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Market Briefing

Onthehouse Holdings MD on company performance, strategy and outlook

Interview with Michael Fredericks (Managing Director & CEO)

In this Market Briefing interview, Michael Fredericks, Onthehouse's Managing Director & CEO, discusses the company's FY14 financial performance, growth strategy and outlook including:

- *Continued growth in Real Estate agent services through cross selling and innovation*
- *Monetisation of the growing Consumer Online audience*
- *Reinvestment of strong and growing cash flows to drive future growth*
- *Market dynamics and Onthehouse's competitive positioning*
- *Growth outlook*

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Over the last 12 months, revenue from Onthehouse's Real Estate Solutions [RES] division continued to grow to over \$23 million. What strategies do you have in place to drive further growth in this division?

Michael Fredericks

Our strategy over the past couple of years has been to focus on increasing yield from our existing customer base of roughly half of all of the real estate agencies in Australia by cross selling additional products, while also seeking new clients. That activity produced an increase in revenue from RES of 4% to over \$23 million, including data and analytics revenue, in FY14.

The opportunity to sustainably grow this business is substantial. We currently provide at least one of our three software solutions – Console front office, Console back office, and REsearch – to nearly half of all real estate agents in Australia. As the only provider of all three software and data needs to real estate agents on a single platform, there is a tremendous opportunity to grow products per customer and help real estate agencies run more efficiently and effectively.

More than one product sale per agency client or "per door" means an increase in yield for Onthehouse and a reduction in the cost of solution for our clients.

We believe it is critical to work constructively with the real estate agent industry to provide them with the services they require to run and grow their businesses. Over the past 12 months we continued to make substantial investments in software development and our underlying data management platform and grew our customer support resources. In addition, we consciously did not seek to materially increase the cost of our software solutions, with only a CPI relative increase implemented.

While these strategic decisions limited the growth of RES revenue and earnings in FY14, we believe they were the right decisions to underpin sustainable accelerated growth in revenues and earnings going forward.

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In terms of the future growth of Onthehouse's RES division, how big is the total addressable market for this business and how much of that market does Onthehouse have today?

Michael Fredericks

As I mentioned earlier, Onthehouse currently provides at least one of its agency software solutions to almost half of the real estate agencies in Australia. This is the key growth opportunity available to the company in this division.

Our research and analysis indicates that the total addressable market for real estate agency software solutions stands at approximately \$250 million in annual revenues. We have secured less than 10% of that market. Onthehouse's disruptive strategy leveraging a single platform that can provide Console front and back office software solutions and our REsearch data solution, puts Onthehouse in a very unique position to capitalise on this substantial attractive market opportunity.

While our data and analytics capability drives our competitive advantages in the real estate agent solutions and consumer online market segments, these market insights also have their own marketplace, which we estimate generates around \$60 million annually. At \$1.8 million revenue, we have currently secured a very small amount of that market opportunity.

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With revenue for the Consumer Online Division [COD] up 51% to over \$3 million, the momentum is now starting to build in this division. How do you intend to increase this growth momentum?

Michael Fredericks

Revenue generation in COD is driven by scale and the quality of user engagement. We are focused on growing traffic and creating quality engagement and lead generation on Onthehouse.com.au, which will ultimately lead to substantial revenue from this division.

That engagement is scaling, with 1.7 million unique monthly visitors currently using Onthehouse.com.au. With a more targeted approach to our online audience, the highly prized home owners, based on their behaviours and devices, we are rapidly innovating our offering through investing in product and technology innovation. This will allow us to continue to grow the size of our consumer audience and further drive monetisation.

COD's media sales revenue across banking, mortgage broking, property developer and retail and home improvement advertisers grew by 51% over FY14 to over \$3 million.

In addition to re-signing a number of Australia's leading banks, the proportion of COD revenue from the property developer and home improvement segments increased this year. These segments of the market are seeking engaged home owner audiences, and are very engaged with our growing home owner value proposition.

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Why have you not generated more revenue from your Consumer Online Division given the bank deals you signed over the past 12 months?

Michael Fredericks

Like the real estate agency industry, we see Onthehouse partnering with Australia's major banks to provide solutions that will benefit them and Onthehouse. It is all about partnering with them rather than solely driving near term revenue.

For example, the renewed partnerships put in place with the major banks will allow them to further grow their relationships with the broader Onthehouse group through the distribution of Onthehouse data products and customised investor research tools and reports which they can now provide to their retail clients. With many millions of Australians serviced by the banks, this provides a unique distribution channel for Onthehouse and should drive continued strong growth in the number of home owners using Onthehouse.com.au.

Onthehouse's growing engagement with consumers, combined with its position as a trusted source of information for millions of Australian property owners and investors, is a strong fit with leading consumer brands seeking to engage with a highly engaged and high value online property audience. The banks are a key market segment in the real estate ecosystem and the renewal of their partnerships will, importantly, see a substantial increase in their engagement with Onthehouse over the next 12 months.

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What level of unique visitors do you need to hit to really drive COD earnings, and how do you intend on getting there?

Michael Fredericks

This is not a straightforward question as you need to look into the quality of the consumer attracted to the site, not just the level of traffic. For example, given Onthehouse's ability to attract and engage with the prized home owner segment, being vendors and investors, there is limited overlap between Onthehouse's audience and that of REA and Domain, with 12% and 18% overlap of Onthehouse's audience respectively.

Revenue generation in the COD business is driven by scale and the quality of user engagement. Our user engagement is well established and building momentum, as can be seen by the more than 36 million free property reports provided over the past 12 months. Our focus is on growing traffic in the prized home owner segment, which will ultimately lead to substantial revenue from this division via advertising and lead generation.

