source: ODDO BHF Securities

Sensitivity of the DCF valuation to the EBIT margin and long-term growth rate

In NOK		Perpetual growth		
		2.0%	**3.0%**	**4.0%**
Op. margin	**35%**	136	169	230
	42%	161	**200**	273
	49%	186	231	316

Source: ODDO BHF Securities

ADE:NO | ADEV.OL **Outperform** **Price 160.00NOK**

Technologie | Norway **Upside 25.00%** **TP 200.00NOK**

PER SHARE DATA (€)	12/16	12/17	12/18	12/19	12/20	12/21e	12/22e	12/23e
Adjusted EPS	-0.02	-0.03	0.08	0.15	0.01	0.16	0.29	0.37
Reported EPS	**-0.03**	**0.18**	**-0.01**	**0.09**	**-0.10**	**0.12**	**0.25**	**0.34**
Growth in adjusted EPS	-	ns	ns	83.1%	-90.1%	ns	83.7%	31.4%
Net dividend per share	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00
FCF to equity per share	-0.01	-0.04	0.06	0.13	0.09	0.11	0.23	0.32
Book value per share	1.38	1.82	1.93	2.23	1.76	8.04	8.28	8.63
Number of shares market cap (m)	681.10	681.10	681.10	684.90	684.90	1 224.90	1 224.90	1 224.90
Number of diluted shares (m)	681.10	681.10	681.10	683.30	687.70	1 226.00	1 226.00	1 226.00
VALUATION (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
12m highest price (€)				11.32	16.08	16.02		
12m lowest price (€)				8.36	5.76	11.57		
(*) Reference price (€)				9.87	11.54	15.92	15.92	15.92
Capitalization				6 762	7 905	19 504	19 504	19 504
Restated Net debt	119	340	157	130	470	2 459	2 202	1 834
Minorities (fair value)	15.6	15.3	13.9	14.4	19.2	21.0	22.8	24.6
Financial fixed assets (fair value)	90.5	427	389	397	554	595	638	692
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value				**6 509**	**7 841**	**21 390**	**21 090**	**20 671**
P/E (x)				67.3	794	102	55.8	42.5
P/CF (x)				56.8	96.8	95.4	49.8	37.9
Net Yield				0.1%	0.0%	0.0%	0.0%	0.0%
FCF yield				1.3%	0.8%	0.7%	1.4%	2.0%
P/B incl. GW (x)				4.44	6.57	1.98	1.92	1.85
P/B excl. GW (x)				4.44	6.57	1.98	1.92	1.85
EV/Sales (x)				9.57	11.64	16.73	10.82	9.53
EV/EBITDA (x)				32.6	43.0	53.1	30.5	23.9
EV/Current EBIT (x)				**42.2**	**64.3**	**65.6**	**36.7**	**28.2**
(*) historical average price								
PROFIT AND LOSS (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales	421	511	595	680	674	1 278	1 949	2 170
EBITDA	62	96	151	200	183	403	692	863
Depreciations	-14.3	-21.6	-26.5	-45.3	-60.6	-76.7	-117.0	-130.2
Current EBIT	**47.4**	**74**	**125**	**154**	**122**	**326**	**575**	**733**
Published EBIT	25.6	199	69	123	56	313	555	733
Net financial income	-1.8	-17.7	-14.1	-6.1	-94.7	-95.0	-123.0	-130.0
Corporate Tax	-43.6	-62.1	-61.3	-49.6	-31.0	-65.5	-129.6	-180.9
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	-0.3	1.5	-0.4	-3.1	-1.8	-1.8	-1.8	-1.8
Attributable net profit	-20.1	121	-7.3	64	-71.6	151	300	420
Adjusted attributable net profit	**-16.1**	**-17.7**	**55**	**100**	**10.0**	**190**	**350**	**460**
BALANCE SHEET (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	1 169	1 354	1 301	1 395	1 322	11 909	11 909	11 909
Tangible fixed assets	14.6	19.1	19.8	85.9	109	109	109	109
WCR	102	236	329	-61.3	839	-217.6	-214.6	-211.6
Financial assets	90.5	427	389	397	554	595	638	692
Ordinary shareholders equity	939	1 240	1 318	1 524	1 203	9 843	10 145	10 567
Minority interests	15.6	15.3	13.9	14.4	19.2	21.0	22.8	24.6
Shareholders equity	955	1 256	1 332	1 539	1 222	9 864	10 168	10 592
Non-current provisions	95.8	74.9	76.6	148	71.8	71.8	71.8	71.8
Net debt	**222**	**522**	**393**	**130**	**1 530**	**2 459**	**2 202**	**1 834**
CASH FLOW STATEMENT (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**61.7**	**95.7**	**151.1**	**199.5**	**182.5**	**402.8**	**691.8**	**863.2**
Change in WCR	8.9	-8.1	-3.1	16.3	23.0	3.0	3.0	3.0
Interests & taxes	-44.0	-78.5	-67.8	-69.7	-136.4	-160.5	-252.6	-310.9
Others	-7.7	-3.3	-6.4	-10.8	35.6	-37.8	-47.8	-37.8
Operating Cash flow	18.9	5.8	73.8	135.3	104.7	207.5	394.5	517.6
CAPEX	-23.9	-30.0	-30.3	-48.5	-43.5	-76.7	-117.0	-130.2
Free cash-flow	**-5.0**	**-24.2**	**43.5**	**86.8**	**61.2**	**130.8**	**277.5**	**387.4**
Acquisitions / disposals	-59.3	-410.7	-6.3	-89.5	16.0	-10 594.7	-7.5	-7.5
Dividends	-0.6	-2.7	-3.4	-3.6	0.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	0.0	7.9	-2.0	8 487.2	0.0	0.0
Others	117.4	133.8	91.7	261.4	-1 185.3	-12.5	-12.5	-12.5
Change in net cash	54.3	-300.6	128.7	264.2	-1 399.8	-929.2	257.5	367.4
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales growth	-	21.5%	16.3%	14.4%	-1.0%	89.8%	52.5%	11.3%
Lfl sales growth	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Current EBIT growth	-	56.3%	68.2%	23.8%	-20.9%	ns	76.3%	27.5%
Growth in adjusted EPS	-	ns	ns	83.1%	-90.1%	ns	83.7%	31.4%
Net margin	-3.8%	-3.5%	9.2%	14.7%	1.5%	14.9%	17.9%	21.2%
EBITDA margin	**14.7%**	**18.7%**	**25.4%**	**29.3%**	**27.1%**	**31.5%**	**35.5%**	**39.8%**
Current EBIT margin	**11.3%**	**14.5%**	**21.0%**	**22.7%**	**18.1%**	**25.5%**	**29.5%**	**33.8%**
CAPEX / Sales	-5.9%	-5.9%	-5.2%	-7.1%	-6.5%	-6.0%	-6.0%	-6.0%
WCR / Sales	24.1%	46.1%	55.4%	-9.0%	ns	-17.0%	-11.0%	-9.8%
Tax Rate	ns	34.1%	55.2%	35.1%	ns	30.0%	30.0%	30.0%
Normative tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Asset Turnover	-	0.4	0.4	0.4	0.4	0.2	0.2	0.2
ROCE post-tax (normative tax rate)	**-**	**3.6%**	**5.4%**	**7.0%**	**4.6%**	**3.2%**	**3.4%**	**4.3%**
ROCE post-tax hors GW (normative tax rate)	-	3.6%	5.4%	7.0%	4.6%	3.2%	3.4%	4.3%
ROE	-	-1.6%	4.3%	7.1%	0.7%	3.4%	3.5%	4.4%
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Gearing	23%	42%	30%	8%	ns	25%	22%	17%
Net Debt / Market Cap				0.02	0.19	0.13	0.11	0.09
Net debt / EBITDA	**3.59**	**5.46**	**2.60**	**0.65**	**ns**	**6.10**	**3.18**	**2.12**
EBITDA / net financial charges	34.3	5.4	10.7	32.7	1.9	4.2	5.6	6.6

Sources: ODDO BHF Securities, SIX

Auto Trader

Neutral ➔ | Target 585p

Price (07/06/2021) : 565.60p | Upside : 3 %

Revision	2021e	2022e
EPS	ns	ns

A very solid model, strong cash generation, but fairly valued

Tuesday 08 June 2021

Capital			
AUTO:LN | AUTOA.L			
Market Cap (£m)			5 486
Enterprise value (£m)			5 383
Extrema 12 months (p)		513.6 -	610.0
Free Float (%)			ns
Performance (%)	**1m**	**3m**	**12m**
Absolute	-1.6	2.2	2.6
Perf. rel. Country Index	-3.5	-7.1	-15.1
Perf. rel. Media	-1.5	-6.5	-19.1
P&L	**03/21e**	**03/22e**	**03/23e**
Sales (£m)	256	394	420
EBITDA (£m)	160	272	290
Current EBIT (£m)	154	266	283
Attr. net profit (£m)	123	216	230
Adjusted EPS (p)	12.65	22.54	24.28
Dividend (p)	424.15	755.74	813.84
P/E (x)	43.3	25.1	23.3
P/B (x)	19.9	15.6	12.2
Dividend Yield (%)	77.5	133.6	143.9
FCF yield (%)	2.4	4.1	4.4
EV/Sales (x)	21.04	13.76	12.52
EV/EBITDA (x)	33.7	19.9	18.1
EV/Current EBIT (x)	35.0	20.3	18.5
Gearing (%)	62	22	-6
Net Debt/EBITDA (x)	1.0	0.3	ns

Next Events

Auto Trader, the unrivalled leader in the UK classifieds market

Auto Trader, which trades on the London market, is by far the UK's leading player in online automotive classifieds (new and second-hand cars), with 72% share. The group was founded in 1976 in magazine form and has been present online only since 2013. Auto Trader is mainly active in the UK (99% of sales) where it operates the autotrader.co.uk and keeresources.com websites. It is also present in Ireland where it operates Carzone, but this market accounts for just 1% of its sales.

BtoB positioning in automotive dealerships

Like all its competitors, Auto Trader makes most of its revenues with car dealers (88%). Its positioning is therefore primarily BtoB. Only a small share of its sales comes from private owners (5%). Auto Trader's strength is derived from two factors which are key barriers to entry: its well-established relations with dealerships and the power of its site and therefore its audience. It thus has the capacity to present a much broader offering of classifieds than its rivals. This automatically underpins site audiences and has an accretive effect on its model. This network effect, as it is called, is developed fully in the main section of the report.

After a difficult year in 2020-21, a marked recovery in 2021-22, then growth of 6.5% thanks to ARPR

We forecast very strong sales growth in 2021-22 (+54%) thanks to a recovery in business, with 2020-21 having been characterised by sizeable discounts (4 months free offered to clients in the context of the lockdown in the UK). Thereafter we forecast average growth of 6.5% between 2022-23 and 2023-24. The group's financial year runs to end-March. This solid growth should continue to be driven by ARPR (average revenue per retailer) and particularly by sales of new products to the client base. Based on our analysis of its competitive positioning, we think Auto Trader will be able to hike its prices regularly over the next five years.

Leadership to keep driving industry-leading margins

Auto Trader should continue to boast industry-leading EBITDA margins (>70%), underpinned by its solid leadership position in the UK. We anticipate an EBITDA margin in 2024 of 71%, on a par with the level in 2019, assuming a virtually stable market share over the period. We have factored in an increase in marketing investment to return to the levels of 2019, as the group is set to defend its competitive positioning. In this context, cash generation is set to remain very robust over the period.

Reasonable valuation offering little upside, Neutral rating

Auto Trader's model is thus extremely solid and the group presents one of the most attractive profiles in our universe of classifieds stocks. We particularly like the group's technology investment which ensures it very solid relations vis-à-vis its clients.
We value Auto Trader at 585p per share based on a DCF model, or virtually zero upside potential. We are therefore adopting a Neutral rating on the stock.

Jerôme Bodin (Analyst)
+33 (0)1 55 35 42 49
jerome.bodin@oddo-bhf.com

Martin Marandon-Carlhian (Analyst)
+33 (0)1 55 35 42 54
martin.marandon-Carlhian@oddo-bhf.com

brief overview of Auto Trader

Auto Trader trades on the London market and is the UK's largest player in online automotive classifieds (new and second-hand cars).

Background

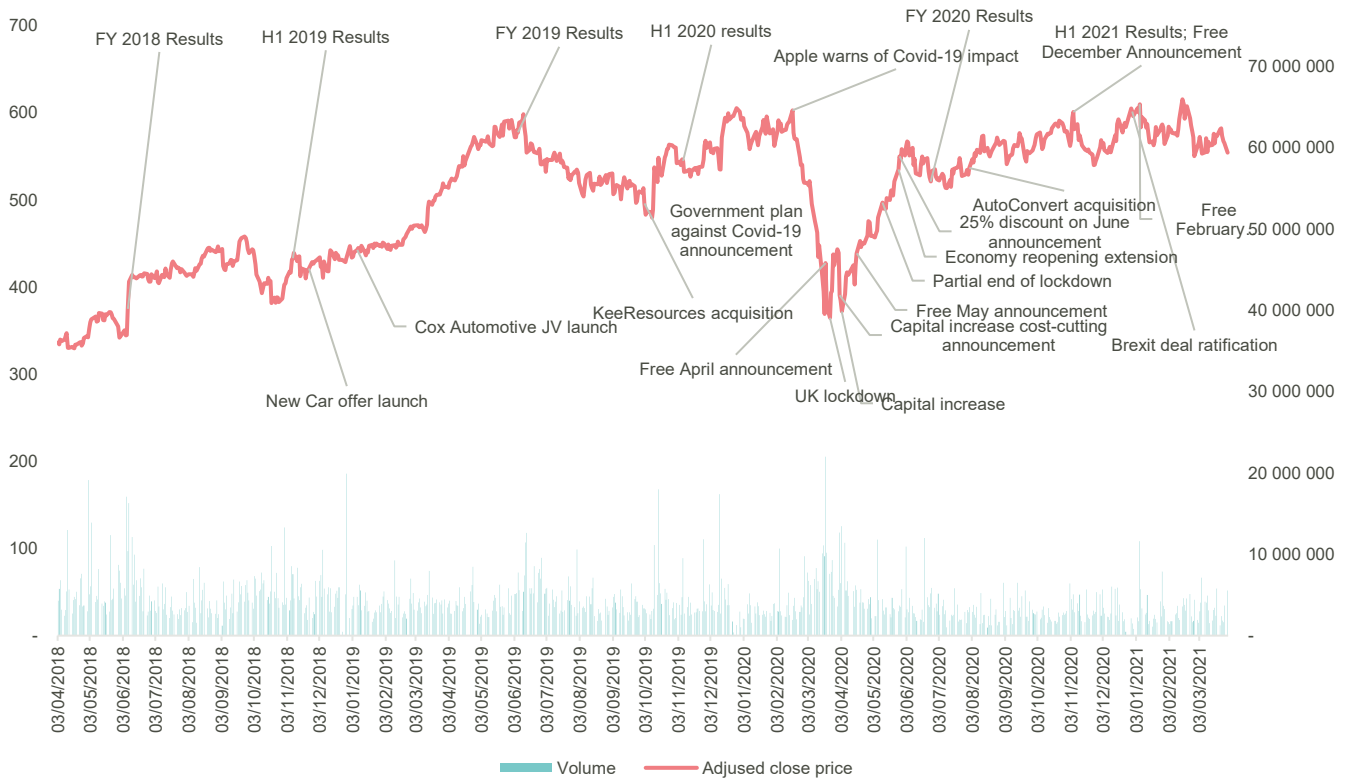
The company was created in 1976 by J.R. Madejski under the name Thames Valley Trader and then Hurst Publishing. It published a weekly automotive magazine containing motor classifieds (initially second-hand cars). The Autotrader.co.uk website was launched in 1996. Hurst Publishing was bought out by BC Partners in 1998 before being merged with Automart (owned by the Guardian) to form Trader Media. The mobile application was launched in 2010. 2013 saw the group drop the printed magazine business and the South African operations were sold. In 2014, the company was acquired by Apax Partners and renamed Auto Trader.

In 2015, Auto Trader floated on the stock market with a capitalisation of about £ 2bn. The company still has a free float of 100%. There are a number of groups with the same name active in the US, Australian and South African markets but which are independent of Auto Trader UK.

In 2018, 2019 and 2020, Auto Trader developed its offering, with a service for new cars, the creation of a joint venture with Cox Automotive UK, and the acquisition of KeeResources (2019) and AutoConvert (2020).

Between 2016 and 2020 (FY to end-March), sales, EBIT and EPS posted a CAGR of 9%, 13% and 15% respectively.

Background and stockmarket performance of Auto Trader since 2018 (p)



Governance: a CEO with 14 years' experience in the group

Nathan Coe, the group's CEO since 2020, was previously COO and CFO. Mr Coe joined the group in 2007 and was responsible for its transition from paper to digital. He therefore has an intricate knowledge of the group and its business sector. As CEO, he took over in 2020 from Trevor Mather who had been in post for 7 years. Changes of management thus tend to be few and far between in the group.

The board is comprised of just 11 members, with the CEO, chairman, COO, secretary general, the CFO and four independent members (reflecting a free float of 100%).

SWOT analysis

Strengths

- High barriers to entry thanks to its long-term and close relations with dealerships.
- The strength of the Auto Trader brand and its long-standing positioning in the UK.
- Innovation capacity of technological solutions for dealerships.

Weaknesses

- Exposure to the health of the UK automotive market.
- Presence in only one geography, limiting the potential for synergies, particularly technology-wise, with other countries.

Opportunities

- New functionalities: AT Analytics, credit purchase offering (Finance), guaranteed price offering (Instant Offer); beta-test of part exchange functionality; integration of AutoConvert
- Combinations with car buying services.
- Possibility of increasing functionalities for electric vehicles
- Expansion outside UK

Threats

- Stagnant UK car ownership
- Reduced private car use in favour of taxis, public transport and car sharing
- Concentration of the dealership market with larger players boasting stronger brands and with less need for marketing solutions
- Fresh competitive pressure from new entrants or GAFAs

Source : ODDO BHF Securities

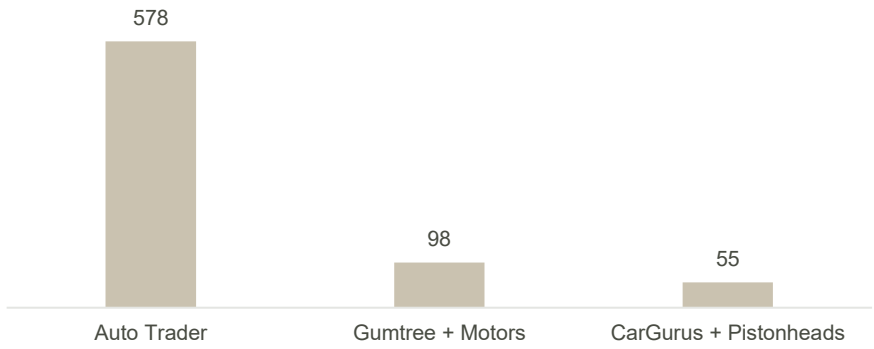
A solid no. 1 position in UK automotive segment

Clear leader in the UK ahead of Adevinta and CarGurus

Auto Trader is mainly active in the UK (99% of sales) where it boasts a very solid lead, with the autotrader.co.uk and keeresources.com websites. It is also present in Ireland where it operates Carzone, but this market accounts for just 1% of its sales.

In H1 2021, Auto Trader had 72% market share in the automotive classifieds site segment. Its main rivals are eBay Motors Group (comprising the Gumtree and Motors sites, belonging to Adevinta) and CarGurus (which owns the CarGurus and Pistonheads sites).

Total audience duration of Auto Trader and its two competitors in April-September 2020 (millions of minutes)



Source: Auto Trader

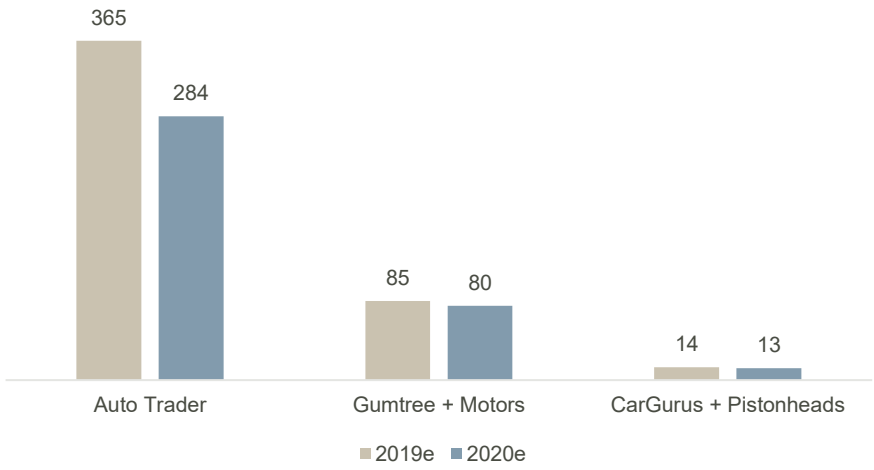
The UK sales figures of the two competitors are not publicly available. However, according to our estimates, Auto Trader generates around four times more sales than its main competitor Adevinta (Gumtree + Motors).

CarGurus is a US group. It was created in 2006 in the form of a blog with advice on car ownership. It was then developed as an advertising platform for used cars and launched in the UK in 2006. The group is listed on the New York stock market (~$ 3bn market cap).

Gumtree and Motors are part of eBay's classifieds business, acquired by Adevinta (as we detail on page 48) but are likely to be sold, as well as Shpock, as part of the merger authorisation from the UK competition and markets authority (CMA).

Adevinta's offering in the automotive segment in the UK is thus set to evolve. It is hard to see Auto Trader acquiring the divested operations, but its strong leadership is likely to remain unchanged.

Estimate of three players' sales in the UK (£ m)



Source: ODDO BHF Securities

Autotrader's leader position is underpinned by two key factors in our view:

- The fact that it moved very early to develop its positions in online automotive classifieds in the UK (as early as 1996). The group benefited from the strong brand image of its printed magazine (which was the benchmark of automotive magazines in the 2000s). By comparison, Gumtree and CarGurus developed their positions much later (from around 2007 and 2016 respectively).

- Auto Trader's very solid relations with car dealerships, which present significant barriers to entry. This relationship is underpinned by a very powerful IT link. As we set out line on page 51, Autotrader has developed a whole array of services for dealers (website creation and hosting, inventory management, etc.) which makes them captive and limits the scope for competitors to become established. The classifieds offering of competitors is less significant, which limits audience levels.

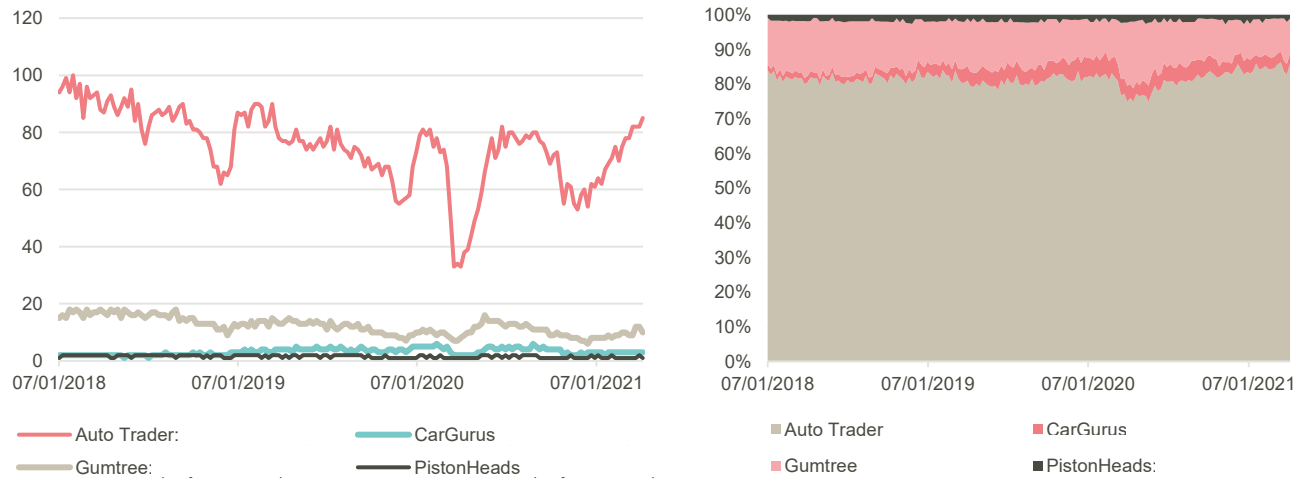
Main automotive classifieds sites in the UK

Group	Site	Classified ads	Site presence	New vehicles?	Type
Auto Trader	Auto Trader	510 000	UK	Yes	Specialist
Adevinta	Gumtree Motors	220 000	UK	No	Generalist
Adevinta	Motors.co.uk	320 000	UK	No	Specialist
CarGurus	CarGurus	218 000	UK, Germany, Italy, Spain, US, Canada	Not in UK (but in US)	Specialist
CarGurus	PistonHeads	107 000	UK	No	Specialist

Sources: companies

This leader position is also evident in the search dynamics on Google. Google Trends data illustrate the leadership of the brand in relation to its rivals. The Google search data are analysed based on the highest datapoint historically (base 100). It is true that requests for the brand show a steady decline since 2008 but this largely stems from enhanced use of the Auto Trader application and reduced browser traffic. From around 1 million downloads in 2012, Auto Trader had grown to 14 million in 2020.

Google search data between the four main sites in UK (automotive category)



Source: ODDO BHF Securities

An analysis of the situation since 2018 illustrates the competitive trends between the three sites.

Peers in Europe

Geographic breakdown of sites comparable to Auto Trader in Europe:

Zone	Country	Site
Northern Europe	Norway	Finn
	Finland	Tori autot
	Sweden	Blocket, AutoScout24
	Denmark	Bilbasen, DBA
Western Europe	UK & Ireland	Auto Trader, Gumtree, Motors.co.uk, DoneDeal, CarGurus, PistonHeads, Webuyanycar.com
	Benelux	2dehands, Marktplaatz, AutoScout24
	Germany	Mobile.de, Ebay Kleinanzeigen, AutoScout24, CarGurus (Paused)
	France	Leboncoin, Paycar, Groupe Argus, AutoScout24
Southern Europe	Portugal	Standvirtual
	Spain	Coches.net, Motos.net, Milanuncios, AutoScout24, CarGurus (Paused)
	Italy	Subito, Automobile.it, AutoScout24, CarGurus (Paused)
Eastern Europe	Poland	3.2.1 Sprzedane, Otomoto, AutoScout24
	Romania	Autovit.ro, AutoScout24
	Russia	Avito, AutoScout24

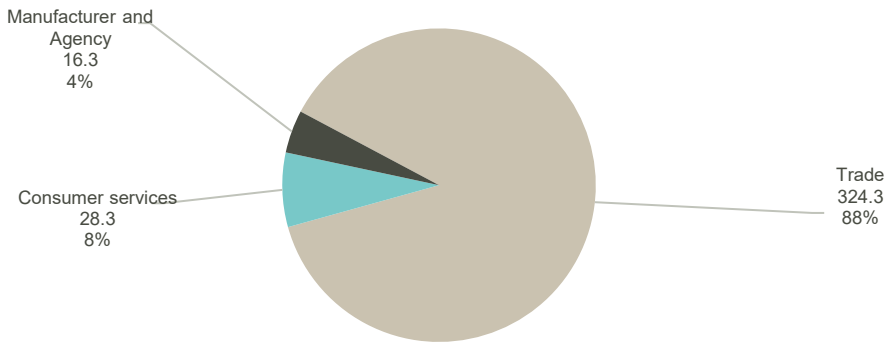
Source: ODDO BHF Securities

Bulk of sales in BtoB with car dealers

Like all its competitors, Auto Trader makes most of its revenues with car dealers (88%). Its positioning is therefore primarily BtoB. Only a small share of its sales comes from private owners (5%).

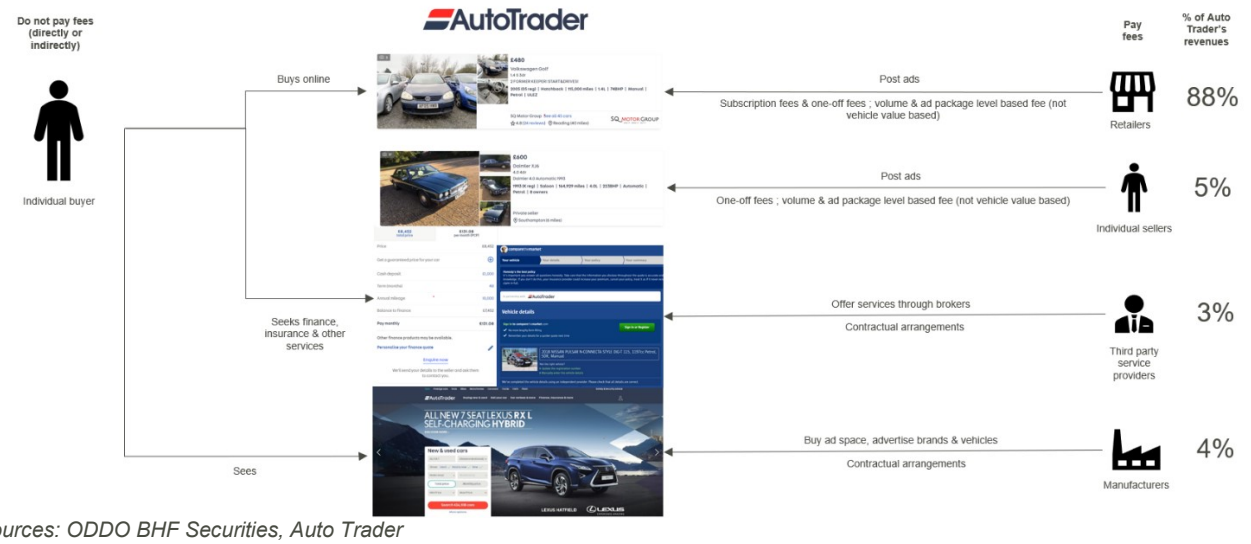
Auto Trader's business is segmented in three areas: 1/ **trade** (business with retailers); 2/ **consumer services** (business with private owners; and 3/ **manufacturers and agency** (business related to OEM clients).

Breakdown of FY 2020 sales (£ m)



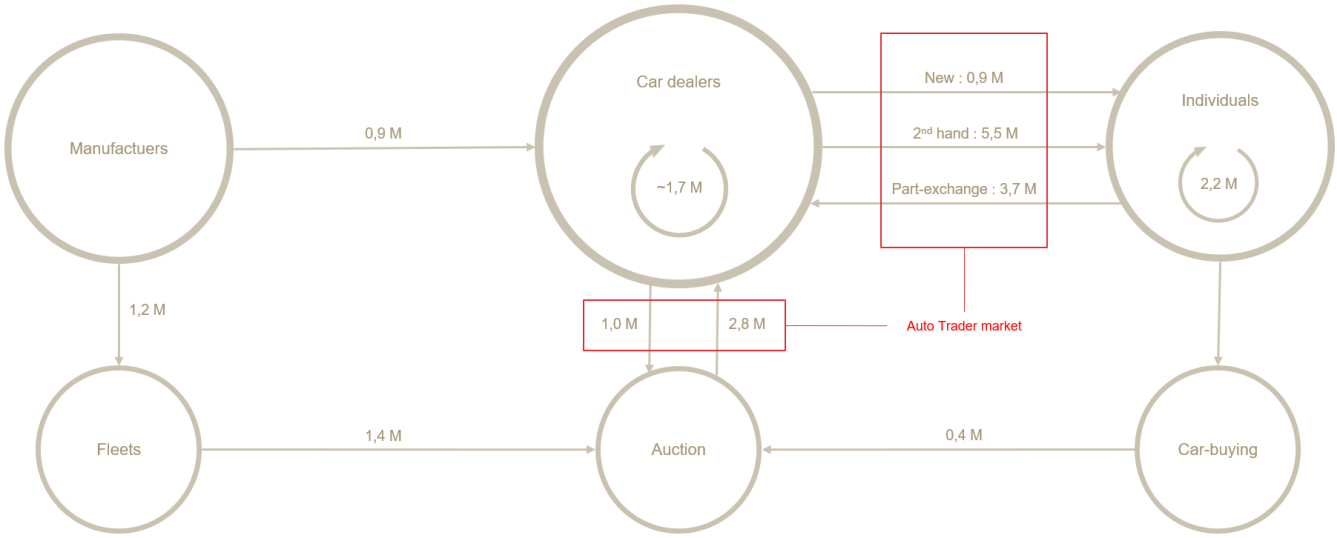
Sources: ODDO BHF Securities, Auto Trader

Auto Trader's business model



Sources: ODDO BHF Securities, Auto Trader

Summary of Auto Trader's business environment



Sources: ODDO BHF Securities, Auto Trader

Trade (88% of sales): business with dealerships

The trade segment brings together the revenues generated with retailers, which place classified ads on the Autotrader.co.uk platform and use the additional services provided by the group. Auto Trader further splits its trade business into three sub-segments:

- Retailer (85% of sales):

  Dealers pay a monthly subscription to place ads on Autotrader.co.uk. They can choose between several plans: Starter, Basic (10% more expensive than Starter), Standard (16% more than Basic), Advanced (20% more than Standard), and Premium (32% more than Advanced). The difference relates to:

  - The variety of functionalities (videos of the vehicle, Retail Check).
  - The local or global reach of the ads.
  - Whether the ad appears at the top of searches.

