



# VALUE CREATION IN A NEW WORLD

November 4th, 2020

# european internet ventures.

## who I am

Malcolm Myers  
13 years of classifieds

former head of m&a at Naspers  
former m&a advisor to Scout24

CEO of eiv

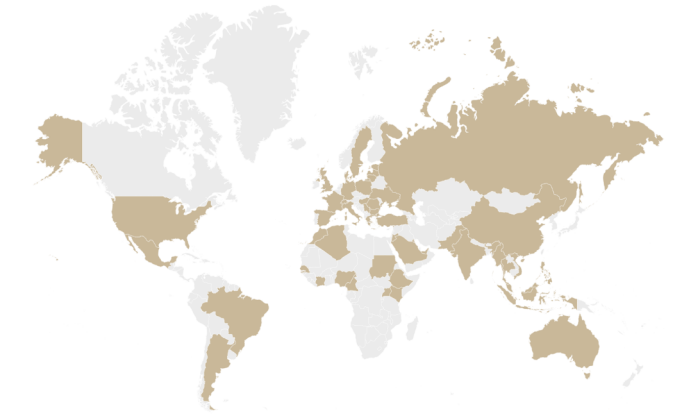
## what we do

advisory firm dedicated to  
online classifieds + marketplaces

m&a

capital raising

## where we work



# contents.

1. challenges for classifieds

2. disruptive models

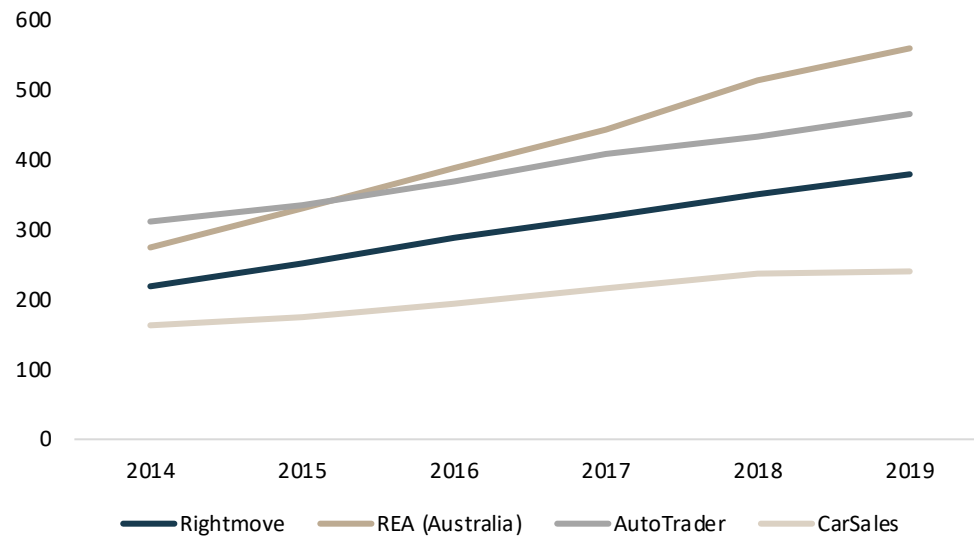
3. paths to value creation

**1** challenges for classifieds.

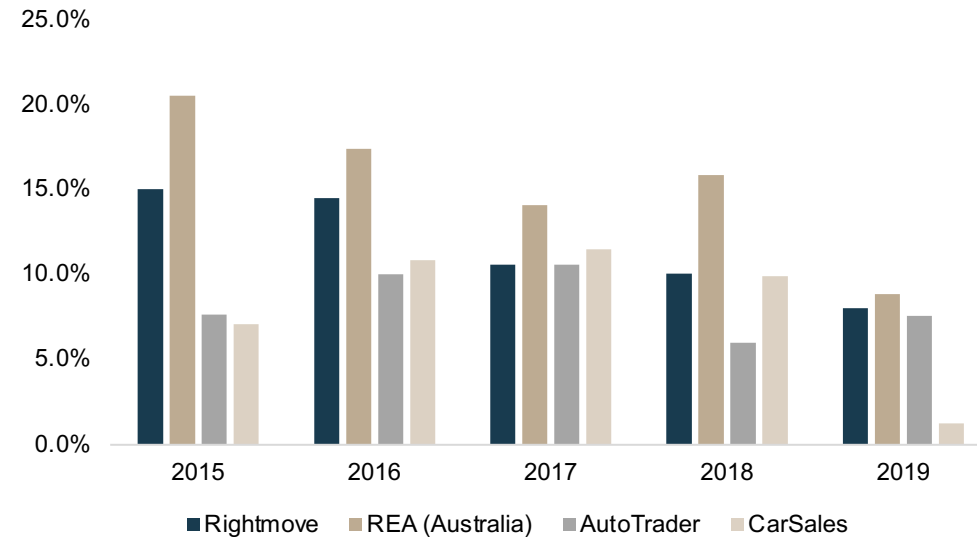


even before C-19,  
revenue growth rates were slowing.

