

PropTech Group Ltd

Better-than-forecast underlying H1 FY22 EBITDA

PropTech Group (ASX:PTG) is a property technology SaaS company with a fast-growing and market-leading position in customer relationship management (CRM) systems with Australian and New Zealand residential real estate agents, and a small but growing position in the UK market. The company has reported H1 FY22 revenue growth of 98% to \$9.7m and a 71% increase in Annual Recurring Revenue (ARR) to \$17.0m. Gross profit margin increased 200 basis points to 92%. Pleasingly, underlying EBITDA was a better-than-forecast positive \$0.8m, versus our expectation for a \$1.0m operating loss for the period. The company recorded a net loss, excluding one-time items and non-cash payments, of \$0.1m, ahead of our forecast for a \$2.1m net loss. Organic revenue growth for the period accounted for 41% of the 98% growth reported, with acquisitions made through the course of the year contributing the rest. We have upgraded our forecasts for FY22 and FY23 on the back of this result, reflecting the current ARR and the better-than-forecast gross profit and EBITDA margins. Our upgrade has resulted in a lift in our DCF-derived base case valuation to \$1.27/share, previously \$1.10/share. PropTech Group continues to trade at >50% discount to its listed ASX property technology peers. This gap should narrow as PTG delivers continued growth in market share and earnings.

Business model

PropTech Group operates a subscription-based, software-as-a-service (SaaS) model for both business-to-business (B2B) and business-to-consumer (B2C) customers in the residential property markets in Australia, New Zealand and the UK. PropTech is also leveraging its role in the real estate lifecycle to develop new revenue streams from payments (via its PropPay JV) and ancillary services. The company generates the bulk of its sales revenues (~90% of revenues in FY21) from real estate agents. Around 41% of agency offices in Australia and New Zealand use one or more of PropTech's products. In the UK, it's just under 1% of agents. We estimate PropTech's share of transactions flowing through its platform is closer to 50% of the ANZ market.

Strong revenue growth and ARR up 71% to \$17m

PropTech delivered a better-than-forecast H1 FY22 result from both a top-line and operating profit perspective. Operating revenue increased 98% to \$9.7m, with 41% of that growth coming from like-for-like operations. ARR increased 71% to \$17.0m, which was ahead of our forecasts, and gross profit for the half increased 101% to \$8.9m as a result of an expanded margin. Underlying EBITDA for the half was \$0.8m, down 44% on the previous corresponding period (pcp) as a result of absorbing additional costs from its three acquisitions in 2021 and investing in people and products to capture a greater share of the real estate SaaS market. The product and development team increased to 42 in the half, up from 14 in the same period in FY21, with total employees now at 125 across the group, compared with 51 at the November 2020 relisting, and this is reflected in the 200% increase in employment costs half-on-half.

Base-case DCF valuation is \$1.27/share (prev. \$1.10/share)

We have valued PropTech Group using the discounted cashflow method given its relatively early stage in its lifecycle. Our base-case valuation has increased to \$1.27/share, previously \$1.10/share, and implying an EV/Sales multiple of 9.0x FY22 revenues, putting it in line with its domestic peers. As we highlighted in our September 2021 initiation report [Delivering a new way to play real estate](#), PTG is trading at a significant discount to its listed domestic peers. This discount currently sits at ~55%.

Historical earnings and RaaS forecasts (In A\$m unless otherwise stated)

Y/E	Sales Revenue	Gross Profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/21a	11.2	10.0	1.9	(0.5)	(0.5)	5.1	nm
06/22e	20.1	18.2	0.6	(1.8)	(0.9)	3.2	nm
06/23e	25.8	23.3	1.7	(0.7)	(0.5)	2.8	mn
06/24e	33.1	29.9	5.7	2.4	1.0	2.1	2.3

Source: Company data for historicals, RaaS estimates for FY22e, FY23e and FY24e

H1 FY22 Results Analysis

Software & Services

17th February 2022

Share Details

ASX code	PTG
Share price (17-Feb)	\$0.51
Market capitalisation	\$76.3M
Shares on issue	149.5M
Net cash 31-Dec-2021	\$14.8M