  In addition, dealers can sign up to other products (figure 13), for the most part through a monthly subscription (in addition to the basic one).

Optional functionalities for dealer clients

Dealer website	Website creation for retailers; one-time payment
Dealer Auction	Auction platform; offering derived from the joint venture with Cox Automotive[1] (Auto Trader share: 49%); monthly subscription for access to the platform; revenues of £ 3.2m in 2020.
Retail Check	Demand analytics and pricing optimisation tool, suited to small inventories of advertised vehicles
Retail Accelerator	A tool similar to Retail Check but suited to the management of a large number of advertised vehicles
Text	Possibility for consumers to enter into a discussion online with the retail client
Top Spot	Targeted exposure on local audience
PPC Campaign	Optimised featuring of car or event ads under “featured listing” and “you may also like” sections; retailer clients pay by the click
PPC Boost	Like PPC Campaign, but for a limited duration (3-5-7 days), with top-of-search placement in addition
New Car[2]	Unlimited classifieds for new vehicles; monthly subscription
Vehicle Check	Vehicle verification; offering in partnership with Experian

Sources: ODDO BHF Securities, Auto Trader

The subscription contracts are adjusted on a regular basis, depending on the addition/removal of stocks/optional products.

Some comments on the table below:

- **Cox Automotive** is the leading provider of solutions to second-hand vehicle sales professionals worldwide (inspection, valuation, auction). It is a subsidiary of the US media group Cox Enterprise

- **New Car offering**: the New Car offering allows retailers and manufacturers to place an unlimited number of vehicle ads for a fixed monthly subscription, depending on the brands advertised. Auto Trader has adopted an aggressive pricing strategy to maximise the adoption of this new product (invoicing after first sale for the first three months). Note that retailer clients (trade sales) but also OEM clients (manufacturers & agencies) can subscribe to this offering. The revenues derived from this offering go partly to trade-retailer sales and partly to manufacturer & agency sales.
- **Home Trader** (2% of sales): the revenues from this segment relate to dealers that pay a set fee in advance to advertise a vehicle for a specific period (generally two to three weeks).

- **Other** (1% of sales): This segment comprises operations adjacent to the trade-retailer sub-segment, namely: 1/ logistics revenues derived from the Vehicle Move offering (monthly subscription for access to the platform (Motor Trade Delivery) to manage relations with vehicle transporters); and 2/ revenues from KeeResources, acquired in 2019. Dealers and fleet operators pay a subscription to access the database on KeeResources vehicles or to access the Fleetware software (vehicle fleet managers).

Consumer services segment (8% of sales)

The consumer services segment brings together the revenues derived from private owners and services for the purchase of vehicles by private owners.

- **Private (5% of sales):** revenues from private owners who pay a set fee in advance to advertise a vehicle for a specific period (generally two to six weeks).
- **Motor services (3% of sales):** revenues from third-party players in automotive transactions (for example, insurers or banks) who use the Autotrader.co.uk platform to sell their services. Autotrader acts as a broker in partnership with specialist players (Zuto for financing and comparethemarket.com for insurance).

For the revenues from financing, either the dealers pay an optional fee to publish their own financing offerings (in which case the revenues are booked under the trade-retailer segment), or Zuto pays a fee to Auto Trader for each financing contract (in which case the revenues are booked under the motor services segment).

For revenues from insurance, Auto Trader has not explicitly indicated the revenue generation method. But the group is likely to be paid on a fee basis for each insurance contract signed.

Motor services also comprises revenues from car leases. Auto Trader receives a fee each time a lease contract is concluded via the platform.

Manufacturer & agency segment (4% of sales)

The manufacturer and agency segment brings together the revenues derived from sale of advertising slots the group's sites to carmakers (or their agencies).

Car manufacturers can also subscribe to the New Car offering (which is also offered to retailer clients). The revenues derived from car manufacturers that subscribe to the New Car offering are allocated to manufacturer & agency sales.

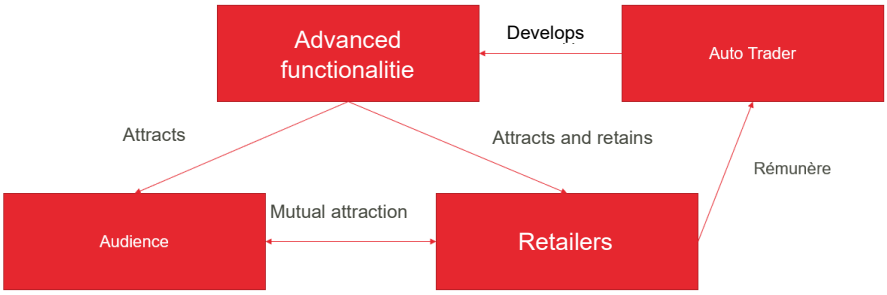
Two strengths: solid relations with dealers and audience share

We do not expect Auto Trader’s competitive environment to shift substantially. Despite some consolidation moves (notably CarGurus-Pistonheads and EBay-Motors), we think that Auto Trader is set to retain its substantial lead in the UK. Nor do we see any risk from GAFAs which have not announced any new offerings in the automotive space.

Auto Trader's strength is derived from two factors which are key barriers to entry: its well-established relations with dealerships and the power of its site and thus its audience.

To be able to erode Auto Trader’s leadership, we think that a competitor would have to invest very significant amounts in sales and marketing (>£ 50m p.a. by our estimates).

Auto Trader's simplified strategy



Source: ODDO BHF Securities

Very strong relations with dealers, maintained through product innovation

Auto Trader's key strength is that it works with nearly all the dealers in the UK (about 80%e). It thus has the capacity to present a much broader offering of classifieds than its rivals (see table 1). This automatically underpins audiences for its site (see point below).

Audience is a synergetic strength for Auto Trader in that it: 1/ is directly valued by dealers that are seeking to reach the broadest and most targeted audience possible, and 2/ drives greater efficiency in terms of the optional tools which it offers its clients compared to its rivals (Retail Check/Accelerator tools, PPC tools).

The quality of the formulas offered to dealers depends on Auto Trader's audience as well as the offering of Auto Trader's functionalities (in terms of diversity and quality). These two characteristics are thus essential in determining pricing power. These two aspects set Auto Trader apart from its competitors.

The strength of its relations is derived from two factors, in our view:

Its sales force

To maintain these relations, Auto Trader boasts a sizeable sales force.

This relationship constitutes a very significant barrier to entry. A new entrant will need to invest heavily in commercial terms to forge equivalent relations.

Its product innovation capacity

The key relationship which it enjoys with dealers stems in large part from the strength of its offering of technological products. Auto Trader does not only offer its website to dealers but also a whole series of products to manage their sales. This leads to a certain degree of captivity in the client base and constitutes a barrier to entry.

The following key products stand out:

- Website creation: in its annual report, CarGurus stresses that in the UK, its competitors (mainly Auto Trader) offer services which make dealers dependent on the platform.

- Retail Check/Accelerator. Auto Trader's leader position and the depth of its functionalities allow this market surveillance tool to outstrip that of its competitors.
- Dealer Auction. Auto Trader offers online access to vehicle auctions between dealers.

By our estimates, Auto Trader invests around £ 20m per year in the development of new products. Its leadership thus hinges on its capacity to maintain this technological link with its clients. We see the barrier to entry as solid, though the risk of a competitor emerging cannot be ruled out. Importantly, it has heftier investment clout.

To maintain this differentiation based on its products, the group's strategy is structured around ongoing initiatives to:

- Improve user experience (to bolster the visit–transaction conversion rate). Specifically allow transactions to be conducted completely online, by facilitating services adjacent to the automotive transactions (finance, insurance).
- Develop its value proposition around:
  - Data and market research
  - The new car segment (New Car offering)
  - Automotive transaction logistics
- Migrate the platform to the cloud.

A market leader site, with a largely unassailable position

As we saw on page 48, the Auto Trader site boasts a clear lead audience-wise. This situation stems in large part from the classified ad offering. When consumers/buyers log onto the site, they know it presents the deepest offering in the UK market. But this leadership also arises out of the strength of the brand. Auto Trader invests around £ 17m per year in advertising and marketing. Historically the group has devoted the lion's share of its budget to digital platforms (display and search) but it is now increasing the share of traditional media, notably radio. This trend can be seen with most digital groups, among them the GAFA.

Its two main competitors regularly step up their marketing investment, particularly through TV campaigns. But this does not look to be nearly enough to compensate for the difference in image.

Special focus: automotive transaction mechanism in UK, Auto Trader's market base

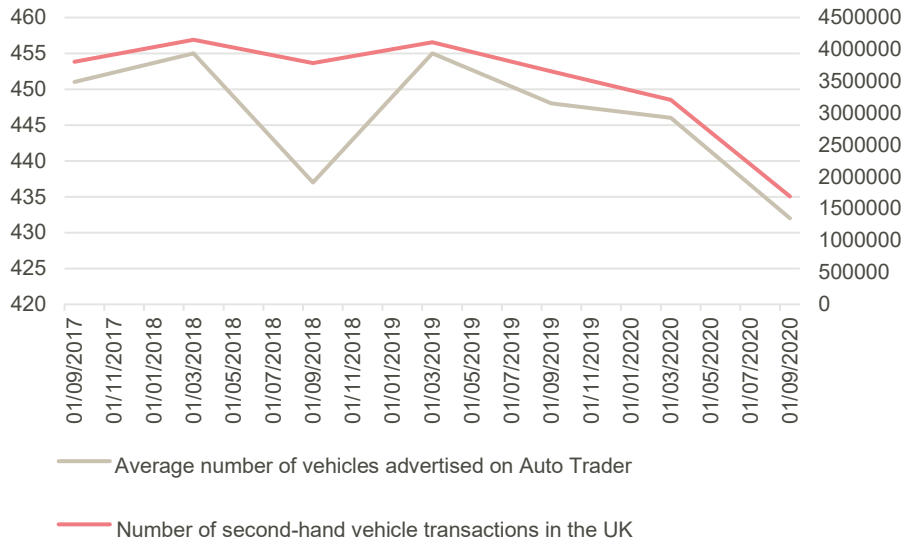
Auto Trader thus generates the bulk of its revenues through dealer subscriptions. The price of the subscription is set on the basis of the quantity of vehicles to be advertised and the formulas/options taken out. The pricing of the formulas is also revised on an annual basis at what the group calls the pricing event.

There are thus several indicators to track to anticipate the group's long-term growth potential.

Number of automotive transactions in the UK

The number of classified ads available on the Auto Trader site is closely correlated to the number of transactions, particularly for second-hand cars. This provides a means to establish Auto Trader's underlying market trends and thus estimate the growth potential in ARPR, notably for the inventory effect (as the number of ads should increase with the number of automotive transactions) and the product effect (as the propensity to subscribe to options grows with the number of ads).

Average number of vehicles advertised on Auto Trader and the number of second-hand vehicle transactions in the UK



Source: ODDO BHF Securities

The number of automotive transactions can be broken down simply:

$$Number\ of transactions = automotive\ fleet\ \times transaction\ frequency$$

The automotive fleet

The car fleet is part of the long-term indicator. On a transparent basis:

$$Automotive\ fleet_n = \ automotive\ fleet_{n-1} + registrations_n - \ scrap_n$$

To establish the long-term trend, it is important to know the current level of the automotive fleet but also the trend for new vehicle registrations.

Historically, as registrations outstrip the scrap rate, the automotive fleet grows. From 2016 to 2017, registrations saw a decline. As a result, automotive fleet growth slowed. In turn, growth in the number of automotive transactions turned down.

Transaction frequency represents the share of vehicles that changes hands within the automotive fleet as a whole. This is the opposite of the average period of vehicle ownership.

Transaction frequency has fallen since 2016 (with the ownership period increasing), slowing growth in the number of automotive transactions.

Both the size of the automotive fleet and transaction frequency are affected, based on the real need and through lifestyles, by:

- The degree of urbanisation (living in a large city with extensive public transport network is a disincentive to buying private vehicles).

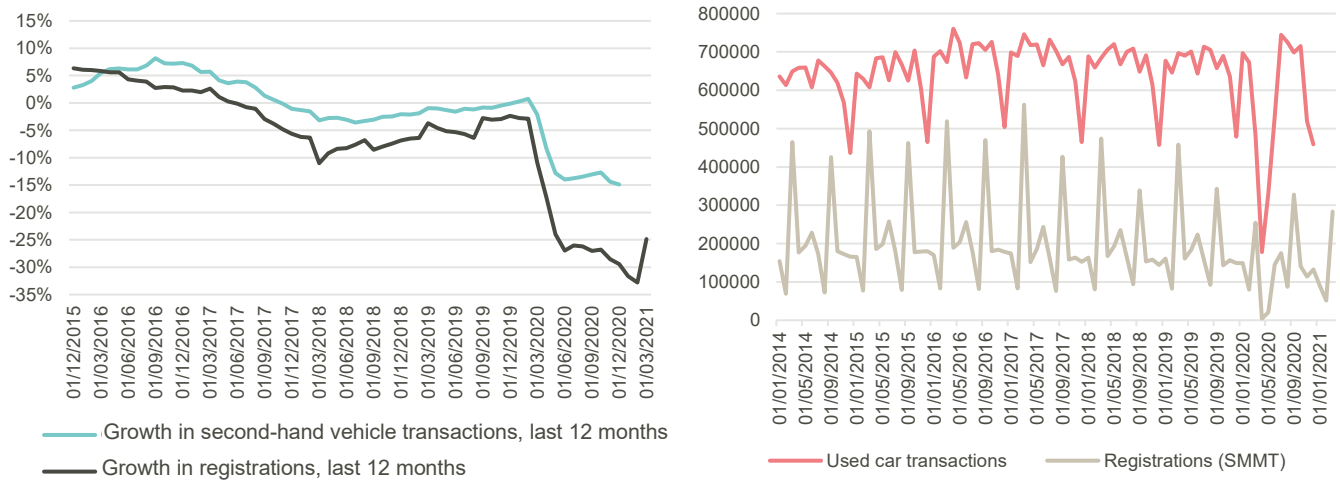
- The degree of recourse to alternative methods of individual transport use (private hire, car sharing, lease) or substitutes (bikes, scooters, public transport, train).
- Government policies and opinion.

In the UK, in the long term, the size of the automotive fleet and transaction frequency are thus open to discussion. The three points discussed previously may have a positive and negative impact.

The price index

Another indicator to track is the second-hand car price index. The higher the used vehicle price, the more advertisers will pay to place an ad, and the more Auto Trader can adjust its formulas in the pricing event each year. The second-hand vehicle price index provides a means to estimate the potential for revaluation in Auto Trader's formulas and options.

Number of new (RSMMT) and used cars (UCT) sold in UK



Source: ODDO BHF Securities

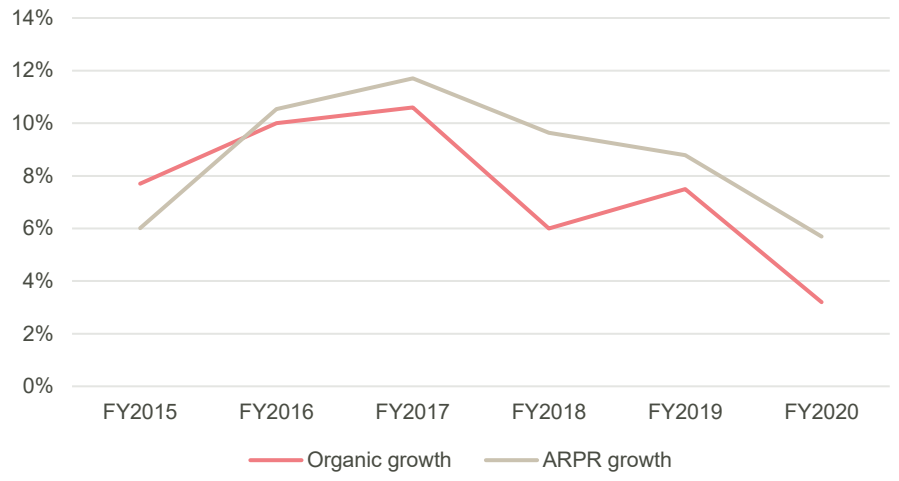
Beyond 2022, growth should remain solid thanks to ARPR (+8% on average)

We forecast very strong sales growth in 2022 (+54%) thanks to a recovery in business, with 2020-21 having been characterised by sizeable discounts (4 months free offered to clients in the context of the lockdown in the UK).

Thereafter we forecast average growth of 6.5% between 2023 and 2024. The group's financial year runs to end-March. This solid growth should continue to be driven by ARPR (average revenue per retailer) and particularly by sales of new products to the client base. Based on our analysis of the group's competitive positioning, we think that Auto Trader is capable of increasing its prices regularly over the next five years.

Between 2015 and 2019, average growth of 7.6% spurred by ARPR

Organic growth and ARPR growth



Source: Auto Trader

Average sales growth for Auto Trader of 8.5% between 2016 and 2019. This performance was driven to a very large extent by growth in ARPR (+10.2% on average).

Indeed, the construction of retailer sales (85% of the total) is based on the following equation = number of dealer clients (forecourts) x average revenue (ARPR) x 12m.

But the average number of retailer clients (average number of retailer forecourts) is stable historically (2016-2020 CAGR of 0%). So, it does not account for Auto Trader's growth.

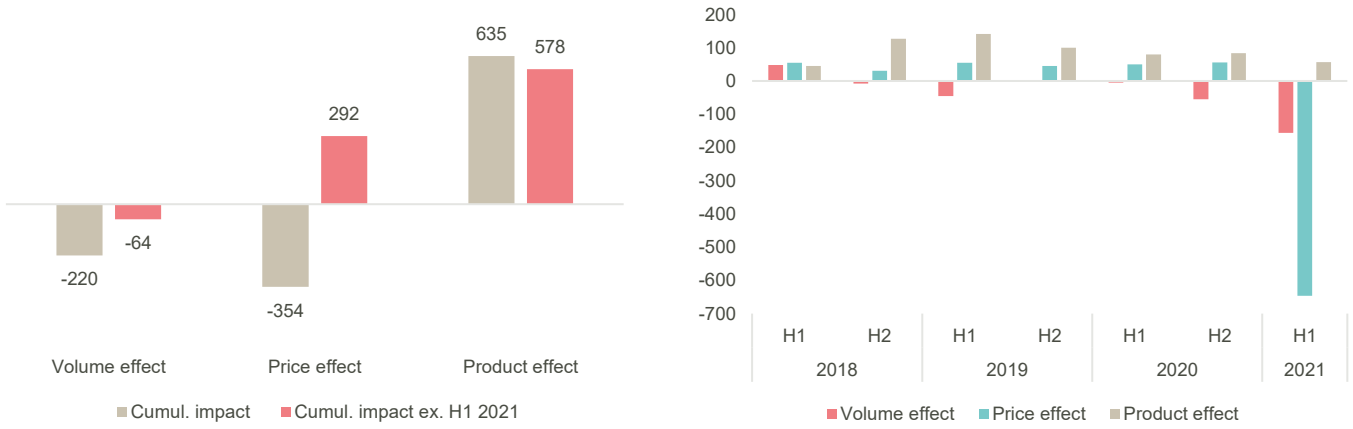
Average revenue per retailer (**ARPR**) has, however, shown constant growth since 2016 (2016-2020 CAGR of 9%). **Only ARPR explains growth over the period.**

The firm breaks down ARPR trends based on three factors: product, price and stock effects.

- The product effect relates to retailers' adoption of new products (upsell/cross sell). For example, it comprises revenues derived from the New Car offering signed up to by retailers (but not by car manufacturer clients). **This has been the main source of growth leverage since 2018.**
- The price effect covers changes in pricing. Excluding the COVID crisis, this has been the second-largest growth driver since 2018.
- The **volume** effect explains changes in ARPR related to changes in the number of vehicles advertised by retailers, outside of the framework of the New Car offering. Since 2018, it has stopped providing growth leverage as the number of advertised vehicles (outside of the New Car offering) is no longer growing.

To recap, the New Car offering consists of a set subscription through which to advertise an unlimited number of new cars. This offering is targeted at retailers, but also at car manufacturers.

Volume/price/product impact on change in ARPR since H1 2018 incl. (£ k), on a cumulative basis on left, by half-year period on right



Source: ODDO BHF Securities

Lastly, it is important to note that the main factors driving upselling/cross-selling as well as price increases (i.e. all the metrics underpinning Auto Trader's growth) are audience and its functionality offering. These are naturally the group's primary areas for investment.

Impact on overall growth of different effects (at end-March)

	2015	2016	2017	2018	2019	2020
Stock	+1.9%	+3.7%	+2.8%	+1.0%	-1.1%	-1.3%
Price	+0.9%	+2.6%	+5.0%	+2.2%	+2.4%	+2.4%
Product	+0.0%	+2.1%	+1.6%	+4.4%	+5.8%	+3.7%
Total ARPR impact	+2.8%	+8.4%	+9.4%	+7.6%	+7.1%	+4.8%
ARPR level (£)	1252	1384	1546	1695	1844	1949

Source: ODDO BHF Securities

Sharp decline in 2020-21 due to client support during lockdown

In 2020-21 (results due to be released on 10 June 2021), Auto Trader granted retailers free access to its base service for a total period of 4 months (April 2020, May 2020, December 2020 and February 2021). This commercial strategy, which naturally coincided with the periods of lockdown in the UK, is common in the classifieds industry. Auto Trader also: 1/ granted a price discount of 25% in June 2020; and 2/ extended its payment deadlines with clients.

This will naturally have a significant impact on its sales. We therefore forecast a decline of 30% in ARPR in 2021 to £ 1,368. We note that in Q1 2020-21 (April to June 2020), ARPR showed a decline of 76%. The recovery was very swift, as the indicator was down by just 1% in Q2.

We see a slight decline in the number of retailer clients with the impact of potential insolvencies, which prompts us to expect a decline in retail sales of 32.5% and a drop in total sales of 30.7%.

Return to solid growth from 2022 thanks to continued ARPR growth

We anticipate a return to solid growth from 2022, helped by the growing adoption of recent products and the launch of new ones.

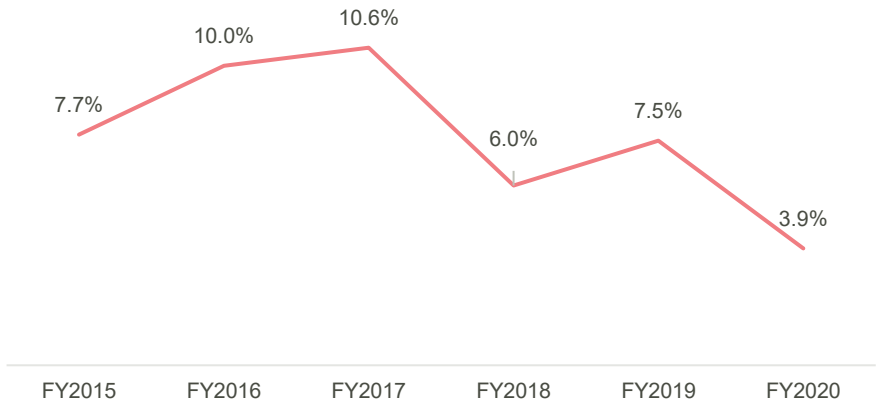
2021-22 should be a recovery year. We forecast ARPR growth of 12% relative to 2019-20. Indeed, the group should benefit from the adoption of products launched in 2020 and the price increases introduced in 2021. In particular, Dealer Auction (JV with Cox Automotive), New Car and the integration of AutoConvert should allow Auto Trader to go after growth in what are still under-penetrated segments.

AutoConvert is an opportunity to bypass its partners Zuto and comparethemarket.com in loan and insurance broking. This should enable Auto Trader to reclaim the share of fees realised by these partners on financial and insurance functionalities.

On this basis, we forecast sales growth of 53.8% in 2022. For 2023 to 2025, we use the following assumptions:

- Stability in the number of clients: 0% on average.
- An average increase of 5.2% in ARPR. We estimate that the group is likely to resume price increases from 2022. The product effect is set to continue have an impact. It is likely to continue to launch new products on a regular basis.

Auto Trader's sales growth (at end-March)



Sources: Company, ODDO BHF Securities

Auto Trader's sales trend by segment (at end-March)

£ m	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Stock impact (£)	58.0	48.0	20.0	-22.0	-30.0	-18.4	16.1	8.1	4.0	4.0
Price impact (£)	41.0	86.0	43.0	50.0	53.0	-620.0	620.0	60.0	25.0	24.0
Product impact (£)	33.0	28.0	86.0	121.0	82.0	57.0	82.0	75.0	70.0	65.0
Change in ARPR (£)	132.0	162.0	149.0	149.0	105.0	-581.4	718.1	143.1	99.0	93.0
ARPA (k £ / month)	1,384	1,546	1,695	1,844	1,949	1,368	2,086	2,229	2,328	2,421
Growth	*10.5%*	*11.7%*	*9.6%*	*8.8%*	*5.7%*	*-29.8%*	*52.5%*	*6.9%*	*4.4%*	*4.0%*
Number of retailer forecourts (k)	13,514	13,296	13,213	13,240	13,345	13,084	13,345	13,345	13,345	13,345
Growth	*0.5%*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Trade	236.3	262.1	281.3	304.6	324.3	227.7	350.5	375.1	392.1	407.3
Growth	*10.1%*	*0.1*	*0.1*	*0.1*	*0.1*	*-0.3*	*0.5*	*0.1*	*0.0*	*0.0*
o/w:										
- Retailer	224.4	250.1	268.8	293.0	312.1	214.7	334.0	356.9	372.8	387.7
Growth	*11.1%*	*0.1*	*0.1*	*0.1*	*0.1*	*-0.3*	*0.6*	*0.1*	*0.0*	*0.0*
- Home Trader	11.5	12.0	11.4	10.2	8.3	6.8	8.3	8.6	8.9	9.1
Growth	*11.7%*	*0.0*	*0.0*	*-0.1*	*-0.2*	*-0.2*	*0.2*	*0.0*	*0.0*	*0.0*
- Other	0.4	0.0	1.1	1.4	3.9	6.2	8.2	9.5	10.4	10.6
Growth	*-83.3%*	*-100.0%*	*n.a.*	*27.3%*	*178.6%*	*60.0%*	*31.0%*	*16.5%*	*9.3%*	*2.0%*
Consumer services	30.3	31.8	29.8	28.0	28.3	23.0	28.7	29.8	31.0	32.3
Growth	*4.5%*	*0.0*	*-0.1*	*-0.1*	*0.0*	*-0.2*	*0.3*	*0.0*	*0.0*	*0.0*
Manufacturer and agency	14.9	17.5	19.1	22.5	16.3	9.2	16.3	17.0	17.6	18.3
Growth	*23.1%*	*0.2*	*0.1*	*0.2*	*-0.3*	*-0.4*	*0.8*	*0.0*	*0.0*	*0.0*
Total revenues	**281.5**	**311.4**	**330.2**	**355.1**	**368.9**	**259.9**	**395.5**	**421.9**	**440.7**	**458.0**
Growth	***10.0%***	***10.6%***	***6.0%***	***7.5%***	***3.9%***	***-29.5%***	***52.2%***	***6.7%***	***4.5%***	***3.9%***

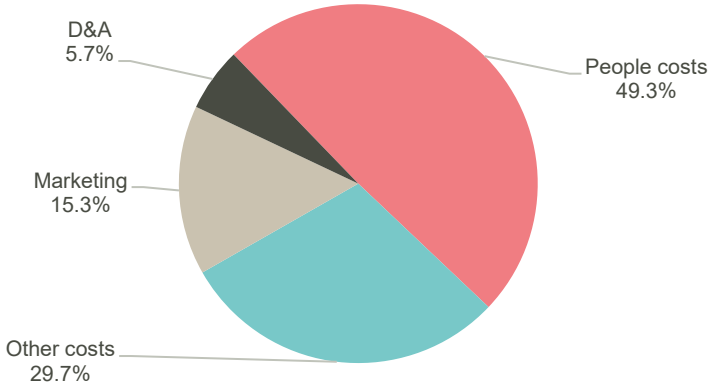
Sources: Auto Trader, ODDO BHF Securities

Auto Trader set to return to record margins in 2022

The group boasts an industry-leading EBITDA margin largely thanks to its leadership in the UK. As we have seen, the bigger the market share of a classifieds player, the bigger its margins.

Auto Trader's business is thus mainly based on **fixed costs**, with the marketing line as the main adjustment variable.

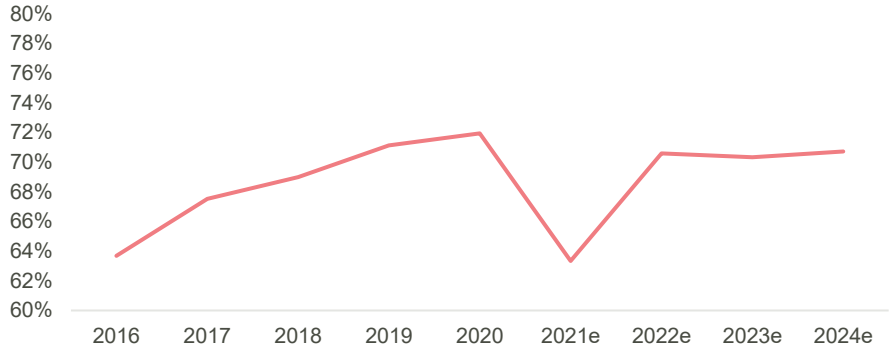
Recurring operating costs in FY 2020



Sources: Company, ODDO BHF Securities

We forecast an EBITDA margin of 71% in 2024, or largely in line with the 2019 level. This forecast is based on virtual stability in the group's market share over the period. We have factored in an increase in marketing investment and a return to the levels of 2019, as the group is set to defend its competitive positioning. Indeed, it is natural for new entrants to take an interest in the profitability of this segment and it is unreasonable, in our view, to expect a continued improvement in margins in our model, without an increase in some costs.

Auto Trader's EBITDA margin (at end-March)



Sources: ODDO BHF Securities, company

Auto Trader's P&L (at end-March)

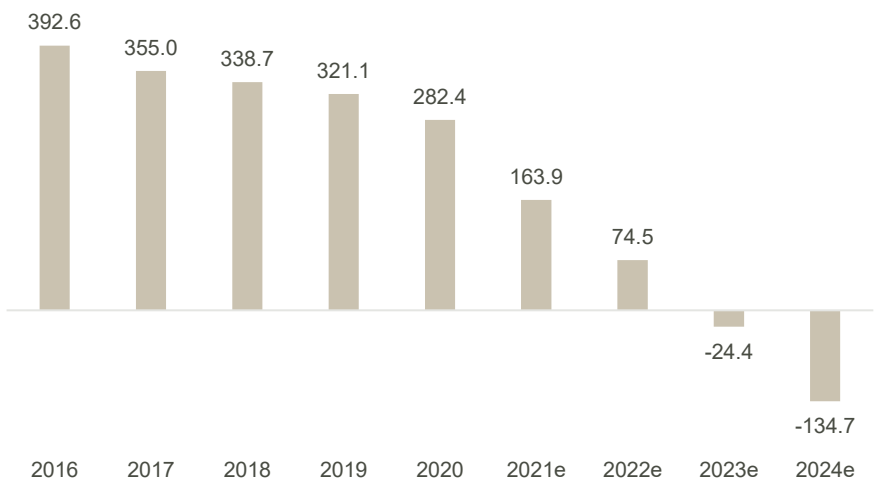
£ m	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Total revenues	**281.5**	**311.4**	**330.2**	**355.1**	**368.9**	**255.8**	**393.5**	**419.7**	**438.3**	**455.4**
Growth	***10.00%***	***10.62%***	***6.04%***	***7.54%***	***3.89%***	***-30.66%***	***53.83%***	***6.66%***	***4.43%***	***3.90%***
Administrative expenses	**112.0**	**108.7**	**109.5**	**111.4**	**110.0**	**100.0**	**121.9**	**130.7**	**136.2**	**139.5**
% of revenues	*39.79%*	*34.91%*	*33.16%*	*31.37%*	*29.82%*	*39.08%*	*30.98%*	*31.15%*	*31.08%*	*30.64%*
EBITDA	**179.3**	**210.3**	**227.8**	**252.6**	**265.4**	**162.0**	**277.8**	**295.2**	**308.3**	**322.1**
EBITDA margin	*63.69%*	*67.53%*	*68.99%*	*71.13%*	*71.94%*	*63.34%*	*70.60%*	*70.32%*	*70.34%*	*70.72%*
EBIT	**169.5**	**202.7**	**220.7**	**243.7**	**258.9**	**155.8**	**271.6**	**289.0**	**302.1**	**315.9**
EBIT margin	*60.21%*	*65.09%*	*66.84%*	*68.63%*	*70.18%*	*60.92%*	*69.02%*	*68.85%*	*68.92%*	*69.36%*
Net financials	**-14.6**	**-9.7**	**-9.8**	**-10.2**	**-7.4**	**-3.4**	**-3.4**	**-3.4**	**-3**	**-3**
Tax rate	*-18.27%*	*-20.05%*	*-18.73%*	*-19.13%*	*-18.69%*	*-19.06%*	*-19.06%*	*-19.06%*	*-19.06%*	*-19.06%*
Net result	**179.3**	**210.3**	**227.8**	**252.6**	**265.4**	**162.0**	**277.8**	**295.2**	**308.3**	**322.1**
EPS (p)	169.5	202.7	220.7	243.7	258.9	155.8	271.6	289.0	302.1	315.9
EPS growth	*60.21%*	*65.09%*	*66.84%*	*68.63%*	*70.18%*	*60.92%*	*69.02%*	*68.85%*	*68.92%*	*69.36%*

Sources: Auto Trader, ODDO BHF Securities

Strong cash generation and resumption of shareholder returns from 2022

Like its peers, Auto Trader is characterised by strong cash generation. In 2022, we forecast FCF of £ 219m, or 56% of sales. This is explained by limited investment and the absence of pressure on working capital.

