

ROVR trends are well worth watching

Rover (NASDAQ:ROVR) is Mad Paws Holdings' closest global peer and reported its Q4 CY21 and CY21 results on March 8. There were a number of interesting observations pertinent to MPA which we discuss. The first was a record average booking value in Q4 CY21, with ROVR management estimating 60% of this relates to higher asking prices by sellers. MPA experienced similar trends in H1 FY22 with no attribution. Second is the continuing impact of COVID-19 on revenues, which are estimated at between \$20m and \$40m over CY22 (or 10%-25% of the CY21 base). There is no doubt MPA is experiencing the same disruption in Australia. Third is a reduction in marketing spend and customer acquisition costs, which demonstrates the ability of the business model to "dial down" marketing when necessary. MPA is in a different phase to ROVR and actually increased its spend over H1 FY22, but we forecast a "dial down" in FY24. Fourth is an observation that pre-COVID-19 customers have yet to come back on mass, with most repeat bookings attributable to newer customers. And fifth, but not least, is the highlighting of Australia as a "white space" opportunity medium-term. Given MPA's strong market position and current valuation we see acquisition as more likely than greenfield in Australia.

Business model

MPA operates an on-line marketplace which connects service providers with pet owners, predominantly for dog hosting, dog sitting and dog visits. MPA charges a 7% booking fee to "customers" and a 20% commission on the total service fee (less the booking fee) for service providers. The group operates a negative working capital model, with payment received pre-service provision and released post-service provision. The group has had ~133k unique customers since launch in 2015 and is looking to utilise this growing database and acquire new ones to offer other pet services such as food delivery and healthcare to capture a greater share of a conservatively estimated \$8.0b addressable market (now including pet healthcare).

Key ROVR "realities" for LT confidence the same for MPA

In addition to recent financial trends, ROVR management highlighted five "realities" for their long-term confidence in their business model. These are: (1) A large and growing market segment driven by increased pet ownership and the humanisation of pets; (2) A clear category leader in their space, particularly important with technology assets due to data collection; (3) High and expanding margins; (4) Limited capex requirements in achieving growth; and (5) Strong unit economics, particularly when it comes to customer acquisition costs. The same points are all applicable to the MPA business model, albeit MPA has invested into some more capital-intensive verticals.

Valuation \$0.43/share diluted

Our DCF valuation for MPA was recently upgraded to \$0.43/share diluted for all in-the-money options on the back of revenues synergies expected from the Pet Chemist acquisition and a rollover to the next financial year. ROVR is currently trading on a CY22 EV/Revenue of 3.1x at the mid-point of their guidance. MPA is trading on 2.9x using RaaS FY23 gross profit estimates, which adjust for the retail style businesses within the MPA portfolio. Near-term MPA share price performance therefore may be reliant on a sector re-rate, noting the ROVR share price has declined 50% since December 31, 2021.

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

Year end	Marketplace GMV	Revenue	EBITDA rep. (A\$m)	NPAT adj. (A\$m)	EPS (adj.) (c)	P/E (x)	EV/Sales (x)
06/21a	12.1	2.9	(4.7)	(5.1)	(0.04)	nm	3.9
06/22e	15.7	9.9	(8.1)	(8.5)	(0.03)	nm	3.8
06/23e	25.2	31.1	(4.1)	(4.6)	(0.01)	nm	1.7
06/24e	36.2	49.2	4.1	2.5	0.008	21.9	1.0

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

Software & Services

21st March 2022

Share Details

ASX code	MPA
Share price	\$0.17
Market capitalisation*	\$55.0M
Shares on issue*	321.9M
Net cash at 30-Dec-21	\$8.9M
Free float	~44.3%

*Post-capital raise

Share Performance (12 months)



Upside Case

- International travel returns to a larger client base
- New product offerings exceed expectations as a % of the existing client base
- Industry consolidation

Downside Case

- Industry competition accelerates and/or offshore player enters
- New product offerings fail to gain scale
- Peer multiples contract, impacting valuation

Board of Directors

Jan Pacas	Non-Executive Chairman
Justus Hammer	CEO/Executive Director
Mike Hill	Non-Executive Director
Josh May	Non-Executive Director
Vicki Aristodopoulos	Non-Executive Director

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Key Take Aways From Rover's CY21 Results

