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| Rent.com.au Ltd |

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| **Q2 FY22 Results Analysis** |

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| Strong performance in a seasonally weaker quarter |

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| Software & Services |

Rent.com.au Limited (ASX:RNT) is a purpose-led company seeking to empower home renters through their rental profile, rental bond and payments, and through a growing number of aligned transactional services. The company has announced Q2 FY22 revenues of $0.795m, an increase of 8.3% on the previous corresponding period (pcp). The core Rent.com.au delivered positive EBITDA of $0.062m, a near seven-fold increase on the same quarter in FY21, although down 18% on Q1 FY22, reflecting that Q2 is the seasonally weakest quarter for RNT. Including RentPay, the group EBITDA loss was $0.414m, which was largely in line with the $0.405m loss reported in Q1 FY22 due to an increased investment in marketing and people for the RentPay start-up. The platform now has 2,050 active customers transacting payments out of a core universe of 7,500 registered customers and 14,000 app downloads. To date, $10.5m has been paid into RentPay, $6.7m of this in Q2 FY22. The company noted that with major lockdowns ending and the likelihood of increased intrastate and possibly international mobility, the traditionally strong third quarter promises to be extremely busy. We have made no changes to our forecasts but our valuation is now $0.29/share (previously $0.31/share) as a result of the additional shares issued in the $2.5m placement completed in January.

## Business model

## Rent.com.au generates revenue from advertising and from rental products, with revenues for the latter derived from RentCheck, which verifies a renter’s identity and checks their record against the National Tenancy Database; from RentConnect, which delivers an integrated utility connection and $100 gift card to renters in conjunction with AGL; and from RentBond, RNT’s “move now pay later” product, which helps renters bridge the gap from one rental property to another by financing their bond online. The company’s recently launched RentPay app platform allows renters total financial flexibility in terms of how they make their rent payments while giving agents and landlords surety of payments on time. It also aligns Rent.com.au to the tenancy period, giving it an opportunity to engage with its audience for longer and extend the relationship into other revenue lines including insurance, telecommunications, loan and finance products.

## RentPay gaining traction

Rent.com.au delivered Q2 revenues of $0.795m, an 8.4% improvement on Q2 FY21 and a little ahead of the $0.81m revenue generated in Q4 FY21. EBITDA from the core Rent.com.au search business was $0.062m, its sixth consecutive positive quarter. RNT noted that advertising revenue had continued its strong growth with the second-highest-ever ad sales quarter driving the overall group result, although some softening in the market for new home builds and delays in land titles and releases had emerged. The key takeaway from this result was the traction that RentPay is beginning to demonstrate. The EBITDA loss from RentPay slowed to $0.476m in Q2 from the EBITDA loss of $0.481m reported in Q1 FY22, while the platform demonstrated significant growth with a 52% increase in active customers q-o-q to 2,050, and more than $10.5m in rent now paid into RentPay, $6.7m of this in Q2 FY22. The platform now as 7,500 registered customers, up 36% on Q1 FY22.

## Base-case DCF valuation of $0.29/share (previously $0.31)

Our base-case DCF valuation for Rent.com.au is $0.29/share (previously $0.31/share) as a result of incorporating the additional shares issued in the January share placement. Our valuation is predicated on our expectation that RentPay will secure 5% of renters on its platform by FY23 and 20% by FY30. Evidence of faster-than-forecast take-up of RentPay together with the expansion of RentPay into other transactional products will likely result in our forecasts being revisited.

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| Earnings history and RaaS’ estimates (In A$ unless otherwise stated)   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Year end | Sales Revenue | Gross Profit | EBITDA | NPAT | EPS (c) | EV/Sales (x) | | 06/20a | 2.5 | 1.5 | (1.1) | (1.7) | (0.6) | 7.1 | | 06/21a | 3.1 | 1.8 | (0.7) | (1.0) | (0.4) | 6.8 | | 06/22e | 4.5 | 2.3 | (0.8) | (1.2) | (0.3) | 5.2 | | 06/23e | 12.0 | 6.6 | 2.4 | 1.0 | 0.3 | 1.9 |   Source:RaaS estimates for FY22e and FY23e; Company data for historical earnings |

**Q2 FY22 Results Analysis**

Rent.com.au delivered 8.4% y-o-y growth in Q2 FY22 revenues to $0.795m. The company has consistently grown revenues each quarter over the past three years, including this seasonally weaker quarter. The core Rent.com.au business continued to build profitability, reporting EBITDA of $0.062m, a near-seven-fold increase on Q2 FY21 although down 18% on Q1 FY22.

