

PropTech Group Ltd

Company Update

Recent transaction multiples highlight proptech demand

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. Industry interest in the proptech sector has been underscored by two recent transactions: Domain Holdings Australia Ltd's (ASX:DHG) acquisition of real estate campaign management technology platform Realbase for \$180m plus an additional up to \$50m in earn-out consideration, and Reapit's acquisition of real estate customer relationship management platform Console Group. The transactions have been completed at an estimated 8.0x forward revenues, which in RaaS's estimation puts these as the upper end of transaction multiples for privately-held companies. In our view, these transactions highlight the demand for property technology and underscore the value that is being presented in the listed sector, particularly in the small and micro-cap space. We have revisited PropTech's listed peers and this shows that the listed peer group is trading on an EV/Sales median, based on FY21 revenues, of 9.0x and a forward EV/Sales multiple of 7.4x. PTG is trading at a 59.5% discount to its peers on a forward multiple and at a 62.5% discount to the transactions multiple, underscoring its relative value.

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.

Recent proptech acquisitions at upper end of multiples

The property technology sector has been the focus of two recent transactions. In mid-March, UK-based and private-equity backed proptech group Reapit acquired privately-owned, Brisbane-based CRM technology platform Console Group. Industry speculation puts the transaction multiple at an estimated 8.0x FY22 revenues. Similarly, DHG's recently announced acquisition of Realbase prices the group at an 8.0x expected FY22 revenues and 20.5x expected FY22 EBITDA. DHG has also agreed to pay up to an additional \$50m in consideration, contingent on management meeting stretch targets from FY24 to FY26. Including earn-outs, the acquisition price values Realbase at 10.2x forward FY22 revenues and 26.2x expected FY22 EBITDA. To put this into context, the S&P ASX All Tech index is currently trading at a median of 4.2x forward EV/Revenues and 22.2x forward EV/EBITDA and, according to Grant Thornton's DealTracker report, the median EV/EBITDA multiple paid in information technology transactions in 2020 was 8.0x, putting these transactions above recent takeover multiples.

Base-case DCF valuation is \$1.27/share

We value PropTech Group using the discounted cashflow method given the relatively early stage in its lifecycle. Our base-case valuation implies an EV/Sales multiple of 9.0x FY22 revenues, however the current share price implies a forward multiple of 3.0x which is significantly below its peer group and the recent private transactions.

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

Y/E	Sales revenues	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/21a	11.2	10.0	1.9	(0.5)	(0.5)	4.7	nm
06/22e	20.1	18.2	0.6	(1.8)	(0.9)	3.0	nm
06/23e	25.8	23.3	1.7	(0.7)	(0.5)	2.6	39.5
06/24e	33.1	29.9	5.7	2.4	1.0	1.9	2.1

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

Software & Services

7th April 2022

Share Details

ASX code	PTG
Share price (6-Apr)	\$0.48
Market capitalisation	\$72.0M
Shares on issue	150.8M
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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Peer Comparison

As we have previously highlighted, we look to five ASX-listed proptech companies for a peer comparison: Domain Holdings Australia (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 9.0x trailing and 7.4x forward. Note that the median gross profit margin of the group is 89%, in line with where SaaS businesses should expect to trade. At the half year, PTG delivered a GP margin of 92% and we are forecasting 91% for the full year. On a forward EV/Sales basis the median for this group is 7.4x, which is at a substantial premium to PTG's implied EV/Sales multiple on FY22 of 3.0x. Using our FY22 sales forecast of \$20.1m, if we were to apply the forward median multiple of 7.4x, we arrive at a **peer group valuation of \$163m or \$1.06/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 5.9x, 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 forecast, we arrive at a **peer valuation of \$133m or \$0.86/share**.

Exhibit 1: 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	DHG	2,489	2,612	9.0	7.4	26.0	20.5	92%	0.3%
Openn Negotiation	OPN	24	24	22.9	na	na	na	89%	na
REA Group	REA	17,486	17,813	17.7	15.8	32.9	26.3	92%	3.8%
RMA Global	RMY	83	74	6.5	na	na	na	82%	11.2%
Rent.com.au*	RNT	24	21	6.9	6.0	na	na	75%	7.4%
Median				9.0	7.4	29.4	23.4	89%	5.6%
PropTech Group	PTG	72	57	4.7	3.0	na	na	89%	na

Source: Refinitiv Eikon (Prices at 6 April 2022); *Rent.com.au is also 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, which implies an EV/Sales multiple of 9.0x FY22F.