Key commentary regarding the CY21 ROVR result and implications for MPA are listed below:

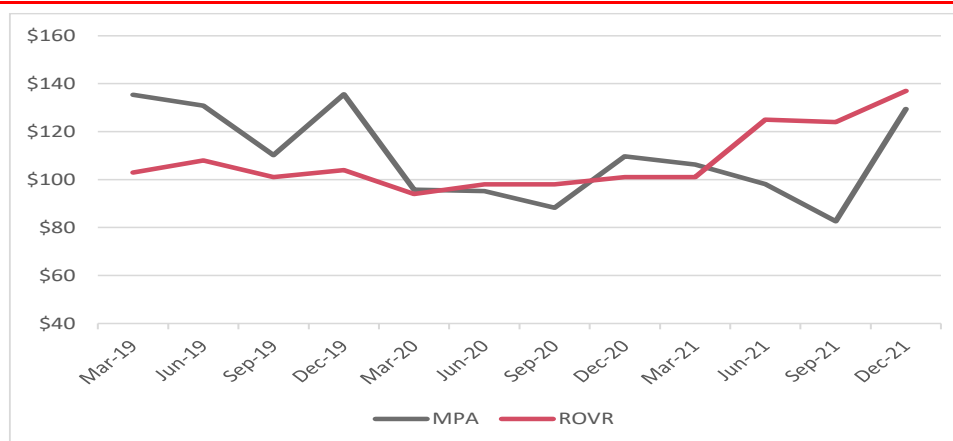
- Q4 CY21 Average Booking Value (ABV) was the highest on record at US\$137 and +35% on the pcp. ROVR management estimated 60% of the increase on the pcp was higher asking prices from pet carers, while longer-duration travel accounted for ~30% and a higher take rate by ROVR the balance.
- Marketing spend declined to 18% of revenue and Customer Acquisition Costs (CAC) were just US\$10, down from US\$39 in Q4 CY19. Most of the reduction in spend was in video and social channels due to COVID-19.
- Pre-pandemic customers are yet to return on mass, with the bulk of repeat customers relatively new customers.
- CY22 revenues guidance of US\$160m-\$180m, +45%+63% on CY21 (\$110m), and assuming some continued COVID-19 disruptions. ROVR estimates revenues closer to US\$200m if COVID-19 was "over".
- CY22 EBITDA guidance of US\$17m-\$21m, up 37%-69% on CY21. This guidance includes higher marketing spend relative to revenues (~21% of revenues, up from 18%) and continued tech investment.
- Australia, along with New Zealand and Japan, were clearly highlighted as "white space" opportunities over the medium-term for ROVR.
- ROVR compared its bookings growth to US airline travel, highlighting out-performance over the COVID-19 period. We have done the same for MPA below.

Comparisons Charts – MPA Vs ROVR

Average Booking Value (ABV)

Calculated as gross bookings value divided by the number of bookings, ABV is a function of the price per day charged for a service and the number of days covering each service. With Australians travelling overseas more per capita before COVID-19, MPA experienced a higher ABV than ROVR pre-pandemic. Having fallen well below ROVR in recent quarters, the MPA ABV has been recovering in-line with ROVR but still sits below.