We know Onthehouse has a unique proposition in the Australian market. It is clear from the fact that with very limited advertising spend, Onthehouse has been able to grow its online consumer traffic to 1.7 million unique visitors per month. Traffic has grown 38% from July 2013 to June 2014, with 45% now using mobile devices.

As we continue to enhance the richness and functionality of our Consumer Online Division, developing engagement tools for property data, real estate office websites, investment calculators and scale and rental histories we expect to see our consumer audience to be highly engaged and continue to scale. This will ultimately drive earnings growth in the COD division.

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In terms of the future growth of Onthehouse's online business, how big is the total addressable market for this business and how much of that market does Onthehouse have today?

Michael Fredericks

By our calculations, the Australian market for advertising products and services to home owners, who regularly consume these services is massive.

Approximately \$20 billion is spent annually in advertising mortgages, real estate classified advertising, real estate agency services, insurance, home improvement services, trades, and so on. Today, the lion share of this advertising is still spent 'above the line' through traditional broadcast and print advertising.

It is clear that part of this spend will migrate to more effective and targeted online advertising solutions in this category. It has already happened in a number of advertising categories and will continue to evolve.

The migration of real estate classified advertising from print to online has and continues to occur. The success of online real estate advertising classifieds is well understood, and this is now a very mature model. However, traditional real estate classified portals are not an effective and targeted advertising solution for advertising home related products and services to home owners. The migration of traditional above the line advertising to homeowners is still to occur, and this is really exciting given the size of this prize dwarfs real estate classified advertising.

The second wave of advertising dollar migrating from print to online will be led by the deployment of more effective advertising solutions. At its most basic, we think that this means identifying when homeowners are considering making a home related decision and providing them with relevant content, tools and experts to assist make that decision. This is about giving an audience information and choice, providing them with data and resulting in a more engaged relationship with home owners.

The rewards for adding value in this second generation online space is significant. Conservatively, we estimate that the total addressable market for the shift of home related advertising to online to be approximately \$2 billion annually. While Onthehouse.com.au and our data and analytics businesses are very much early stage businesses, we have been busily positioning them to be the leading solution providers in these markets to drive substantial revenue growth over the longer term.

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Onthehouse is generating strong and growing cash flows which are being used for re-investment into the business to drive long term growth. How much more investment are you looking to make and how do you see this impacting earnings in the short term?

Michael Fredericks

Given the size of the three addressable markets that Onthehouse operates in, and in particular the massive home owner marketplace I just referred to, our time is now. We have to reinvest in the short term to 'own' our space in the longer term given our first mover advantage in second generation technologies and our ability to disrupt and grow.

Our ethos is to build partnerships with our key users – delivering:

- real estate agents the solutions they require to efficiently and effectively run their business while also providing them with the tools to grow;
- other real estate products and services companies targeting home owners the highly engaged audience they are seeking via more effective advertising products; and
- homeowners and tenants the information they need to make the most informed property decisions they can.

These partnerships underpin our growth.

The investment in our real estate agency software and content solutions will enhance customer service and provide the solutions wanted by the industry. The investment in our website and data platform will allow us to scale our growth and work more deeply with our partners to drive further innovation in the these categories and revenue.

We see investment as a win-win outcome even though it dampens very near term earnings. Importantly, Onthehouse's growing revenues, strong cash flows and solid balance sheet, have allowed us to invest, and continue to invest, in growing our business without having to call on shareholders for further funds unlike many other early stage technology and online businesses.

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Why is data so important?

Michael Fredericks

Onthehouse is strongly focused on data. Unlike many markets overseas, data is fragmented in Australia. Solving the industry data problem in Australia provides Onthehouse with a substantial competitive advantage that is at the core of the second generation of property solutions and online businesses.

Data binds all our business elements together from homeowners, agents and advertisers. Having high quality and readily accessible data is central to everything we do. Without it, Onthehouse.com.au would merely be just another property listing business, and our real estate agency software and data solutions would be disjointed and sit on separate platforms. With data at the core of what we do, we have a flexible single source of information for property applications across different market segments.

We are creating a "single source of truth" data platform for industry and the Australian public and the requisite supporting infrastructure. Our data platform has been built using an API development so that we can more easily partner with other supporting solutions and bolt-in partners. This will

generate network effects for innovative product development and data aggregation and further grow our business.

Our consolidation of key property data and industry data and our ability to utilise our unique assets positions Onthehouse to provide compelling and disruptive solutions to our key audiences – real estate agents, companies seeking home owners, and the home owners themselves.

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What is the outlook for Onthehouse in FY15?

Michael Fredericks

We had a busy 12 months and achieved a number of key milestones in FY14, and don't see our pace slowing.

We expect revenue to continue to grow across both our real estate agency solutions business and our consumer online business in FY15. Having enhanced our real estate customer service capabilities and added new software and platform functionality, we expect to continue growing yield and customer numbers. Further scaling of our consumer audience will drive additional momentum in monetisation online.

With our time being now to ensure Onthehouse can 'own' its market space, the growth in top line revenue will propel further investment to maximise Onthehouse's ability to take advantage of the significant market opportunities available to us.

We plan to further enhance our real estate agency partnerships and data capabilities, and will shortly launch the new Onthehouse.com.au site with a completely new user interface and a whole host of new and exciting functionality that will drive further growth in the size of our home owner audience while heightening our already highly engaged audience.

We are very excited by the opportunity that exists to build the next generation real estate media and technology business in Australia.

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Thank you, Michael.

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

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