European Internet Ventures

PROPERTYPORTALWATCH
The Global Leader on Property Portals

THE FUTURE OF CLASSIFIEDS

november 2019

european internet ventures.

who I am

Malcolm Myers
12 years of classifieds
former head of m&a at Naspers

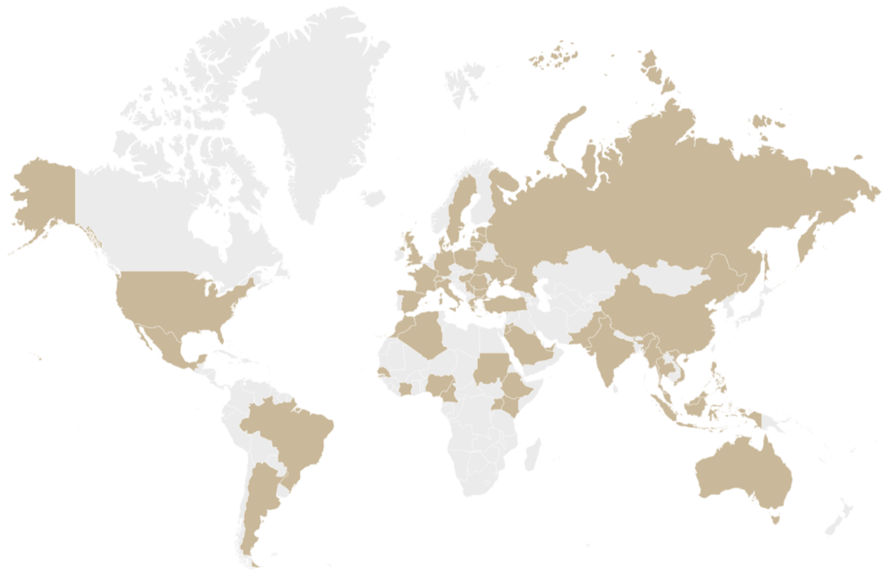
former m&a advisor to Scout24

CEO of eiv

what we do

advisory firm dedicated to
online classifieds + marketplaces
m&a
capital raising

where we work



“The future is already here - it’s just not very evenly distributed”