Net debt since 2016 (£ m, at end-March)



Source: ODDO BHF Securities

In H1 2021, Auto Trader carried out a capital increase (a net amount of £ 182.9m) which reduced its net financial debt to £ 58.1m. The main aim with the share increase was to pay down the company's debt and safeguard liquidity/solvency (and thus comply with the ND/EBITDA and EBITDA/interest covenants of respectively 3.5x and 3.0x of RCF) amid the COVID crisis. Note that Auto Trader has a £ 400m revolving credit facility, of which £ 83m comes due in June 2023. The remaining £ 317m comes due in June 2025. At end-September 2020, Auto Trader had drawn down £ 90m on this line (which constitutes its financial debt).

Concerning cash returns to shareholders, the group has historically combined dividends and share buybacks. Both of these were put on hold in 2021 with the COVID-19 crisis. We forecast a resumption from 2022 and a payout ratio of 33% of net income, with a share buyback budget of £ 70m per year.

Cash returns to shareholders (at end-March)

£ m	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share buybacks	-102	-96	-94	-62	0	-70	-70	-70
Dividend	-27	-52	-58	-65	0	-65	-70	-70
Total cash returns	-129	-148	-151	-126	0	-135	-140	-140
% net profit year N-1	-101.6%	-95.9%	-88.1%	-63.9%	0.0%	-110.0%	-64.7%	-60.7%

Sources: Auto Trader, ODDO BHF Securities

Lastly, we do not expect significant acquisitions. The group is likely to continue its niche transactions as with KeeResources (£ 25.3m) and Autoconvert (£ 18.2m). If a transformative deal were to emerge, we think Auto Trader is more likely to be a target for an international competitor looking to take up position in the auto segment in the UK.

Valuation of € 585p, hence our Neutral rating

We value Auto Trader at 585p per share based on a DCF model, or virtually zero upside potential currently.

Our DCF yields a valuation of 585p per share. Our main assumptions are:

- Annual average revenue growth of 8.7% over the next ten years, taking account of the recovery in 2022 (+54%). Excluding this recovery year, average annual growth works out at 3.7%, a slower pace than in the last three years (6-10%), before trending towards 2.5%.
- A long-term EBITDA margin of 70.7%, or a little under the 2020 level (pre-crisis). Operating leverage stemming mainly from the scope for increases in the price of existing subscriptions, which we see as limited, barring any investment in new products, particularly in the use of data (which will exert pressure on margins).
- WACC of 6.94% (beta of 0.90, risk premium of 7.8% and a risk-free rate of 0.18%).
- A long-term growth rate of 2.5%, stemming from structural growth in the price of second-hand vehicles.

Comparison of ODDO BHF estimates with the consensus

£ m	2020-21e			2021-22e			2022-23e		
	ODDO BHF	Css	ODDO BHF vs Css	ODDO BHF	Css	ODDO BHF vs Css	ODDO BHF	Css	ODDO BHF vs Css
Sales	255.8	250.7	2.0%	393.5	376.6	4.5%	419.7	409.5	2.5%
Sales growth	*-30.66%*			53.83%			*6.66%*		
EBIT	159.8	146.9	4.6%	266.2	264.5	0.6%	283.4	292.6	-3.2%
EBIT margin	*61.5%*			69.02%			*68.85%*		
Adjusted EPS (p)	0.13	0.12	5.1%	0.23	0.22	3.1%	0.24	0.25	-2.3%
EPS growth	*-41.2%*			78.18%			*7.69%*		

Sources: Auto Trader, ODDO BHF Securities

Auto Trader DCF (at 31 March)

£ m	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	255.8	393.5	419.7	438.3	455.4	469.1	483.1	497.6	512.6	526.4	539.6
% change	-30.7%	53.8%	6.7%	4.4%	3.9%	3.0%	3.0%	3.0%	3.0%	2.7%	2.5%
Operating margin	60.9%	69.0%	68.8%	68.9%	69.4%	69.4%	69.4%	69.4%	69.4%	69.4%	69.4%
Operating profit	153.6	266.2	283.4	296.5	310.2	319.5	329.0	338.9	349.1	358.5	367.7
Tax rate	-18%	-18%	-18%	-18%	-18%	-18%	-18%	-18%	-18%	-18%	-18%
(=) Operating profit after tax	126.0	218.3	232.4	243.1	254.3	262.0	269.8	277.9	286.2	294.0	301.5
(+) Amortisation and provisions	2.6	3.9	4.2	4.4	4.6	4.7	4.8	5.0	5.1	5.3	5.4
(=) Operating cash flow	128.5	222.2	236.6	247.5	258.9	266.6	274.6	282.9	291.4	299.2	306.9
(-) Investment	-2.6	-3.9	-4.2	-4.4	-4.6	-4.7	-4.8	-5.0	-5.1	-5.3	-5.4
(-) Change in WCR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(=) Free cash flow	126.0	218.3	232.4	243.1	254.3	262.0	269.8	277.9	286.2	294.0	301.5
Discounted value of free cash flow	136.6	218.3	220.0	215.0	210.1	202.2	194.5	187.2	180.1	172.8	165.6
Weighted average cost of capital	6.94%										
Perpetual growth	2.5%										
DCF valuation	**5 676**										

Source: ODDO BHF Securities

Auto Trader valuation (£ m)

WACC	6.94%
Normative free cash flow	165.6
Perpetual growth	2.5%
Terminal value	3 821.96
Sum of 2022-2031e free cash flow (discounted)	1 965.69
Net debt end-2021e	-163.93
Equity accounted affiliates	52.20
Minority interests	-
Total valuation	**5 675.92**
Target price (£)	**5.85**
Current share price (£)	**5.65**
Upside	*3%*

Source: ODDO BHF Securities

AUTO:LN | AUTOA.L **Neutral** **Price 565.60 p**
IT services | United Kingdom **Upside 3.43%** **TP 585.00 p**

PER SHARE DATA (£)	03/16	03/17	03/18	03/19	03/20	03/21e	03/22e	03/23e
Adjusted EPS	12.69	15.61	17.73	20.95	22.10	12.65	22.54	24.28
Reported EPS	**12.71**	**15.65**	**17.79**	**21.01**	**22.22**	**12.72**	**22.67**	**24.42**
Growth in adjusted EPS	-	23.0%	13.6%	18.2%	5.5%	-42.8%	78.2%	7.7%
Net dividend per share	1.50	5.20	5.90	6.70	2.40	424.15	755.74	813.84
FCF to equity per share	16.10	17.63	19.06	22.73	21.01	13.10	22.91	24.63
Book value per share	-5.15	-2.16	0.48	6.27	15.32	27.46	36.27	46.27
Number of shares market cap (m)	1 000.00	989.28	964.52	941.51	924.50	964.53	954.67	944.05
Number of diluted shares (m)	1 001.39	991.81	967.91	944.25	929.25	969.93	960.06	949.44
VALUATION (£m)	**03/16**	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
12m highest price (£)	442	436	466	608	605	610		
12m lowest price (£)	314	319	335	441	365	544		
(*) Reference price (£)	349	388	370	426	543	547	566	566
Capitalization	3 485	3 834	3 567	4 015	5 024	5 279	5 400	5 340
Restated Net debt	393	355	339	321	282	164	74.5	-24.4
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	4.6	4.7	5.1	55.2	60.3	60.3	60.3	60.3
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	**3 873**	**4 184**	**3 900**	**4 281**	**5 246**	**5 383**	**5 414**	**5 255**
P/E (x)	27.5	24.8	20.9	20.4	24.6	43.3	25.1	23.3
P/CF (x)	21.6	21.3	18.6	18.6	25.7	40.9	24.3	22.6
Net Yield	0.4%	1.3%	1.6%	1.6%	0.4%	77.5%	ns	ns
FCF yield	4.6%	4.5%	5.2%	5.3%	3.9%	2.4%	4.1%	4.4%
P/B incl. GW (x)	ns	ns	775	68.05	35.48	19.93	15.59	12.23
P/B excl. GW (x)	ns	ns	775	68.05	35.48	19.93	15.59	12.23
EV/Sales (x)	13.76	13.44	11.81	12.05	14.22	21.04	13.76	12.52
EV/EBITDA (x)	21.6	19.9	17.1	17.0	20.0	33.7	19.9	18.1
EV/Current EBIT (x)	**23.0**	**20.7**	**17.7**	**17.6**	**20.5**	**35.0**	**20.3**	**18.5**
(*) historical average price								
PROFIT AND LOSS (£m)	**03/16**	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Sales	282	311	330	355	369	256	394	420
EBITDA	179	210	228	252	262	160	272	290
Depreciations	-10.6	-8.0	-7.1	-8.9	-6.5	-6.2	-6.2	-6.2
Current EBIT	**169**	**202**	**221**	**243**	**256**	**154**	**266**	**283**
Published EBIT	170	203	221	243	256	154	266	283
Net financial income	-14.6	-9.7	-9.8	-10.2	-7.4	-3.4	-3.4	-3.4
Corporate Tax	-28.3	-38.7	-39.5	-44.5	-46.4	-29.7	-51.8	-55.1
Net income of equity-accounted companies	0.0	0.0	0.0	0.9	3.2	2.2	5.4	5.5
Profit/loss of discontinued activities (after tax)	0.5	0.5	0.2	8.8	0.3	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	127	155	172	198	205	123	216	230
Adjusted attributable net profit	**127**	**155**	**172**	**198**	**205**	**123**	**216**	**230**
BALANCE SHEET (£m)	**03/16**	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	323	320	330	318	342	347	339	331
Tangible fixed assets	7.4	6.7	6.0	16.7	13.1	13.1	13.1	13.1
WCR	22.5	22.6	24.4	31.0	32.2	32.2	32.2	32.2
Financial assets	4.6	4.7	5.1	55.2	60.3	60.3	60.3	60.3
Ordinary shareholders equity	-51.5	-21.4	4.6	59.0	142	265	346	437
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	-51.5	-21.4	4.6	59.0	142	265	346	437
Non-current provisions	16.8	20.8	22.0	40.3	23.5	23.5	23.5	23.5
Net debt	**393**	**355**	**339**	**321**	**282**	**164**	**74.5**	**-24.4**
CASH FLOW STATEMENT (££m)	**03/16**	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
EBITDA	**179.3**	**210.3**	**227.8**	**251.7**	**262.2**	**159.8**	**272.4**	**289.6**
Change in WCR	2.5	-2.2	-4.9	0.7	0.0	0.0	0.0	0.0
Interests & taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-17.7	-30.0	-36.2	-36.1	-66.5	-30.9	-49.8	-53.0
Operating Cash flow	164.1	178.1	186.7	216.3	195.7	128.9	222.6	236.7
CAPEX	-3.1	-3.7	-2.9	-2.3	-1.5	-2.6	-3.9	-4.2
Free cash-flow	**161.0**	**174.4**	**183.8**	**214.0**	**194.2**	**126.3**	**218.7**	**232.5**
Acquisitions / disposals	0.0	0.0	-11.9	-19.7	-25.3	-10.0	0.0	0.0
Dividends	-5.0	-26.6	-52.2	-57.6	-64.7	0.0	-65.0	-70.0
Net capital increase	0.0	-102.1	-96.2	-93.5	-61.7	182.9	-70.0	-70.0
Others	-8.3	-0.5	-0.5	-6.9	-3.7	-1.7	0.0	0.0
Change in net cash	135.3	37.6	16.3	31.6	31.7	293.1	79.8	88.3
GROWTH MARGINS PRODUCTIVITY	**03/16**	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Sales growth	-	10.6%	6.0%	7.5%	3.9%	-30.7%	53.8%	6.7%
Lfl sales growth	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Current EBIT growth	-	19.9%	9.1%	10.0%	5.3%	-39.9%	73.3%	6.5%
Growth in adjusted EPS	-	23.0%	13.6%	18.2%	5.5%	-42.8%	78.2%	7.7%
Net margin	45.2%	49.7%	52.0%	55.7%	55.7%	48.0%	55.0%	54.9%
EBITDA margin	**63.7%**	**67.5%**	**69.0%**	**70.9%**	**71.1%**	**62.5%**	**69.2%**	**69.0%**
Current EBIT margin	**59.9%**	**65.0%**	**66.8%**	**68.4%**	**69.3%**	**60.1%**	**67.6%**	**67.5%**
CAPEX / Sales	-1.1%	-1.2%	-0.9%	-0.6%	-0.4%	-1.0%	-1.0%	-1.0%
WCR / Sales	8.0%	7.3%	7.4%	8.7%	8.7%	12.6%	8.2%	7.7%
Tax Rate	18.3%	20.1%	18.7%	19.1%	18.7%	19.8%	19.7%	19.7%
Normative tax rate	18.3%	20.1%	18.7%	19.1%	18.7%	19.8%	19.7%	19.7%
Asset Turnover	-	0.9	0.9	1.0	1.0	0.7	1.0	1.1
ROCE post-tax (normative tax rate)	**-**	**46.0%**	**50.5%**	**54.1%**	**55.3%**	**31.6%**	**55.1%**	**59.9%**
ROCE post-tax hors GW (normative tax rate)	-	46.0%	50.5%	54.1%	55.3%	31.6%	55.1%	59.9%
ROE	-	ns	ns	ns	ns	60.4%	70.8%	58.9%
DEBT RATIOS	**03/16**	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Gearing	ns	ns	ns	ns	ns	62%	22%	-6%
Net Debt / Market Cap	0.11	0.09	0.09	0.08	0.06	0.03	0.01	0.00
Net debt / EBITDA	**2.19**	**1.69**	**1.49**	**1.28**	**1.08**	**1.03**	**0.27**	**ns**
EBITDA / net financial charges	12.3	21.7	23.2	24.7	35.4	47.0	80.1	85.2

Sources: ODDO BHF Securities, SIX

Prosus NV

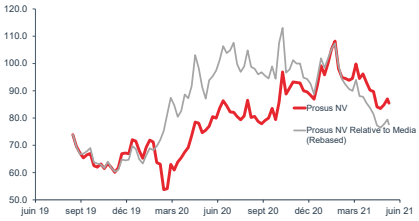
Outperform ➔ | Target 126 € vs 133 €

Price (07/06/2021) : 85.46 € | Upside : 47 %

Revision	2021e	2022e
EPS	-	-

OLX Group, Prosus' main asset after Tencent

Tuesday 08 June 2021



Capital			
PRX NA | PRX.AS			
Market Cap (€m)			138 903
Enterprise value ($m)			ns
Extrema 12 months ($)		74.08 -	109.1
Free Float (%)			27.4
Performance (%)	**1m**	**3m**	**12m**
Absolute	-4.8	-9.9	13.1
Perf. rel. Country Index	-6.6	-18.2	-6.4
Perf. rel. Media	-4.7	-17.6	-10.9
P&L	**03/21e**	**03/22e**	**03/23e**
Sales ($m)	4 116	6 084	7 803
EBITDA ($m)	-8.9	443	1 041
Current EBIT ($m)	-341.4	-48.5	410
Attr. net profit ($m)	4 926	6 084	7 889
Adjusted EPS ($)	3.14	3.87	5.02
Dividend ($)	0.00	0.00	0.00
P/E (x)	31.8	26.8	20.7
P/B (x)	5.6	5.7	5.5
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	ns	0.2	0.6
EV/Sales (x)	ns	ns	ns
EV/EBITDA (x)	ns	ns	ns
EV/Current EBIT (x)	ns	ns	ns
Gearing (%)	-37	-37	-39
Net Debt/EBITDA (x)	ns	ns	ns

Next Events	
21/06/2021	FY Results
24/08/2021	Annual General Meeting
22/11/2021	H1 Results

OLX, the group's main asset on the consolidated scope

OLX Group encompasses Prosus' classifieds activity. It is currently the only source of sales (at the level of the group's consolidated assets and therefore excluding Tencent) at 30%. The division has gradually taken shape mainly through M&A. OLX is present in 30 countries (of which 11 for the transactions arm), of which three represent the bulk of sales and profitability: Russia, Poland and Brazil.

OLX's expansion to continue, both organically and through M&A

Given the heterogeneity of its portfolio, it is difficult to summarise OLX Group's strategy. We think that it is based on four elements: supporting and maintaining the profitability of the two historic pillars (Russia and Poland), investing in its assets that offer the greatest growth potential (Brazil), underpinning Frontier Car Group's (FCG) growth (by supporting losses of < ~£ 100m per year) and remaining opportunistic on M&A. Although bolt-on acquisitions seem the most credible, we are not ruling out a major transaction, notably in shares. This could be an opportunity for Prosus to restructure OLX Group and possibly dilute its position. The goal could then be global reach and to benefit from synergies with its partners' assets. For example, Adevinta is a possible target, but this scenario would require a deal with Schibsted (59% of Adevinta's capital).

We value OLX at $ 11bn

Like its peers, 2020-21 was tougher than expected for Prosus due to the various lockdown measures and closures of its inspection centres. For OLX, we therefore forecast EBITDA of € 60m for 2021 vs € 82m in 2020. We then expect a strong rebound in 2022, 2023 and 2024 thanks to a recovery at the historic activities (Russia and Poland), as well as the ramp-up in Brazil. We forecast a CAGR of 59% for these three years. We value OLX Group in our NAV for Prosus at $ 11bn, based on an average between a median multiple for sales and EBITDA. OLX represents around two-thirds of the value of the e-commerce division and 4% of our NAV for Prosus.

Prosus: two transformative transactions in several months but no change in governance

Prosus recently announced two major transactions: 1/ the disposal of 2% of Tencent's capital for $ 14.6bn, bringing its stake to 28.9%; 2/ a share-exchange offer on Naspers that should give it a 49% stake in the capital of its main shareholder, the stake of which is expected to be reduced from 73.2% to 57.2%. Prosus' free float should increase by the same amount and the group announced a new $ 5bn share buyback plan after that of $ 1.4bn in 2020-21. We expect a net cash position of $ 10.6bn at end-2022 (before the share buyback and acquisition of Stack Overflow), which would help to support new selective M&A transactions. The share-exchange offer is positive as it increases the portion of Prosus' assets held by minority shareholders. However, we have identified two remaining negative points: 1/ the group's structure remains complex and streamlining would be welcome; 2/ there has been no change to governance despite the change in Nasper's stake (no independent director).

Our target price is adjusted to € 126, Outperform rating

We are taking the opportunity to update our NAV for Prosus following the recent transactions. Our new target price stands at € 126 and justifies our Outperform rating with regard to upside of 48%. The continuing M&A, a change to governance, the stabilisation of the regulatory environment in China (Tencent) and the activation of the new share buyback plan should act as drivers.

Jerôme Bodin (Analyst)
+33 (0)1 55 35 42 49
jerome.bodin@oddo-bhf.com

Martin Marandon-Carlhian (Analyst)
+33 (0)1 55 35 42 54
martin.marandon-Carlhian@oddo-bhf.com

What is Prosus Classifieds (OLX Group)?

Prosus is formed from Naspers which owns 73% of its capital (before the share-exchange offer) and brings together its internet businesses outside South Africa. We initiated the stock on 19 January with an Outperform rating and published a study at that time.

Prosus Classifieds (or **OLX Group**) is currently the group's main source of sales and profitability (at the level of its consolidated assets and therefore excluding Tencent). With sales of $ 1.3bn, it represents around 30% of consolidated sales. The division has gradually taken shape mainly through M&A. OLX is present in 30 countries (of which 11 for the transactions arm), of which three represent the bulk of sales and profitability: Russia, Poland and Brazil. It is active on almost all the classifieds segments: automotive, generalist, real estate and, to a lesser extent, employment. It is one of the main generalist players with Adevinta. The group's strategy was mainly to use its leadership position in the generalist segment (in Russia and Poland, for example) to develop verticals (such as automotive).

The group has made several acquisitions, the main one being Avito. The group's latest transactions are FCG (2019), Grupo Zap (2020), the merger between Offerup and letgo (2020) and the acquisition of Obido in Poland (2021). The group had envisaged the acquisition of eBay Classifieds before this was ultimately acquired by Adevinta.

Bear in mind too that OLX Group had a change of CEO in April 2021. The new CEO was previously the global head of AirBnB and had responsibilities at Amazon France and Carrefour Online France.

SWOT analysis

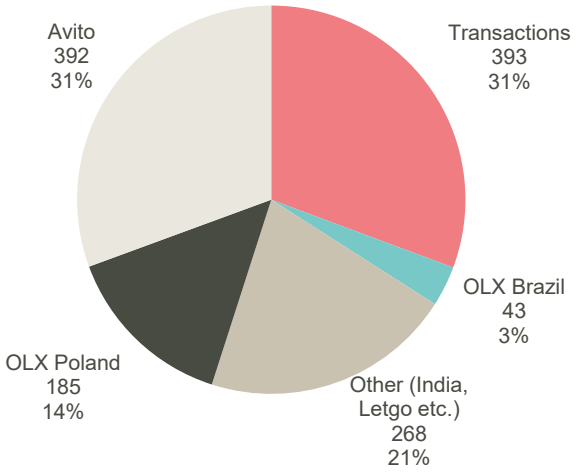
Strengths	Weaknesses
• Main markets (Russia, Poland etc.) still somewhat immature • Strong leadership on several markets: Poland and Russia • Diverse portfolio • Synergies between the various countries	• Fragmented geographic positions • Governance: board not independent from that of Naspers • No mature country to finance the remaining assets
Opportunities	**Threats**
• The Brazilian market offers a solid long-term outlook • Consolidation in some countries or at the global or continental scale • Rollout of new products in Poland and Russia (payment and delivery) • Rollout of the FCG brand and reaching breakeven	• Increasing competition from Facebook Marketplace on several markets • Emerging competitors that Prosus cannot acquire • High fixed costs for FCG and risk of structural losses

Source: ODDO BHF Securities

Two businesses and three main markets: Russia, Poland and Brazil

OLX Group has an activity profile that is somewhat different from its peers and notably Adevinta. Indeed, it is present not only in less mature regions but also on the transaction segment (FCG and OLX Cashmycar).

Breakdown of FY 2020 sales for Prosus Classifieds



Source: ODDO BHF Securities

Classifieds (64% of sales)

This arm encompasses all of the group's assets in online classified ads. At 30 September 2020, the group's assets had 318m single users per month (vs 309m at 31 March 2020).

The main assets are:

- **Avito**: Prosus' main asset on this market. It is present in Russia on all segments for classified ads but is leader in the generalist market and the automotive vertical. It has challenger positions in the real estate (Domofond platform) and jobs (on this market, the leader HeadHunter is listed) verticals. The group estimates that around 50% of the Russian population uses Avito's assets. Note that Mail.ru (27.9% Prosus) operates Avito's rival, Youla. Avito's operating margin (trading profit) was 51% (at end-March 2020) but should fall in 2021 and 2022, affected notably by ongoing investment (payment and deliveries).
- **OLX Poland:** probably the group's most attractive and solid asset. Indeed, OLX has a leadership position on most verticals in Poland: automotive, real estate and generalist. We do not have a sales breakdown per vertical, but we think that the automotive segment is the main contributor. The group is not present in the employment ads segment, which is structurally less profitable because it is more competitive. The operating margin (trading profit) for OLX Poland came in at 58% at end-March 2020, i.e. at the high end of the range for peers.
- **OLX Brazil:** since 2014, the group has been in a joint venture with Adevinta in the country (50/50). Each group books half of the earnings from the subsidiary. OLX Brazil is leader in the generalist segment, as well as the automotive and now real estate verticals. In 2021, the group finalised the acquisition of rival Gruppo Zap for $ 520m (itself created by an initial merger), present in the real estate segment. The new group is therefore leader on this market, offering very attractive prospects for price and profitability. As such the group will have access to 70% of real estate agencies in the country. However, the Brazilian market is much more competitive than the two previously mentioned markets (we forecast an EBITDA margin of 18% in 2023e).

The group is also active in the Indian market with a generalist platform and a strong vertical presence in the automotive segment. It is also no. 1 in the automotive segment in Indonesia, Colombia, Ukraine and Romania.

Moreover, the group owns two main minority stakes stemming from mergers (a good illustration of the group's strategy in this area). These stakes are therefore no longer consolidated at the EBITDA level as of 2021, enabling the deconsolidation of operating losses.

- EMPG (39% stake): the group is present in several emerging countries and regions (Pakistan, the Middle East and North Africa) and was created by the merger with Dubizzle, formerly consolidated by Prosus. At the time of this deal, the group transferred a cash contribution of $ 75m.

- Offerup (38%): created by the merger with Letgo. The two groups are platforms for generalist and consumer goods classifieds. They were competitors of the leading site, Craigslist, but the audience has been on a downtrend for several years. The aim of the transaction is to create a leader in the mobile segment, on which Craigslist is currently very weak. Bear in mind, however, the growing competition from Facebook in this market.

Global presence of OLX Group (including equity-accounted affiliates, excluding Tradus)

Region	Country	Automotive	Real estate	Jobs	Other goods	Advertising and other
Western Europe	France				Selency	
Southern Europe	Portugal	OLX, Standvirtual	OLX, Imovirtual	OLX	OLX	OLX
Eastern Europe	Poland	OLX, 3.2.1 Sprzedane, otomoto	OLX, otodom	OLX	OLX	OLX, fixly
	Romania	OLX, Autovit.ro	OLX, Storia	OLX	OLX	OLX
	Bulgaria	OLX	OLX	OLX	OLX	OLX
	Russia	Avito	Avito, Domofond.ru	Avito	Avito	Avito
	Ukraine	OLX	OLX	OLX	OLX	OLX
	Bosnia and Herzegovina	OLX	OLX	OLX	OLX	OLX
Middle East	Turkey	letgo oto+	letgo	letgo	letgo	Letgo
	Lebanon	OLX	OLX	OLX	OLX	OLX
	Jordan		Bayut			
	Saudi Arabia		Bayut			
	UAE	Dubizzle	Dubizzle, Bayut	Dubizzle	Dubizzle	Dubizzle
	Oman	OLX	OLX	OLX	OLX	OLX
Africa	Morocco		mubawab			
	Algeria		mubawab			
	Tunisia		mubawab			
	Egypt	OLX	OLX	OLX	OLX	OLX
	Nigeria	Cars45 (OLX Autos)				
	South Africa	OLX, Auto Trader	OLX, Property24	OLX	OLX	OLX
North America	US	Webuyanycar.com (OLX Autos), Offerup	Offerup		Offerup	Offerup
Latin America	Mexico	OLX Autos	Lamudi			
	Brazil	OLX	OLX	OLX	OLX	OLX
	Argentina	OLX, OLX Autos	OLX, Properati	OLX	OLX	OLX
	Chili	OLX Autos				
	Colombia	OLX, OLX Autos	OLX, Properati	OLX	OLX	OLX
	Ecuador	OLX Autos	Properati			
	Peru	OLX, OLX Autos	OLX, Properati	OLX	OLX	OLX
	Uruguay	OLX Autos	Properati			
Central Asia	Kazakhstan	OLX	OLX	OLX	OLX	OLX
	Uzbekistan	OLX	OLX	OLX	OLX	OLX
South Asia	Pakistan	CarFirst (OLX Autos)	Lamudi, Zameen			
	India	OLX, OLX Autos	OLX	OLX, Waah!jobs	OLX	OLX
	Bangladesh		Bproperty			
	Thailand	Kaidee	Kaidee		Kaidee	
Asia-Pacific	Indonesia	OLX, OLX Autos	OLX, Lamudi	OLX	OLX	OLX

Source: ODDO BHF Securities

Transactions (36% of sales)

This arm encompasses the businesses of automotive inspections and transactions. Prosus has been operating in this segment since 2018 with an initial investment in Frontier Car Group (FCG).

In the automotive market, the group operates as an intermediary between the buyer and seller, offering vehicle inspection, cleaning and repair services in addition to auctions. In certain cases, the group buys and holds vehicles for a short period.

The challenge is therefore to sell vehicles at a higher price and provide additional services (loans, insurance, etc.). Technology plays a key role and aims to reduce transaction times as much as possible, notably by maximising the use of the data held by FCG. The value proposal hinges on the guarantee of a trusted transaction.

Prosus is active in this market via two assets:

- Frontier Car Group (91%-owned), originally a German group, is active in the US and 10 emerging countries (India, Indonesia and several countries in South America, including Argentina and Mexico) and has around 500 inspection centres. The group has notably made a small-scale acquisition in Russia. The geographic breakdown in sales is unknown, but we think that South America represents around 30%, India 25%, the US 20% and the other countries 25%. Prosus has decided to abandon FCG (Frontier Car Group) activities in Germany and the brand. This local subsidiary employed 100 people. The goal would be to concentrate on emerging countries under the OLX Auto brand.
- Cashmycar operates 70 inspection centres in India and is based on a model that is fairly similar to that of FCG. It is far smaller than the latter in terms of contribution to sales.

The main brands associated with this segment are OLX Autos, webuyanycar.com, CarFirst and Cars45.

The aim is to link up the OLX brand with FCG as much as possible in order to pool these assets and develop synergies, like in Poland in 2021.

Continuing asset development and remaining opportunistic on M&A

Given the heterogeneity of its portfolio, it is difficult to summarise OLX Group's strategy. We think that it is based on four main elements: supporting and maintaining the profitability of the two historic pillars (Russia and Poland), investing in its assets that offer the greatest growth potential (Brazil), underpinning FCG's growth (by supporting losses of < ~£ 100m per year) and remaining opportunistic on M&A. The overall aim is to establish leading positions in all countries and on all verticals.

Although bolt-on acquisitions seem the most credible, we are not ruling out a major transaction, notably in shares. This could be an opportunity for Prosus to restructure OLX Group and possibly dilute its position. The goal could then be to achieve global reach and benefit from synergies with its partner's assets. For example, Adevinta is a possible target, but this scenario would require a deal with Schibsted (59% of Adevinta's capital).

Two cash cows: Poland and Russia

These are OLX's Group's two historic assets. In 2020 (year ending end-March), they generated cumulative EBITDA of € 327m for a total of € 82m for the division. They are therefore the group's two cash cows and enable it to self-finance other developments, notably in Brazil and FCG.

We forecast a slight erosion in the EBITDA margins of the two assets, notably due to investment in payment and delivery solutions. However, they should remain at a level well above the group average and at the upper end of the range of European peers (45% on average). This performance is all the more remarkable as Avito and OLX Poland are generalists rather than specialists (vs Auto Trader and Rightmove, for example).

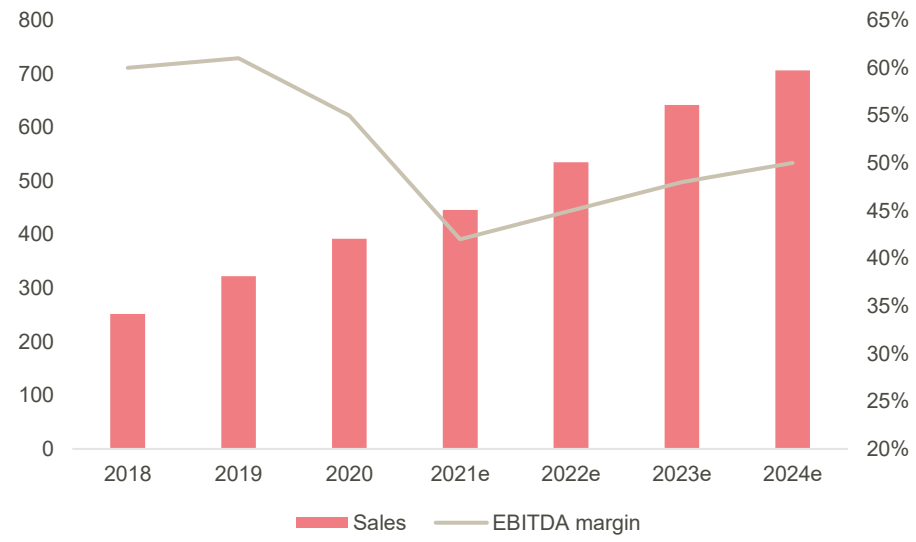
Avito: resilience in 2021 despite the COVID crisis

Avito's strategic aim is to continue to strengthen its leadership. We do not expect any significant change to the scope of consolidation. The group should continue to invest, particularly in delivery and payment.