Exhibit 1: Quarterly ABV – MPA & ROVR



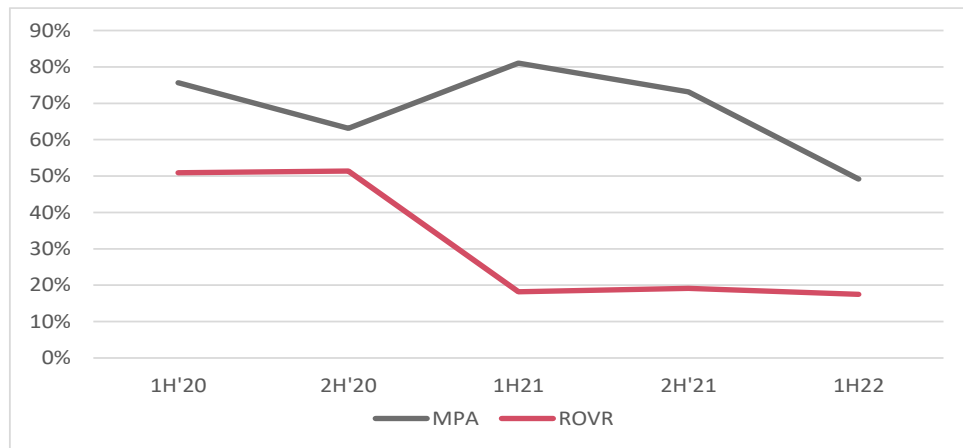
Source: Company announcements

Marketing spend as a % of revenues

Marketing spend includes Customer Acquisition Costs (CAC) and other marketing, with CAC disclosed by each company. ROVR has a total marketing spend target equal to 25% of revenue but has underspent in recent halves due to COVID-19 restrictions, with the latest quarter at 18%. MPA has been spending well above this rate with the latest half year at 49% of revenues despite COVID-19 disruptions.

The variation in our view is more a function of relative maturity, and we expect MPA revenues to increase at a greater rate to marketing in coming halves, reducing this equation to 15% by FY23.

Exhibit 2: Half-yearly marketing spend/revenue – MPA Vs ROVR

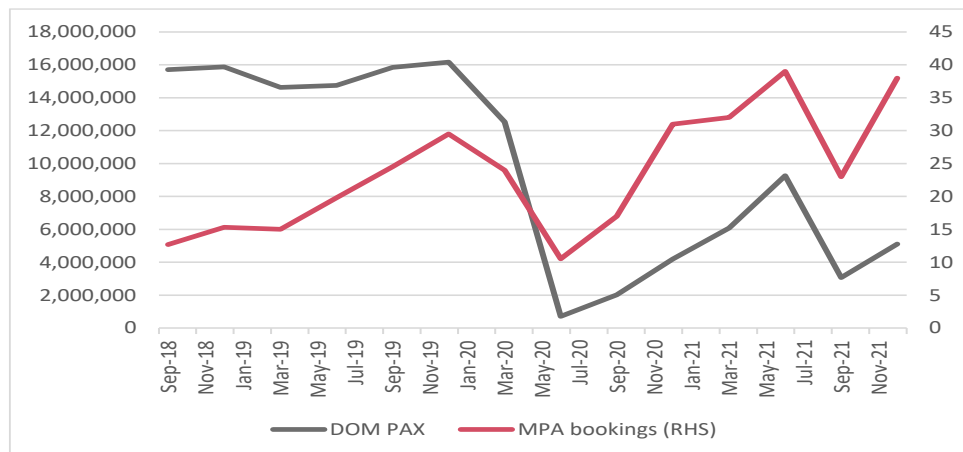


Source: Company announcement and RaaS estimates

Bookings Vs domestic flight volumes

While not a comparison, ROVR charted its bookings numbers relative to domestic flight activity, which shows strong correlation but also relative out-performance for bookings relative to air travel. The chart below does the same, with the same applying for MPA when charted against domestic flight activity.

Exhibit 3: MPA booking numbers vs Australian domestic traffic



Source: Company financials and bitre.gov.au

Valuation implications

Using the mid-point of ROVR's guidance for CY22 we present a comparison for the financial metrics of ROVR in CY22 against the financial metrics of MPA for FY23.

FY23 has been selected for MPA as it represents the first full-year of recently acquired Pet Chemist, and has 6-months of earnings cross over with ROVR.

We use MPA gross profit as the comparison to ROVR's revenue as it adjusts for the "retail" nature of Waggly, Pet Chemist and Dinnerbowl revenues which are more comparable to marketplace revenues.

The result is ROVR trading at a slight premium to MPA at 3.1x EV/revenue against MPA 2.9x.

Our DCF of \$0.43/share implies an EV/gross profit for MPA of 7.7x. Given the current trading multiples of ROVR, we suspect a "re-rate" will be required near-term for MPA to approach our price target.

It is important to note ROVR is down ~50% since the beginning of the CY21 and 60% since our initiation of MPA in November 2021.