William Gibson

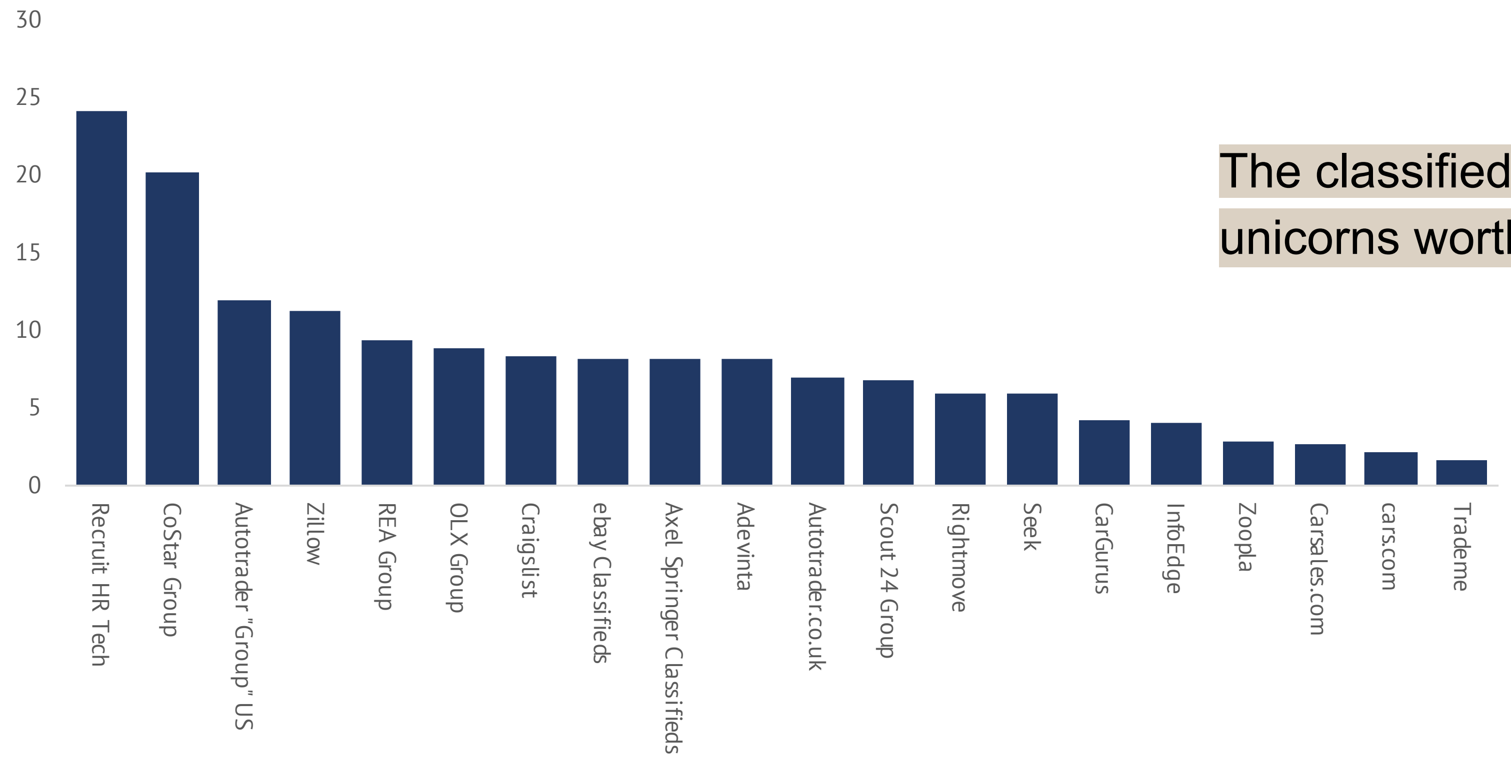
eiv
European Internet Ventures

contents.

1 state of classifieds.

> $150 billion of value created.