After a tough H1 like all its European peers, we forecast a strong rebound in H2 2021 for the group due to the relatively limited pandemic restrictions in Russia. The real estate and job segments should notably see a marked rebound. We therefore expect sales growth of 14% in 2021, then 20% in 2022.

We have integrated a small, gradual margin decline in 2021 and 2022 in order to factor in: 1/ a competitive environment that we think is still strong (with challenger positions on certain verticals); 2/ continued investment by the group, notably in payment and delivery solutions. The strategic aim is to make Avito the central platform of the Russian market. We see the same trend at Leboncoin (Adevinta France) which is also very exposed to its generalist platform.

Sales ($ m) and EBITDA margin for Avito



Source: ODDO BHF Securities

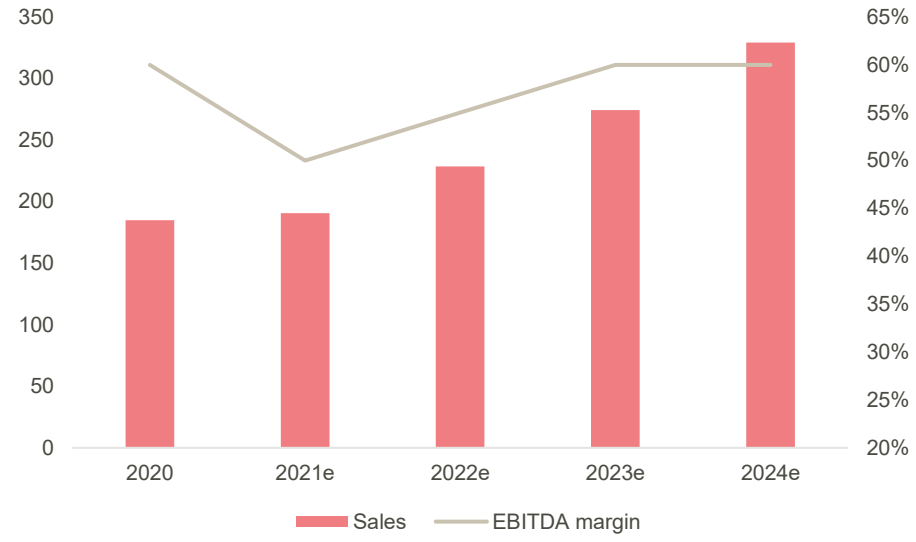
The group could also make acquisitions in the Russian market. It is likely to focus on small targets; there are notably many local players in the real estate and automotive markets. The aim could be to strengthen its position on the transaction market (see our comments on FCG) which offers significant potential in Russia. The group is not currently present in this market (unlike Poland).

OLX Poland: a tough 2021 but a solid model

We anticipate a stable EBITDA margin in the medium term for this asset due to its competitive advantages. Granted, the group should continue its investments (notably in payments and delivery), but the potential for price hikes also looks substantial in the country and should help to offset the increase in costs.

Activity in Poland should see a tougher 2021 than Russia due to the tighter pandemic restrictions. The improvement in H2 should be less significant than on other markets. We therefore expect sales growth of just 3% in 2021, then a rebound in 2022 (+20%). We forecast a slight decline in EBITDA in 2021 due to the pandemic situation, then a rebound in 2022. The margin should remain slightly lower than that of 2019 given the current level of investment approved (but below that of Avito).

Sales ($ m) and EBITDA margin for OLX Poland



Sources: ODDO BHF Securities, company

OLX Brazil: strong potential in an immature market

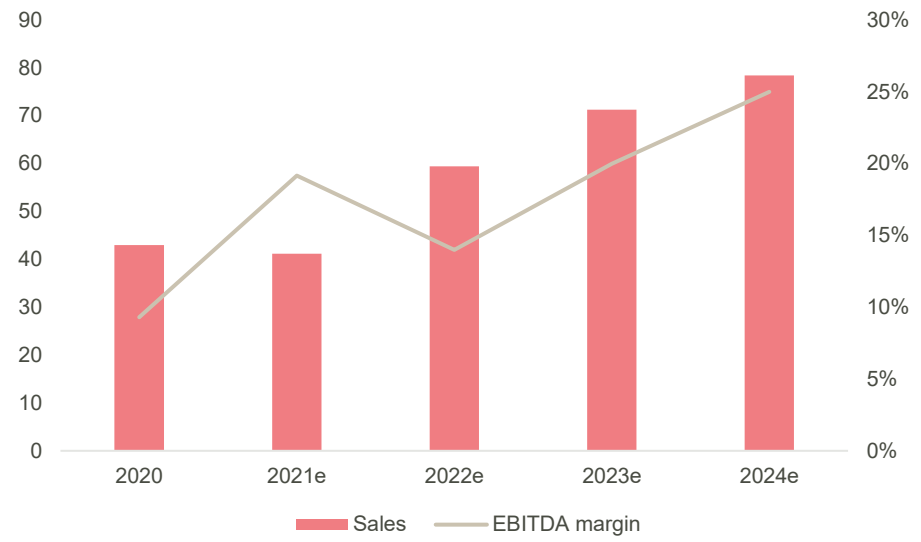
OLX Brazil (50/50 joint venture with Adevinta) is in a different situation to that of the Russian and Polish assets, with the Brazilian market being much less mature than in the two latter countries. The strategic aim of OLX Group in Brazil is to gradually become the unrivalled leader on all the main verticals: jobs, generalist, real estate and automotive. This could notably happen through several M&A transactions as the market is still somewhat fragmented.

We forecast slight growth in 2021 due to the pandemic situation in Brazil and an unfavourable forex effect. This gives EBITDA of $ 9m. Bear in mind that the figures (in euros) have already been released by Adevinta at its full-year (consolidated 9M by Prosus) and Q1 results publications.

In the medium term, the acquisition of Grupo Zap in 2020 should result in a streamlined market. We then anticipate an acceleration in growth (+28% on average by 31 March 2023) fuelled by a catch-up effect in the Brazilian market. We think that the EBITDA margin should also improve significantly to 25% at end-March 2023. On our reckoning, OLX could follow an integration strategy that is very similar to that of Avito (synergies between its vertical activities and generalist platform). However, in the interests of caution, our margin forecasts remain below those for Avito.

The group has launched OLX Pay in Brazil, as it has done on other markets.

Sales ($ m) and EBITDA margin for OLX Brazil



Sources: ODDO BHF Securities, company

Lastly, the group's Indian asset should follow a relatively similar trend in the medium term in our view. We expect a margin of around 25% in 2025.

FCG: a loss of under $ 100m per year to establish a leader in emerging countries

Prosus' strategy for FCG is to support its rollout in emerging countries. Bear in mind that FCG is partly comparable with the German listed group Auto1. It is an extension of the automotive classifieds model. The aim is to sell as many additional services related to the automotive segment as possible and to maximise the amount of data.

We forecast losses for the transactions division of -$ 90m in 2021e (slightly below the 2020 level, not reported). We also expect robust revenue growth (35% on average out to 31 March 2023) given the opening of new inspection centres (500). These volumes are key to offset the increase in costs arising from the network rollout. That said, our visibility on FCG's business plan remains limited. This should result in losses remaining high out to 2023 (-$ 75m), before potentially reducing significantly with the decline in investment. These losses are due notably to significant marketing support. At its Analyst Day on 3 December 2019, Prosus indicated that it was targeting a long-term margin of 10-15% for this activity.

For 2021, we expect an improvement in the trend in H2 in terms of the reopening of transaction centres. We forecast sales growth of 29% in 2021.

Acquisitions: a major acquisition is not impossible

The group should continue its acquisitions in classifieds. It could notably use a part of the cash proceeds from the disposal of a 2% stake in Tencent in early April 2021 ($ 14.6bn).

Which kinds of transaction would be credible?

- **We think that an acquisition of a European leader such as Auto Trader or Scout24 is unlikely.** Given that Prosus' strategic priority is to expand in emerging markets, we cannot see the group spending several $ bn to gain a position as lone operator in the UK, Germany or France.

- The group could continue its niche acquisitions on markets in which it is already present (Poland, Russia and Brazil) or other emerging regions. FCG could also be strengthened through certain acquisitions. Moreover, the group has not ruled out merging some of its assets with other players and envisaging a dilution. This was precisely the group's line of action for the merger between Dubizzle and EMPG.

- Lastly, we are not ruling out a major acquisition and merger with another group. The idea could be to benefit from a partner's listing to list the new entity and dilute the group's stake. Prosus indicated on several occasions that it was not against diluting its assets if the transactions were value-creating. Adevinta is naturally the most credible partner.

What about a merger with Adevinta?

A share of the consensus has alluded to this eventuality on several occasions. The main interest is the good fit of the two portfolios. Adevinta is mainly present in mature markets (France, Spain and Germany) while OLX is present in emerging regions. The two groups have almost zero presence in the same markets and the competitive/legal risk is therefore very low, even non-existent.

The two groups could therefore benefit from a balance between mature positions (that generate high levels of cash) with high potential. We set out hereafter the possible financial profile for the new group.

Consolidation of Adevinta and OLX Group

$ m or € m	2020	2021e	2022e	2023e	2024e	2025e
Sales OLX Group ($)	1 281	1 473	1 879	2 343	2 768	3 225
Sales OLX Group (€)	1 059	1 217	1 553	1 937	2 288	2 665
Sales Adevinta	674	1 278	1 949	2 170	2 379	2 586
Sales NewCo	1 732	2 496	3 502	4 106	4 667	5 250
EBITDA OLX Group ($)	82	60	160	327	450	527
EBITDA OLX Group (€)	68	50	132	270	372	436
EBITDA Adevinta	183	403	692	863	1 030	1 150
EBITDA NewCo	250	453	824	1 133	1 402	1 586
Costs NewCo	1 482	2 043	2 678	2 973	3 265	3 665
Synergies (€ 150m)			50	50	50	
o/w sales			16.7	16.7	16.7	
o/w costs			33.3	33.3	33.3	
Sales after synergies			3 573	4 227	4 833	5 416
Costs after synergies			2 699	2 994	3 281	3 680
EBITDA after synergies			**874**	1 233	1 552	1 736

Source: ODDO BHF Securities

The potential synergies are particularly significant in our view. We estimate them at € 150-200m, of which around two-thirds on costs and one-third on sales (1.5-2% of sales in line, a shade below the Adevinta/eBay transaction). Bear in mind that the total amount of synergies for this transaction is € 130-160m (~2.5% of sales). While some synergies will already have been generated with eBay, we think a baseline assumption of € 150m would be reasonable for an OLX Group/Adevinta merger.

This scenario would be credible in the medium term. The main driver would be a strategic agreement with Prosus and Schibsted which own 100% and 59% of their assets in classifieds respectively. The challenge would be to reach an agreement that would maintain a kind of parity between the two shareholders. A cash inflow would help to balance these positions and thus create a joint venture or a shareholder pact. The collaboration between the two groups seems particularly strong in Brazil and could be the first step in a more complete merger at the classifieds subsidiary level.

Based on our EBITDA estimates for the new group and Adevinta's current multiple (~36x 2021e EBITDA), the valuation could come to around € 35.6bn. Based on our valuation for OLX and assuming that no premium is awarded to Prosus, the latter could hold around one-third of the new entity. Depending on the conditions of the transaction (synergies, possible premium, etc.), it could then be interesting for Prosus to distribute these shares to its shareholders.

As we state hereafter, the deal with Naspers should enable minority shareholders to obtain a share larger than their share in the capital (given the cancellation of the self-control loop).

Prosus Classifieds valued at $ 11bn

Outlook for OLX Group in 2021 and the medium term

First of all, bear in mind that the year-end for Prosus is end-March. The 2021 results are therefore those to the end of the calendar Q1 2021.

Like its peers, 2020-21 was tougher than expected for Prosus due to the various lockdown measures and closures of its inspection centres. We therefore forecast EBITDA for Prosus Classifieds of € 60m for 2021 vs € 82m in 2020.

We then expect a strong rebound in 2022, 2023 and 2024 thanks to a recovery in mature activities (Russia and Poland), as well as the ramp-up in Brazil. We forecast a CAGR of 59% for these three years.

For the same period, we forecast an EBITDA margin of 14%. This should remain below that of peers to a certain extent. The most profitable groups are those with very strong expertise in a particular region or vertical (automotive, real estate, etc.). However, FCG should remain loss-making over the period (breakeven reached in 2026 in our view).

FCG looks particularly attractive in the long term but could gradually become a strictly defensive investment and product in order to retain the group's historic positions in the automotive classifieds market. If this is the case, Prosus could envisage partnerships for FCG or open up its capital to enable the group to operate in more markets. This is a catalyst that has not been factored into our model. We have not yet integrated into our model the margin level targeted by the company in the long term (10-15%).

Forecasts for Prosus Classifieds

$ m	2020	2021e	2022e	2023e
Sales - Avito	392	446	535	642
Sales - OLX Poland	185	191	229	274
Sales - OLX Brazil	43	41	59	71
Sales - transactions	393	506	708	956
Sales - other	268	289	347	399
Total sales	1281	1473	1879	2343
Growth	*49%*	*15.0%*	*27.5%*	*24.7%*
EBITDA - classifieds	146	150	240	407
EBITDA - transactions	-64	-90	-80	-80
Total EBITDA	82	60	160	327
EBITDA margin	*6.4%*	*4.1%*	*8.5%*	*14.0%*

Sources: ODDO BHF Securities, company

The following table presents a summary of our earnings forecasts for Prosus' entire e-commerce division (and therefore consolidated assets). For more details, see our report of 19 January. As shown in the table, this division represents around one-quarter of the group's sales and above all the main source of FCF.

Forecasts for Prosus' e-commerce division

$ m	2019	2020	2021e	2022e	2023e	TMVA
Sales - classifieds	857	1281	1432	1819	2272	21.0%
Sales - payments and fintech	360	428	536	689	894	27.8%
Sales - food delivery	377	751	1 531	3 007	4 203	77.5%
Sales - etail	1529	1 363	1 540	1 663	1 780	9.3%
Other and adjustments	472	443	320	350	370	
Sales - e-commerce	3 595	4 266	5 359	7 530	9 518	30.7%
EBITDA - classifieds	10	82	60	160	327	
EBITDA - payments and fintech	-39	-60	-88	-63	13	
EBITDA - food delivery	-162	-596	-424	-208	6	
EBITDA - etail	-87	8	45	50	50	
Other and adjustments	-241	-223	-250	-250	-250	
EBITDA - e-commerce	-519	-789	-656	-311	146	

Sources: ODDO BHF Securities, company

Two major transactions within several weeks

Prosus has successively announced two transformative transactions:

Disposal of a 2% stake in Tencent on 7 April for $ 14.6bn

- Prosus placed 191,890m Tencent shares on the market, representing around 2% of the Chinese group's capital based on a price of HKD 595k (vs HKD 629 the day before the transaction). The transaction therefore took place based on a total discount of 8.6%, enabling the group to gain $ 14.6bn in cash (€ 12.3bn). Bear in mind the activation of a new three-year lock-up period which limits the prospects of a fresh placement (and therefore of share buybacks). That said, this is a classic set-up and comes as no surprise, being perfectly in line with the one put in place in 2018. Moreover, this obligation prevents the sale of shares and leaves Prosus the possibility of allocating a portion of shares to its shareholders.
- Prosus' stake in the group has thus been reduced from 30.9% to 28.9%. It remains by far the group's main shareholder and this transaction changes nothing in terms of governance (it retains two seats on the board). Based on Tencent's current share price, Prosus' stake is valued at around $ 180bn.
- The group has not communicated on the allocation of this cash likely to be decided. We are sticking with our assumption that the group could dedicate half of the cash proceeds to acquisitions with the remainder for share buybacks (i.e. $ 6.2bn or 4.0% of its market capitalisation). The group also announced an initial $ 5bn plan as part of the share-exchange offer on Naspers, which could be rounded out by several buybacks in the coming years.
- We do not think that Prosus will use this cash for a major acquisition. Instead, we anticipate a number of small- or mid-scale deals (several hundred million to potentially several billion dollars). The group notably recently announced the acquisition of Stack Overflow for $ 1.8bn from several venture capital funds. The target is a website (forum) where users can post questions and answers about programming.

  We are thus ruling out a large transaction (>$ 5bn) in the short term. It is interesting to note that the group envisaged two significant transactions in 2020 before pulling out: 1/ Just Eat, for which it made an offer of $ 6.7bn (ultimately acquired by Takeaway.com for an EV of $ 7.8bn, i.e. 7.8x 2018 sales). It seems unlikely that Prosus will consider acquiring Just Eat which would be extremely costly (>€ 13bn); 2/ eBay's classifieds arm which was subsequently acquired by Adevinta for $ 9.2bn (8.7x 2019 sales). The group has thus proven particularly cautious on transformative transactions, avoiding outbidding the offers of its competitors. We think that this strategy should continue in the coming quarters.

A share-exchange offer on its main shareholder Naspers on 11 May

Prosus announced on 11 May a share-exchange offer on its main shareholder, Naspers. The group is expected to create new shares to be delivered to Naspers' shareholders (N shares). Prosus should then hold a 49% stake in Naspers.

Prosus is not expected to pay in cash, which will enable the group to preserve its investment capacity. Naspers' stake in Prosus should fall from 73.2% to 57.2%. Prosus' free float should therefore be greatly enhanced at 42.8% based on a stock market capitalisation of € 140bn. This therefore constitutes a self-control loop that is being implemented (a little like Bolloré), facilitating an increase in the shares owned by minority shareholders in the asset portfolio. Naspers is set to own a 57% stake in Prosus, which will hold a stake of up to 49% in its capital.

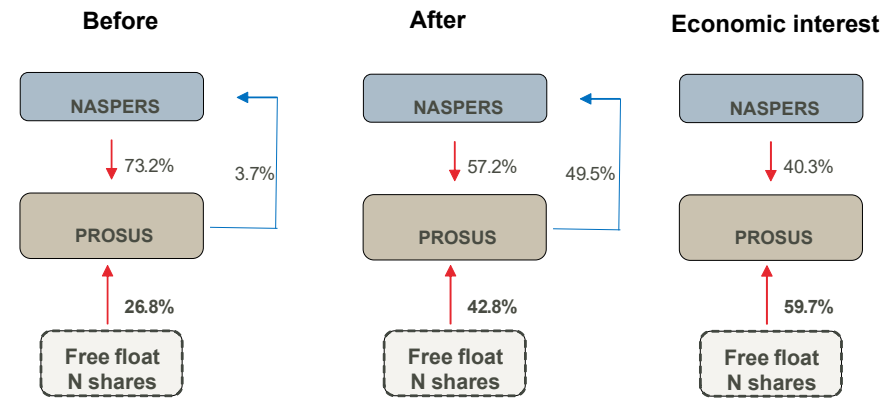
The important point is that the group also announced a deal for a cross-holding arrangement with Naspers, aiming to guarantee higher economic exposure for Prosus' minority shareholders. More precisely, the latter should receive a 59.7% payout (in cash or shares) from Prosus, retaining just 42.8% of the capital. In other words, if Prosus pays out $ 100 to its shareholders, the minority shareholders will receive $ 59.7 rather than $ 42.8, i.e. 39.4% more than what they would have received on paper (the final impact is smaller due to the creation of new shares). This is an important point in the event of a distribution of shares held, which could happen after a merger - notably in the classifieds segment.

Our target price is therefore based on this increased economic interest for shareholders outside of Prosus.

After the disposal of 2% of Tencent, this new operation is positive, notably because it helps to increase the free float and benefits from a low valuation for the two stocks. Prosus' discount on the value of its assets currently stands at 28% according to our calculations. This is not exactly the scenario that has been regularly alluded to (payout of Prosus' shares). The benefit of this structure was its simplicity, which is not exactly the case here.

There has been no change to governance, nor to the composition of Prosus' board. This may happen at a later date. However, since Naspers' stake in Prosus is being reduced, it would make sense if independent directors were appointed to the board, which is currently not the case. We think that this would provide leverage for a revaluation of the stock.

Change in the relationship between Naspers and Prosus



Source: ODDO BHF Securities

Prosus' capital is currently made up of two types of share (N & A1) and potentially a third (A2). No multiple voting rights mechanism has been put in place. However, the company's articles of association provide for the introduction of multiple new voting rights shares (x1,000) if Naspers were to fall below 50% of the capital. This mechanism, which is specific to Dutch law, aims to secure control of Prosus in the event of a transformative deal by Naspers' controlling shareholders (and not by Naspers itself). This is not the case here. Naspers and its controlling shareholders therefore retain control (see our note of 17 January on this subject).

Valuation: significant upside following the transactions to reorganise the capital

We are taking the opportunity to update our NAV and target price for Prosus. The latter has been adjusted from € 133 to € 126. This gives significant upside and justifies our Outperform rating on the stock.

We have made three main changes as a result of the recent newsflow:

- The acquisition of 20.4m Deliveroo Hero shares for around € 2.3bn.
- The disposal of 2% of Tencent's capital (see the previous point).
- Prosus' project of a share-exchange offer on Naspers that we have modelled in our NAV with the number of shares adjusted for the self-control loop (factoring in the shareholder agreement with Naspers). Indeed, given the deal with Naspers, Prosus' minority shareholders should receive a higher value on payouts. In other words, to estimate the valuation of the stake held by minority shareholders, the final number of shares should be reduced based on the calculation of the economic interest provided by the company. On this basis, the theoretical new number of shares (i.e. after factoring in the real economic interest) comes to 1,478m.

As we indicated previously, this transaction makes sense but is a little difficult to anticipate, notably in the context of the very limited cash return for Prosus' shareholders. For this reason, we chose in parallel to increase the discount to the value of assets from 20% to 25%. We could reduce it in two scenarios: 1/ a change in governance; 2/ a more ambitious payout policy that would result in an optimised cash return for Prosus' minority shareholders.

With regard to the classifieds arm, we value OLX Group in our Prosus NAV based on an average between a median sales and EBITDA multiple.

Indeed, OLX Group is already profitable and it seems reasonable to factor in profitability that could be a little lower than that of its peers going forward (14% end-March 2023e vs 36% for the sample). We think that the closest peer is Adevinta, although it is more mature than Prosus given its long-standing and established position in France (Leboncoin). A premium for Prosus' classifieds arm therefore appears warranted in our view. When applying the median EV/sales and EV/EBITDA multiples for peers to our estimates for March 2022e and March 2023e, the average valuation of the classifieds arm comes to $ 11bn. OLX represents around two-thirds of the value of the e-commerce division and 4% of our NAV for Prosus.

SOTP for Prosus

$ m	% stake	Valuation for 100%	Valuation for Prosus	% total valuation	Method	Comment
Listed stakes		916 283	259 382	87.1%		
Tencent	28.9%	887 623	256 523	86.2%	Share price	
Mail.ru	27.9%	5 204	1 452	0.5%	Share price	
Trip.com	6%	23 456	1 407	0.5%	Share price	
E-commerce		29 556	29 556	29 556		
(1) Classifieds (consolidated)		11 262		11 262	Peer multiples	2021e EV/sales
(2) Payments and fintech		5 463		5 463	Peer multiples	2021e EV/sales
(3) Food delivery		10 349		10 349	Peer multiples	2021e EV/sales
(4) Etail		2 482		2 482	Peer multiples	2021e EV/sales
Other		18 676	3 338	1.1%		
Skillsoft	35.00%	1 300	455	0.2%	Last transaction	
BYJU's	11.31%	15 000	1 697	0.5%	Last transaction	
Udemy	14.81%	782	116	0.0%	Last transaction	
Brainly	43.80%	108	47	0.0%	Last transaction	
Codeacademy	21.03%	100	21	0.0%	Last transaction	
Sololearn	15.24%	100	15	0.0%	Last transaction	
ElasticRun	20.57%	146	30	0.0%	Last transaction	
Meesho	12.18%	665	81	0.0%	Last transaction	
Dott	20.81%	101	21	0.0%	Last transaction	
Honnor	16.47%	263	43	0.0%	Last transaction	
Immutable	11.11%	54	6	0.0%	Last transaction	
Dapp Radar	23.12%	8	2	0.0%	Last transaction	
Similar web	23.93%	50	12	0.0%	Last transaction	
Other		0	792	0.3%	Value on the balance sheet	

Enterprise value	292 276
2022 net cash	10 355
Minority shareholders	-2 644
OLX Brazil	1 140
FTG	100
Letgo	300
Etail	494
iFood	457
PayU	52
Others	100
Own capital before discount	299 988
Discount	25%
Own capital after discount	224 991
$/€ exchange rate	1.21
Own capital in euros	185 943
Number of shares (before buybacks)	1 625
Number of shares (created in the share-exchange offer)	448
Own shares held	12
Number of shares	2 062
(-) adjustment to Naspers shares	584
Number of shares for the target price	1 478
Target price (€)	126
Share price (€)	86.70
Upside	*45.0%*

Source: ODDO BHF Securities

PRX NA | PRX.AS
Internet service providers | Netherlands

Outperform
Upside 47.44%

Price 85.46EUR
TP 126.00EUR

PER SHARE DATA ($)	03/17	03/18	03/19	03/20	03/21e	03/22e	03/23e
Adjusted EPS	1.48	6.99	2.20	2.35	3.14	3.87	5.02
Reported EPS	**1.48**	**6.99**	**2.20**	**2.35**	**3.14**	**3.87**	**5.02**
Growth in adjusted EPS	-	ns	-68.5%	7.0%	33.3%	23.5%	29.7%
Net dividend per share	0.00	0.00	0.00	0.13	0.00	0.00	0.00
FCF to equity per share	-0.28	-0.21	-0.15	-0.19	-0.10	0.20	0.63
Book value per share	6.92	14.69	16.77	17.90	17.67	18.10	18.94
Number of shares market cap (m)	1 625.35	1 625.35	1 625.35	1 625.35	1 571.01	1 571.01	1 571.01
Number of diluted shares (m)	1 625.35	1 625.35	1 625.35	1 625.35	1 571.01	1 571.01	1 571.01
VALUATION ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
12m highest price ($)			82.00	115	132		
12m lowest price ($)			65.20	53.93	101		
(*) Reference price ($)				71.91	99.68	104	104
Capitalization				116 876	156 596	163 285	163 285
Restated Net debt	-1 011.0	-7 289.0	-5 935.0	-4 546.0	-10 355.0	-10 668.0	-11 651.6
Minorities (fair value)	319	21.0	132	2 755	2 755	2 755	2 755
Financial fixed assets (fair value)	0.0	0.0	0.0	253 265	253 265	253 265	253 265
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value				**ns**	**ns**	**ns**	**ns**
P/E (x)				30.6	31.8	26.8	20.7
P/CF (x)				ns	1 090	254	122
Net Yield				0.2%	0.0%	0.0%	0.0%
FCF yield				ns	ns	0.2%	0.6%
P/B incl. GW (x)				4.02	5.64	5.74	5.49
P/B excl. GW (x)							
EV/Sales (x)				ns	ns	ns	ns
EV/EBITDA (x)				ns	ns	ns	ns
EV/Current EBIT (x)				**ns**	**ns**	**ns**	**ns**
(*) historical average price							
PROFIT AND LOSS ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Sales	1 835	2 303	2 654	3 330	4 116	6 084	7 803
EBITDA	-507.0	-354.0	-265.0	-324.0	-8.9	443	1 041
Depreciations	-308.0	-261.0	-163.0	-269.0	-332.5	-491.4	-630.3
Current EBIT	**-815.0**	**-615.0**	**-428.0**	**-593.0**	**-341.4**	**-48.5**	**410**
Published EBIT	-815.0	-615.0	-428.0	-593.0	-341.4	-48.5	410
Net financial income	-821.0	-491.0	179	92	-257.1	-258.6	-258.6
Corporate Tax	-11.0	-39.0	-258.0	-75.0	-90.0	-108.0	-129.6
Net income of equity-accounted companies	1 739	12 470	3 139	3 857	5 524	6 542	7 847
Profit/loss of discontinued activities (after tax)	2 311	30.0	872	434	0.0	0.0	0.0
Minority interests	0.0	0.0	71	109	91	-43.0	20.1
Attributable net profit	2 403	11 355	3 575	3 824	4 926	6 084	7 889
Adjusted attributable net profit	**2 403**	**11 355**	**3 575**	**3 824**	**4 926**	**6 084**	**7 889**
BALANCE SHEET ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Goodwill	2 147	2 198	2 035	2 169	-8 796.3	-8 796.3	-8 796.3
Other intangible assets	1 038	979	794	844	844	844	844
Tangible fixed assets	55.0	622	143	377	507	687	887
WCR	-872.0	-2 623.0	-600.0	-1 044.0	-874.0	-724.0	-574.0
Financial assets	10 932	16 853	19 919	23 382	26 982	26 982	26 982
Ordinary shareholders equity	11 254	23 875	27 250	29 100	27 753	28 439	29 753
Minority interests	319	21.0	132	214	305	262	282
Shareholders equity	11 573	23 896	27 382	29 314	28 058	28 701	30 034
Non-current provisions	2 738	1 422	844	960	960	960	960
Net debt	**-1 011.0**	**-7 289.0**	**-5 935.0**	**-4 546.0**	**-10 355.0**	**-10 668.0**	**-11 651.6**
CASH FLOW STATEMENT ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
EBITDA	**-507.0**	**-354.0**	**-265.0**	**-324.0**	**-8.9**	**442.9**	**1 040.6**
Change in WCR	0.0	0.0	-121.0	-173.0	-170.0	-150.0	-150.0
Interests & taxes	-245.0	-216.0	-115.0	-116.0	-347.1	-366.6	-388.2
Others	346.0	291.0	356.0	404.0	499.7	566.6	681.3
Operating Cash flow	-406.0	-279.0	-145.0	-209.0	-26.3	493.0	1 183.7
CAPEX	-53.0	-69.0	-106.0	-97.0	-130.0	-180.0	-200.0
Free cash-flow	**-459.0**	**-348.0**	**-251.0**	**-306.0**	**-156.3**	**313.0**	**983.7**
Acquisitions / disposals	2 961.0	7 921.0	-8 167.0	-4 622.0	10 965.3	0.0	0.0
Dividends	-15.0	-25.0	-16.0	-216.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	0.0	0.0	-5 000.0	0.0	0.0
Others	-1.0	-141.0	-1 549.0	67.0	0.0	0.0	0.0
Change in net cash	2 473.0	7 464.0	-8 444.0	1 856.0	5 809.0	313.0	983.7
GROWTH MARGINS PRODUCTIVITY	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Sales growth	-	25.5%	15.2%	25.5%	23.6%	47.8%	28.3%
Lfl sales growth	**-**	**52.5%**	**17.4%**	**17.0%**	**31.4%**	**20.9%**	**20.3%**
Current EBIT growth	-	ns	ns	ns	ns	ns	ns
Growth in adjusted EPS	-	ns	-68.5%	7.0%	33.3%	23.5%	29.7%
Net margin	ns	ns	ns	ns	ns	ns	ns
EBITDA margin	**-27.6%**	**-15.4%**	**-10.0%**	**-9.7%**	**-0.2%**	**7.3%**	**13.3%**
Current EBIT margin	**-44.4%**	**-26.7%**	**-16.1%**	**-17.8%**	**-8.3%**	**-0.8%**	**5.3%**
CAPEX / Sales	-2.9%	-3.0%	-4.0%	-2.9%	-3.2%	-3.0%	-2.6%
WCR / Sales	-47.5%	ns	-22.6%	-31.4%	-21.2%	-11.9%	-7.4%
Tax Rate	-0.7%	-3.5%	ns	-15.0%	-15.0%	-35.2%	85.5%
Normative tax rate	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%
Asset Turnover	-	1.3	1.5	1.4	-1.4	-0.7	-1.0
ROCE post-tax (normative tax rate)	**-**	**-27.0%**	**-18.8%**	**-19.6%**	**8.9%**	**0.5%**	**-4.1%**
ROCE post-tax hors GW (normative tax rate)	-	ns	97.2%	ns	-81.2%	-5.9%	32.5%
ROE	-	64.6%	14.0%	13.6%	17.3%	21.7%	27.1%
DEBT RATIOS	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Gearing	-9%	-31%	-22%	-16%	-37%	-37%	-39%
Net Debt / Market Cap				-0.04	-0.07	-0.07	-0.07
Net debt / EBITDA	**1.99**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**
EBITDA / net financial charges	-2.8	-2.2	4.1	-14.7	0.0	1.7	4.0

Sources: ODDO BHF Securities, SIX

Rightmove

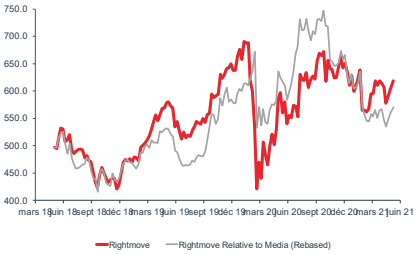
Underperform ➔ | Target 600p

Price (07/06/2021): 619.00p | Upside : -3 %

Revision	2021e	2022e
EPS	ns	ns

Upside limited by growth that is likely to slow

Tuesday 08 June 2021



Capital			
RMV:LN | RMV.L			
Market Cap (£m)			5 328
Enterprise value (£m)			5 266
Extrema 12 months (p)		530.0 -	683.2
Free Float (%)			98.9
Performance (%)	**1m**	**3m**	**12m**
Absolute	2.0	9.5	3.7
Perf. rel. Country Index	0.0	-0.5	-14.2
Perf. rel. Media	2.1	0.2	-18.3
P&L	**12/21e**	**12/22e**	**12/23e**
Sales (£m)	300	322	346
EBITDA (£m)	224	240	257
Current EBIT (£m)	219	235	253
Attr. net profit (£m)	173	186	200
Adjusted EPS (p)	20.79	22.71	24.93
Dividend (p)	6.97	7.62	8.38
P/E (x)	29.8	27.3	24.8
P/B (x)	82.4	52.1	36.7
Dividend Yield (%)	1.1	1.2	1.4
FCF yield (%)	3.5	3.7	4.1
EV/Sales (x)	17.53	15.93	14.43
EV/EBITDA (x)	23.5	21.4	19.4
EV/Current EBIT (x)	24.0	21.8	19.7
Gearing (%)	-60	-72	-78
Net Debt/EBITDA (x)	ns	ns	ns

Next Events

Rightmove, the most widely-used property ad platform in the UK

Rightmove is the result of a joint venture created in 2000 by the four largest estate agents in the UK and has since established itself as the leading online platform for property ads in the country. The group generates its revenues thanks mainly to its 20,000 subscribers (estate agents and developers) and listed more than one million properties in 2020 (for sale and rental), i.e. 2x as many ads as its closest rival (Zoopla). The group is therefore the clear leader in the UK (98% of revenues), which is reflected in its operating margins (>70%).