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| Exhibit 1: Rent.com.au quarterly revenues Q1 FY19-Q2 FY22 |
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| Source: Company reports |

The group EBITDA loss was $0.414m as a result of RentPay’s $0.476m EBITDA loss, which bettered the Q1 FY22 EBITDA loss of $0.481m. The company noted in its Q2 release that at the end of December, RentPay had 2,050 active customers transacting payments, a 52% increase on the number of active customers at the end of September. Around $10.5m in rent has been paid into RentPay to date, up from the $3.8m reported at the end of Q1 FY22. The RentPay app or desktop web version has now been downloaded 14,000 times and 7,500 customers have registered. The company has a stated ambition of securing 200,000 customers on the RentPay platform by the end of FY23.

The company noted that in Q2 FY22, it deployed a web version of RentPay which had proved to be popular with 30% of customers taking advantage of the large-screen format for onboarding and identification checking, with many moving to the app for easy management and keeping updated. Using these learnings, the company has redesigned its onboarding process to make it easier for customers to navigate the experience and become active in the system.

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| Exhibit 2: Rent.com.au group EBITDA and EBITDA excluding RentPay |
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| Source: Company reports |

Cash receipts for the quarter were $0.97m, the company’s best-ever result, up 18% on Q2 FY21 and up 11% on Q1 FY22. Cash receipts also bettered our forecast for $0.89m. Rent.com.au posted an operating cash profit for the quarter of $0.186m as a result of government grants ($0.62m) and tight cost containment ($1.4m versus $1.47m in Q1 FY22) despite an increased investment in advertising and marketing ($0.38m versus $0.19m in Q1 FY22 and $0.7m in Q2 FY21) largely associated with the RentPay platform. We had forecast cash costs of $1.49m for the quarter and an operating cash loss of $0.60m. Rent.com.au ended the quarter with $1.56m in net cash.

Exhibit 3: Q2 FY22 versus Q2 FY21 and Q1 FY22 (In A$m unless otherwise stated)

|  | Q2 FY21 | Q1 FY22 | Q2 FY22 |
| --- | --- | --- | --- |
| Cash receipts | 0.82 | 0.88 | 0.97 |
| Product manufacturing and operating costs | (0.39) | (0.41) | (0.40) |
| Employee costs | (0.46) | (0.50) | (0.46) |
| Admin, corporate and other costs | (0.17) | (0.55) | (0.54) |
| Net interest | (0.00) | - | (0.01) |
| Taxes | - | - | - |
| Other (government grant) | 0.06 | - | 0.62 |
| Operating cashflow | **(0.13)** | **(0.59)** | **0.19** |
| Net cash at the end of the period | 1.81 | 1.76 | 1.56 |

Source: Company data

**Outlook**

Rent.com.au noted that with new daily records in key product sales, it expected a surge in demand during the rest of Q3 FY22. The company anticipates that this traditionally strong quarter, will be boosted by the end of lockdowns and some expected relaxation of international borders. Having completed an oversubscribed $2.5m institutional placement (at $0.06/share) earlier in January, the company believes it has the cash reserves to focus on growing RentPay to deliver on its anticipated opportunity.

**DCF Valuation**

We are of the view that the discounted cashflow methodology is the most appropriate method for valuing Rent.com.au given the still early stage of its lifecycle. Our valuation uses a WACC of 12.0% (Beta 1.5, terminal growth rate 2.2%) and derives a valuation of $126m or $0.29/share (previously $0.31/share) after taking into account the additional shares issued in the January placement. Our forecasts in arriving at this valuation assume that RentPay will be used by 5% of the Australian rental market by FY23 end and 20% of the Australian rental market by FY30.

Exhibit 6: DCF valuation

| Parameters | Outcome |
| --- | --- |
| WACC | 12.0% |
| Beta | 1.5 |
| Terminal growth rate | 2.2% |
| CAGR in FCF FY23-FY30 | 36.93% |
| Sum of PV (A$M) | 44.4 |
| PV of terminal value (A$m) | 79.3 |
| PV of enterprise | 123.7 |
| Net cash (est Jan-22) | (3.1) |
| Net value - shareholder | 126.8 |
| No. of shares on issue | 439.3 |
| **NPV in A$** | **$ 0.29** |

Source: RaaS estimates

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| **Exhibit 6: Financial Summary** |
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| Source: RaaS estimates |

FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6th May 2021**

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* how we are paid, and
* complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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