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Market Briefing

Onthehouse MD and CRO on growth outlook for Consumer Online division

Interview with Michael Fredericks (Managing Director & CEO) and Beth O'Brien (Chief Revenue Officer)

In this Market Briefing interview, Michael Fredericks, Onthehouse's Managing Director & CEO, and Beth O'Brien, Onthehouse's Chief Revenue Officer, discuss the company's Consumer Online division and its growth outlook including:

- *Consumer Online division's revenue model*
- *key differences with other Australian online property businesses*
- *parallels with Zillow in the US, which has a market capitalisation of US\$ 4 billion*
- *significant revenue upside as the Onthehouse monetises its very large highly engaged online audience of consumers interested in the property sector.*

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Can you outline the components of Onthehouse's business?

Michael Fredericks

We have two operating divisions, Real Estate Solutions and Consumer Online.

The Real Estate Solutions business is a platform for office administration, property sales, property information and property management applications. It's a total solution for real estate businesses to manage their back and front office systems at the heart of their businesses. It's a relatively mature business, which provides stable subscription-based recurring revenue, from which we can reinvest in that business as well as grow our online business. Its customers include real estate agents, other property professionals and financial institutions. This division also feeds data to our Consumer Online business.

The Consumer Online business is the second largest real estate media business in Australia that surpasses that of Domain's audience nationally through our Real Estate Ad Network. It's the only web-based business of its kind in Australia that gives consumers access to rich property data for free.

We have been able to aggregate rich content and data to build a very large, engaged online community of consumers with a keen interest in the property market. Onthehouse.com.au provides consumers with free access to real estate content and property values on most properties in Australia, covering more than 13 million properties. This compares with approximately 400,000 properties that are listed at any one time on other property sites.

In a very short period of time onthehouse.com.au has grown to attract more than 1.2 million unique visitors each month, who download more than three million property reports each month. Our online network also aggregates information from other property sites we manage, and attracts between four and five million unique visitors each month.

Underpinning both businesses is a large real estate database platform that feeds data into both businesses and also feeds off them.

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Given that consumers can access the rich content and property data on your consumer online network for free, what is its revenue model?

Beth O'Brien

Having built an audience of 1.2 million engaged consumers on onthehouse.com.au and up to five million through our online network of sites, we now have the size and presence to begin monetising this very attractive audience.

At this point our online revenue is driven by targeted cross platform advertising and media sponsorship deals with Australia's largest banks, which sponsor key applications accessed by consumers. The sponsorship deals include consumer engagement tools for property data, real estate office websites, investment calculators and sale and rental histories for properties.

It's the first time consumers have had access to tools such as these and banks want to be able to tap into the data and information about consumer behaviour with these tools. These tools mean that in the same way investors have access to information about their share portfolio; they can now get access to similar information about their property portfolio. Moreover, it's the first time banks have had a presence in this type of environment.

In the future, revenue will also come from real estate agents and other property related professionals who will pay for qualified leads to consumers who have used the platform to find information.

In addition, the Consumer Online division will also derive sponsorship agreements from businesses in other industries that wish to target home owners. For instance, we have just announced an arrangement with hipages.com.au, through which we will facilitate introductions to qualified tradespeople, from which our business will earn a commission. We are also planning to leverage similar opportunities in other property related industry sectors.

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The Consumer Online division provides consumers with access to both real estate data and listings. What makes this business different from its competitors?

Michael Fredericks

Our proposition is about providing a much broader category of real estate content for all Australians, across 13 million properties, which is a much larger opportunity than the audience being serviced by first generation online real estate data businesses, which are only addressing a limited audience of people with approximately 400,000 properties for sale or rent at any one time.

We are a second generation online business, and our revenue model generates substantial traffic and media revenue because of our unique model and our ability to expand the base of suppliers wishing to gain access to this audience, including mortgage brokers, insurance and those businesses providing home improvement services, among others.

In terms of comparisons between Onthehouse and real estate classified sites, it's like comparing LinkedIn and Seek - A very different content and value proposition operating in the same vertical.

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Data credibility is key to your Consumer Online division. How do you ensure listings are up-to-date and accurate?

Michael Fredericks

Real estate agencies self-manage the currency of their listings, usually through use of real estate software tools, including those provided by Onthehouse.

It's important to recognise our site is not just about listings; it's about empowering consumers with all the relevant data they need about the property market. However, almost half the real estate agents in Australia use our software to manage listings and online advertising across various real estate portals. This gives us a unique ability to receive up to date information on properties. No other real estate portal in Australia has access to the same data and software assets.