Dominant position, but pricing power could wane

The group is completely dominant on its domestic market (market share >80%) and its main rivals are Zoopla, OnTheMarket and generalist website Gumtree.com (eBay Classifieds). This positioning is protected by a powerful network effect (key platform for estate agents), which has allowed the group to increase the prices paid by its clients by 12% per year on average over the last 10 years. Growth is today driven solely by prices (ARPA), with the number of subscribers having fallen since 2016. We think, however, that there are limits to the group's pricing power and upselling. With costs ~3x higher than those of Zoopla, Rightmove is therefore likely to slow growth in its ARPA or risk losing market share to rivals.

Favourable backdrop in the short term (base effect + tax incentives)…

We expect positive momentum in the short term, notably in H1 thanks to: 1/ very favourable bases of comparison (30% decline in revenues in 2020 reflecting rebates granted last year); 2/ the tax incentives announced in July 2020 (stamp duty), which drove a swift recovery for the UK property market (strong acceleration in house prices since July). We therefore look for very strong growth in 2021e (+46%) and particularly in H1 (+61% y-o-y, i.e. +6.2% relative to H1 2019).

…but limited upside for ARPA and growth likely to slow in the medium term (6.6%/year)

Yet the tax incentives will end in September 2021 and we think that growth is likely to slow as of H2 (revenues down 3% in H2 vs H1 by our estimates), while uncertainties persist regarding trends on the UK property market post-Brexit. We moreover expect a 2021e-2025e CAGR of 6.6% (ARPA growth of 5.6% per year, decelerating over the period given the group's limited potential for further monetisation). EPS growth (9% per year) should be higher, driven more by the reduction in the number of shares (share buybacks of ~£ 100m per year) than operating leverage, which we see as limited (operating margin of 74% in the long term, an improvement of 7 points vs 2020 but stable in the next few years).

Growth fairly valued – We initiate at Underperform and prefer Scout24 to play property classified ads

We initiate coverage of Rightmove with an Underperform rating and a target price of 600p (average of a DCF and a 2025e P/E multiple of 25x). We see the group as having few monetisation levers (ARPA already 3x higher than the market no. 2, the market is more mature than the rest of Europe, subscriber losses in the last few years and few opportunities on the consumer market, unlike Scout24) to offset the slowdown of the UK market when the tax incentives end. We therefore think that the share is fairly valued at 22x EBIT 12m forward (vs 24x for Scout24) for its growth outlook (EBIT growth of 7% per year over 2021e-2025e) and we prefer Scout24 (+14% per year) to play the property classified ads market.

Martin Marandon-Carlhian (Analyst)
+33 (0)1 55 35 42 54
martin.marandon-Carlhian@oddo-bhf.com

Jerôme Bodin (Analyst)
+33 (0)1 55 35 42 49
jerome.bodin@oddo-bhf.com

What is Rightmove?

The most widely-used property ad platform in the UK (market share >80%)

Rightmove is the leading property portal in the UK **(market share >80%)**. The group acts as a middleman between individuals (buyers, sellers, tenants and landlords) and estate agents or property developers looking to list their property on the platform. In 2020, the Rightmove platform (rightmove.co.uk) had close to 20,000 subscribers (estate agents and property developers) that listed more than one million properties that same year (for sale and for rent).

The platform was created in 2000 by the four largest UK real estate agents at that time, namely Countrywide, Connells, Halifax and Royal and Sun Alliance.

Listing on the platform was free initially and remained so until January 2002, when the group began to introduce a monetisation system. Rightmove then broadened its addressable market by including property developers in 2002 and property rental ads in 2004. In 2007, the group launched its first packaged offerings, thereby giving estate agents and developers the possibility to improve their visibility on the platform. In 2019, the group made its first acquisition with **Van Mildert**, which provides tenant referencing and rent guarantee insurance services, for £ 16m.

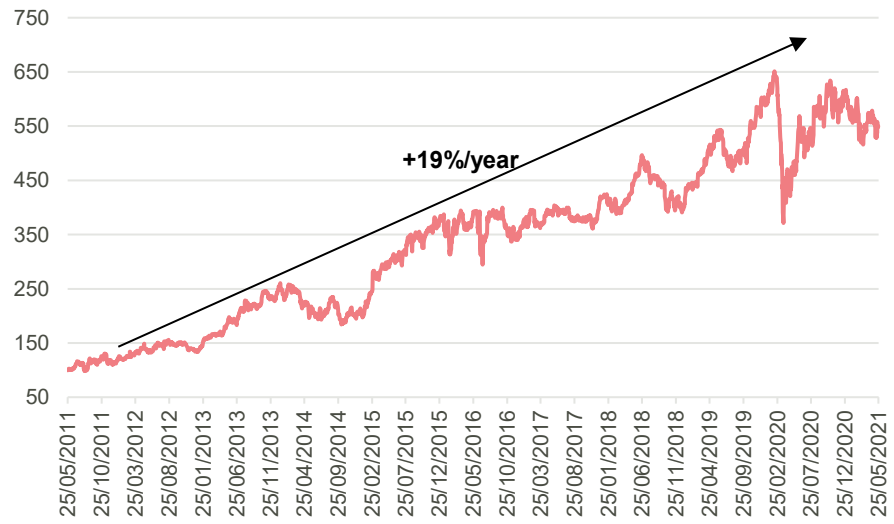
Share performance marked by two events: Brexit and the COVID-19 pandemic

The share was listed on the London Stock Exchange in March 2006 and is part of the FTSE100 index. Since the IPO, the share price has risen strongly (~15x) with a stock market performance of 19% per year on average for the last ten years.

The share has posted fairly steady gains since the listing but nonetheless underperformed between 2016 and 2018 amid the uncertainty (over prices and future demand for property in the UK) resulting from the Brexit vote (June 2016).

The share lost more than one-third of its value at the height of the COVID-19 pandemic and has yet to return to pre-crisis levels.

Share performance over the last 10 years (base 100)



Source: FactSet

SWOT analysis

Strengths	Weaknesses
• Leader on its domestic market (market share >80%) • Entry barriers and pricing power • Robust cash generation • User experience on the platform	• Limited to its domestic market. • Already strong penetration of the UK market • Weaker monetisation potential vs Scout24 • Limited operational leverage
Opportunities	**Threats**
• Tax break (stamp duty) • Increased monetisation of data • Positive post COVID-19 momentum: accumulation of savings and strong demand	• Uncertainties caused by Brexit may lead to some purchases being postponed • End of the tax break (stamp duty) in September 2021 • Slowdown in growth, which is very dependent on prices • Ramp-up of a rival (Zoopla, OnTheMarket) if pricing pressure is too strong (EBITDA margin >75%), GAFA

Source: ODDO BHF Securities

Recurring revenue model driven by subscriptions

The lion's share of revenue is generated via subscriptions and related offerings

The group generates nearly all its revenues in the UK. Its main sources of revenue are the monthly subscription fees paid by estate agents or developers to list properties on the platform. Note that access to the platform is free for individuals.

There are three types of subscription: 'essential' (£ 800/month in 2018), 'enhanced' (£ 1,250/month in 2018) and 'optimiser' (£ 1,500/month in 2018). On average, the average monthly price paid by an estate agent of developer was £ 1,088 in 2019.

Rightmove's different subscriptions (2018)*

Source: Rightmove

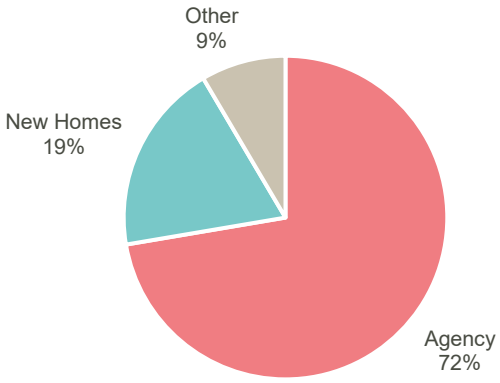
**The subscription prices date from 2018 and are an estimate of the average price of each subscription (which may depend on a number of other parameters such as the estate agent's number of listings or the location)*

The essential 'subscription' (most commonly adopted by estate agents) includes basis services, i.e. the listing on the platform but also access to the Rightmove Intel management tool (performance reports, indication on pricing trends, comparison of market share versus the competition, etc.) and to related services (webinars, training courses, etc.).

The other subscriptions offer access to more products (personalised page on the website, valuation tools, increased visibility on the platform with announcements sponsored by Rightmove), which are particularly attractive to estate agents seeking to gain market share rapidly.

Rightmove's revenue breaks down into three segments, classified by type of client: 1/ agency (69% of revenues in 2020), bringing together estate agents; 2/ new homes (20%), which concerns developers; 3/ the group's other activities (international properties, sales data, office property) included in the other segment (11%).

Segment breakdown of sales (2019)



Source: Rightmove

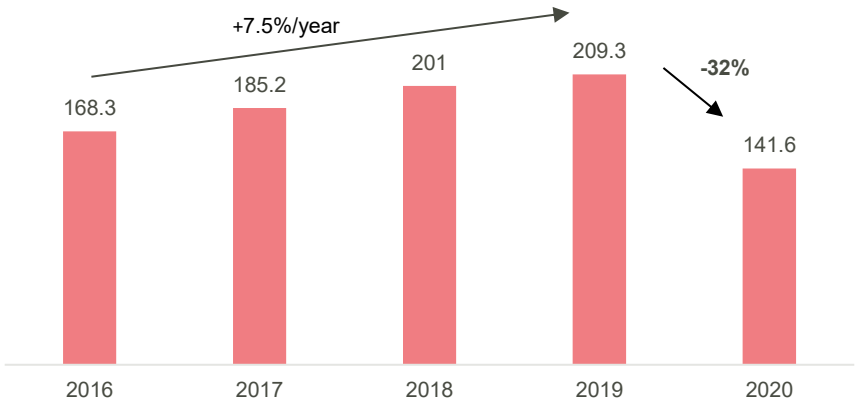
The agency segment (~70% of revenues)

The **agency** segment includes the services (listing, complementary advertising products) that the group offers UK estate agents for the sale and rental of properties on the Rightmove platform. This segment is the main revenue generator **(~70% of sales)** for the group.

Since 2017, the number of estate agent subscribers has fallen by nearly 10%, from 17,626 in 2017 to 16,347 in 2019 and 15,922 in 2020. From 2017 to 2019, revenues nonetheless grew (+6.3% per year) thanks to an increase in the average price paid per customer (+8.7% per year).

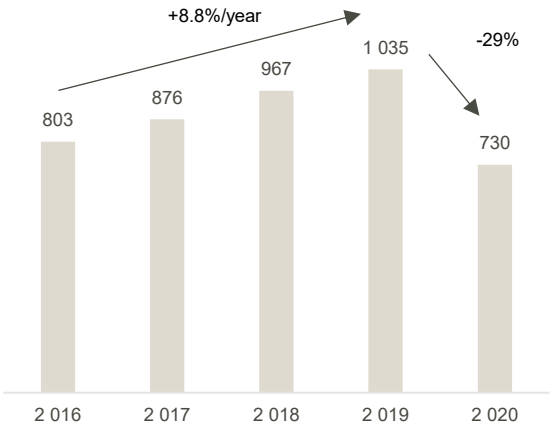
2020 was however marked by a strong fall in revenues (-32%), as some small branches closed (number of subscriptions down 2.6%) but more importantly because the ARPA (average monthly price paid by branch) was reduced by around 30% (-33% in H1 and -26% in H2), as a result of hefty rebates granted to agencies during the year (from April to September 2020): 1/ 75% between April and July, 2/ 60% in August and 3/ 40% in September.

Growth in revenues in the agency segment (£ m)

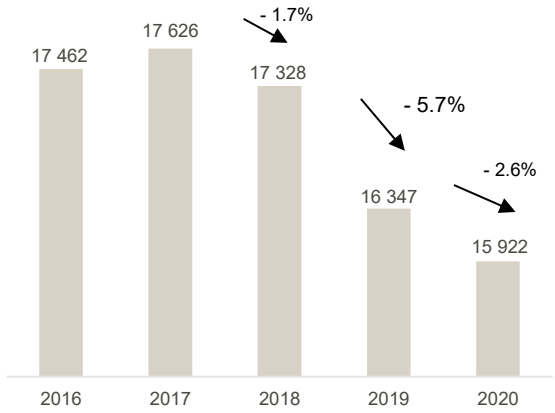


Source: Rightmove

Trend in average revenue per advertiser (ARPA) (£)



Growth in the number of estate agents with subscriptions



Sources: ODDO BHF Securities, Rightmove

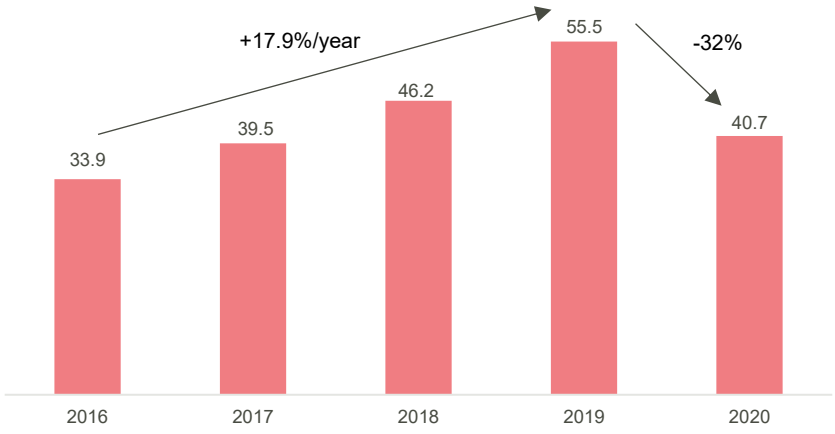
The new homes segment (~20% of revenues)

The **new homes** segment (around **20% of revenues)** includes the services offered to property developers and UK housing associations.

Note that this segment posted fairly dynamic growth between 2017 and 2019 (+19%/year). However, contrary to the agency segment, its growth was not driven solely by the rise in ARPA (+6.9% per year) but also by strong growth in the number of developments (+11.2% per year). This is due notably to the big increase in the number of properties added to the UK property stock in the period (240,000 between 2018 and 2019, a record since 1991).

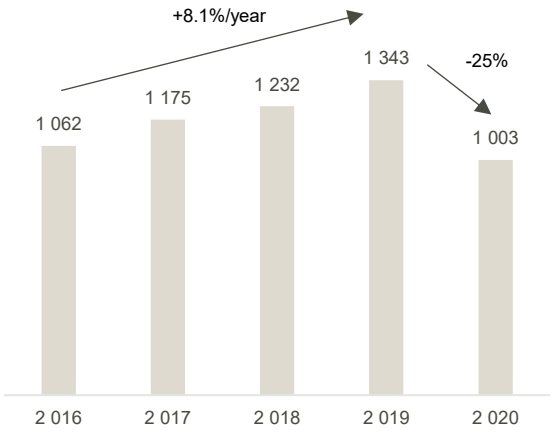
As for the agency segment, the group granted rebates but only between the months of April and July 2020 (rebate of 75%). This resulted in a fall in ARPA of 25% (-38% in H1 and -13% in H2) and a decline in revenues of 27%, with the number of developments down 5% despite strong demand in H2 (growth in prices of around +7% in Q4).

Growth in revenues in the new homes segment (£ m)

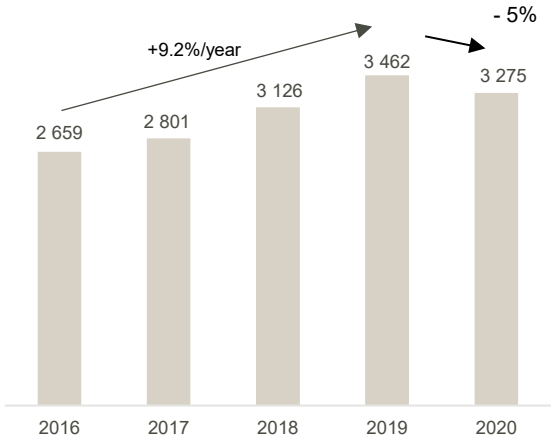


Source: Rightmove

Trend in average revenue per advertiser (ARPA) (£)



Growth in the number of developments



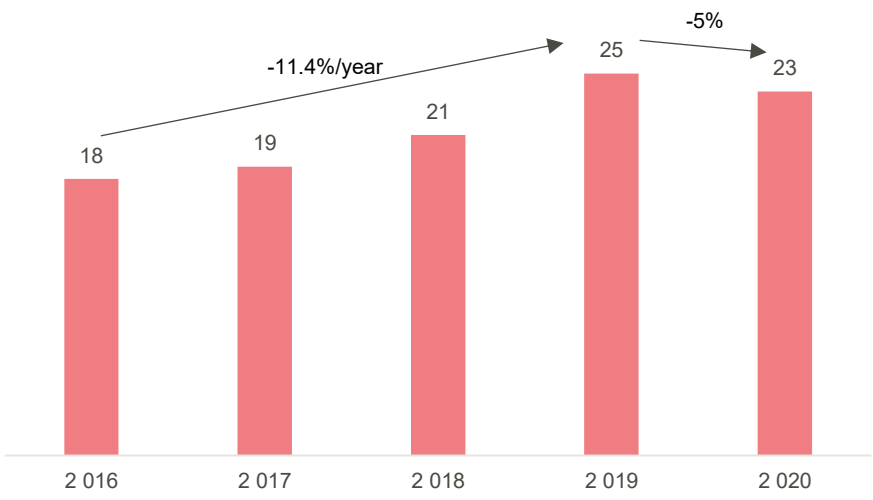
Sources: ODDO BHF Securities, Rightmove

The rest of the group's activities (~10% of revenues)

Among the **group's other activities (~10% of revenue)**, we may mention the **Rightmove Overseas** platform, which makes available to UK customers properties in more than 90 countries (average of 260,000 ads). The **Rightmove Commercial** platform also offers office sale ads. Last, Rightmove offers other advertising services (not including property ads) by redirecting users of the platform towards third-party agencies (**Rightmove Third-Party Advertising**) and monetises part of its data (**Rightmove Data Services**) with third parties (banks, mortgage lenders, insurance companies).

This segment had stable growth between 2017 and 2019 (-0.3%) but was more resilient in 2020 (-4.8%). Despite the travel restrictions that affected the Rightmove Commercial platform, the group gained new customers on the platform, with growth in demand in its Rightmove Data Services business and for its SCT (Surveyor Comparable Tool) database.

Revenue growth in the group's other activities (£ m)



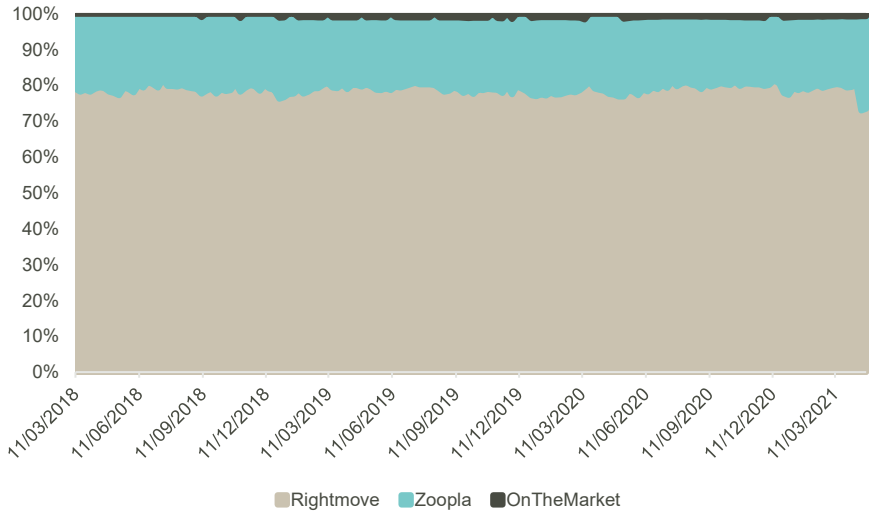
Sources: ODDO BHF Securities, Rightmove

An indisputable dominant position, but growth is likely to slow in the end

Strong pricing power

Rightmove is completely dominant on its domestic market (market share >80%). Its main rivals are Zoopla, OnTheMarket, PrimeLocation and generalist website Gumtree.com (eBay Classifieds). In this respect, it is worth noting that Rightmove generates 2x as many visits as its closest rival Zoopla.

Growth in the share of Google searches



Sources: ODDO BHF Securities, Google trends

We think moreover that Rightmove's positioning, as a leader on the UK market, is very well protected. The group benefits from a powerful network effect reflecting its position as a leader on the UK market (for further details, see our section on the network effect, page 14).

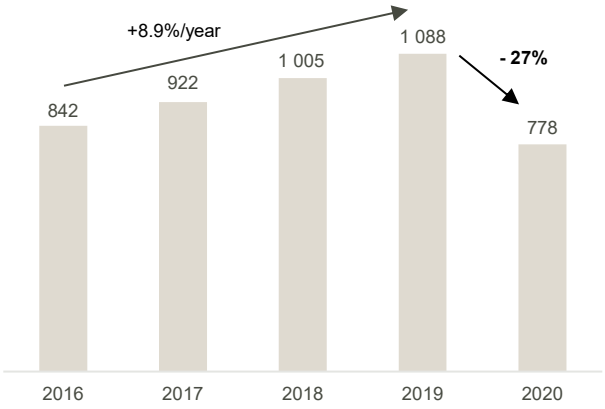
Estate agents and property developers prefer the group's platforms over those of rivals since it concentrates the largest user base, and users in turn look first to Rightmove since the number of ads is higher and the choice broader. This positioning as a leader gives the group a certain pricing power.

Rightmove therefore generates high margins (EBITDA margin >70% vs Scout24 >60%) and its activity is strongly cash generating (FCF margin >60% vs >40% for Scout24), which then allows the group to increase its marketing spending, reinvest in its platform to guarantee a better user experience, strengthen its network effect and maintain its dominance over other platforms.

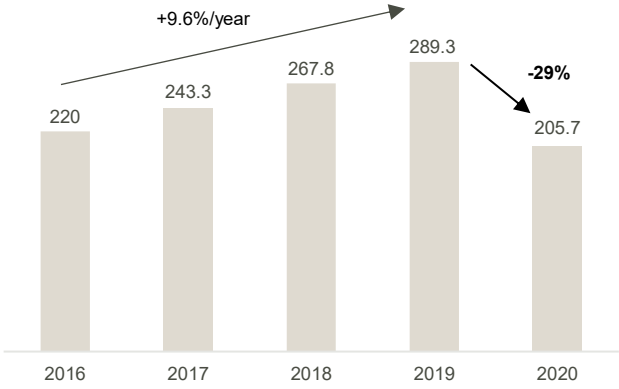
…but which has its limits and growth, driven solely by prices, could eventually slow

In the period 2016-2019, revenues were exclusively driven by growth in ARPA (CAGR of +8.9% per year) whereas the number of subscriptions has fallen (-2.2% per year).

Growth in average revenue per advertiser (ARPA) (£)



Growth in total revenues (£ m)



Sources: ODDO BHF Securities, Rightmove

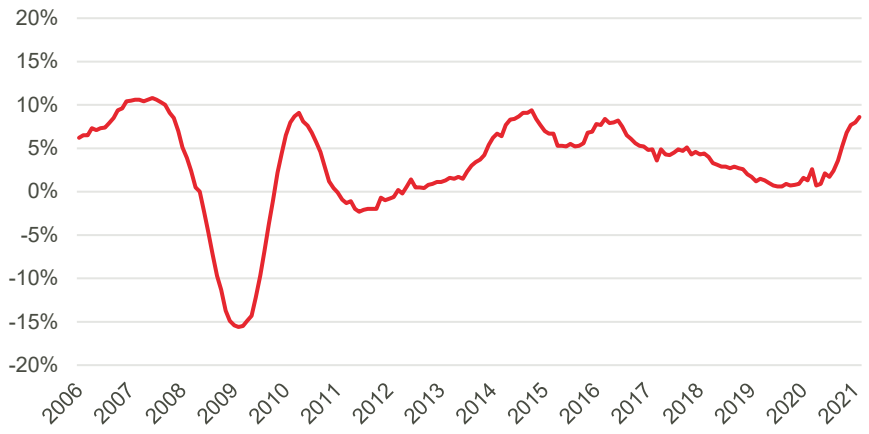
We believe that this is a sign of a market that is already well penetrated in terms of digitisation of property small ads. Revenue is now determined by just two factors: 1/ the rise in property prices (+4%/year for 5 years) and 2/ the group's pricing power (enabling it to increase the prices of its subscriptions).

Rightmove has therefore introduced a series of price hikes, lifting its prices well above those of its rivals (fees around 3x higher than those of Zoopla according to the CEO). The entry-level offering (essential package) is today estimated at around £ 1,000 per month (vs £ 800 per month in 2018) and the average monthly price paid by each customer was £ 1,088 in 2019 (vs £ 443 in 2011). With each increase in its subscription prices (every 18 months or so) and the renewal of its offering (new products), Rightmove proposes that its clients: either 1/ subscribe to the same offer but pay the new price, or 2/ upgrade to a higher offer but at the price of the old offer. In this way, Rightmove has accelerated upselling and growth in ARPA. It should be noted that at the same time, Scout24 (leader in German classified property ads) offers an entry-level price at € 455 per month (~£ 390 per month), with an EBITDA margin of around 60% (vs >75% for Rightmove).

We therefore think that upselling and the group's pricing power could in the end reach their limits and that Rightmove is likely to slow growth in its ARPA in the future or in the end lose market share to rivals OnTheMarket and Zoopla. In 2019, OnTheMarket generated 28 visits for £ 100 in monthly fees, vs just 16 for Rightmove.

It should be added that growth in property prices is likely to stabilise at around 3% per year in the medium term (average of the last 15 years according to the UK Office for National Statistics, ONS).

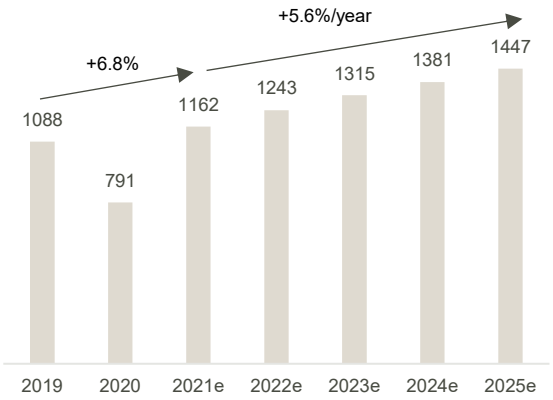
Annual house price changes in the UK over 15 years (%)



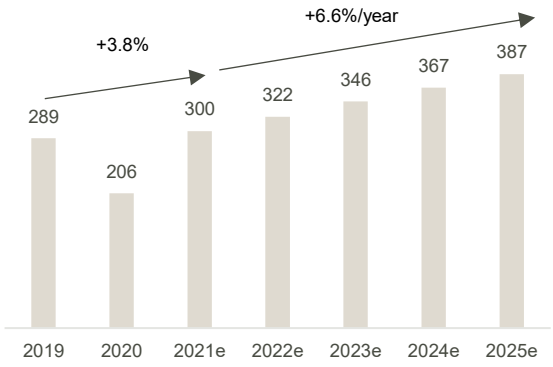
Source: Office for National Statistics

We therefore look for growth of 6.2% in 2025 vs 10.1% for Scout24, with the latter having greater monetisation potential (see our company profile).

Growth in ARPA out to 2025 (£)



Growth in total revenues out to 2025 (£ m)



Sources: ODDO BHF Securities, Rightmove

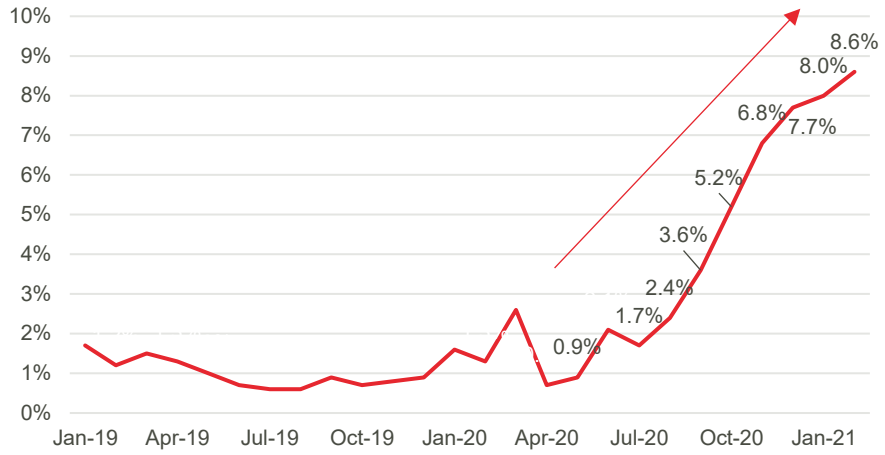
…a positive short-term trend but still some uncertainties in the medium term

Rightmove was not spared by the effects of the health crisis, with the rebates granted by the group on its subscriptions having cost it £ 89m in revenue (i.e. a 30% fall in revenue due to these rebates, whereas Scout24 managed to keep revenues stable in 2020). But the UK property market recovered quickly (reaching the largest number of transactions for more than a decade in July 2020, i.e. £ 37bn).

This trend is attributable to three factors in our view: 1/ a **change in working habits** (acceleration in teleworking), which favoured sales of properties outside of city centres (to have more living space) and second homes; 2/ the **accumulation of savings** (little spending during the lockdown), which is likely to continue to be partly invested in the property market; 3/ **temporary tax breaks** (announced in July 2020, fully maintained until the end of H1 and continuing at a reduced level until next September) that may amount to as much as £ 15,000 for the purchase of a new property (stamp duty).

The announcement of tax reductions in July 2020 coincided moreover with the acceleration in the rise in house prices in the UK (+1.7% in July, +2.4% in August, +3.6% in September, +5.2% in October, +6.8% in November, +7.7% in December, +8.0% in January and +8.6% in February). This is likely to lead to an increase in estate agency fees in the short term and contribute to more marketing spending on Rightmove's platform.