REVENUE (\$M)



REVENUE GROWTH y/y



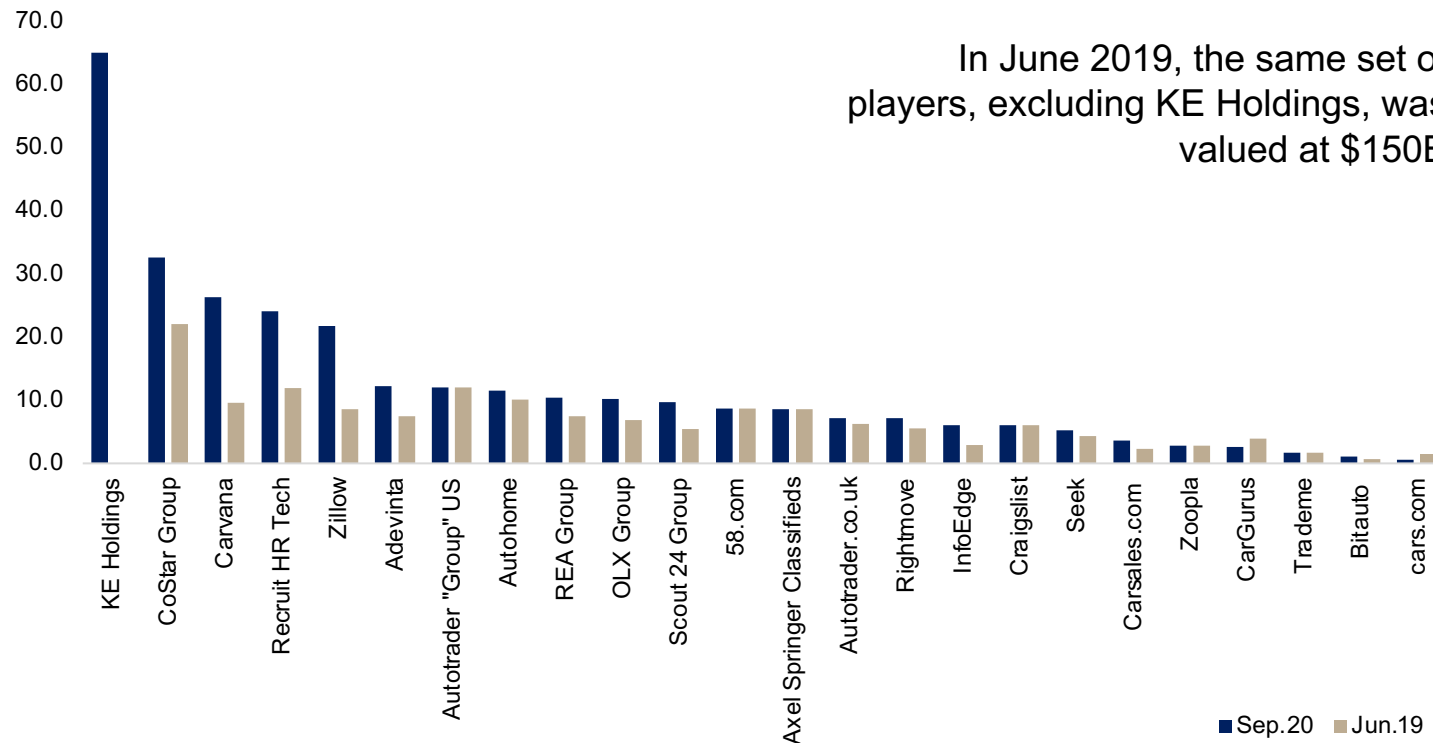
Year on Year revenue growth for 2020:  
 Rightmove -34% (H1 2020 vs H1 2019)  
 REA Group -6% (FY 2020 vs FY 2019)  
 ImmobilienScout24 +1% (H1 2020 vs. H1 2019)

and yet, since June 2019, the market cap of the top 24 players has doubled.