Share Performance (12 months)



Upside Case

- Board and management are Australia's most experienced proptech team
- Highly scalable business model
- Considerable upside in UK market presence

Downside Case

- Integration risk from recent acquisitions
- Industry heavyweight REA Group deploys resources into CRM/property management
- Limited history on the impact of a downturn on real estate marketing spend

Catalysts

- Continued growth in ARPA
- Successful rollout of JV payments solution RelloPay
- Evidence of market share growth organically or by acquisition

Board of Directors & Management

Simon Baker	Non-Executive Chairman
Joe Hanna	Managing Director/CEO
Georg Chmiel	Non-Executive Director
Sam Plowman	Non-Executive Director
Scott Wulff	Executive Director
Michael Fiorenza	Chief Financial Officer

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Key Points From H1 FY22 Result

PropTech Group has reported an 82% increase in H1 FY22 recurring revenue to \$8.2m and announced its current ARR is \$17.0m. Total operating revenue for the half was \$9.7m, up 98% and well ahead of our forecast for \$8.2m for the period. Gross profit increased 101% following a 200-basis-point increase in margin to 92%. Operating expenses lifted 156% to \$8.1m, but below our expectations, with the growth chiefly attributable to additional people, in particular employees in the product and technology development team, which increased to 42 from 14 in H1 FY21. Overall, group employees have grown to 125 from 51 at the November 2020 listing. Accelerated investment in sales, marketing and customer success added \$2.4m to the cost base in the half while additional investment in product and technology lifted the cost base by \$1.3m. Underlying EBITDA for the period was a positive \$0.8m, down 44% as a result of the lift in staffing, but well ahead of our forecast for an EBITDA loss of \$1.0m for the period. Underlying NPAT for the half was a loss of \$0.1m versus a net profit of \$0.08m in H1 FY21 and better than our forecast for a net loss of \$2.1m for the half. Reported NPAT for the half was a loss of \$0.5m, up from a loss of \$0.04m in H1 FY21.

Exhibit 1: H1 FY22 vs H1 FY21 and RaaS forecast (In A\$m unless otherwise stated)				
Six months ending Dec -1	H1 FY21	H1 FY22	% chg	RaaS fct
Recurring revenue	4.49	8.17	82%	7.38
Other operating revenue	0.38	1.48	288%	0.84
Total operating revenue	4.87	9.65	98%	8.22
Gross profit	4.40	8.85	101%	7.28
GP margin (%)	90%	92%	1%	89%
Other income	0.16	0.00	nm	-
Operating expenses	3.15	8.06	156%	8.32
Underlying EBITDA	1.41	0.79	(44%)	(1.05)
Underlying EBITDA margin %	29%	8%	nm	nm
Underlying NPAT	0.08	0.1	nm	(2.11)
Reported NPAT	(0.035)	(0.48)	nm	(2.11)

Source: Company data, RaaS forecast

As noted in the Q2 FY22 result, Average Revenue Per Agent (ARPA) increased 23% to \$245, which was well ahead of our forecast for \$231, and the number of products per agent account increased to 1.85 from 1.06 at PTG's November 2020 re-listing.

The company also noted that it had signed binding term sheets to act as a distribution partner for Propps, a digital offer management company, and National Property Data, a real estate data group. These agreements could result in PropTech Group earning an equity stake in each company without diluting shareholders.

Earnings Adjustments

We have upgraded our FY22 and FY23 forecasts to reflect the better-than-forecast H1 FY22 result and growth in ARR to \$17m. Our earnings upgrade also reflects the improvement in gross operating margin. We have largely maintained our cost expectations for H2 FY22 and beyond.