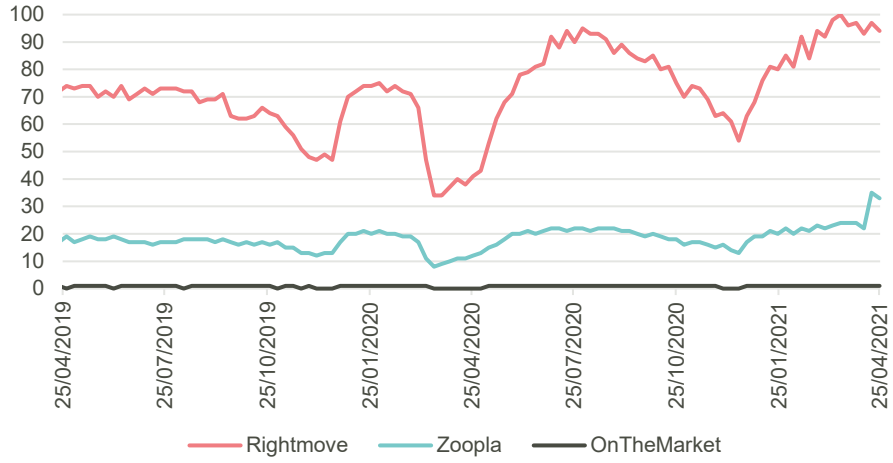
Annual house price variations in the UK from January 2019 to February 2021



Source: Office for National Statistics

The recent rise in prices was moreover accompanied by an increase in search volumes on the Rightmove platform since January.

Google* search trends over 2 years for Rightmove and its rivals Zoopla and OnTheMarket in the UK



Source: Google Trends

** The results reflect the proportion of searches for a given key word in a region and for a specific period. 100 represents maximum use of the term in the period and place defined (here the UK) and a value of 50 means that the key word was used half as often in the region in question*

In the medium term, we think nevertheless that growth in prices is likely to normalise with the end of the tax breaks, while uncertainties persist regarding trends on the UK property market post-Brexit (reflecting in particular sterling and trends on the UK labour market, which could prompt some buyers to postpone their purchases).

Slowdown in growth from H2 2021

Positive momentum in H1 2021 (base effect + tax incentives), but a slowdown in growth anticipated as of H2 2009

We expect positive momentum in the short term for Rightmove, particularly in H1 thanks to the tax incentives, while the bases of comparison are very favourable (-29% in 2020, with -34% in H1 and -24% in H2). We therefore look for sequential growth of 38% in H1 (normalisation of subscription prices), i.e. growth of 61% vs H1 2020 (+6.2% vs H1 2019), and then a decline of 3% in H2 with the end of the tax incentive (i.e. +33% y-o-y). In the medium term, we think that growth in prices is likely to normalise, in particular with the end of the tax incentives.

In the period 2021-2025e, we expect prices to increase by respectively 4.9% in the agency segment and 6.1% in the new homes segment, slowing in the period given the group's limited potential for further monetisation. Moreover, we expect stability in the number of subscribers in the agency segment but fairly dynamic growth in the number of new developments in 2022e (+6%), given the current strong demand, subsequently stabilising around 4.5% in 2025e (i.e. growth of 5.2%/year in the period).

The agency (~70% of revenues) and new homes (~20% of revenues) segments as well as the group's other activities (~10% of revenues) therefore show growth of respectively 4.7%/year, 11.7%/year and 9.0%/year. On this basis, we look for average annual revenue growth of 6.6%/year out to 2025, i.e. revenue of £ 387m in 2025e.

Rightmove revenue growth by segment

£ m	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Agency	**168**	**185**	**201**	**209**	**142**	**214**	**225**	**236**	**247**	**257**
Change	*14.4%*	*10.0%*	*8.5%*	*4.1%*	*-32.3%*	*51.4%*	*4.9%*	*5.0%*	*4.5%*	*4.3%*
Agency branches membership	17.462	17.626	17.328	16.347	15.922	16.320	16.157	16.157	16.157	16.157
Change	*1.9%*	*0.9%*	*-1.7%*	*-5.7%*	*-2.6%*	*2.5%*	*-1.0%*	*0.0%*	*0.0%*	*0.0%*
ARPA (£/month)	803	876	967	1 035	730	1 095	1 161	1 219	1 274	1 328
Change	*12.3%*	*9.0%*	*10.4%*	*7.1%*	*-29.5%*	*50.0%*	*6.0%*	*5.0%*	*4.5%*	*4.3%*
New homes	**34**	**40**	**46**	**55**	**41**	**59**	**68**	**76**	**84**	**92**
Change	*11.2%*	*16.5%*	*17.0%*	*20.1%*	*-26.6%*	*45.1%*	*14.5%*	*12.9%*	*10.3%*	*9.2%*
New homes developments	2.659	2.801	3.126	3.462	3.275	3.504	3.715	3.937	4.134	4.300
Change	*1.9%*	*5.3%*	*11.6%*	*10.7%*	*-5.4%*	*7.0%*	*6.0%*	*6.0%*	*5.0%*	*4.0%*
New homes ARPA (£/month)	1,062	1 175	1 232	1 343	1 003	1 404	1 517	1 615	1 696	1 781
Change	*9.2%*	*10.6%*	*4.8%*	*9.0%*	*-25.3%*	*40.0%*	*8.0%*	*6.5%*	*5.0%*	*5.0%*
Other	**18**	**19**	**21**	**25**	**23**	**27**	**30**	**33**	**36**	**38**
Change	*22%*	*39%*	*8%*	*-8%*	*-5%*	*15%*	*10%*	*12%*	*8%*	*6%*
Revenues	**220**	**243**	**268**	**289**	**206**	**300**	**322**	**346**	**367**	**387**
Change	*14.5%*	*10.6%*	*10.1%*	*8.0%*	*-28.9%*	*46.0%*	*7.3%*	*7.3%*	*6.1%*	*5.6%*

Source: ODDO BHF Securities

Few investments in the short to medium term, but limited operating leverage

Rightmove's operating costs are low and mainly comprise administrative and marketing costs. While the group is likely to continue to invest in its platform to improve the user experience and offer new products, we nevertheless think that these investments will be offset by price increases. We look for revenue growth (+6.6%/year out to 2025e) slightly higher than cost growth (6.1%/year).

Yet, we do not see the group raising prices strongly given the current price of its subscriptions (3x higher than its closest rival Zoopla) and its already very high margins (adjusted operating margin >70%). We therefore think that the group's operating margin is likely to stabilise around 74% in the medium to long term, in line with the historical margin (between 75% and 76% between 2015 and 2019).

This would nonetheless represent a significant improvement relative to 2020, when the margin fell by nearly 10 points (65.7%) mainly because of a lower revenue base. Therefore, though a catch-up in terms of costs is likely in 2021 (we look for growth of 15% in operating costs), we expect an improvement in the margin of over 7 points (73.0%).

We look for 2021e EPS of 20.79p and 2025e EPS of 29.39p, i.e. a CAGR 9.0%, with a deceleration over the period (slowing of price increases and little operating leverage), although the number of shares is likely to fall at the same time (share buyback programme of £ 90-120m each year).

Rightmove's income statement

£ m	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Revenues	**220**	**243**	**268**	**289**	**206**	**300**	**322**	**346**	**367**	**387**
Change	*14.5%*	*10.6%*	*10.1%*	*8.0%*	*-28.9%*	*46.0%*	*7.3%*	*7.3%*	*6.1%*	*5.6%*
Operating costs	-54	-59	-64	-70	-71	-81	-87	-93	-98	-103
- as % of sales	*-24.4%*	*-24.2%*	*-24.1%*	*-24.1%*	*-34.3%*	*-27.0%*	*-27.1%*	*-26.9%*	*-26.7%*	*-26.5%*
Underlying operating profit	**166**	**184**	**203**	**220**	**135**	**219**	**235**	**253**	**269**	**285**
- as % of sales	75.6%	75.8%	75.9%	75.9%	65.7%	73.0%	72.9%	73.1%	73.3%	73.5%
Tax rate	-19.8%	-19.1%	-19.1%	-19.0%	-18.9%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
Underlying profit for the period	134	150	165	179	110	178	191	206	219	231
Per share, diluted - underlying (pence)	**14.12**	**16.17**	**18.22**	**20.16**	**12.57**	**20.79**	**22.70**	**24.93**	**27.09**	**29.39**
Change	*17.7%*	*14.5%*	*12.7%*	*10.7%*	*-37.6%*	*65.3%*	*9.2%*	*9.8%*	*8.7%*	*8.5%*

Source: ODDO BHF Securities

Our forecasts (vs consensus) for 2021, 2022 and 2023

£ m	2021e			2022e			2023e		
	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.
Revenues	**300**	**295**	**1.9%**	**322**	**316**	**1.9%**	**346**	**337**	**2.7%**
Revenue growth	*46.0%*	*19.7%*		*7.3%*	*7.3%*		*7.3%*	*6.5%*	
Adjusted EBIT	**219**	**216**	**1.6%**	**235**	**234**	**0.3%**	**253**	**254**	**-0.4%**
EBIT margin	*73.0%*	*73.2%*	*-25bp*	*72.9%*	*74.1%*	*-117bp*	*73.1%*	*75.4%*	*-228bp*
Adjusted EPS (p)	**20.79**	**20.39**	**2.0%**	**22.70**	**22.68**	**0.1%**	**24.93**	**24.79**	**0.6%**
EPS growth	*65%*	*18%*		*9%*	*11%*		*10%*	*9%*	

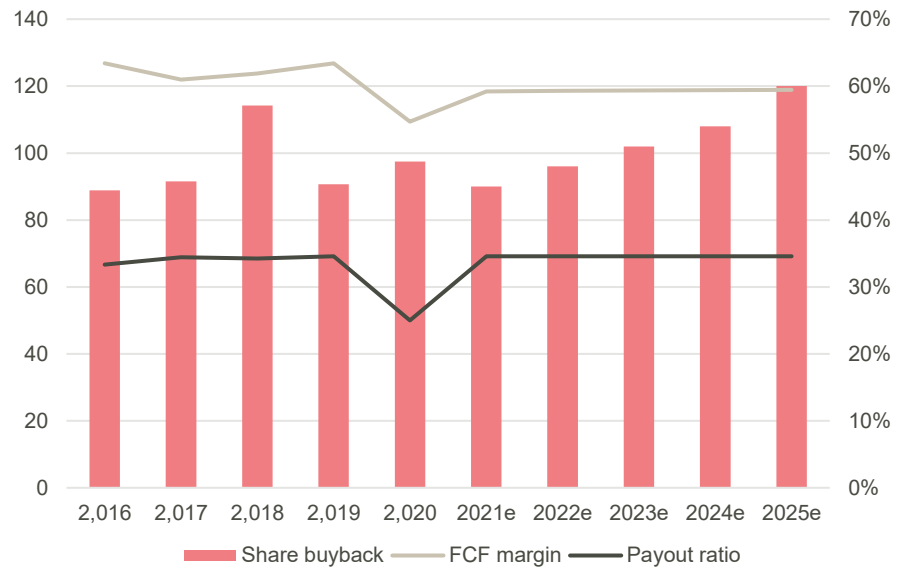
Source: ODDO BHF Securities

Regular cash returns to shareholders

Rightmove's business generates large amounts of FCF (FCF margin of >60% and an FCF/EBITDA ratio ~80% most years) and that the group often redistributes all of its FCF to shareholders.

The cash is returned to shareholders via: 1/ dividends (payout rate between 30% and 35%) and 2/ regular share buybacks (around £ 90m/year since 2015). Rightmove is likely to continue this policy in the future in our view, with capex representing less than 1% of revenues and M&A opportunities being very limited on its domestic market (the group is not looking to expand outside the UK). We anticipate a payout rate of 35% until 2025 and share buybacks amounting to between £ 90m and £ 120m each year.

Distribution of cash (£ m) from 2016 to 2025e



Sources: ODDO BHF Securities, Rightmove

Initiation of coverage of Rightmove with an Underperform rating and a target price of 600p

We value Rightmove at 600p per share (average of a DCF and valuation based on 2025e P/E multiples), i.e. downside of 3% (based on the share price Monday 6 June 2021), which constitutes the lowest potential among the players in our coverage, prompting us to adopt an Underperform rating on the stock.

DCF valuation: 628p

Our DCF yields a valuation of 628p per share. Our main assumptions are:

- Average annual revenue growth of 5.4% over the next ten years: 6.6% per year out to 2025, a slower pace than in the last three years (8-10%, stripping out 2020), then gradually falling towards 4%.
- A long-term operating margin of 74%, i.e. just 1 point higher than in 2021e, with operating leverage stemming mainly from the scope for increases in the price of existing subscriptions, which we see as limited, unless the group invests in new products, particularly in the use of data (which will exert pressure on margins).
- A WACC of 7.2% (β of 0.90, risk premium of 7.80% and a risk-free rate of 0.18%).
- A long-term growth rate of 2.5% linked to the structural increase in property prices.

Rightmove DCF

£ m	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	CAGR 2021-2031
Revenues	300	322	346	367	387	408	428	448	468	488	508	5.4%
% change	46.0%	7.3%	7.3%	6.1%	5.6%	5.3%	5.0%	4.7%	4.5%	4.2%	4.0%	
Underlying EBITDA	224	240	257	273	289	304	319	334	349	364	379	
EBITDA margin	74%	74%	74%	74%	75%	75%	75%	75%	75%	75%	75%	
Underlying EBIT	219	235	253	269	285	300	315	330	345	359	374	10.3%
Operating margin	73%	73%	73%	73%	73%	74%	74%	74%	74%	74%	74%	
Depreciation	5	5	4	4	4	4	4	4	5	5	5	
% of sales	1.5%	1.4%	1.3%	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
Tax on EBIT	-42	-45	-48	-51	-54	-57	-60	-63	-66	-68	-71	
WCR	-15	-16	-18	-19	-20	-21	-22	-23	-24	-25	-26	10.5%
% of sales	-5.1%	-5.1%	-5.1%	-5.2%	-5.2%	-5.2%	-5.2%	-5.2%	-5.2%	-5.2%	-5.2%	
Change in WCR	6	1	1	1	1	1	1	1	1	1	1	
Capex	-3	-3	-3	-4	-4	-4	-4	-4	-5	-5	-5	9.0%
% of sales	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Free cash flow	185	193	207	220	232	244	256	268	280	292	304	10.8%
% of sales	61.6%	59.8%	59.9%	59.9%	59.9%	59.9%	59.9%	59.8%	59.8%	59.8%	59.8%	
% change	76.5%	4.1%	7.5%	6.0%	5.6%	5.3%	5.0%	4.7%	4.5%	4.2%	4.0%	
Discounted cash flow		185	186	184	181	178	174	170	165	161	156	

Source: ODDO BHF Securities

Calculation of the target price using a DCF (£ m)

Sum of discounted FCF 2022-2031e	1 739
Terminal value	3 507
Enterprise value	5 246
Net cash position 2021e	43
Valuation of shareholders' equity	5 288
Valuation per share of Rightmove (p)	**628**

Source: ODDO BHF Securities

Sensitivity of the DCF valuation to the EBIT margin and long-term growth rate

Pence		Perpetual growth		
		1.5%	**2.5%**	**3.5%**
Op. margin	**70%**	529	602	714
	75%	552	**628**	747
	80%	579	660	785

Source: ODDO BHF Securities

Valuation based on multiples: 573p

Based on our assumptions for 2025, we estimate EPS 2025e at 29.39p. At 25x earnings (slightly below the 5-year historical average of 27x, justified in our view by the slowdown in growth) our valuation for 2025 would work out at 735p/share, i.e. **572**p discounted to 1 year out.

We applied a lower P/E multiple than that of Scout24 (30x), as we believe that Rightmove's story is more mature and offers fewer monetisation opportunities than Scout24.

RMV:LN | RMV.L **Underperform** **Price 619.00 p**
Technologie | United Kingdom **Upside -3.07%** **TP 600.00 p**

PER SHARE DATA (£)	12/16	12/17	12/18	12/19	12/20	12/21e	12/22e	12/23e
Adjusted EPS	14.12	16.17	18.22	20.16	12.57	20.79	22.71	24.93
Reported EPS	**13.79**	**15.67**	**17.80**	**19.57**	**12.32**	**20.24**	**22.13**	**24.33**
Growth in adjusted EPS	17.7%	14.5%	12.7%	10.7%	-37.6%	65.4%	9.2%	9.8%
Net dividend per share	4.55	5.34	6.06	6.74	3.07	6.97	7.62	8.38
FCF to equity per share	14.84	16.13	18.38	20.74	12.06	21.64	22.95	25.16
Book value per share	0.86	1.87	1.40	4.67	3.58	7.51	11.89	16.89
Number of shares market cap (m)	949.68	928.77	906.79	888.03	873.03	858.03	842.03	825.03
Number of diluted shares (m)	949.68	928.77	906.79	888.03	873.03	858.03	842.03	825.03
VALUATION (£m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
12m highest price (£)	430	453	535	650	701	651		
12m lowest price (£)	317	389	418	439	400	556		
(*) Reference price (£)	394	413	462	541	597	619	619	619
Capitalization	3 742	3 838	4 190	4 807	5 210	5 311	5 212	5 107
Restated Net debt	-17.8	-25.0	-8.1	-25.8	-6.6	-42.8	-76.2	-113.0
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	6.9	5.7	2.8	2.7	2.7	2.7	2.7	2.7
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	**3 718**	**3 807**	**4 179**	**4 778**	**5 201**	**5 266**	**5 133**	**4 991**
P/E (x)	27.9	25.6	25.4	26.8	47.5	29.8	27.3	24.8
P/CF (x)	26.6	25.0	24.0	25.9	45.6	29.1	26.7	24.3
Net Yield	1.2%	1.3%	1.3%	1.2%	0.5%	1.1%	1.2%	1.4%
FCF yield	3.8%	3.9%	4.0%	3.8%	2.0%	3.5%	3.7%	4.1%
P/B incl. GW (x)	460	221	331	116	167	82.41	52.06	36.66
P/B excl. GW (x)	460	221	331	116	167	82.41	52.06	36.66
EV/Sales (x)	16.90	15.65	15.60	16.52	25.28	17.53	15.93	14.43
EV/EBITDA (x)	22.1	20.5	20.2	21.4	37.3	23.5	21.4	19.4
EV/Current EBIT (x)	**22.4**	**20.6**	**20.6**	**21.7**	**38.5**	**24.0**	**21.8**	**19.7**
(*) historical average price								
PROFIT AND LOSS (£m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales	220	243	268	289	206	300	322	346
EBITDA	168	186	207	223	139	224	240	257
Depreciations	-1.6	-1.8	-3.9	-3.6	-4.3	-4.5	-4.5	-4.5
Current EBIT	**166**	**184**	**203**	**220**	**135**	**219**	**235**	**253**
Published EBIT	162	178	199	214	132	214	229	247
Net financial income	-0.1	-0.1	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3
Corporate Tax	-32.0	-34.1	-37.8	-40.5	-25.0	-40.6	-43.5	-46.9
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	130	144	160	173	107	173	186	200
Adjusted attributable net profit	**134**	**150**	**165**	**179**	**110**	**178**	**191**	**206**
BALANCE SHEET (£m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	3.5	3.3	2.9	22.0	23.3	25.2	27.2	29.4
Tangible fixed assets	2.3	2.7	15.2	12.8	13.6	14.7	15.9	17.1
WCR	-22.1	-18.5	-14.1	-16.1	-9.3	-15.4	-16.5	-17.8
Financial assets	11.0	9.8	6.9	6.9	6.9	6.9	6.9	6.9
Ordinary shareholders equity	8.0	17.2	12.6	41.3	31.1	64.2	99.7	139
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	8.0	17.2	12.6	41.3	31.1	64.2	99.7	139
Non-current provisions	0.4	1.0	2.3	5.8	5.8	5.8	5.8	5.8
Net debt	**-13.7**	**-20.9**	**-4.0**	**-21.6**	**-2.5**	**-38.6**	**-72.0**	**-108.9**
CASH FLOW STATEMENT (££m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**167.9**	**186.1**	**207.2**	**223.3**	**139.4**	**223.8**	**239.5**	**257.4**
Change in WCR	1.8	-1.3	-6.3	-0.8	-6.9	6.1	1.1	1.3
Interests & taxes	-28.0	-33.4	-33.0	-37.5	-25.4	-40.9	-43.8	-47.2
Others	-0.4	-1.0	-0.4	-0.8	-0.3	-1.1	-1.2	-1.3
Operating Cash flow	141.2	150.5	167.4	184.2	106.9	187.9	195.6	210.2
CAPEX	-1.8	-2.2	-1.7	-0.8	-2.1	-3.0	-3.2	-3.5
Free cash-flow	**139.5**	**148.3**	**165.7**	**183.4**	**104.9**	**184.9**	**192.4**	**206.7**
Acquisitions / disposals	-2.1	0.0	0.0	-15.6	0.0	0.0	0.0	0.0
Dividends	-43.2	-49.6	-55.0	-59.9	-26.8	-59.8	-64.2	-69.1
Net capital increase	-88.8	-91.6	-114.2	-90.7	-97.5	-90.0	-96.0	-102.0
Others	-0.1	0.0	-13.6	0.1	0.0	0.8	0.9	1.0
Change in net cash	5.3	7.2	-16.9	17.6	-19.2	36.2	33.4	36.9
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales growth	14.5%	10.6%	10.1%	8.0%	-28.9%	46.0%	7.3%	7.3%
Lfl sales growth	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Current EBIT growth	15.2%	10.9%	10.3%	8.1%	-38.5%	62.2%	7.2%	7.6%
Growth in adjusted EPS	17.7%	14.5%	12.7%	10.7%	-37.6%	65.4%	9.2%	9.8%
Net margin	61.0%	61.7%	61.7%	61.9%	53.4%	59.4%	59.3%	59.5%
EBITDA margin	**76.3%**	**76.5%**	**77.4%**	**77.2%**	**67.8%**	**74.5%**	**74.3%**	**74.4%**
Current EBIT margin	**75.6%**	**75.8%**	**75.9%**	**75.9%**	**65.7%**	**73.0%**	**72.9%**	**73.1%**
CAPEX / Sales	-0.8%	-0.9%	-0.7%	-0.3%	-1.0%	-1.0%	-1.0%	-1.0%
WCR / Sales	-10.1%	-7.6%	-5.3%	-5.6%	-4.5%	-5.1%	-5.1%	-5.1%
Tax Rate	19.8%	19.1%	19.1%	19.0%	18.9%	19.0%	19.0%	19.0%
Normative tax rate	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%
Asset Turnover	-15.4	-16.9	-63.1	25.6	8.9	11.6	12.6	12.5
ROCE post-tax (normative tax rate)	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**
ROCE post-tax hors GW (normative tax rate)	ns	ns	ns	ns	ns	ns	ns	ns
ROE	ns	ns	ns	ns	ns	ns	ns	ns
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Gearing	ns	ns	-32%	-52%	-8%	-60%	-72%	-78%
Net Debt / Market Cap	0.00	-0.01	0.00	0.00	0.00	-0.01	-0.01	-0.02
Net debt / EBITDA	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**
EBITDA / net financial charges	1 678.6	2 190.0	647.4	1 329.2	426.3	745.9	798.4	857.9

Sources: ODDO BHF Securities, SIX

Scout24

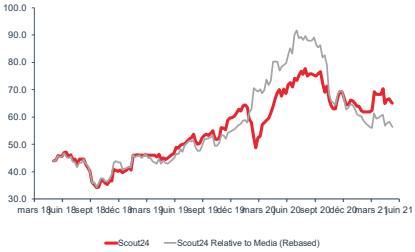
Outperform➔ | Target 80.0 €

Price (07/06/2021) : 65.10 € | Upside : 23 %

Revision	2021e	2022e
EPS	ns	ns

Growing penetration of the German real estate ecosystem, underpinned by significant cash returns

Tuesday 08 June 2021



Capital			
G24 GR | G24n.DE			
Market Cap (€m)			5 996
Enterprise value (€m)			5 160
Extrema 12 months (€)		61.95 -	79.50
Free Float (%)			99.6
Performance (%)	**1m**	**3m**	**12m**
Absolute	-7.5	5.1	-7.1
Perf. rel. Country Index	-9.3	-4.6	-23.2
Perf. rel. Media	-7.4	-3.9	-26.8
P&L	**12/21e**	**12/22e**	**12/23e**
Sales (€m)	384	428	476
EBITDA (€m)	226	253	287
Current EBIT (€m)	204	228	260
Attr. net profit (€m)	98.2	117	139
Adjusted EPS (€)	1.63	1.91	2.25
Dividend (€)	0.82	0.60	0.66
P/E (x)	39.9	34.0	28.9
P/B (x)	3.3	3.4	3.5
Dividend Yield (%)	1.3	0.9	1.0
FCF yield (%)	3.1	3.0	3.5
EV/Sales (x)	13.46	11.83	10.38
EV/EBITDA (x)	22.8	20.0	17.2
EV/Current EBIT (x)	25.3	22.2	19.0
Gearing (%)	4	-3	-12
Net Debt/EBITDA (x)	0.3	ns	ns

Next Events

Scout24, leader in classified real estate advertising in Germany

Even though, since its creation (1998), Scout24 rapidly established itself as a major player in the classifieds sector (real estate, auto, jobs, etc.) in the DACH region, the group has divested the bulk of its activities and notably the automobile division (AutoScout24) in order to refocus on the German real estate market (96% of sales) in which it is leader (close to twice the number of ads as the second-ranked player Axel Springer and with a market share of ~70-80%). Scout24 has thus: 1/ embarked upon a massive programme of cash returns to shareholders (>€ 2bn); 2/ accelerated strategic measures on the real estate segment to make its platform the central ecosystem of the German real estate market.

Diversified and recurrent revenue, protected by high barriers to entry

Scout24's revenue model is particularly attractive because it is: 1/ recurring (70% subscription-based); 2/ diversified (real estate listings by agents/property owners, advertising, premium subscriptions for users and leads products for agents); 3/ strongly cash generating (EBITDA margin >60% and FCF margin >40%) thanks to significant pricing power (the network effect renders the platform indispensable for agents) linked to the group's leadership position (strong brand and high barriers to entry).

Structural growth in a context of accelerating monetisation and expansion of the potential market

We think that growth at Scout24 is set to accelerate, driven by: 1/ the increase in agencies' online marketing budgets (under-penetration of the German market); 2/ the increase in the average price paid by each client (network effect enhanced by the pandemic + migration of clients toward the group's new product offering); 3/ the expansion of TAM by Scout24 (leads products for agents enabling the group to capture up to 40% of the commission, subscriptions designed for consumers, increase in the retention rate via the adoption of CRM FlowFact software, opportunities in mortgage lending).

Strong medium-term growth (+10%/year) and cash returns in the short term

We forecast sales CAGR of 10% out to 2025e but higher EPS growth (CAGR of 16%), notably driven by the reduction in the number of shares (~€ 500m allocated to share buybacks out to 2023e, on our reckoning). Whilst we think that in the short term the group will invest more aggressively than it has in the past (17% increase in opex in 2021e then 11% in 2022e), we nonetheless expect the group to achieve an EBITDA margin of 65% in the long term thanks to the size effect. Our 2022-2023 EPS estimates are thus, respectively, 6% and 10% above the FactSet consensus. We also anticipate an attractive dividend policy with a pay-out rate of 50% in 2022e, then 45% in 2023e (vs 35% for Rightmove), before moving towards 40%.

Initiating coverage on Outperform with a target price of € 80, or upside of 23%

We are initiating coverage of Scout24 with an Outperform recommendation and a target price of € 80 (average of DCF and P/E of 30x 2025e EPS), representing upside of 23% on the current share price. We think that Scout24 is perfectly positioned as leader in the German real estate classified advertisement market to benefit from a number of growth drivers: 1/ the structural increase in online marketing spend (under-penetration of the market); 2/ acceleration in the monetisation of the client base (migration of ~35% of clients towards the new product offering by the end of H1 2021, robust in leads products enabling the group to capture up to 40% of the commission); 3/ the expansion of its potential market (premium subscription designed for consumers and potential opportunities in mortgage lending). The stock is trading at 24x 12-mth fwd EBIT (vs 22x for Rightmove), which we deem attractive (EBIT growth of 13%/year out to 2025 vs 7%/year for Rightmove, for which we see growth slowing).

Martin Marandon-Carlhian (Analyst)
+33 (0)1 55 35 42 54
martin.marandon-Carlhian@oddo-bhf.com

Jerôme Bodin (Analyst)
+33 (0)1 55 35 42 49
jerome.bodin@oddo-bhf.com

Who is Scout24?

A major player in classifieds, now a pure player and leader in classified real estate advertising in Germany

With its platform (ImmobilienScout24 or IS24) Scout24, is leader in the German online real estate advertising market (close to **twice the number of ads as the second-ranked player Axel Springer**).

The group was founded by Joachim Schoss and Beisheim Holding (investment fund) in 1998 as an online classifieds platform. Scout24 then developed rapidly, launching AutoScout24 (online automobile advertising), FinanceScout24 (insurance services, principally in the auto segment), JobScout24 (online recruitment solutions) and FriendScout24 (dating site), TravelScout24 (online travel agency).

Deutsche Telekom acquired the company in 2004 before selling its 70% stake to the private equity fund Hellman & Friedman (H&F) in February 2014, which then floated the group on the stock market in October 2015. The bulk of the group's activities were sold between 2011 and 2016, enabling management to concentrate on just two segments: automobile (AutoScout24 and FinanceScout24) and real estate (ImmobilienScout24).

From 2014 (after H&F arrived in the ownership structure) to 2018, Gregory Ellis (former CEO of REA, leader in real estate classified advertising in Australia) was CEO of Scout24, before his replacement by Tobias Hartmann in November 2018 (current CEO and former head of the US branch of HelloFresh).

In December 2019, the group announced the acquisition of its AutoScout24 platform (second-ranked behind mobile.de, owned by Adevinta via the eBay Classifieds portfolio) and FinanceScout24 by the fund private equity fund H&F for € 2.9bn (26x 2019 EBITDA). The group therefore became a pure player in the German real estate market.

Note that Scout24 has been relatively quiet on the M&A front (with opportunities limited in Germany and with the group already largely the leader). The group has nonetheless proceeded with a number of acquisitions (small-scale) in order to extend its exposure in German-speaking regions (Austria and Switzerland) and to improve the appeal of its platform: immobilien.net (Austrian platform) and FlowFact (client relations management for the agents) in 2014, my-next-home.de (German platform now redirected to that of IS24) and immodireckt.at in 2016 (Austrian platform) then immoverkauf24 (real estate portal helping home owners sell their property in the DACH region) in July 2020 for € 30m and Vermietet.de (management tools for private owners looking to rent their real estate assets) in May 2021 (amount not disclosed).

Positive stock market momentum since 2019: H&F takeover abandoned, sale of AutoScout24 and share buyback plans

Since its flotation in October 2015, the share price has increased strongly (+124%), i.e. an average of 15% per annum.

Whilst the share price has risen steadily over the period, we note a number of key events: **takeover bid from** H&F in February 2019 (valuing the Scout24 share at € 46, i.e. a premium of 27% on the share price at the time), **the rejection of H&F's offer in May**, a convincing **CMD** with ambitious guidance (pre-COVID and before the sale of the automobile division) in **November 2019** (adjusted EBITDA margin of 67% in 2022 with revenue growth in the low to mid-teens in 2022), the **acquisition of the AutoScout24 division** by H&F (€ 2.9bn) in **December 2019** (the divestment was notably requested by the activist fund Elliott, which at the time owned more than 7% of the capital), the**COVID-19 pandemic** in **March 2020,** followed by the **announcement of a substantial share buyback programme** at the time of the 2019 results publication (€ 1bn as of Q1 2021 and € 200m in 2021).

Trend in the share price since the group's introduction (base 100)

Source: FactSet

SWOT analysis

Strengths	Weaknesses
• Leader in the German market (twice as many advertisements as the second-ranked player and a market share of ~70-80%). • Pricing power. • Strong cash generation (FCF margin of >40%) and ~80% recurring revenue (subscriptions) • Presence and diversification on the entire value chain (agent, owner, user). • Penetration + low penetration of the classified ads market in Germany (vs the UK).	• Limited to its domestic market. • Limited operational leverage in the short term (acceleration in marketing spend). • Less favourable momentum in the short term than Rightmove (base effect + tax incentives).

Opportunities	Threats
• Structural increase in online marketing spend post COVID-19 • Acceleration in monetisation (upselling and migration of clients towards new product offerings) • Expansion of the potential market (search for targets on behalf of agents, subscriptions designed for consumers, software tools, mortgage lending, etc.). • Share buybacks of ~€ 500m in the short term.	• Change in regulations on agents' commissions (commissions higher in Germany than in the UK). • Ramp-up of competitors: Axel Springer (ImmoWelt/ImmoNet), Adevinta (eBay Kleinanzeigen), GAFA • Slowdown in the German real estate market. • Stronger-than-anticipated acceleration in operating expenses.

Source: ODDO BHF Securities

Some 80% of revenue is recurring and driven by a number of vectors

Revenue 80% recurring and a broad range of clients (agents, property owners, users)

The bulk of Scout24's sales are generated in Germany (96% of 2020 sales) and, to a lesser extent, in the rest of the DACH region, i.e. Austria and Switzerland (4% of sales). Scout24's main sources of revenue are:

- **Subscriptions** and supplementary products **billed to real estate agents for the listing of residential assets** (~42% of sales) and **office property** (~17% of sales) on the platform.
- **Listing services for private individuals** looking to dispense with the services of an estate agent (~7% of sales) and for new projects under development (~9% of sales).
- **Premium subscriptions for platform users** (~12% of sales).
- **Leads products** (~11% of sales), notably for estate agents (search engine for potential targets Realtor Lead Engine) and for private individuals (search for agents, mortgage loans, moving companies).
- The rest of the group's sales (~3%) are split between a **client management tool** (FlowFact software) and **advertising services for third parties** (advertising excluding real estate classifieds).