MARKET CAP IN \$B

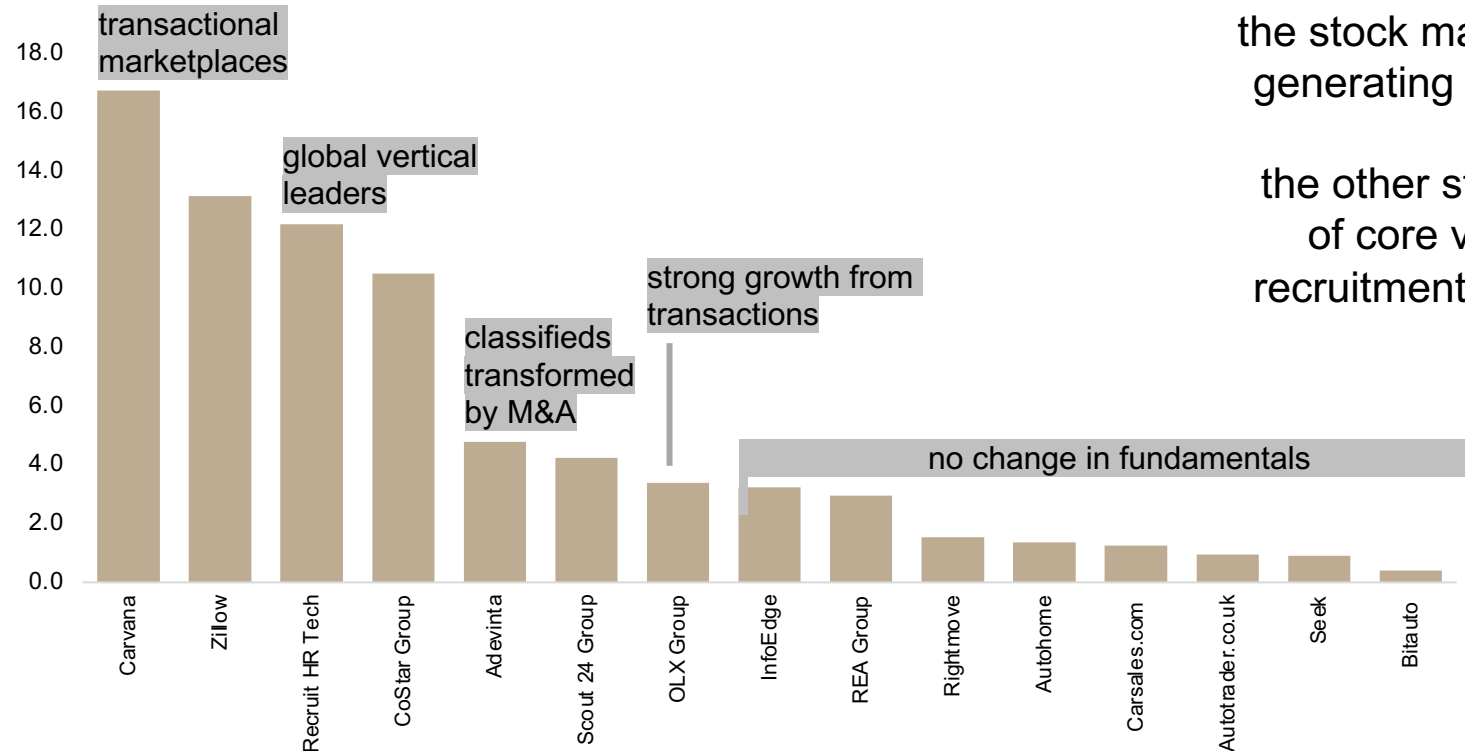
Current Market Cap is \$300B

In June 2019, the same set of players, excluding KE Holdings, was valued at \$150B



and increasingly, it is the largest, most transactional vertical players which appear to be being awarded with the highest market cap.

LARGEST GROWTH IN MARKET CAP JUN 2019-SEP 2020 (\$B)



the stock market is increasingly valuing players generating revenues from the core transaction

the other stand out winners are global leaders of core verticals such a performance-based recruitment (Indeed.com) and commercial real estate listings and data (CoStar)

# massive markets.



Home Sales TAM	US	EU+ UK	SE Asia
Homes Sold / year (M)	6	6.2	2.4
ASP (\$)	330,000	210,000	62,500
Value of sales \$B	1,980	1,302	150
Commissions	5.0%	2.5%	2.5%
<b>Marketplace TAM \$B</b>	<b>99</b>	<b>32.6</b>	<b>3.8</b>



Home Rentals TAM	US	EU+ UK
Homes Rented/ year (M)	9.5	13.4
Average rent/month (\$)	1,200	900
Commission	8.3%	8.3%
<b>Marketplace TAM \$B</b>	<b>11.4</b>	<b>12.0</b>