BUSD classifieds companies ranked by actual/implied enterprise value

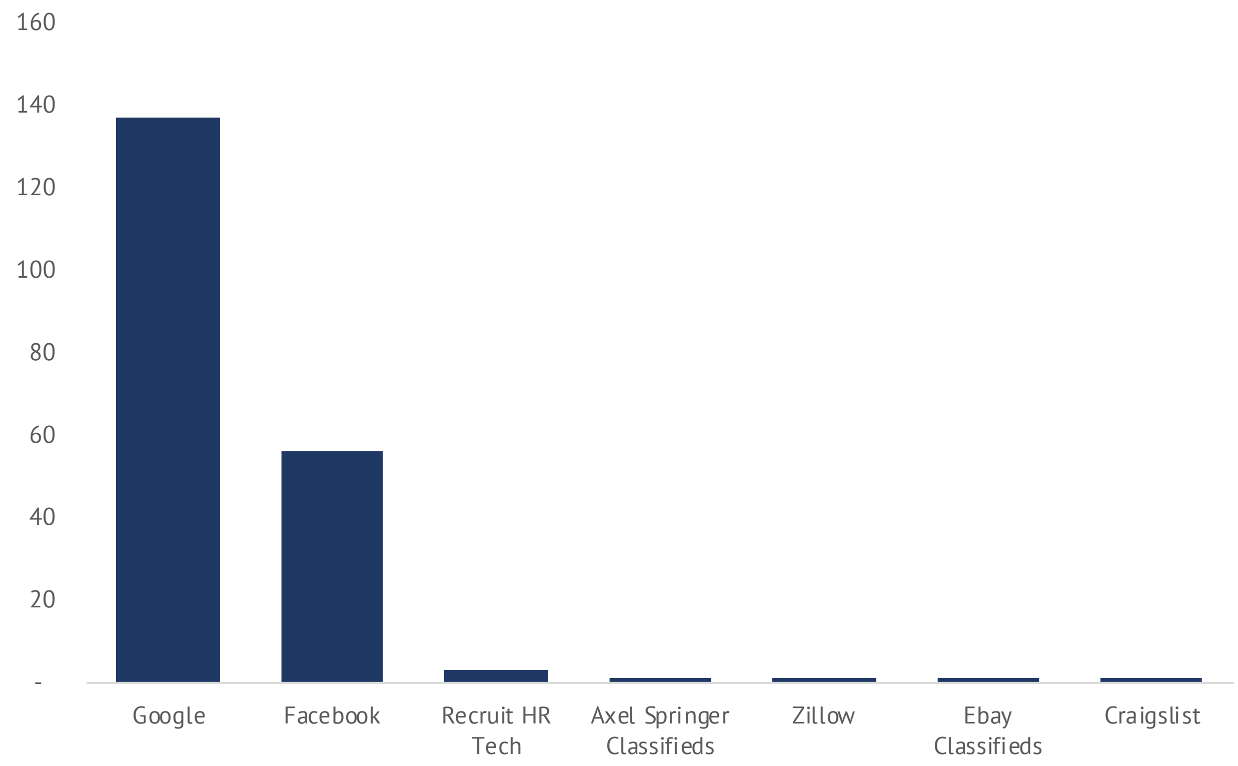


The classifieds model has produced 20 unicorns worth > $150 billion

source: company accounts FY 2018, EIV analysis | note: scope is classifieds companies worldwide excl. China and valued >$1billion;
where unavailable, enterprise value estimated at 8x last reported revenues; excludes pure marketplaces such as Carvana, Auto1 and ibuyers such as Opendoor.

are we advertising businesses?

BUSD ranking by 2018 revenues



Compared to the top global advertising businesses, even the "giants" of classifieds are just tiny minnows

source: company accounts, EIV analysis

are we becoming marketplaces?

est. take rates 2018

REAL ESTATE

US	
Home Sales ($B)	1,800
Zillow Revenues ($B)	1.3
Implied take rate	0.1%
Europe	
Home Sales ($B)	750
Top 10 Revenues (B)	2.0
Implied take rate	0.3%

AUTOMOTIVE

Australia	
Used Car Sales $B	54.0
Revenues of top player ($B)	0.24
Implied take rate	0.4%
UK	
Used Car Sales $B	80.6
Revenues of top player ($B)	0.42
Implied take rate	0.5%

If you were to evaluate today’s classifieds leaders as marketplaces, we are capturing only 0.1%-0.5% of the value transacted

source: company accounts, Eurostat, EIV analysis

classifying classifieds.