Exhibit 4: Financial comparison – ROVR CY22, MPA FY23

Company name	Ticker	Share price (cps)	Mkt cap (A\$m)	Net cash @ 31/12/21 (A\$m)	GMV (A\$m)	Revenue* (A\$m)	EBITDA	EV/EBITDA	EV/Revenue (x)	Mkt Place % GMV
Rover	ROVR	4.97	782	252.6	800.0	170.0	19.0	27.9	3.1	100%
Mad Paws	MPA	0.17	55	4.9	50.8	17.3	-4.1	nm	2.9	50%

Sources: Company financials, Refinitiv Eikon, Prices at 16 March 2022 *Gross profit for MPA

Exhibit 4: MPA Financial Summary

Mad Paws (MPA.AX)						Share price (16 March 2022)						A\$	0.170
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	H121	H221	H122	H222f	H123f	H223f	
Revenue	2.0	2.9	9.9	31.1	49.2	EBITDA	(1.4)	(3.3)	(4.2)	(4.0)	(2.6)	(1.5)	
Gross profit	2.0	2.3	5.2	13.8	22.0	EBIT	(1.6)	(3.4)	(4.4)	(4.2)	(2.9)	(1.7)	
GP margin %	100.0%	80.8%	52.7%	44.3%	44.7%	NPAT (normalised)	(1.6)	(3.5)	(4.4)	(4.1)	(2.9)	(1.7)	
Underlying EBITDA	(2.3)	(4.7)	(8.1)	(4.1)	4.1	One-offs	0.0	(1.0)	(0.5)	0.0	0.0	0.0	
Depn	(0.2)	(0.2)	(0.4)	(0.6)	(0.6)	NPAT (reported)	(1.6)	(4.5)	(4.9)	(4.1)	(2.9)	(1.7)	
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	(0.011)	(0.032)	(0.019)	(0.016)	(0.009)	(0.005)	
EBIT	(2.5)	(4.9)	(8.6)	(4.7)	3.5	EPS (reported)	(0.011)	(0.032)	(0.016)	(0.016)	(0.009)	(0.009)	
Interest	(0.0)	(0.1)	0.0	0.1	0.1	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	
Tax	0.0	0.0	0.0	0.0	(1.1)								
NPAT	(2.5)	(5.1)	(8.5)	(4.6)	2.5	Operating cash flow	na	na	na	na	na	na	
Adjustments	0.0	0.0	0.0	0.0	0.0	Divisionals	H121	H221	H122	H222f	H123f	H223f	
Adjusted NPAT	(2.5)	(5.1)	(8.5)	(4.6)	2.5	Marketplace	1.0	1.4	1.4	1.9	2.7	2.8	
Abnormals (net)	0.0	(1.0)	(0.5)	0.0	0.0	Dinner Bowl	-	0.4	0.8	1.0	1.5	2.1	
NPAT (reported)	(2.5)	(6.1)	(9.0)	(4.6)	2.5	Insurance	-	0.0	0.0	0.1	0.1	0.1	
Cash flow (A\$m)						Waggy		0.1	1.1	1.4	1.7	2.1	
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Pet Chemist				2.2	7.6	10.3	
EBITDA (inc cash rent)	(2.4)	(4.8)	(8.3)	(4.3)	3.9	Total Revenue	1.0	1.9	3.3	6.5	13.6	17.4	
Interest	(0.0)	(0.1)	0.0	0.1	0.1	Gross profit	1.0	1.3	1.8	3.4	6.2	7.6	
Tax	0.3	0.3	0.1	0.3	0.0	Underlying GP Margin %	100.0%	70.7%	54.6%	52.4%	45.4%	43.8%	
Working capital changes	(0.1)	0.9	(0.0)	0.8	0.9	Operating Costs							
Operating cash flow	(2.2)	(3.7)	(8.2)	(3.1)	4.9	Employment	1.0	2.2	2.9	3.1	3.2	3.4	
Mtce capex	(0.4)	(0.3)	(0.7)	(0.8)	(0.9)	Marketing	0.8	1.3	1.6	1.9	2.3	2.4	
Free cash flow	(2.6)	(4.0)	(8.9)	(3.9)	4.0	Other (Inc PC)	0.6	1.0	1.4	2.4	3.3	3.3	
Growth capex	0.0	0.0	0.0	1.0	1.0	Total costs	2.4	4.6	6.0	7.4	8.8	9.1	
Acquisitions/Disposals	0.0	(2.0)	(20.0)	0.0	0.0								
Other	0.0	(1.1)	(0.5)	0.0	0.0	EBITDA	(1.4)	(3.3)	(4.2)	(4.0)	(2.6)	(1.5)	
Cash flow pre financing	(2.6)	(7.0)	(29.4)	(2.9)	5.0	EBITDA margin %	(147.8%)	(173.4%)	(125.6%)	(60.3%)	(19.4%)	(8.4%)	
Equity	2.5	17.6	21.6	0.0	0.0	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F	