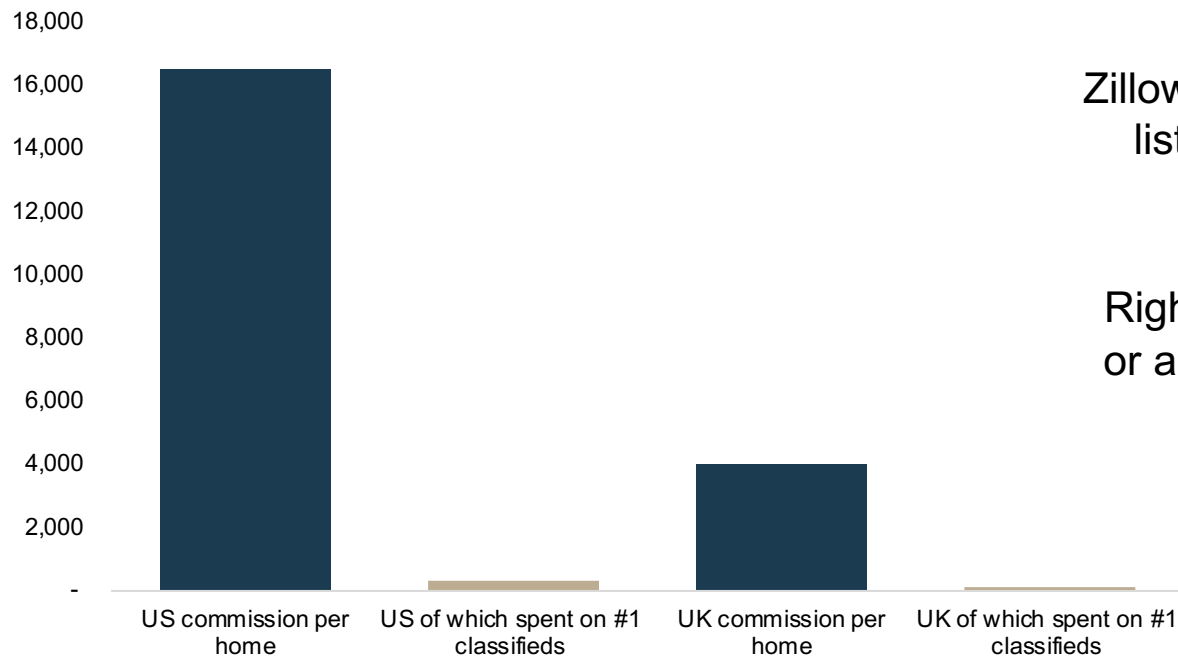
the **net revenue** opportunity within which classifieds players operate is massive

- for real estate sales, higher commission levels and higher ASPs make the US market (\$104B) more than triple the size of EU+UK (\$32.6B)
- while data is less reliable, real estate commissions estimates for SE Asia come in at about \$3.75B or some 10% of EU+UK
- US, EU+UK offer approximately the same TAM for home rentals (\$11.4B-\$12B)
- UK offer approximately the same TAM for home rentals (\$11.4B-\$12B)

even for a rightmove or a Zillow, classifieds revenues as a share of intermediary commission, still look low.



REAL ESTATE SALES COMMISSION VS #1 CLASSIFIEDS SPEND (\$)

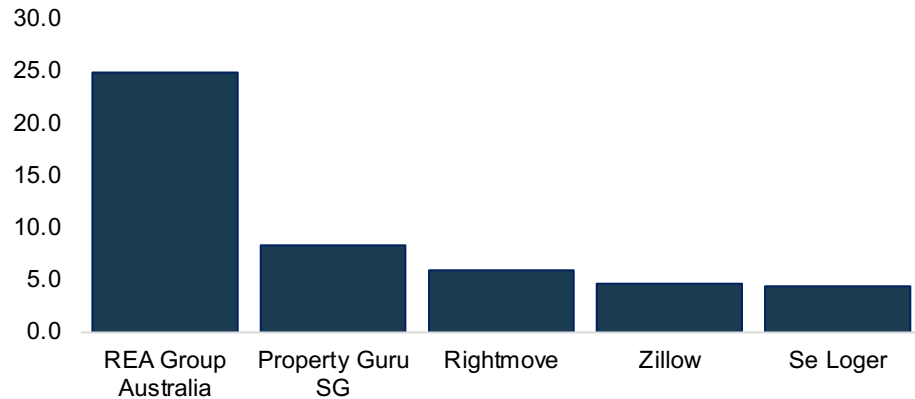


Zillow generates an estimated \$315 per sold home listed in the site, or ca. 2% of an average broker commission (buy plus sell) of \$15,000