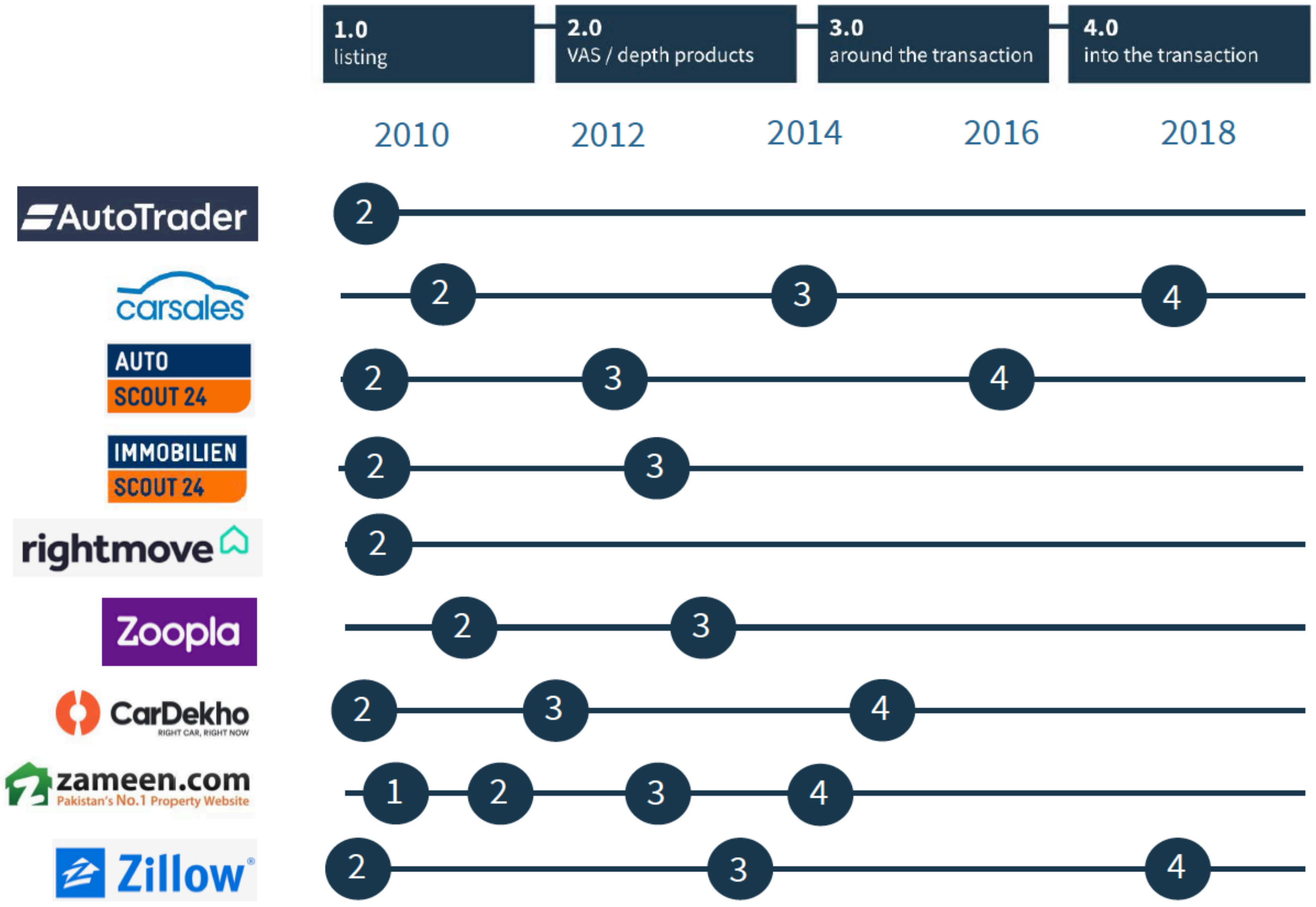
	1.0 listing	2.0 VAS / depth products	3.0 around the transaction	4.0 into the transaction
		Same as 1.0 plus:	Same as 2.0 plus:	1.0 + some of 2.0 / 3.0
SERVICE PERFORMED BY PLATFORM	**core services** List properties Attract buyers Generate leads Basic pro. dashboards 3rd party banners e.g. OEM, developers, finance & insurance providers	**promotional features** Featured Agency Agency pages Leads boosters **market insights** Market & similar item pricing Inventory most sought **efficiency tools** CRM / ERP	**seller leads** Valuation tools attract sellers **finance + insurance** Pass on leads Match / Shortlist vendors **moving** Select removal firm Planner **utilities** Comparison service	**light version** Qualify sales leads via bots / call centers Concierge services for private or pros **full version** Run end-to-end sale process
EXAMPLES	craigslist Gumtree	rightmove AutoTrader	Zoopla IMMOBILIEN SCOUT 24	Zillow zameen.com Pakistan's No.1 Property Website

Some incumbent classifieds players have taken the first steps to transacting at the core

But the majority are focused on 3.0 - building ancillary services

source: company websites, EIV analysis

pace of evolution.



In higher GDP/capita markets, evolving from advertising businesses to marketplaces is taking time

In emerging markets, absence of strong intermediaries has allowed classifieds operators to build their own sales teams and get early into the transaction

source: company websites, EIV analysis

is the future in being around the transaction?