Exhibit 2: Earnings adjustments				
Year ending June 30	FY22 old	FY22 new	FY23 old	FY23 new
Recurring revenue	16.42	17.25	23.06	23.10
Other operating revenue	1.69	2.81	1.76	2.74
Total operating revenue	18.11	20.06	24.82	25.84
Gross profit	16.08	18.20	22.19	23.29
Gross profit margin %	89%	91%	89%	90%
Operating expenses	(17.83)	(17.34)	(22.16)	(21.59)
Underlying EBITDA	(1.75)	0.59	0.03	1.71
Underlying NPAT	(3.84)	(1.81)	(1.95)	(0.73)
Underlying EPS	(2.54)	(0.87)	(1.27)	(0.47)

Source: RaaS estimates

Peer Comparison

As we have previously highlighted, we look to five ASX-listed proptech companies for a peer comparison: Domain Holdings (ASX:DHG), Openn Negotiation (ASX:OPN), REA Group (ASX:REA), RMA Global (ASX:RMY) and Rent.com.au (ASX:RNT).

The peer group median EV/Sales multiple is currently 9.8x trailing and 8.5x forward. Note that the median gross profit margin of the group is 89%, in line with where SaaS businesses should expect to trade. PTG is currently delivering a GP margin of 92%. On a forward EV/Sales basis the median for this group is 8.5x, which is at a substantial premium to PTG's implied EV/Sales multiple on FY22 of 3.2x. Using our revised FY22 sales forecast of \$20.1m, if we were to apply the forward median multiple of 8.5x, we arrive at a **peer group valuation of \$186m or \$1.24/share**, largely in line with our upgraded DCF valuation of \$1.27/share.

While REA Group is substantially larger and more mature than the rest of the peer group, we feel it is important to include it in the peer comparison as it is still demonstrating above-GDP growth despite it being in its 26th year of operation.

If we were to exclude REA from this group, the median forward EV/Sales multiple is 7.1x, which is still at a substantial premium to PTG's current EV/Sales multiple. If we were to apply this multiple to our FY22 sales, we arrive at a **peer valuation of \$158m or \$1.05/share**.

Exhibit 3: Proptech peer group

Company name	Ticker	Market cap (A\$M)	Enterprise value (A\$M)	EV/Sales (LTM) x	EV/Sales (fwd) x	EV/EBITDA (LTM) x	EV/EBITDA (fwd) x	Gross profit margin	Sales CAGR (4 yrs)
Domain Holdings Australia Ltd	DHG	2,723	2,846	9.8	8.5	28.3	22.8	92%	0.3%
Openn Negotiation Ltd	OPN	22	22	20.8	20.8	na	na	89%	na
REA Group Ltd	REA	18,310	18,637	18.5	16.4	34.4	27.0	92%	3.8%
RMA Global Ltd	RMY	91	82	7.2	5.7	na	na	82%	11.2%
Rent.com.au Ltd*	RNT	24	21	6.9	5.0	na	na	75%	7.4%
Median				9.8	8.5	31.4	24.9	89%	5.6%

Source: Refinitiv Eikon (Prices at 16 February 2022); *Rent.com.au is a RaaS client

DCF Valuation

We are of the view that the discounted cashflow valuation methodology is the most appropriate method for valuing PropTech Group given its still early-stage nature. We use a WACC of 12.0% (beta 1.5 and terminal growth rate of 2.2%) which incorporates a 20% risk premium to the broader market. This is appropriate, in our view, given the company was profitable in FY21 and is forecasted to return to profitability in FY23 and beyond after a year of investment to scale the business. Our base-case valuation is \$195.7m or \$1.27/share (previously \$1.10/share), which implies an EV/Sales multiple of 9.0x FY22F.

Exhibit 4: Base-case DCF valuation

Parameters	Outcome
Discount Rate / WACC	12.0%
Beta	1.5
Terminal growth rate assumption	2.20%
CAGR in free cashflows in valuation	50.7%
Sum of PV	76.8
PV of terminal value	104.2
PV of enterprise (\$m)	181.1
Debt (cash) est at 31-Dec-2021 (\$m)	(14.6)
Net value – shareholder (\$m)	195.7
No. of shares on issue (estimated at FY22 year-end)	153.9
NPV	\$1.27