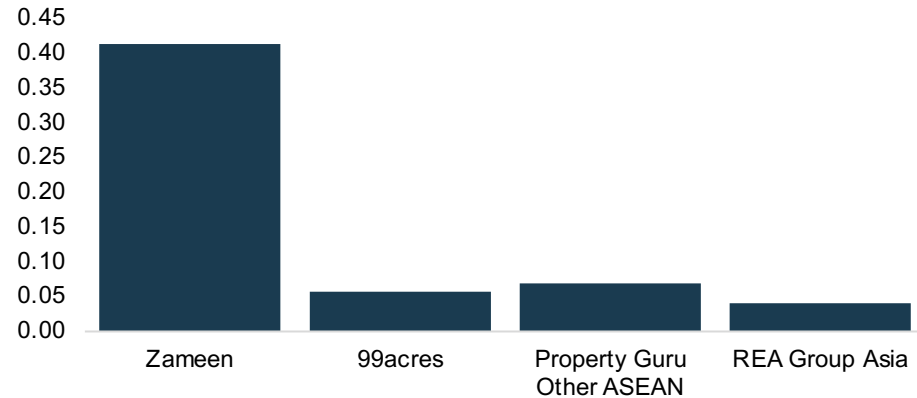
Rightmove generates about \$125 per home listed or about 3% of a \$4,000 agent sales commission, on a blended basis (incl. rentals)

while in emerging markets, subscription models struggle to deliver meaningful revenues.

HIGH GDP/CAPITA MARKETS  
rev / ipop (\$)

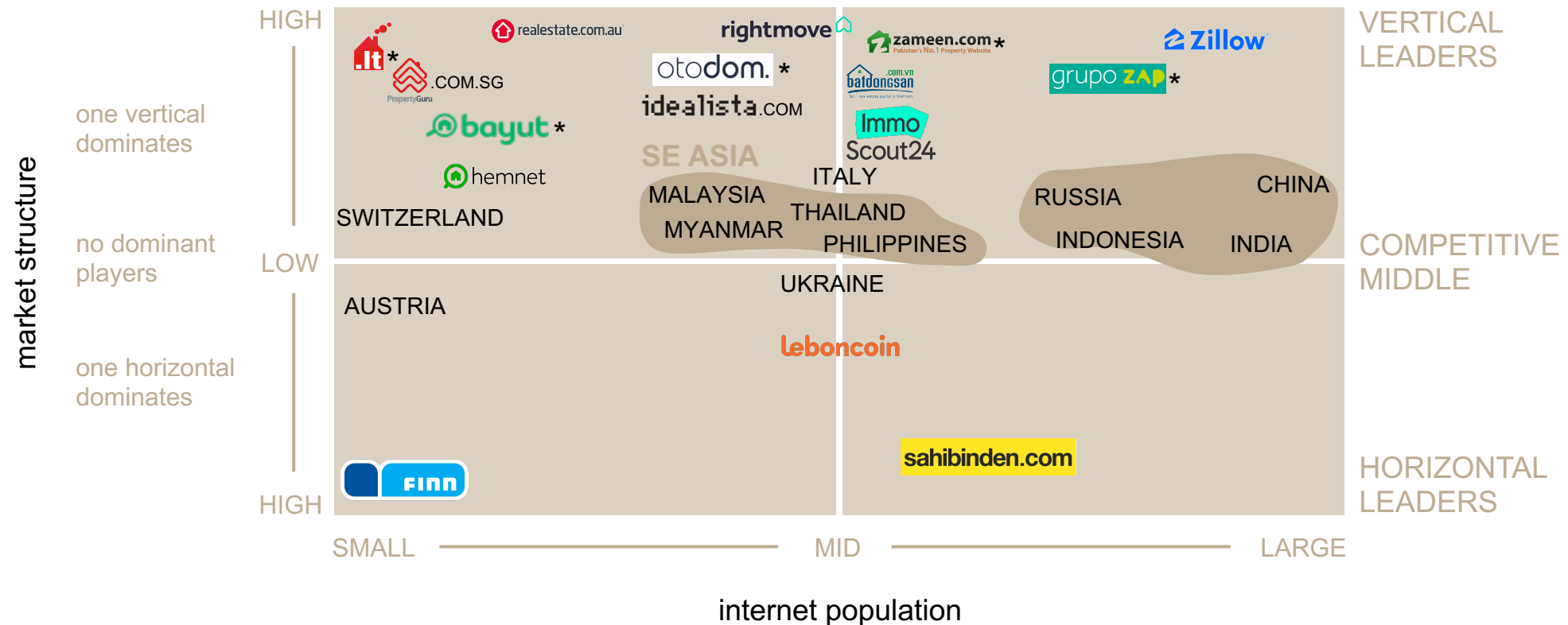


EMERGING MARKETS  
rev / ipop (\$)