	ANCILLARY SERVICES	% REVENUES	% EBITDA	EBITDA MARGIN
Zoopla	uSwitch – energy, broadband Money – loans, insurance, mortgages	50.0%	42.4%	33.5%
Scout24	Car and home loans and insurance Organic and from 2018 acquisition of Finanzcheck	15.5%	4.9%	17.2%
Carsales	Car loans	15.4%	4.9%	14.8%
Realestate.com	White label mortgages, mortgage broking (incl. Smartline acquisition)	3.6%	2.3%	36.8%

source: 2018 company accounts or last available, EIV analysis | note: Scout24 adjusted to exclude 3rd party banner sales from revenues; Carsales acquired 50.1% of Stratton Finance for A$60M in 2014 and decided to sell it in Q2 2019

limitations of around the transaction.

UK AGENT

principal options when looking to sell a home

strong pricing power
mostly organic traffic

CONSUMER

options when looking to arrange a mortgage

comparison companies

banks / building societies

real estate agents

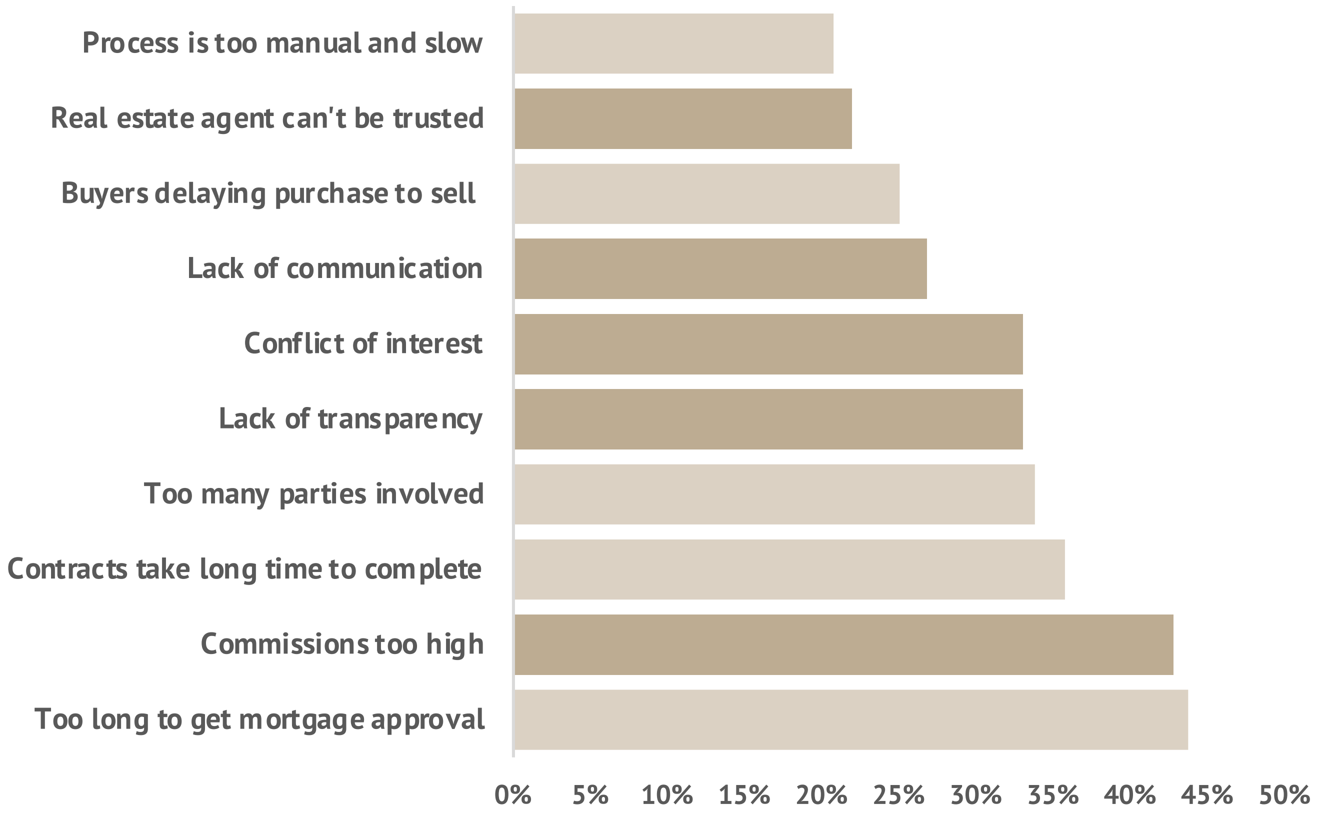
weak pricing power
mostly inorganic traffic

it is easier to sell services **AROUND** the transaction if you are **IN** the transaction

2 disruptive challengers.

where are the pain points for home buyers + sellers?