Source: RaaS estimates

Exhibit 5: Financial Summary

PropTech Group						Share price (17 February 2022)						A\$	0.51
Profit and Loss (A\$m)						Interim (A\$m)		H121A	H221F	H122A	H222F	H123F	H223F
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	Revenue	5.0	6.6	9.7	10.4	12.1	13.8	
						EBITDA	1.4	0.5	0.8	0.1	0.6	1.1	
Sales Revenue	2.9	11.2	20.1	25.8	33.1	EBIT	0.2	(0.5)	(0.3)	(1.1)	(0.5)	(0.0)	
Gross Profit	2.6	10.0	18.2	23.3	29.9	NPAT (normalised)	0.0	(0.5)	(0.1)	(1.2)	(0.6)	(0.1)	
EBITDA	0.5	1.9	0.6	1.7	5.7	Minorities	-	-	-	-	-	-	
Depn	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	NPAT (reported)	(0.0)	(1.0)	(0.5)	(1.2)	(0.6)	(0.1)	
Amort	(0.8)	(2.2)	(2.3)	(2.2)	(2.0)	EPS (normalised)	0.01	(0.47)	(0.07)	(0.80)	(0.40)	(0.07)	
EBIT	(0.3)	(0.3)	(1.8)	(0.5)	3.6	EPS (reported)	(0.04)	(0.95)	(0.32)	(0.79)	(0.40)	(0.07)	
Interest	(0.0)	(0.0)	(0.0)	0.0	0.0								
Tax	(0.1)	(0.2)	0.3	0.0	(1.0)	Operating cash flow	(0.1)	1.3	1.7	0.1	1.0	1.3	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(0.1)	2.1	3.1	1.0	1.8	2.2	
Equity accounted assoc	0.0	0.0	(0.1)	(0.2)	(0.2)								
NPAT pre significant items	(0.4)	(0.5)	(1.7)	(0.7)	2.4	Divisions	H121A	H221F	H122A	H222F	H123F	H223F	
Significant items	0.0	(0.5)	(0.1)	0.0	0.0	SaaS Revenues	4.5	5.5	8.2	9.1	10.7	12.4	
NPAT (reported)	(0.4)	(1.0)	(1.8)	(0.7)	2.4	Other operating revenues	0.4	0.8	1.5	1.3	1.4	1.4	
Cash flow (A\$m)						Total Revenue		4.9	6.3	9.6	10.4	12.1	13.8
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	COGS	(0.5)	(0.7)	(0.8)	(1.1)	(1.2)	(1.3)	
EBITDA	0.5	1.9	0.6	1.7	5.7	Gross Profit	4.4	5.6	8.8	9.4	10.9	12.4	
Interest	0.0	(0.0)	0.0	0.0	0.0								
Tax	(0.0)	(0.3)	0.1	0.0	(1.0)	Employment	(1.9)	(4.6)	(5.6)	(6.7)	(7.5)	(8.5)	
Working capital changes	1.0	(0.5)	1.1	0.6	0.2	Selling, General, Admin Costs	(1.3)	(0.6)	(2.5)	(2.6)	(2.7)	(2.9)	
Operating cash flow	1.5	1.1	1.8	2.3	4.9	Other costs	0.0	(0.2)	0.0	0.0	0.0	0.0	
Mtce capex	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)								
Free cash flow	1.5	1.0	1.6	2.1	4.7	EBITDA	1.4	0.5	0.8	0.1	0.6	1.1	
Growth capex	0.0	(0.7)	(2.2)	(1.5)	(1.5)								
Acquisitions/Disposals	(4.9)	(5.8)	(7.3)	(7.5)	0.0	Margins, Leverage, Returns		FY20A	FY21F	FY22F	FY23F	FY24F	
Other	0.0	(0.2)	(0.1)	0.0	0.0	EBITDA		18.2%	17.2%	2.9%	6.6%	17.2%	
Cash flow pre financing	(3.4)	(5.7)	(7.9)	(6.9)	3.2	EBIT		(10.6%)	(2.6%)	(9.1%)	(2.1%)	10.8%	
Equity	6.0	10.6	15.5	0.0	0.0	NPAT pre significant items		(13.4%)	(4.1%)	(8.5%)	(2.8%)	7.3%	
Debt	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		2.5	6.6	13.3	6.4	9.6	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	4.8	3.4	22.7	3.8	1.7	