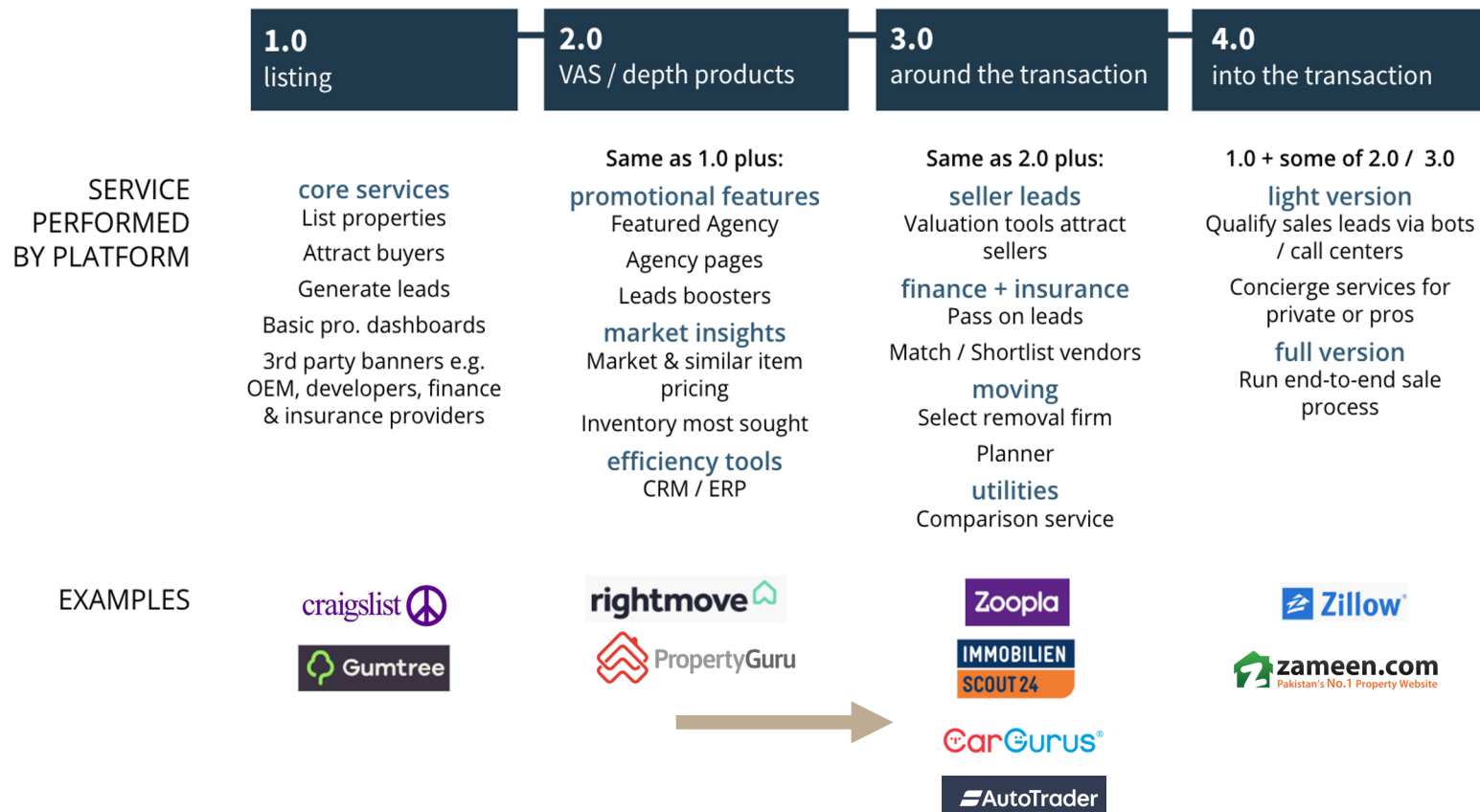


- REA Group in Australia is the outlier in terms of revenues per ipop
- other high GDP/capita markets are generating \$4.5-\$6.0 per ipop with Property Guru standing out at \$8/ipop
- in emerging markets, Zameen's focus on commissioned sales for new developments puts them at the top with rev. per ipop 10x higher than their closest rival
- all emerging markets data is distorted by high population markets (esp. India, Indonesia) with very small property buying segments