Finance 2
Legal / Admin 3
Agency-related 5



source: ipropertymanagement.com 2019 US survey

eiv
European Internet Ventures

disruptive models_ real estate.

iBuyers	"hybrid" / online agents	portal / broker commission sharing	portal direct sales	non-ownership models
Opendoor	REDFIN	makaan	zameen.com Pakistan's No.1 Property Website	zumper
Offerpad	COMPASS	FazWaz	dotproperty MOVING ASIA ONLINE	Howsy
Zillow	McMakler	HOPPLER	MYANMAR'S NO.1 ONLINE REAL ESTATE GROUP SHWEPROPERTY.COM	Residently
CASAVO INSTANT BUYER IMMOBILIARE	Yopa	sidespace		SPOTAHOME
kodit.io	Settled			LYV LY
	PURPLE BRICKS			

ibuyers grabbing attention, but market share less so.

6M homes sold in USA in 2018
$6B raised in equity ($2B) and debt ($4B) by US iBuyers; <$100M in Europe

25k iBuyer transactions in H1 2019 in US; on track for ca. 0.5% of national sales in 2019

But in top iBuyer markets, 40% of all sellers requested an iBuyer offer

Zillow buys ca. 2.5% of all homes it is asked to make an offer on

note: data assumes all Zillow's $1.1B note announced 9/2019 is for Zillow Offers; 25k estimated iBuyer transactions includes purchases and sales

eiv
European Internet Ventures

value propositions.

consumer needs when selling a home	iBuyer	realtor	classifieds
PRICING provide objective pricing data	◐	◐	●
FIND BUYERS	●	◔	●
SCREEN BUYERS	n/a	◐	◔
help with VIEWINGS	n/a	◕	◔
NEGOTIATE highest sale price for seller	n/a	◐	○
TITLE TRANSFER take care of title transfer	●	◐	○

iBuyers provide sellers a superior experience to realtors and classifieds on all aspects - except possibly net sale price

classifieds platforms are arguably contributing more than realtors to getting homes sold

note: "Realtor" score is for their net value on top of the role performed by classifieds

eiv
European Internet Ventures

economics.

who extracts the most value from selling a $300,000 home?

USD	iBuyer (US)	Hybrid Agent (UK)	Real Estate Agent (US)	Classifieds (US)
Revenue	300,000	1,875	9,000	222
Cost of Sales	288,000	694	-	-
Gross Margin	4%	63%	100%	100%
Opex per Sale	6,000	666	2,000	111
EBITDA / Sale at scale	**6,000**	**516**	**7,000**	**111**

iBuyers are targeting EBITDA margins of about 2% at scale in return for tying up capital, managing refurbishment and the transaction; that's a ROCE of 6.3% on $300k at 4 turns per year before leverage

Purple Bricks's UK business is currently at break even, but targets 25%-30% EBITDA at scale, with 20%- 25% of revenues spent on marketing

Real estate agents spent on average $222 to market each property on Zillow in 2018; opex for people, cars, offices, marketing and tech varies considerably between agencies

Classifieds players are running a 100% gross margin ad model, but they often collect just $2.5 for every $100 the agent earns in commissions from their buyer leads

note: iBuyer economics represent target levels at scale; Classifieds is based on Zillow and assumes 80% of 6M homes sold in US were listed on Zillow. Based on 2018 reported results. Real Estate Agent data is illustrative

hybrid agents.