Net cash flow for year	2.5	4.9	7.6	(6.9)	3.2	ND/ND+Equity (%)	(%)	(18.6%)	(29.5%)	(40.4%)	(16.4%)	(25.0%)	
Balance sheet (A\$m)						EBIT interest cover (x)		(x)	n/a	n/a	n/a	-	0.0
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	ROA			(0.9%)	(3.7%)	(0.9%)	6.4%	
Cash	2.5	6.6	13.3	6.4	9.6	ROE			(4.5%)	(4.8%)	(1.6%)	5.1%	
Accounts receivable	0.2	0.5	1.1	1.4	1.8	ROIC			(2.6%)	(11.7%)	(3.2%)	28.7%	
Inventory	0.0	0.0	0.0	0.0	0.0	NTA (per share)	n/a	n/a		0.01	0.01	0.03	
Other current assets	0.2	0.8	1.2	1.2	1.2	Working capital		(0.9)	(2.1)	(2.4)	(3.0)	(3.2)	
Total current assets	2.8	8.0	15.7	9.1	12.7	WC/Sales (%)		(30.3%)	(19.1%)	(12.1%)	(11.7%)	(9.7%)	
PPE	0.0	0.4	0.3	0.5	0.6	Revenue growth		167.2%	290.6%	79.5%	28.8%	28.2%	
Intangibles and Goodwill	24.5	29.4	44.6	43.9	43.4	EBIT growth pa	n/a	n/a	n/a	n/a		-769%	
Investments	0.0	0.0	0.0	(0.2)	(0.4)	Pricing		FY20A	FY21F	FY22F	FY23F	FY24F	
Deferred tax asset	0.6	0.4	0.2	0.2	0.2	No of shares (y/e)	(m)	233	124	152	154	154	
Other non current assets	0.0	0.0	0.8	0.8	0.8	Weighted Av Dil Shares	(m)	53	124	153	154	154	
Total non current assets	25.1	30.2	45.9	45.2	44.6								
Total Assets	27.9	38.2	61.6	54.3	57.3	EPS Reported	cps	(0.7)	(1.0)	(1.1)	(0.5)	1.0	
Accounts payable	1.0	2.7	3.5	4.4	5.0	EPS Normalised/Diluted	cps	(0.7)	(0.5)	(0.9)	(0.5)	1.0	
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	nm	n/a	nm	-313%	
Tax payable	0.1	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-	
Other current liabilities	6.2	4.2	9.3	9.3	9.3	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Total current liabilities	7.3	6.9	12.8	13.7	14.3	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Long term debt	0.0	0.0	0.0	0.0	0.0	Dividend imputation		30	30	30	30	30	
Other non current liabs	4.8	2.4	2.5	(5.0)	(5.0)	PE (x)		-	-	-	-	50.6	
Total long term liabilities	4.8	2.4	2.5	(5.0)	(5.0)	PE market		18.0	18.0	18.0	18.0	18.0	
Total Liabilities	12.1	9.2	15.3	8.7	9.3	Premium/(discount)	nm	nm	nm	(100.0%)	181.0%		
Net Assets	15.8	28.9	46.3	45.6	48.0	EV/EBITDA	nm		29.3	nm	42.2	12.1	
						FCF/Share	cps	0.7	1.0	1.3	1.6	3.3	
Share capital	16.2	30.3	49.2	49.2	49.2	Price/FCF share		77.5	49.9	nm	31.0	15.4	
Accumulated profits/losses	(0.4)	(1.4)	(3.1)	(3.8)	(1.4)	Free Cash flow Yield		1.3%	2.0%	2.5%	3.2%	6.5%	
Reserves	0.0	0.0	0.2	0.2	0.2								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	15.8	28.9	46.3	45.6	48.0								

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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Effective Date: 6th May 2021

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