Breakdown of Scout24's sales by product type

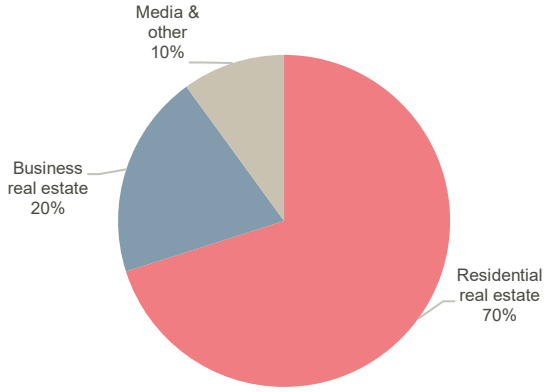
Segment	User groups	Products	Journeys
Residential Real Estate	• Residential real estate partners: real estate agents specialising in residential properties, property managers, finance partners (e.g. savings banks) • Home sellers (real estate owners): private sellers, landlords • Consumers: private buyers, tenants • Removal companies provided with relocation leads	• Listings: subscriptions / add-on products • Listings: pay-per-ad • Consumer subscriptions: TenantPlus+ / BuyerPlus+ / LandlordPlus+ • Leads: Realtor Lead Engine / mortgage leads / relocation leads	• Sale journey • Rent journey
Business Real Estate	• Business real estate partners: real estate agents specialising in commercial real estate • New home builders and real estate developers that market new construction projects	• Listings: subscriptions / add-on products • Listings: pay-per-ad • Location analysis	• Developer / Commercial journey
Media & Other	• Advertisers (third parties) that place advertisements on ImmoScout24 • Users of ImmoScout24 Austria • Customers that use the FLOWFACT's real estate agent CRM software	• Advertisements • ImmoScout24 Austria products • FLOWFACT product world	

Source: Scout24

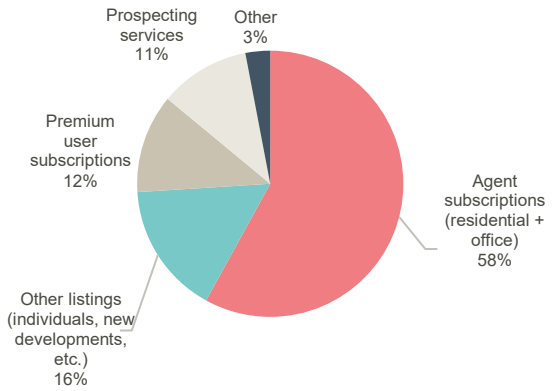
These services can be included in a subscription or added separately. There are three types of subscription: 'Base Edition' for € 455/month (entry-level offer enabling listing on the platform), 'Image Edition' for € 680/month (improving the visibility of the classified ads), 'Acquisition Edition' for € 1,060/month (targeted campaigns with maximum visibility). Lastly, note that 80% of the group's sales are recurring.

The group has managed to monetise its relations with all types of client (estate agents/owners/users). This client base and the importance of private individuals to the generation of group revenue stands it apart from Rightmove in the UK, which does not allow private individuals to list their properties although the platform is free for users.
Note that Scout24 reports a breakdown in sales between residential real estate (70% of 2019 sales), office property (20% of sales) and other (10% of sales).

Breakdown of sales by segment (2019)



Breakdown of sales by product (2020)



Sources: ODDO BHF Securities, Scout24

The residential real estate segment (~70% of sales): the group's main revenue driver

The **residential real estate (~70% of sales)** segment regroups services involving the residential properties proposed by estate agents (listing, additional advertising products, prospecting for new clients via the Realtor Lead Engine tool), to private individuals looking to sell/rent their property (listing, valuation tools) and potential buyers/tenants using the platform (premium subscriptions enabling them to maximise their chances of finding a home or to accelerate the process).

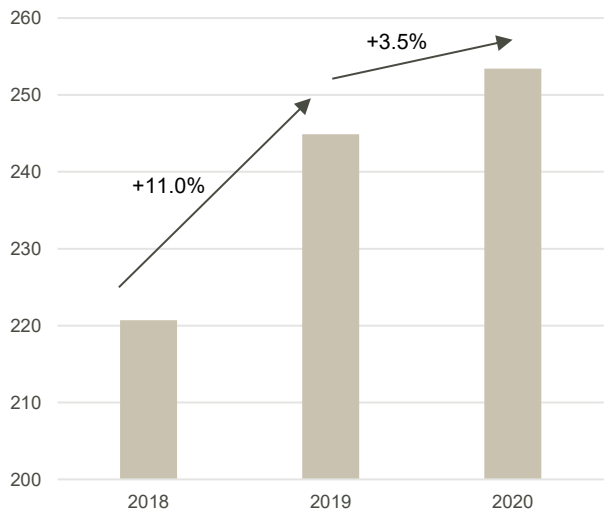
The bulk of sales at the division is generated by agents' subscriptions (between 50% and 60% of sales at the division). The group therefore boasts 17,213 agent subscribers (accelerating in 2020 by 5.3% vs -2.6% for Rightmove). Moreover, prices continued to rise in 2020 (increase in ARPU of 2.5%).

Premium subscriptions for users accounted for 17% of sales at the division in 2020 (vs 13% in 2019), i.e. growth of 39% in 2020, with an acceleration in the adoption of Tenant+ (designed for tenants ~€ 18/month) and Buyer+ (launched in Q4 2019, ~ € 35/month) products.

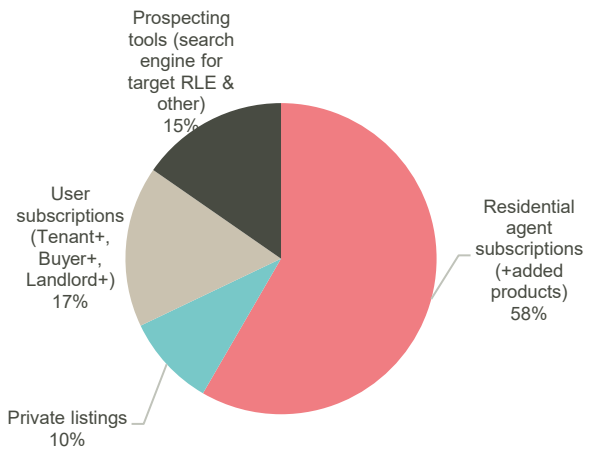
The products offered to property owners (listing, lease management tool Landlord+, ~ € 10/month) representing ~20% of sales at the division in 2020 vs ~30% in 2019 (with the group putting in place a free listing service for private individuals during the COVID-19 pandemic). This gesture, albeit only temporary, is still in place and the group should maintain it. This has enabled the group to gain market share with private individuals (growth of around 50% in private listings in 2020). That said, we think that it had an impact on sales of around € 20m, i.e. 54.5 points of growth in 2020, on our estimates (assuming that the same number of private individuals would have been billed for listing).

The leads products (new clients/estate agent search/mortgage lending/movers) represented 15% of sales at the division (vs 13% in 2019) and also grew robustly last year with +24%. The leads products for estate agents, Realtor Leads Engine (search engine helping agents to find potential clients) saw particularly strong growth of ~60%.

Sales trend in the residential real estate segment (€ m)



Breakdown of sales (2020) at the products division



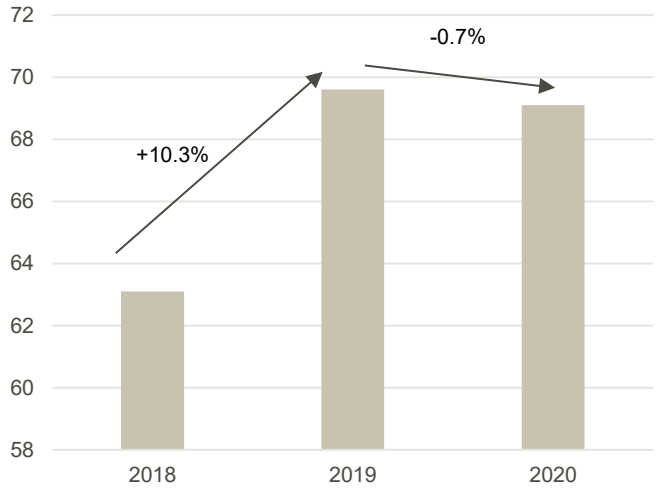
Sources: ODDO BHF Securities, Scout24

The business real estate segment (~20% of sales): impacted by the slowdown in economic activity and teleworking

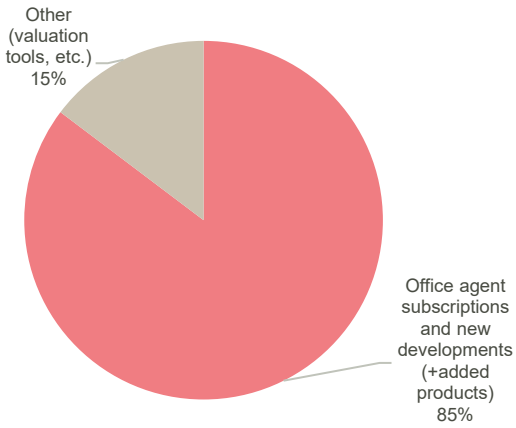
The **business real estate segment (20% of sales)** regroups the services proposed by specialist agents in office property (listing, additional advertising products) as well as property developers (listing, analysis tools helping to determine supply/demand equilibrium by location).

After growth of 10% in 2019, revenue at the division slowed in 2020 (-0.7% vs +3.5% for the residential segment), with teleworking and the economic slowdown having an impact on office demand and the number of new building projects. The number of subscribers nonetheless increase from 2,774 in 2019 to 2,800 in 2020 (+0.9%) but the average price for the latter was down from €1,761 in 2019 to € 1,754 in 2020 (-0.4%).

Sales trend in the business real estate segment (€ m)



Breakdown of sales at the products division



Sources: ODDO BHF Securities, Scout24

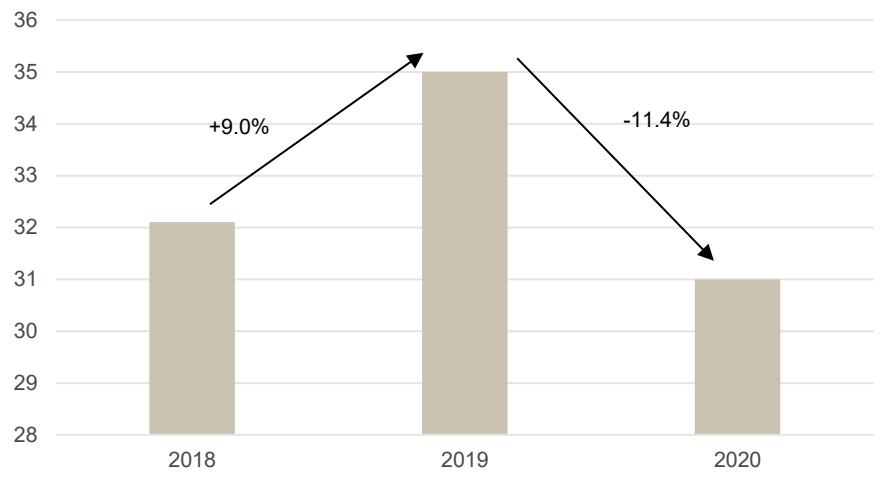
The rest of the group's activities (~10% of sales): advertising still under pressure

Amongst the **group's other activities (~10% of sales)**, we can cite advertising services for third parties (adverts displayed on the site excluding real estate classifieds, redirect, for example, platform users toward third-party sites), the use of the CRM tool FlowFact and revenues stemming from the ImmoScout24 Austria platform (Austrian platform).

In 2020, the adoption of the CRM FlowFact software continued (allowing agents to manage their client relations and to improve efficiency notably via analytical tools). This solution is key because it enables: 1/ an improvement in the rate of client retention on the platform that already used this CRM; 2/ greater access to transactions made by the estate agents outside the platform (and therefore more data can be collected thus enabling the group to improve the quality of its products, notably the valuation). Also note that the group is in the process of transition from a licence model to an SaaS model (based on subscriptions), which should increase the recurrence of revenues (23% of users have already migrated to new solutions).

The third-party advertising activity nonetheless slowed significantly in 2020 (-35%), with the advertising market under pressure during the pandemic with marketing budget cuts at all agencies in Germany. That said, revenue in the segment as a whole was down 12.1%, principally thanks to the good performance of ImmoScout24 Austria (sales growth of >11%).

Trend in sales at the group's other activities (€ m)



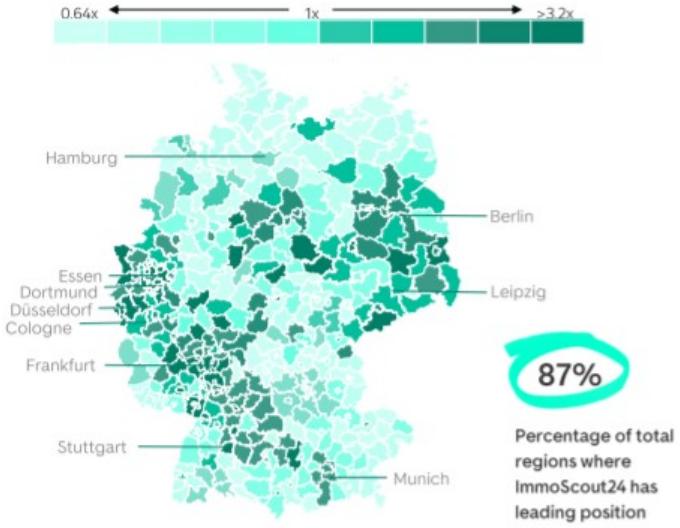
Sources: ODDO BHF Securities, Scout24

Numerous growth levers remain and stronger pricing power

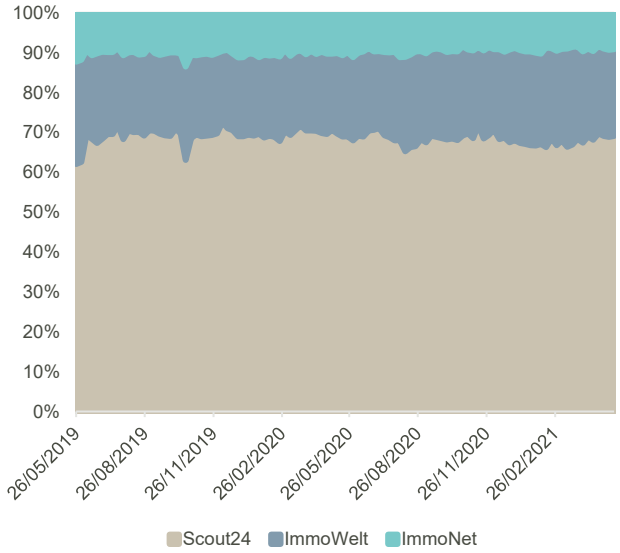
A dominant position in the German market which guarantees Scout24 a powerful network effect

Scout24 is by far the leader in real estate classified ads in Germany, with a market share of ~70-80%. The IS 24 platform therefore boasts 1.9x the number of classified ads than the second-ranked on the market, the press group Axel Springer (which in 2015 merged the real estate classifieds platforms Immowelt and Immonet), with a leading position in the ten largest German cities.

Scout24's market share (number of listings on Scout24 vs the second-ranked player in the market by region)



Trend in Google* searches over two years, Scout24 and rivals ImmoWelt and ImmoNet in Germany**



Sources: ODDO BHF, Scout24, Google trends

** The results reflect the proportion of searches for a given key word in a region and for a specific period. 100 represents maximum use of the term in the period and place defined (Germany in this case) and a value of 50 means that the key word was used half as often in the region in question*

***Scout24 is broadly searched for under three names: ImmoScout, ImmobilienScout and ImmobilienScout24*

Its other rival on the German market is Adevinta, following the acquisition of eBay Classifieds and its generalist platform in Germany eBay Kleinanzeigen. Whilst Adevinta has accelerated the ramp-up of its new platform, we still think that Scout24 is relatively well protected because we think that it principally concerns listings for private individuals which: 1/ on our estimates, represents less than 10% of revenue and 2/ is now free (as is the case on eBay Kleinanzeigen, which should enable Scout24 to maintain a high retention rate for as long as this measure is in place). Facebook is also a competitor on listings for private individuals but, as for eBay Kleinanzeigen, this primarily concerns lower value property assets.

Moreover, the German market tends to be characterised by powerful vertical players (mobile.de and AutoScout24 for automobile and Scout24 for real estate), in contrast to horizontal players (like leboncoin in France). Therefore we are confident on the fact that Scout24 will remain the platform of choice for the vast majority of listed property assets in Germany.

Moreover, Scout24's leadership position is key because it enables the group to benefit from a powerful network effect: the high number of classified ads generates traffic, rendering the platform more attractive and indispensable for estate agents, who remain on the platform, helping to keep the number of ads high and therefore rendering the platform even more attractive to users (for more details, see the section on the network effect on page 14). In this respect note that the rate of recognition of the Scout24 brand is 98% in Germany.

The **consequences of this network effect** for the group are: 1/ **high barriers to entry**; 2/ substantial **pricing power**; 3/ **high margins** (EBITDA margin > 60% vs > 75% for Rightmove since Scout24 has a different revenue mix, notably listings for private individuals and subscriptions for private individuals, lower margins); 4/ **strong cash generation**; 5/ **a more attractive platform** (greater investment capacity on the platform and better quality data).

The health crisis strengthened the group's pricing power and should accelerate the share of online marketing spend

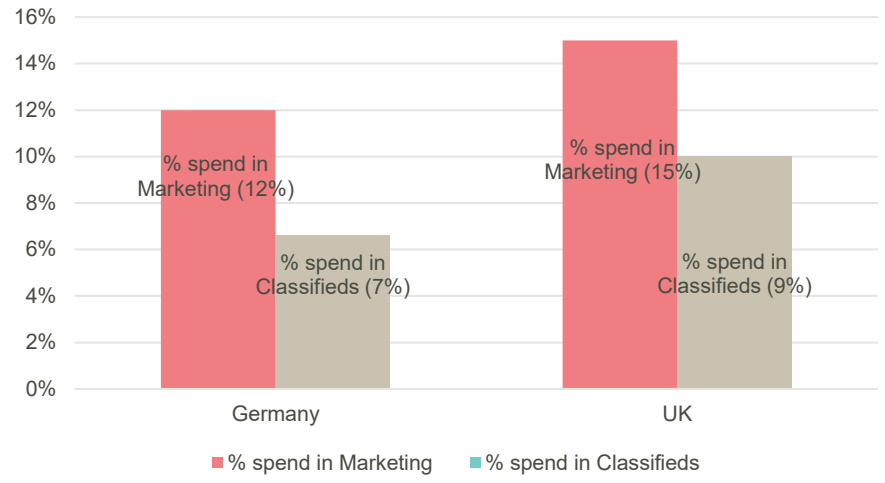
We think that Scout24 will maintain a robust pace of growth (between 8% and 12%) over the next five years, driven by: 1/ the **increase in the share of the marketing budget allocated to the online segment** (growing digitisation of real estate classifieds); 2/ the **increase in the average price paid per client** (network effect strengthened due to the pandemic + launch of new products + increase in the price of property and commissions); 3/ **expansion of Scout24's potential market** (leads products for agents, services designed for consumers, management software, financial intermediary).

Note that Scout24 and Rightmove have very similar positions as dominant players in real estate in their respective countries, with an equivalent market share (~70-80%) in a market dominated by specialist players (in contrast to France or Norway for example, where leboncoin and Finn.no capture a major share of the market).

That said, penetration in the German market is more limited than in the UK. As such we estimate that 12% of the revenue from agencies (commission) in Germany is dedicated to marketing vs around 15% in the UK and that marketing spend for online listing represents 55% of this spending in Germany (i.e. 6% of commissions) and 60% in the UK (i.e. 9% of commissions).

As such, despite higher commissions in Germany (around 3-4%) than in the UK (1-2%), entry level offer from Rightmove ('essential' offer) is 2.5x higher, for example (£ 1,000/month) than that offered by Scout24 ('basic edition' offer at € 455/month).

Share of commissions spent on online marketing (Germany vs UK)



Sources: Scout24, Rightmove, UK Office for National Statistics

One of the consequences of the greater penetration of the classifieds market in the UK is that the number of Rightmove subscribers has fallen steadily since 2017 (-3%/year), unlike Scout24, which even registered an increase in its number of subscribers in 2020 (+5%), despite the health context (vs -3% for Rightmove, despite the marked discounts on its offers).

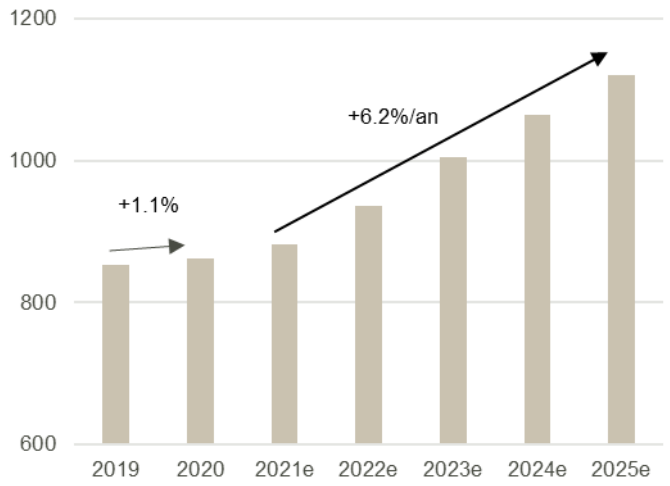
In this context, COVID-19 has been a clear accelerator to penetration in the German market, which has bolstered the group's network effect (7.4% increase in the number of visits despite the travel restrictions).

The crisis has also accelerated the use of digital tools like the FlowFact CRM (used by around two-thirds of Scout24 partners) and the lead product Realtor Leads Engine (search engine enabling agents to find potential clients, which grew by around 60% in 2020), thus improving the retention rate of agents and their operational efficiency.

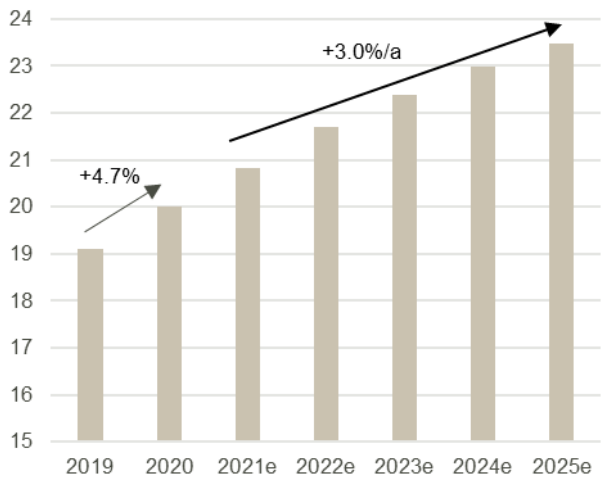
We therefore think that the group's pricing power has been strengthened and that the German agencies will continue to increase the share of online marketing spend.

We thus forecast an increase of 3.0%/year in the number of the group's partners (on the residential and office segment) out to 2025e with average annual ARPU growth of 6.2%. We therefore anticipate revenue growth of 10.0% per year out to 2025 for Scout24 vs 6.7%/year for Rightmove.

Trend in average revenue per advertiser (ARPU) (€)



Trend in the number of partners (k)

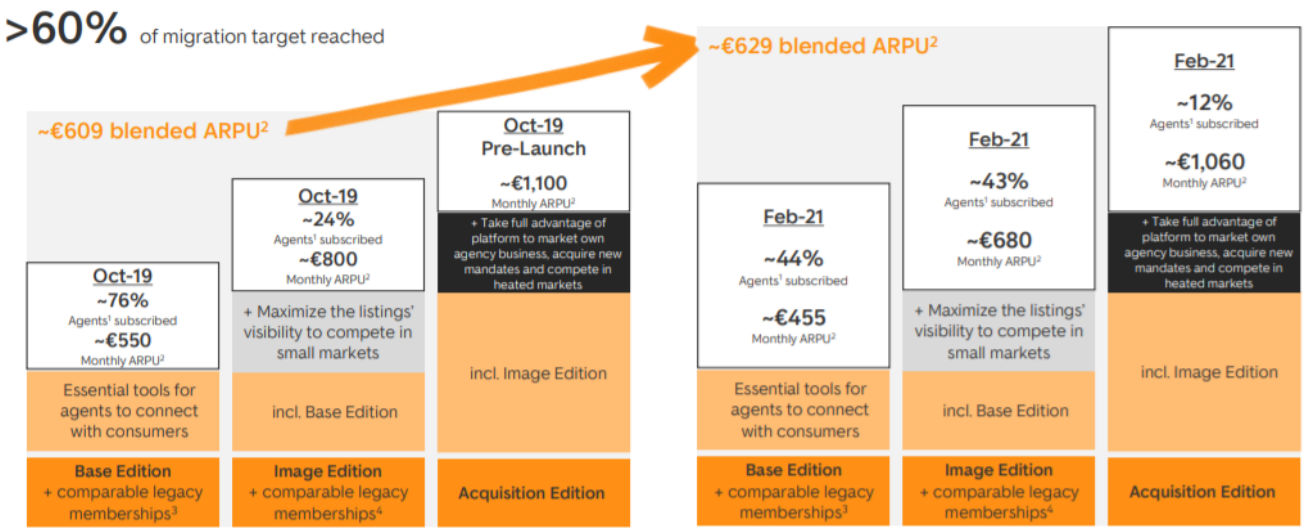


Sources: ODDO BHF Securities, Scout24

Acceleration in monetisation: upselling and expansion of the potential market to the whole of the value chain

We think that Scout24 still harbours very significant potential to extract value, above all with the acceleration of the migration of its clients to the new subscription offer (launched in 2019). In March 2021, 66% of the group's clients have migrated (vs 35% last October). The migration should be finalised in mid-2021 and continue to favour upselling (the new offering contains new products notably helping to improve the visibility of advertisers) and the increase in ARPU.

Trend in ARPU and the migration of Scount24 clients to the new subscription offering



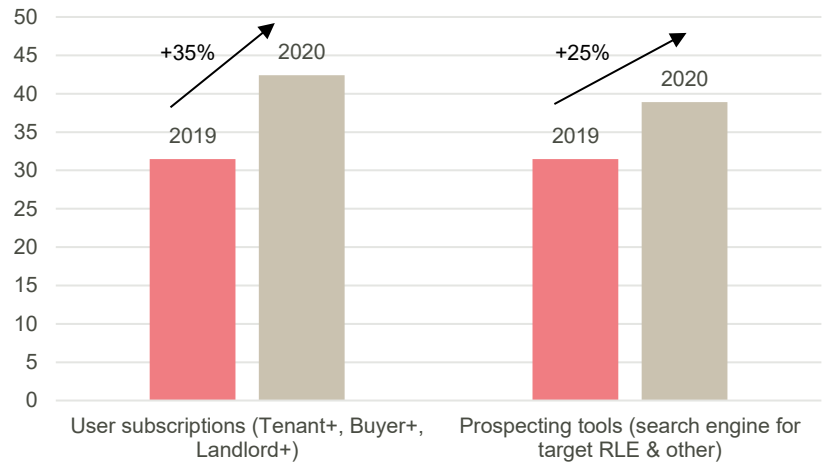
Source: Scout24

Also note a **ramp-up of the group's product range**, whether:

- **With agents** with the improvement to the Realtor Leads Engine product, which enables agents to find better quality targets and which grew by around 60% in 2020. This tool gives Scout24 closer access to the transaction by adjusting its remuneration depending on the quality of the target supplied (up to 40% of the commission once the transaction is completed). The data stemming from the transaction can then be used to improve the group's other products (notably tools for real estate valuation).
- **With private individuals** notably with the premium subscriptions launched in 2020 geared towards potential buyers (Buyer+) and individuals looking to rent their properties (Landlord+).

The **ultimate goal** would be to **create an ecosystem and monetise the entire value chain** (listing, the search for a target by agents, client management, the search for potential tenants/buyers, moving services, loans, etc.).

Sales trend (€ m) between 2019 and 2020 for users subscriptions and leads products (incl. RLE)



Sources: ODDO BHF Securities, Scout24

Scout24 has therefore extended its potential market to the users of the IS 24 platform (14% of sales in Q1 2021 vs 9% in Q1 2019) by offering premium subscriptions geared towards tenants (Tenant+), potential buyers (Buyer+) and private individuals looking to rent out their properties (Landlord+). These subscriptions, which represented 14% of sales in Q1 2021 (vs 9% in Q1 2019), stand Scout24 apart from the majority of classified advertising platforms in Europe, which are most often free to use for all users (this is the case for Rightmove, for instance).

This monetisation is possible because the German market suffers from a significant imbalance between supply and demand, thus favouring the use of such products which allow users of the platform to maximise their visibility as potential buyers/tenants, whilst at the same time facilitating the procedure for the platform user (Scout24 takes on the process of recuperating all of the necessary information, such as solvency checks, collecting them together in a digitised dossier, before sending them to the property owner/estate agent).

With regards to the Landlord+ (launched in 2020), it is particularly attractive with private individuals who are looking to rent out their property in a German market that is dominated by rentals. It is in this context that Scout24 proceeded with the acquisition of Vermietet.de (platform for private property owners looking to rent out their real estate assets) in May 2021 (the group's clients should benefit from the first synergies unlocked by the two platforms by end-2021).

This type of platform (management tools for owners looking to rent out their property) will allow Scout24 to: 1/ improve its retention rate by integrating and facilitating the owner management process, and 2/ be present on a larger share of the transaction (thus expanding the group's addressable market, its database and its scope for monetisation).

Note that the group is backed by a base of 13.8 million users and that it can extend its reach to new markets, like mortgage lending (for the time being the group acts as no more than an intermediary, redirecting its users to the platforms of third-party organisations, but in the future, it may sign a partnership agreement with a bank, for example).

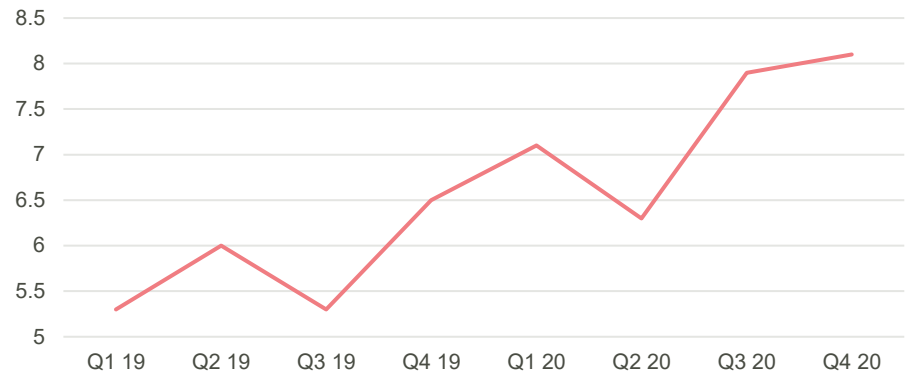
Prolongation of the upward cycle in Germany, whilst regulations nonetheless remain a point to watch

Scout24's sales proved very resilient during the crisis (+1.1% in 2020) since the group granted discounts solely on listings for private individuals (impact of ~€ 20m, on our estimates) in contrast to Rightmove which was forced to make concessions to all of its agents (impact of ~£ 89m).

The group also benefited from the increase in property prices in Germany driven by robust demand (low interest rates, scarcity of supply, notably in the context of the country welcoming one million refugees in 2015). As such the price of property rose by 7.1% in Q1 2020, then 6.3% in Q2, 7.9% in Q3 and 8.1% in Q4.

The German real estate market benefits from an upward cycle that has been in place for the past 10 years. However, note that a downturn in the market (due, for instance, to an increase in interest rates) could be synonymous with a decline in agents' commissions, although not necessarily a decline in their marketing spend (with this spending being all the more crucial in this context).

Annual price variations for housing in Germany in Q1 2019 and Q4 2020 (%)



Source: OECD

Regulations nonetheless remain a point to watch. Since end-2020, a new law concerning the remuneration of estate agents in Germany (Bestellerprinzip) came into force. It hinges on the operating principle, i.e. that the commissions billed to an agent should be paid by all parties benefiting from the service provided. However, in some regions of Germany (representing 20% of the German real estate market), notably Berlin and Hamburg, it was most often the tenant/buyer who paid the commission and not the seller. In the future, commission should be split between the two parties on a 50/50 basis.

According to Scout24, the new regulations had a negative impact to the tune of ~€ 5m in 2020, some private individuals having decided to proceed with listing their properties themselves in order to avoid paying commission (with a private listing less monetised than a listing by a professional agent).