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Clearly your ability to access and aggregate the highly segmented listing and sales data is core to the success of your business. Do you see any risk that you will lose access to any of these data sources?

Michael Fredericks

We are in a unique position as we work with a variety of industry sources to manage their software and data needs. Our ability to partner with industry, manage content and subsequently monetise traffic is unique. The property industry has been looking for more competitive tension in the data space, especially in listings, which is why our model has been attractive to industry players. We have unique access to rich data that until now has not been freely available. This in turn puts us in an enviable position to work with industry and home owners.

We have also been appointed by government agencies to distribute data, a position that allows us to fund the cost of data collection and places us in a market leading position as a primary source of information. Governments are becoming increasingly open toward sharing data, which reduces the threat of them limiting supply of data to our business.

We are also building relationships with other aggregators and suppliers of information, which will further strengthen our place in the market.

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What do you see as the growth opportunities in your Consumer Online division?

Beth O'Brien

There are significant growth opportunities in this sector, which is supported by the advertising relationships we have already been able to develop with Australia's largest banks. Our living database covering approximately 13 million properties in Australia at the core of our business and plays to the opportunity we have identified of people needing to monitor their property investments on an ongoing basis.

Aside from our existing data, consumers are also able to upload additional information, for instance adding photos of renovations or additions such as a new pool, effectively 'claiming' their property and driving the perceived value of their property.

To continue to drive consumer engagement and behaviour, a key trend will be mobile and we are aiming to extend consumer engagement across all digital platforms and therefore leverage the lead generation potential of our business, better connecting sellers with buyers as well as suppliers of services to home owners, including insurers, wealth managers and SMSF service providers.

Other segments that will also deliver opportunities on the consumer side are people downsizing and retiring who require services and property information, as well as home renovators requiring service providers.

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In your recent investor roadshow, you drew parallels to Zillow. Can you elaborate on how you see Onthehouse relative to the Zillow story?

Michael Fredericks

As with the Onthehouse online business model, Zillow is a "second generation" online property site offering information to consumers for free. The strength of this model is reflected in Zillow's market capitalisation, which is approaching US\$4 billion. Like Onthehouse, having built a very large engaged audience, Zillow then provided professionals in the real estate and other related industries with the ability to connect with its consumer audience via advertising, premium lead generation services and software tools to manage those leads.

We view Onthehouse as being around two to three years behind Zillow in terms of our development and see Zillow as an exciting forward indicator of where Onthehouse is heading, given the parallels in the companies' strategies.

However, there is a key difference between Onthehouse and Zillow that places Onthehouse in an even stronger competitive position in our market. In the US sold records and listing records are aggregated by the government and multi-listing services and made available to all portals and agents. Data in Australia is highly fragmented between agents, home owners, third parties and governments, and provides a significant barrier to entry in Australia.

In effect, Onthehouse is establishing this industry data platform in Australia, which is a compelling value proposition in the medium term.

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The Consumer Online division is currently loss making, when do you anticipate that its performance will turn around?

Michael Fredericks

In FY2013 the Consumer Online division made a small loss of approximately \$275,000 at the EBITDA level, with revenues of just over \$2 million.

While we have not released guidance for the current financial year, we expect revenue to grow significantly. We could create a profitable consumer business in a shorter timeframe, but we want to invest in the growth of our business, to develop a richer data set and an even more scalable business.

So far our growth has been organic, which is something of an anomaly among online businesses. We have not had to spend money on advertising, and our self-funded approach is extremely unusual for a web-based business. Throughout this time we have invested in our data platform and content, and we are now able to leverage this investment. Certainly, the arrangements we have already established with Australia's largest banks demonstrate their belief in our approach.

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What is the outlook for onthehouse.com.au and your Consumer Online division?

Michael Fredericks

Having built a highly engaged audience of more than 1.2 million unique users a month, onthehouse.com.au is now on the cusp of significantly monetising this highly valuable audience. Our sponsorship deals with CBA and Westpac are just the start, and we expect more deals of this nature to be signed over the coming year.

In addition, the audience of up to five million users on our real estate network is the second largest in Australia and is highly attractive to advertisers. Building of deals like our recent hipages.com.au alliance, we look forward to further strong growth in the current financial year.

The combination of both should, as I mentioned previously, drive significant growth in revenue in the near term. As we look to further build our large highly engaged audience of property consumers, we will continue to invest in the business to build further data capabilities and functionality and further grow our already large engaged audience. This is exactly what Zillow has successfully done in the US and the experience we are looking to replicate in Australia.

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Thank you, Michael and Beth.

For further information, please contact Onthehouse on 1300 131 311, or visit www.onthehouse.com.au

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