Settled

Selling Buying Help

- All legal work is included
- One dedicated point of support
- Photos, floorplan, description & For Sale sign
- Listed on Rightmove, Zoopla, Settled & more
- Online progress tracking & digitised forms
- Viewings managed around your schedule
- Online valuation & EPC

List for just £499 →

PURPLE BRICKS

What's included

- A dedicated Local Property Expert
- UK based property support team
- Pro-photography, floor plans & advert
- Pay on instruction or up to 10 months later (same price)
- Listed on Rightmove, Zoopla + many more

Optional

- Accompanied viewings
- Advert upgrades available

Rest of the UK
£999 (inc. VAT)

London & surrounding areas
£1,499 (inc. VAT)

Enter postcode | Check fee

This price is the fixed fee for your area

from hybrid agents to hybrid platforms.

consumer needs when selling a home	classifieds 2.0	hybrid agents	trusted C2C marketplaces
PRICING provide objective pricing data	●	◐	●
FIND BUYERS	●	◔	●
SCREEN BUYERS	○	◐	●
help with **VIEWINGS**	○	◕	◕
NEGOTIATE highest sale price for seller	○	◕	◕
TITLE TRANSFER take care of title transfer	○	◕	◕

Trusted C2C marketplaces could combine the personalized services of the hybrid agent with the far greater liquidity and market insights available to leading classifieds platforms

note: ”Realtor” score is for their net value on top of the role performed by classifieds

endgame: the trusted C2C marketplace.

seller wants	marketplace	buyer wants
pricing guidelines	pricing transparency	pricing guidelines
	accurate + complete info	360 property views + neighborhood insight
full coverage of who’s buying properties like mine	liquidity	full coverage of what’s for sale within buyer’s budget + wants
3-5 perfectly matched buyers	matching	3-5 perfectly matched properties to visit
buyers screened for safety, real interest + ability to pay	trust + safety	seller screened for safety, legal due diligence on the property
payment	transaction	transfer of ownership

human support made available via the platform from employed agents and agency partners

3 options for incumbents.

time for radical change?

Classifieds leaders are only capturing a fraction of the value they bring to buyers and sellers

The comfortable world of “winner takes all” advertising-based listings models are set to be challenged by the e-commerce driven models of transaction-focused players such as iBuyers and hybrid agents

Ancillary services can partially help compensate for slowing revenues from listings, but at much lower EBITDA margins

The extreme reliance of some of today’s greatest success stories from Classifieds 2.0 upon traditional intermediaries is likely to make their business model look increasingly vulnerable as trusted peer-to-peer transaction platforms gain traction

so what can you do?

eiv
European Internet Ventures

options for classifieds_ real estate.

% sales value by agents	LOW professionalism of agency networks	HIGH professionalism of agency networks
HIGH	build own commissioned sales team for new dev launch own hybrid agent	TOUGH TO OWN THE SALE focus on leads, intel + services for realtors capture more value via CPL + CPS pricing test your own hybrid agent for specific segments
LOW	build own commissioned sales team for new dev launch hybrid agent or full C2C marketplace EASIEST TO OWN THE SALE	build own commissioned sales team for new dev launch own hybrid agent

In markets in the grey quadrant, (usually with high GDP/cap), classifieds operators will need to focus on *building realtor reliance* on their leads, market, competitor and customer data; potentially test hybrid agent for specific segments *Performance-based pricing* models should help capture more value

In the gold quadrants, operators have the opportunity to *build their own sales teams for selling new developments and existing homes via a hybrid agent model*, *while* still supporting dealers with leads and services

potential recommendations for incumbents.

Go around the transaction - access ancillary revenue streams, but be realistic about revenue and EBITDA growth upsides from ancillary services alone

Reduce reliance on intermediaries (brokers, agents) by:

Now		Soon
Build own sales capabilities to access new transaction segments – developer sales, hybrid agent, while supporting agency model for specific segments where agents are clearly adding value	→	Combine the liquidity of a top classifieds platform with the service offering of a hybrid agent to become a **trusted C2C marketplace,** where traditional agents are partners who serve sellers seeking a full service option

Maybe in a few years we will see much larger marketplace companies growing out of today's fragmented, advertising leaders

eiv
European Internet Ventures

thank you

Malcolm Myers Founder & CEO // European Internet Ventures
mm@europeaninternetventures.com | malcolmmyers on LinkedIn