Debt	0.0	0.0	0.0	0.0	0.0	EBITDA margin %		(115.1%)	(164.9%)	-82.4%	-13.2%	8.3%	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(125.1%)	(173.5%)	-86.5%	-15.0%	7.2%	
Net cash flow for year	(0.1)	10.6	(7.8)	(2.9)	5.0	NPAT margin (pre significant items)		(127.0%)	(178.1%)	-86.3%	-14.8%	5.1%	
Balance sheet (A\$m)						Net Debt (Cash)		-1.0	-12.5	-4.9	-1.3	-5.7	
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Net debt/EBITDA (x)	(x)	0.4 x	2.7 x	0.6 x	0.3 x	-1.4 x	
Cash	1.0	12.5	4.9	1.3	5.7	ND/ND+Equity (%)	(%)	48.0%	47.1%	15.6%	5.7%	18.8%	
Accounts receivable	0.0	0.1	0.2	0.3	0.5	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.0x	
Inventory	0.0	0.2	0.3	0.5	0.7	ROA		(113.9%)	(52.0%)	(37.1%)	(16.9%)	12.4%	
Other current assets	0.2	0.4	0.2	0.3	0.3	ROE		nm	nm	nm	nm	nm	
Total current assets	1.2	13.2	5.7	2.4	7.1	ROIC		nm	nm	nm	nm	nm	
PPE	0.0	0.0	0.0	0.0	0.0	NTA (per share)		0.00	0.07	0.01	-0.01	0.00	
Goodwill	0.8	3.6	23.6	23.6	23.6	Working capital		-0.3	-1.0	-0.8	-1.4	-2.2	
Right of use asset	0.2	0.0	0.0	0.0	0.0	WC/Sales (%)		(13.0%)	(34.9%)	(8.4%)	(4.6%)	(4.4%)	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Revenue growth		26.7%	42.6%	247.0%	214.0%	58.3%	
Other	0.0	0.1	0.0	0.0	0.0	EBIT growth pa		nm	n/a	n/a	n/a	(175.4%)	
Total non current assets	1.0	3.7	23.6	23.6	23.6	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F	
Total Assets	2.2	16.8	29.3	26.0	30.7	No of shares (y/e)	(m)	114.6	139.0	252.9	321.9	321.9	
Accounts payable	0.3	1.3	1.3	2.2	3.3	Weighted Av Dil Shares	(m)	114.6	139.0	252.9	321.9	321.9	
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.022)	(0.044)	(0.036)	(0.014)	0.008	
Contract liabilities	0.0	0.1	0.1	0.1	0.1	EPS Normalised/Diluted	cps	(0.022)	(0.037)	(0.034)	(0.014)	0.008	
Lease liabilities/other	0.6	1.4	1.3	1.7	2.8	EPS growth (norm/dil)		nm	65%	n/a	n/a	-155%	
Total current liabilities	1.0	2.8	2.7	4.0	6.2	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Other non current liabs	0.2	0.1	0.1	0.1	0.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total long term liabilities	0.2	0.1	0.1	0.1	0.1	Dividend imputation		30	30	30	30	30	
Total Liabilities	1.1	2.9	2.7	4.0	6.2	PE (x)		nm	-	4.7	-	11.9	
Net Assets	1.1	14.0	26.5	21.9	24.5	PE market		18	18	18	18	18	
Share capital	10.1	36.9	58.5	58.5	58.5	Premium/(discount)		nm	nm	nm	nm	nm	
Reserves	0.7	(1.3)	(1.3)	(1.3)	(1.3)	EV/EBITDA		(8.0)	(2.4)	(4.7)	(13.0)	0.0	
Retained Earnings	(9.7)	(21.7)	(30.7)	(35.3)	(32.8)	FCF/Share	cps	(2.251)	(2.857)	(3.425)	(1.121)	1.356	
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(7.553)	(5.951)	(4.964)	(15.169)	12.540	
Total Shareholder funds	1.1	14.0	26.6	22.0	24.5	Free Cash flow Yield		(4.7%)	(7.3%)	(15.8%)	(6.6%)	8.0%	

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

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Effective Date: 6th May 2021

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