Moreover, the remuneration of agents remains a point to watch in Germany and a number of measures have been proposed aimed at reducing the cost for potential buyers/tenants (commission limited to 2% of the transaction price, with the commission taken on solely by the owner of the property). Whilst these measures were rejected before a compromise could be reached (Bestellerprinzip), the high commissions commanded by German estate agents (3-4% vs 1-2% in the UK) could prompt new regulations in the future.

Sales up +10%/year out to 2025 and cash returns in the short term

Robust growth driven by the increase in ARPU and the extension of Scout24's potential market

Over the 2021-2025 period, we expect prices to grow by, respectively, 6.2% and 5.4% in the residential and office property segments. Whilst the increase in prices is set to be limited to +2.4% in 2021 (a one-year freeze on price increases for contracts negotiated between April and August 2020), we anticipate an acceleration in ARPU in 2022e (+6.2%) and 2023 (+7.2%).

Moreover, we anticipate an increase in the number of subscribers on the residential segment (2.9%/year over the period) and stronger growth in the office segment, also driven by the number of new developments (+4.1%/year), with the German market characterised by insufficient supply.

The residential real estate (~70% of sales) and corporate real estate (~20% of sales) segments as well as the group's other activities (~10% of sales) therefore grew by, respectively, 10.4%/year, 11.9%/year and 7.2%/year over the period. On this basis, we see average annual revenue growth of 10.1%/year out to 2025, i.e. sales of € 563m by 2025.

Scout24 sales by segment

€ m	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Residential real estate	**221**	**245**	**253**	**282**	**317**	**354**	**388**	**420**
Growth		*11.0%*	*3.5%*	*11.4%*	*12.3%*	*11.7%*	*9.6%*	*8.1%*
Number of residential real estate partners (k)	16.1	16.3	17.2	18.0	18.7	19.3	19.8	20.1
Growth		*1.5%*	*5.3%*	*4.5%*	*4.0%*	*3.0%*	*2.5%*	*2.0%*
ARPU (€/month)	655	698	716	741	789	848	899	944
Growth		*6.6%*	*2.6%*	*3.5%*	*6.5%*	*7.5%*	*6.0%*	*5.0%*
Recurring revenue (membership & OTP products)	127	137	148	160	177	196	213	228
Growth		*8.2%*	*8.0%*	*8.2%*	*10.8%*	*10.7%*	*8.6%*	*7.1%*
Other variable revenue (leads, private listing, consumer, non-recurring revenue)	94	108	106	122	140	158	175	192
Growth		*14.7%*	*-2.3%*	*16.0%*	*14.4%*	*13.0%*	*10.9%*	*9.3%*
Business real estate	**63**	**70**	**69**	**71**	**78**	**86**	**94**	**103**
Growth		*10.3%*	*-0.7%*	*2.5%*	*10.3%*	*10.2%*	*9.7%*	*8.7%*
Number of business real estate partners (k)	2.8	2.8	2.8	2.8	3.0	3.1	3.2	3.3
Growth		*-1.5%*	*0.9%*	*1.5%*	*5.0%*	*4.0%*	*4.0%*	*3.5%*
ARPU (€/month)	1567	1761	1754	1772	1860	1972	2080	2184
Growth		*12.4%*	*-0.4%*	*1.0%*	*5.0%*	*6.0%*	*5.5%*	*5.0%*
Recurring revenue (membership & OTP products)	53	59	59	60	67	73	81	88
Growth		*10.7%*	*0.5%*	*2.5%*	*10.3%*	*10.2%*	*9.7%*	*8.7%*
Other revenue	10	11	10	10	11	13	14	15
Growth		*8.0%*	*-7.4%*	*2.5%*	*10.3%*	*10.2%*	*9.7%*	*8.7%*
Number of business real estate partners (k)	3	3	3	3	3	3	3	3
Growth		*-1.5%*	*0.9%*	*1.5%*	*5.0%*	*4.0%*	*4.0%*	*3.5%*
Media & other	**32**	**35**	**31**	**30**	**33**	**35**	**38**	**40**
Growth		*9.0%*	*-11.4%*	*-2.0%*	*7.0%*	*9.0%*	*7.0%*	*6.0%*
Revenues	**318**	**350**	**354**	**384**	**428**	**476**	**521**	**563**
Growth		*9.9%*	*1.1%*	*8.5%*	*11.5%*	*11.2%*	*9.5%*	*8.0%*

Source: ODDO BHF Securities

Whilst comparison bases are set to be less favourable in 2021 for Scout24 (sales up 1.1% in 2020 and the one-year freeze on price increases for contracts negotiated between April and August 2021) than for Rightmove (sales down 29% in 2020), we nonetheless see significant growth opportunities in the short term (migration of IS 24 clients to the new subscription offering and the ramp-up of the product range).

As such we forecast growth of 8.5% in 2021e (+11.4% in the residential segment, +2.5% in the office segment and -2.0% for the rest of the activities), in line with the group's assumption of 'mid to high single-digit' growth ('low double-digit' in the residential segment, 'low single-digit' in office property and 'slightly declining' for the advertising segment).

Acceleration of spending in the short term but significant operational leverage in the medium term

As for the majority of players in the sector, Scout24's operating costs are limited (< 50% of sales) and primarily consist of fixed costs such as payroll (~45% of opex), marketing spend (~20%) and IT spend (~10%).

There is therefore significant operational leverage linked to the size effect and we expect Scout24 to achieve an operating margin in the long term of 60% (vs 54% in 2020).

The group should nevertheless accelerate its spending in the short term with: 1/ the return of HR spending for which we anticipate an increase of 11% vs 2020 (the group reduced its payroll costs by 2% in 2020 and a probable catch-up in 2021); 2/ an acceleration in marketing spend of +30% y-o-y (management's determination to accelerate client acquisition on strong growth products, namely the Realtor Lead Engine and its premium subscriptions geared to consumers); 3/ the ramping-up of IT spending, up 20% (investment in the CRM FlowFact platform).

Opex in 2021 should therefore be up 17% with an EBITDA margin of 59.0% (guidance for a margin of 'up to 60%') vs 60% in 2020. Moreover, we think that the group will continue its aggressive stance in 2022 (opex growth of 11%) in order to consolidate its positioning along the entire value chain. We anticipate a faster pace of EBITDA growth as of 2023e (~1.5 points/year out to 2026e) to achieve 65% in the long term (+5 points vs 2020 vs 75% for Rightmove).

In this context, we anticipate 2021e EPS of € 1.63 and € 2.99 for 2025e, i.e. a CAGR of 16%, driven by significant share buyback programmes.

Scout24's P&L

Income statement	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Revenues	**318**	**350**	**354**	**384**	**428**	**476**	**521**	**563**
Growth		*9.9%*	*1.1%*	*8.5%*	*11.5%*	*11.2%*	*9.5%*	*8.0%*
Total opex - adjusted	-146	-157	-157	-183	-202	-219	-233	-242
- As a % of sales	*-45.8%*	*-45.0%*	*-44.3%*	*-47.6%*	*-47.3%*	*-46.0%*	*-44.7%*	*-43.1%*
Adj. EBITDA	**189**	**209**	**212**	**226**	**253**	**287**	**322**	**356**
- As a % of sales	*59.3%*	*59.9%*	*60.0%*	*59.0%*	*59.2%*	*60.4%*	*61.8%*	*63.3%*
Tax rate	-24.7%	-32.6%	-27.9%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
Adjusted net income	170	190	137	137	157	180	204	229
Adjusted per share – diluted (€)	**1.58**	**1.77**	**1.34**	**1.63**	**1.91**	**2.25**	**2.61**	**2.99**
Growth		*12.1%*	*-24.1%*	*21.5%*	*17.5%*	*17.5%*	*15.9%*	*14.8%*

Source: ODDO BHF Securities

Our forecasts (vs consensus) for 2021, 2022 and 2023

€ m	2021e			2022e			2023e		
	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.
Sales	384	381	0.6%	428	425	0.6%	476	471	1.0%
Sales growth	*8.5%*	*19.7%*		*11.5%*	*11.5%*		*11.2%*	*10.8%*	
Adj. EBIT	226	219	3.3%	253	252	0.4%	287	285	0.9%
EBIT margin	*59.0%*	*57.5%*	*151bp*	*59.2%*	*59.3%*	*-13bp*	*60.4%*	*60.5%*	*-11bp*
Adjusted EPS (€)	1.63	1.48	10.1%	1.91	1.80	6.4%	2.25	2.05	9.7%
EPS growth	*21%*	*18%*		*17%*	*22%*		*17%*	*14%*	

Source: ODDO BHF Securities

Share buybacks of around € 500m in the short term and dividend pay-out rate maintained at a high level

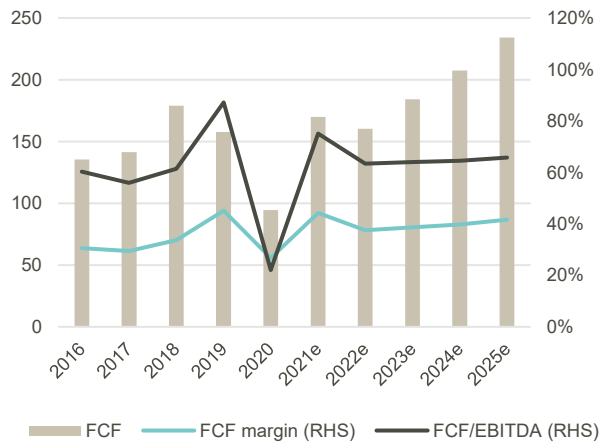
Since the sale of AutoScout 24 in 2019 (€ 2.9bn), the group has embarked upon numerous measures to distribute this surplus cash to its shareholders: the distribution of a substantial dividend in June 2020 (€ 94m), a large share buyback programme in April 2020 (€ 490m) followed by a public buyout (€ 794m) in April 2021. A share buyback programme of € 200m is also ongoing and the group has announced a dividend of € 69m for 2021 (pay-out rate of 68%). Factoring in the € 680m allocated to pay down the group's debt at the time of the divestment of AS 24, there remains around € 500m in cash to pay out and we think that the group will buyback an additional € 200m of Scout24 shares in 2021 (all told this represents an amount of ~€ 1.2bn redistributed to shareholders in 2021).

The remaining proceeds from the deal after 2021 (~€ 300m) will, in our view, be fully paid out to shareholders. Indeed, M&A opportunities are limited in Germany and the group is more likely to concentrate on small-scale acquisitions to round-out its technology portfolio. As such, we think that the group should continue its ambitious share buyback programmes in the short term (up to 10% of the capital), i.e. respectively € 160-140m in 2022 and 2023.

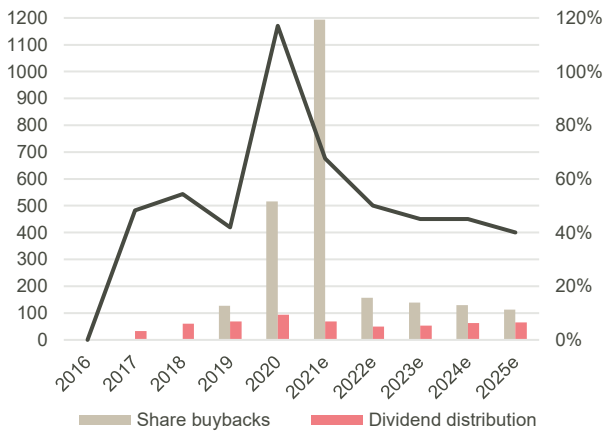
At the same time, we anticipate an attractive pay-out rate of 50% in 2022e, then 45% in 2023e (vs 35% for Rightmove), moving towards 40% (the median point of the group's long-term guidance for 30-50%).

With Scout24's activity strongly cash generating (FCF margin of >40% and an FCF/EBITDA ratio of ~65% for most years vs, respectively, 60% and 80% for Rightmove), the group should, moreover, continue this policy of cash returns to shareholders by redistributing all of its net profit, at a ratio of 60/40, on our estimates, in share buybacks/dividends.

Trend in FCF (€ m) from 2016-2025



Cash returns to shareholders (€ m) from 2016-2025



Sources: ODDO BHF Securities, Scout24

Initiation of Scout24 with an Outperform recommendation and a target price of € 80

We value Scout24 at € 80 per share (average of DCF and valuation by 2025e PE multiples), i.e. upside of 23% (based on the share price Monday 6 June 2021).

DCF valuation: € 88

Our DCF yields a valuation of € 88 per share. Our main assumptions are:

- Average annual sales growth of 7.7% over the next ten years. We therefore estimate sales growth of 10.1% per annum out to 2025, before moving towards 4%.
- A long-term operating margin of 61%. Whilst the group should accelerate its spending in the short term (respectively +17% and +11% in 2021e and 2022e), the significant increase in prices (+6.2%/year out to 2025e) and the size effect should, according to us, help the group to improve its long-term operating margin by 6 points vs 2020 (54%).
- A WACC of 6.4% (β of 0.80, risk premium of 7.80% and a risk-free rate of 0.18%).
- A long-term growth rate of 2.5% linked to the structural increase of real estate prices.

Scout24's DCF

€ m	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2021-31 CAGR
Sales	384	428	476	521	563	606	648	690	731	772	803	7.7%
Change	8.5%	11.5%	11.2%	9.5%	8.0%	7.6%	7.0%	6.5%	6.0%	5.5%	4.0%	
Underlying EBITDA	226	253	287	322	356	386	424	452	479	505	526	
EBITDA margin	59%	59%	60%	62%	63%	64%	65%	65%	65%	65%	65%	
Underlying EBIT	204	228	260	294	331	356	392	417	442	467	485	9.3%
Operating margin	53%	53%	55%	57%	59%	59%	60%	60%	60%	60%	60%	
Depreciation	22	26	27	27	26	30	32	35	37	39	40	
As a % of sales	5.7%	6.0%	5.7%	5.2%	4.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
Tax on EBIT	-61	-68	-78	-88	-99	-107	-118	-125	-133	-140	-146	
WCR	-22	-27	-32	-37	-42	-45	-49	-52	-55	-58	-60	30.6%
As a % of sales	-5.9%	-6.2%	-6.6%	-7.1%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	
Change in WCR	18	4	5	5	5	3	3	3	3	3	2	
Capex	-27	-30	-31	-31	-28	-30	-32	-35	-37	-39	-40	0.7%
As a % of sales	7.0%	7.0%	6.5%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Free cash flow	156	159	183	207	234	252	278	295	313	330	342	11.2%
As a % of sales	40.8%	37.2%	38.5%	39.8%	41.7%	41.7%	42.8%	42.8%	42.8%	42.7%	42.6%	
Change	36.9%	1.7%	15.3%	13.0%	13.1%	7.7%	9.9%	6.4%	5.9%	5.4%	3.8%	
Discounted cash flow		154	166	177	188	190	196	196	195	193	189	

Source: ODDO BHF Securities

Calculation of the target price using a DCF (€ m)

Sum of discounted 2022-2031e FCF	1 844
Terminal value	5 060
Enterprise value	6 904
Net cash position 2021e	322
Valuation of shareholders' equity	7 226
Valuation per share of Scout24 (€)	**88**

Source: ODDO BHF Securities

Sensitivity of the DCF valuation to the EBIT margin and long-term growth rate

€		Perpetual growth		
		1.5%	**2.5%**	**3.5%**
Op. margin	**55%**	70	81	101
	60%	75	**88**	110
	65%	79	93	117

Source: ODDO BHF Securities

Valuation by multiples: € 72

Based on our assumptions for 2025, we estimate 2025e EPS at € 2.99. At 30x (historic average of 5 years) earnings (vs 45x current multiple), our 2025 valuation comes in at € 90/share, i.e. € **72** discounted at 1 year.

Note that we have applied a higher P/E multiple than for Rightmove (25x), because we think that Rightmove presents fewer monetisation opportunities than Scout24 and its growth story is more mature.

G24 GR | G24n.DE
Technologie | Germany

Outperform
Upside 22.89%

Price 65.10EUR
TP 80.00EUR

PER SHARE DATA (€)	12/16	12/17	12/18	12/19	12/20	12/21e	12/22e	12/23e
Adjusted EPS	1.04	1.40	2.40	1.77	1.34	1.63	1.91	2.25
Reported EPS	**0.62**	**1.03**	**2.35**	**0.75**	**23.17**	**1.16**	**1.42**	**1.74**
Growth in adjusted EPS	23.0%	34.5%	71.1%	-26.3%	-24.1%	21.5%	17.5%	17.5%
Net dividend per share	0.00	0.30	0.56	0.64	0.92	0.82	0.60	0.66
FCF to equity per share	1.26	1.32	1.68	1.70	0.46	2.02	1.95	2.30
Book value per share	9.21	9.90	10.90	9.84	27.55	19.55	19.00	18.82
Number of shares market cap (m)	107.70	107.68	107.72	107.24	102.14	84.32	82.08	80.09
Number of diluted shares (m)	107.70	107.68	107.72	107.24	102.14	84.32	82.08	80.09
VALUATION (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
12m highest price (€)	41.00	35.96	47.86	59.70	79.50	70.38		
12m lowest price (€)	24.90	29.97	33.86	38.58	45.50	61.95		
(*) Reference price (€)	32.48	33.44	40.04	48.44	66.77	65.10	65.10	65.10
Capitalization	3 498	3 601	4 313	5 194	6 820	5 489	5 343	5 214
Restated Net debt	631	558	697	785	-1 423.6	-322.3	-275.4	-266.4
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	14.3	14.9	46.8	643	6.6	6.6	6.6	6.6
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	**4 115**	**4 144**	**4 963**	**5 337**	**5 390**	**5 160**	**5 061**	**4 941**
P/E (x)	31.2	23.9	16.7	27.4	49.7	39.9	34.0	28.9
P/CF (x)	21.1	20.9	20.3	25.4	85.0	28.0	28.2	24.3
Net Yield	0.0%	0.9%	1.4%	1.3%	1.4%	1.3%	0.9%	1.0%
FCF yield	3.9%	3.9%	4.2%	3.5%	0.7%	3.1%	3.0%	3.5%
P/B incl. GW (x)	3.53	3.38	3.67	4.92	2.42	3.33	3.43	3.46
P/B excl. GW (x)	3.53	3.38	3.67	4.92	2.42	3.33	3.43	3.46
EV/Sales (x)	9.31	8.64	9.33	15.26	15.25	13.46	11.83	10.38
EV/EBITDA (x)	18.3	16.4	17.0	25.5	25.4	22.8	20.0	17.2
EV/Current EBIT (x)	**19.7**	**17.7**	**18.9**	**28.5**	**28.1**	**25.3**	**22.2**	**19.0**
(*) historical average price								
PROFIT AND LOSS (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales	442	480	532	350	354	384	428	476
EBITDA	225	253	292	209	212	226	253	287
Depreciations	-15.9	-18.6	-29.3	-22.1	-19.9	-21.8	-25.6	-27.1
Current EBIT	**209**	**234**	**262**	**187**	**192**	**204**	**228**	**260**
Published EBIT	141	176	191	109	146	148	170	202
Net financial income	-42.9	-10.4	27.2	-14.5	-5.0	-8.0	-3.0	-3.0
Corporate Tax	-31.6	-54.6	-54.0	-30.7	-39.5	-42.1	-50.1	-59.7
Net income of equity-accounted companies	0.0	0.0	0.1	-0.7	0.1	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	88	16.5	2 265	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	67	111	253	80	2 367	98	117	139
Adjusted attributable net profit	**112**	**151**	**258**	**190**	**137**	**137**	**157**	**180**
BALANCE SHEET (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Goodwill	816	837	1 064	693	713	713	713	713
Other intangible assets	1 201	1 173	1 175	986	1 008	1 030	1 055	1 080
Tangible fixed assets	10.0	8.2	13.3	8.7	16.3	21.1	26.5	32.0
WCR	-0.5	12.4	-17.3	-12.1	-4.0	-22.4	-26.6	-31.6
Financial assets	16.9	18.1	95.8	647	1 585	391	234	94.3
Ordinary shareholders equity	991	1 065	1 173	1 054	2 814	1 649	1 560	1 507
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	991	1 065	1 173	1 054	2 814	1 649	1 560	1 507
Non-current provisions	419	422	412	479	349	422	490	559
Net debt	**634**	**561**	**746**	**789**	**155**	**61.7**	**-48.5**	**-178.7**
CASH FLOW STATEMENT (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**224.6**	**252.9**	**291.5**	**209.3**	**211.9**	**226.1**	**253.1**	**287.5**
Change in WCR	-10.6	-7.9	-4.5	-6.0	2.6	0.5	0.7	0.8
Interests & taxes	-0.2	-55.7	-80.1	-40.9	-57.0	-15.7	-43.1	-51.9
Others	-58.8	-25.1	0.3	36.0	-74.7	-14.1	-20.4	-21.4
Operating Cash flow	154.9	164.2	207.2	198.5	82.8	196.8	190.3	215.0
CAPEX	-19.4	-22.7	-26.6	-16.0	-36.0	-26.8	-29.9	-30.9
Free cash-flow	**135.5**	**141.6**	**180.7**	**182.5**	**46.8**	**169.9**	**160.3**	**184.0**
Acquisitions / disposals	-29.5	-22.4	-267.1	-1.7	1 291.5	1 194.2	157.0	139.3
Dividends	0.0	-32.3	-60.3	-68.9	-93.7	-69.0	-49.1	-52.6
Net capital increase	-1.1	-1.4	0.0	-127.3	-515.9	-1 194.2	-157.0	-139.3
Others	-35.7	-14.0	-38.5	-22.8	-79.3	-13.8	-6.9	-6.9
Change in net cash	69.3	73.0	-185.3	-43.8	634.6	92.9	110.1	130.3
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales growth	12.3%	8.5%	10.8%	-34.2%	1.1%	8.5%	11.5%	11.2%
Lfl sales growth	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Current EBIT growth	20.6%	12.3%	11.9%	-28.6%	2.6%	6.4%	11.3%	14.4%
Growth in adjusted EPS	23.0%	34.5%	71.1%	-26.3%	-24.1%	21.5%	17.5%	17.5%
Net margin	25.4%	31.5%	48.6%	54.2%	38.8%	35.8%	36.7%	37.9%
EBITDA margin	**50.8%**	**52.7%**	**54.8%**	**59.9%**	**60.0%**	**59.0%**	**59.2%**	**60.4%**
Current EBIT margin	**47.2%**	**48.8%**	**49.3%**	**53.5%**	**54.3%**	**53.3%**	**53.2%**	**54.7%**
CAPEX / Sales	-4.4%	-4.8%	-5.3%	-4.6%	-10.2%	-7.0%	-7.0%	-6.5%
WCR / Sales	-0.1%	2.6%	-3.3%	-3.5%	-1.1%	-5.9%	-6.2%	-6.6%
Tax Rate	32.1%	33.0%	24.7%	32.3%	27.9%	30.0%	30.0%	30.0%
Normative tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Asset Turnover	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
ROCE post-tax (normative tax rate)	**7.2%**	**8.1%**	**8.6%**	**6.7%**	**7.9%**	**8.2%**	**9.1%**	**10.2%**
ROCE post-tax hors GW (normative tax rate)	11.9%	13.6%	15.5%	12.2%	13.4%	14.0%	15.3%	17.1%
ROE	11.7%	14.7%	23.1%	17.0%	7.1%	6.2%	9.8%	11.7%
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Gearing	64%	53%	64%	75%	5%	4%	-3%	-12%
Net Debt / Market Cap	0.18	0.16	0.17	0.15	0.02	0.01	-0.01	-0.03
Net debt / EBITDA	**2.82**	**2.22**	**2.56**	**3.77**	**0.73**	**0.27**	**ns**	**ns**
EBITDA / net financial charges	5.2	24.4	-10.7	14.4	42.5	28.3	84.4	95.8

Sources: ODDO BHF Securities, SIX

- **Valuation method**

  Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on ODDO BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.
- **Sensitivity of the result of the analysis/ risk classification:**

  The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

- **Our stock market recommendations**

  Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.
  Outperform: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).
  Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).
  Underperform: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

- **The prices of the financial instruments used and mentioned in this document are the closing prices.**
- **All publications by ODDO BHF concerning the companies covered and mentioned in this document are available on the research site: www.securities.oddo-bhf.com**

Recommendation split				
		Outperform	Neutral	Underperform
Our whole coverage	(528)	54%	34%	12%
Liquidity providers coverage	(95)	57%	39%	4%
Research service coverage	(43)	60%	35%	5%
Investment banking services	(25)	76%	20%	4%

Risk of conflict of interest:

Investment banking and/or Distribution	
Has ODDO BHF SCA or its affiliates managed or co-managed in the last 12 months a public offering of securities for the subject company/ies?	No
Has ODDO BHF SCA or its affiliates received compensation for investment banking services from the subject company/ies in the last 12 months or expects to receive or intends to seek compensation for investment banking services from the subject company/ies in the last 12 months?	No
Research contract between ODDO group & the issuer	
Have ODDO BHF SCA or its subsidiary ABN AMRO – ODDO BHF B.V. and the subject company/ies agreed that ABN AMRO - ODDO BHF B.V. or one of its parent companies will produce and disseminate investment recommendations on the subject company/ies as a service to the the subject company/ies?	No
Liquidity provider agreement and market-making	
At the date of the distribution of this report, does ODDO BHF SCA or its affiliates act as a market maker or has ODDO BHF SCA or its affiliates signed a liquidity provider agreement with the subject company/ies?	No
Significant equity stake	
Does ODDO BHF SCA or its subsidiary ABN AMRO – ODDO BHF B.V. own 1% or more of any class of common equity securities of the subject company/ies?	No
One or more affiliates of ODDO BHF SCA, other than ABN AMRO – ODDO BHF B.V., from time to time may own 1% or more of a class of common equity securities of the subject company/ies.	
Does ODDO BHF SCA or its subsidiary ABN AMRO – ODDO BHF B.V., own a net long or short position of 0.5% or more of any class of common equity securities of the subject company/ies?	No
Does the subject company beneficially own 5% or more of any class of common equity of ODDO BHF SCA or its subsidiary ABN AMRO – ODDO BHF B.V.?	No
Disclosure to Company	
Has a copy of this report ; with the target price and/or rating removed, been presented to the subject company/ies prior to its distribution, for the sole purpose of verifying the accuracy of factual statements ?	No
Have the conclusions of this report been amended following disclosure to the company/ies and prior its distribution?	No
Additional material conflicts	
Is ODDO BHF SCA or its affiliates aware of any additional material conflict of interest?	No
Personal conflicts of interest	

Have those responsible for the drafting of the present document acquired securities from the issuer concerned by the present financial analysis?	No
Have those responsible for the drafting of the present document received remuneration directly linked to investment firm service transactions or any other kind of transaction they carry out or any trading commissions they, or any legal person who is part of the same group, receive?	No

Statement of conflict of interests of all companies mentioned in this document may be consulted on ODDO BHF: www.securities.oddo-bhf.com

Recommendation history over the last 12 months for the company analysed in this report

Company	Date	Reco	Price		
Adevinta	02/06/2021	-	162.00		0
Auto Trader	07/06/2021	Neutral	6.59	Jerôme Bodin	
Prosus NV	19/01/2021	-	96.46	Jerôme Bodin	
Rightmove	01/06/2021	-	7.02	Martin Marandon-Carlhian	
Scout24	02/06/2021	-	64.96	Martin Marandon-Carlhian	

Target price history over the last 12 months for the company analysed in this report

Company	Date	Price Target	Price	Analyst
Adevinta	02/06/2021	19.66 EUR	162.00	Martin Marandon-Carlhian
Auto Trader	07/06/2021	6.82 GBP	565.60	Jerôme Bodin
Prosus NV	16/03/2021	111.52 EUR	94.86	Jerôme Bodin
	19/01/2021	103.03 EUR	96.46	Jerôme Bodin
Rightmove	01/06/2021	6.95 GBP	605.60	Martin Marandon-Carlhian
Scout24	02/06/2021	80.00 EUR	64.96	Martin Marandon-Carlhian

Disclaimer:

Disclaimers for Distribution by ODDO BHF SCA to Non-United States Investors:

This research publication is produced by ODDO BHF Corporates & Markets, a division of ODDO BHF SCA ("ODDO"), which is licensed by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the Autorité des Marchés Financiers ("AMF").

The research, when distributed outside of the U.S., is intended exclusively for non-U.S. customers of ODDO and cannot be divulged to a third-party without prior written consent of ODDO. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This research has been prepared in accordance with regulatory provisions designed to promote the independence of investment research. "Chinese walls" (information barriers) have been implemented to avert the unauthorized dissemination of confidential information and to prevent and manage situations of conflict of interest. This research has been prepared in accordance with French regulatory provisions designed to promote the independence of investment research. The recommendation presented in this document is reviewed and updated at least quarterly following each Quarterly Report published by the issuer that is the subject of this Research Report.

At the time of publication of this document, ODDO and/or one of its subsidiaries may have a conflict of interest with the issuer(s) mentioned. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performances offer no guarantee as to future performances. All opinions expressed in the present document reflect the current context which is subject to change without notice. The views expressed in this Research Report accurately reflect the analyst's personal views about the subject securities and/or issuers and no part of his compensation was, is, or will be directly or indirectly related to the specific views contained in the Research Report. This Research Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

This Research Report is for institutional investors only. It may not contain information necessary for others to make investment decisions. Consult your financial adviser or an investment professional if you are not an institutional investor.

Disclaimers for Distribution by ODDO BHF New York Corporation to United States Investors:

This Research Report is produced by ODDO BHF Corporates & Markets, a division of ODDO. This research is distributed to U.S. investors exclusively by ODDO BHF New York Corporation ("ONY"), MEMBER: FINRA/SIPC, and is intended exclusively for U.S. customers of ONY and cannot be divulged to a third-party without prior written consent of ONY. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This research has been prepared in accordance with regulatory provisions designed to promote the independence of investment research. "Chinese walls" (information barriers) have been implemented to avert the unauthorized dissemination of confidential information and to prevent and manage situations of conflict of interest. This research has been prepared in accordance with French regulatory provisions designed to promote the independence of investment research. The recommendation presented in this document is reviewed and updated at least quarterly following each Quarterly Report published by the issuer that is the subject of this Research Report.

At the time of publication of this document, ODDO, and/or one of its subsidiaries may have a conflict of interest with the issuer(s) mentioned. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performances offer no guarantee as to future performances. All opinions expressed in the present document reflect the current context which is subject to change without notice. The views expressed in this Research Report accurately reflect the analyst's personal views about the subject securities and/or issuers and no part of his compensation was, is, or will be directly or indirectly related to the specific views contained in the Research Report. This Research Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

This Research Report is for institutional investors only. It may not contain information necessary for others to make investment decisions. Consult your financial adviser or an investment professional if you are not an institutional investor.

Disclosures Required by United States Laws and Regulations:

Rule 15a-6 Disclosure: Under Rule 15a-6(a)(3), any transactions conducted by ODDO, and/or one of its subsidiaries with U.S. persons in the securities described in this foreign research must be effected through ONY. As a member of FINRA, ONY has reviewed this material for distribution to U.S. persons as required by FINRA Rules 2241(h) applicable to dissemination of research produced by its affiliate ODDO.

FINRA Disclosures:

• Neither ONY, ODDO, nor ODDO BHF Corporates & Markets beneficially owns 1% or more of any class of common equity securities of the subject company.
• The research analyst of ODDO BHF Corporates & Markets, at the time of publication of this research report, is not aware, nor does he or she know or have reason to know of any actual, material conflict of interest of himself or herself, ODDO, ODDO BHF Corporates & Markets or ONY, except those mentioned in the paragraph entitled "Risks of Conflicts of Interest."
• ODDO BHF Corporates & Markets or ODDO may receive or seek compensation for investment banking services in the next 3 months from the subject company of this Research Report, but ONY would not participate in those arrangements.
• Neither ONY, ODDO, ODDO BHF Corporates & Markets has received compensation from the subject company in the past 12 months for providing investment banking services except those mentioned in the paragraph of "Risks of Conflict of Interest"."
• Neither ONY, ODDO, ODDO BHF Corporates & Markets has managed or co-managed a public offering of securities for the subject company in the past 12 months except those mentioned in the paragraph of "Risk of Conflict of Interest".
• ONY does not make (and never has made) markets and, accordingly, was not making a market in the subject company's securities at the time that this research report was published.

Regulation AC:

ONY is exempt from the certification requirements of Regulation AC for its distribution to a U.S. person in the United States of this Research Report that is prepared by an ODDO BHF Corporates & Markets research analyst because ODDO has no officers or persons performing similar functions or employees in common with ONY and ONY maintains and enforces written policies and procedures reasonably designed to prevent it, any controlling persons, officers or persons performing similar functions, and employees of ONY from influencing the activities of the third party research analyst and the content of research reports prepared by the third party research analyst.

Contact Information of firm distributing research to U.S. investors: ODDO BHF New York Corporation, MEMBER: FINRA/SIPC, is a wholly owned subsidiary of ODDO BHF SCA; Philippe Bouclainville, President (pbouclainville@oddony.com) 150 East 52nd Street New York, NY 10022 212-481-4002.