Exhibit 2: 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 3: Financial Summary

PropTech Group						Share price (17 February 2022)						A\$	0.51
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	Revenue	H121A	H221F	H122A	H222F	H123F	H223F	
						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							
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)	EBITDA	1.4	0.5	0.8	0.1	0.6	1.1	
Free cash flow	1.5	1.0	1.6	2.1	4.7								
Growth capex	0.0	(0.7)	(2.2)	(1.5)	(1.5)	Margins, Leverage, Returns							
Acquisitions/Disposals	(4.9)	(5.8)	(7.3)	(7.5)	0.0	EBITDA		18.2%	17.2%	2.9%	6.6%	17.2%	
Other	0.0	(0.2)	(0.1)	0.0	0.0	EBIT		(10.6%)	(2.6%)	(9.1%)	(2.1%)	10.8%	
Cash flow pre financing	(3.4)	(5.7)	(7.9)	(6.9)	3.2	NPAT pre significant items		(13.4%)	(4.1%)	(8.5%)	(2.8%)	7.3%	
Equity	6.0	10.6	15.5	0.0	0.0	Net Debt (Cash)		2.5	6.6	13.3	6.4	9.6	
Debt	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	
Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(18.6%)	(29.5%)	(40.4%)	(16.4%)	(25.0%)	
Net cash flow for year	2.5	4.9	7.6	(6.9)	3.2	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-	0.0
Balance sheet (A\$m)						ROA			(0.9%)	(3.7%)	(0.9%)	6.4%	
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	ROE			(4.5%)	(4.8%)	(1.6%)	5.1%	
Cash	2.5	6.6	13.3	6.4	9.6	ROIC			(2.6%)	(11.7%)	(3.2%)	28.7%	
Accounts receivable	0.2	0.5	1.1	1.4	1.8	NTA (per share)	n/a	n/a		0.01	0.01	0.03	
Inventory	0.0	0.0	0.0	0.0	0.0	Working capital		(0.9)	(2.1)	(2.4)	(3.0)	(3.2)	
Other current assets	0.2	0.8	1.2	1.2	1.2	WC/Sales (%)		(30.3%)	(19.1%)	(12.1%)	(11.7%)	(9.7%)	
Total current assets	2.8	8.0	15.7	9.1	12.7	Revenue growth		167.2%	290.6%	79.5%	28.8%	28.2%	
PPE	0.0	0.4	0.3	0.5	0.6	EBIT growth pa	n/a	n/a	n/a	n/a	n/a	-769%	
Intangibles and Goodwill	24.5	29.4	44.6	43.9	43.4	Pricing							
Investments	0.0	0.0	0.0	(0.2)	(0.4)	No of shares (y/e)	(m)	233	124	152	154	154	
Deferred tax asset	0.6	0.4	0.2	0.2	0.2	Weighted Av Dil Shares	(m)	53	124	153	154	154	
Other non current assets	0.0	0.0	0.8	0.8	0.8	EPS Reported	cps	(0.7)	(1.0)	(1.1)	(0.5)	1.0	
Total non current assets	25.1	30.2	45.9	45.2	44.6	EPS Normalised/Diluted	cps	(0.7)	(0.5)	(0.9)	(0.5)	1.0	
Total Assets	27.9	38.2	61.6	54.3	57.3	EPS growth (norm/dil)		n/a	nm	n/a	nm	-313%	
Accounts payable	1.0	2.7	3.5	4.4	5.0	DPS	cps	-	-	-	-	-	
Short term debt	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Tax payable	0.1	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Other current liabilities	6.2	4.2	9.3	9.3	9.3	Dividend imputation		30	30	30	30	30	
Total current liabilities	7.3	6.9	12.8	13.7	14.3	PE (x)		-	-	-	-	50.6	
Long term debt	0.0	0.0	0.0	0.0	0.0	PE market		18.0	18.0	18.0	18.0	18.0	
Other non current liab	4.8	2.4	2.5	(5.0)	(5.0)	Premium/(discount)		nm	nm	nm	(100.0%)	181.0%	
Total long term liabilities	4.8	2.4	2.5	(5.0)	(5.0)	EV/EBITDA		nm	29.3	nm	42.2	12.1	
Total Liabilities	12.1	9.2	15.3	8.7	9.3	FCF/Share	cps		0.7	1.0	1.3	1.6	3.3
Net Assets	15.8	28.9	46.3	45.6	48.0	Price/FCF share			77.5	49.9	nm	31.0	15.4
						Free Cash flow Yield			1.3%	2.0%	2.5%	3.2%	6.5%
Share capital	16.2	30.3	49.2	49.2	49.2								
Accumulated profits/losses	(0.4)	(1.4)	(3.1)	(3.8)	(1.4)								
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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Corporate Authorised Representative, number 1248415

of

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Effective Date: 6th May 2021

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