# and not every market will produce a REA, a rightmove, or a Zillow.



# classifying classifieds.



most classifieds started at 1.0

some classifieds players have taken the first steps to transacting on platform

but the majority are focused on 3.0 - building ancillary services



## 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%
Zillow	issuing own Mortgages to buyers of Zillow Homes	7.3%	n/a	n/a
REA Group (Aus only)	white label mortgages, mortgage broking (incl. Smartline acquisition)	3.3%	1.8%	38.9%

# limitations of around the transaction.

## UK AGENT

principal options when  
looking to sell a home

rightmove 

Zoopla

strong pricing power  
mostly organic traffic

## CONSUMER

options when looking to  
arrange a mortgage

comparison companies



banks / building societies



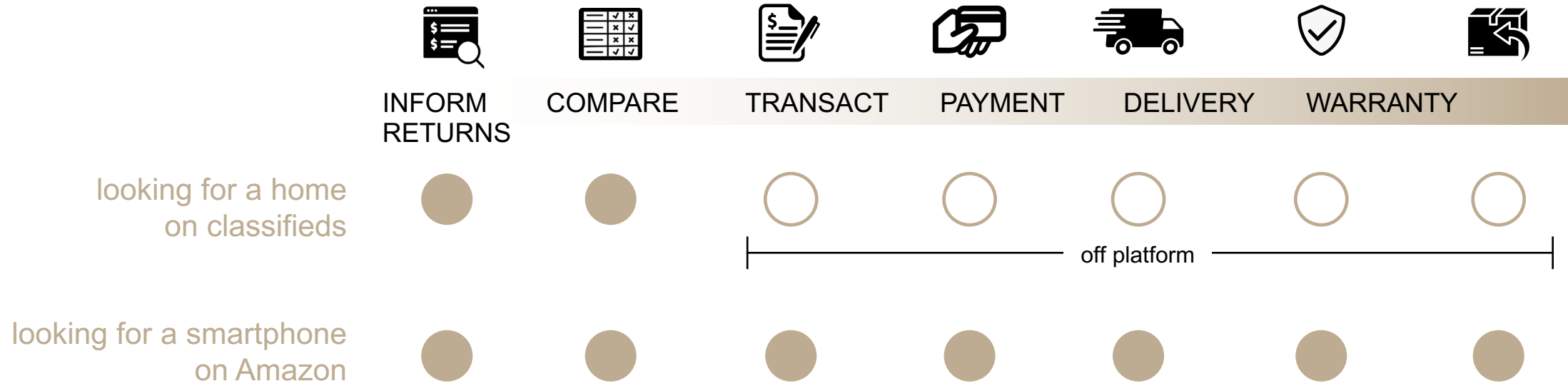
real estate agents



weak pricing power  
mostly inorganic traffic

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

# traditional classifieds lives off a broken consumer experience.



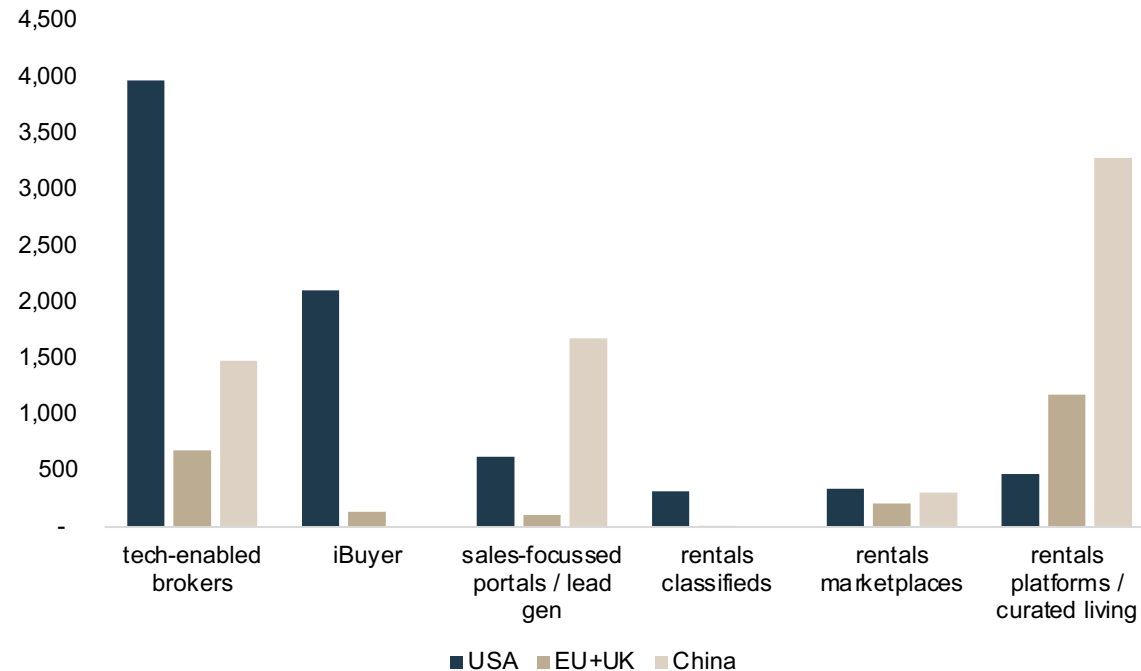
dependence upon intermediaries looks even more precarious post C-19.



- the internet was expected to disintermediate by bringing buyers directly in touch with sellers
- high cost, high street presence economically challenging
- fewer opportunities for face-to-face client contact makes it harder for high street agents to differentiate from tech enabled brokerages (TEBs)
- TEBs are using scale and technology to offer lower price points, thus further squeezing the smaller agencies

# \$17B of private capital invested in real estate platforms, mostly into models competing with classifieds.

GROWTH CAPITAL RAISED- REAL ESTATE (\$M)



- private capital raised for real estate platforms amounts to \$7.8B in US, \$2.3B in EU+UK and \$6.7B in China
- investment per capita in US-based platforms is 4.6x China and 4.9x EU+UK
- in US, investment has focused on TEBs such as Compass (\$4.0B) and iBuyers like Opendoor (\$2.1B)
- In contrast in China \$3.3B has been invested into rentals / co-living platform businesses such as Zirooms, \$1.7B into portals (incl. \$1.2B into KE.com), and \$1.5B into TEBs
- EU+UK investment is dominated by \$1B raised by Luxembourg-based global co-living operator Quarters; TEBs raised \$0.7B

**2** disruptive models.

# emerging models focused on the core transaction.

## PROPERTY SALES FOCUS

## RENTALS

iBuyers	tech-enabled / hybrid brokers	portal / commission sharing	portal direct sales	rentals 2.0/ co living
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Opendoor

Zillow  
Zillow Offers

Offerpad

knock

CASA VO  
INSTANT BUYER IMMOBILIARE

kodit.io

loft

REDFIN

COMPASS

PURPLE BRICKS

nested

McMakler

PROPRIOO

PROPTIGER

PROPZY

makaan  
HOMESFY.

FazWaz

HOPPLER

贝壳  
找房大平台

sidespace

tapu.com

PRONTOPISO

zameen.com  
Pakistan's No.1 Property Website

dotproperty  
MOVING ASIA ONLINE

SHWEPROPERTY.COM

square yards

Juwai IQ!

zumper

[ SPOTAHOME ]

movebubble

Howsy

QUINTOANDAR

BUNGALOW

Residently

LYV LY

ZIROOM自如  
创 | 享 | 生 | 活

蛋壳公寓  
DANKE APARTMENT

# competing transactional models\_ classifieds operator perspective.

	iBUYERS	TECH-ENABLED / "HYBRID" BROKERS
strengths	<ul style="list-style-type: none"> <li>+ fast sale process</li> <li>+ highly convenient for seller</li> </ul>	<ul style="list-style-type: none"> <li>+ generate commissions</li> <li>+ economies of scale</li> <li>+ strong network effects</li> </ul>
weaknesses	<ul style="list-style-type: none"> <li>- hard to scale</li> <li>- only ca. 2% of RFQs get offers</li> <li>- often loss-making</li> <li>- capital inefficient</li> </ul>	<ul style="list-style-type: none"> <li>- low traffic</li> <li>- high CAC until scale reached</li> <li>- require substantial funding</li> </ul>
implications for classifieds	<ul style="list-style-type: none"> <li>- good at lead gen for sell side mandates</li> <li>- weak network effects, unlikely to go mainstream</li> </ul>	<ul style="list-style-type: none"> <li>+ initially TEBs are great customers</li> <li>- but as they scale, they become direct competitors</li> </ul>
threat levels for classifieds	low	high



Zillow is the only leading portal to to develop an iBuyer business

## REDFIN

while no major portal has developed its own TEB yet, some of the best funded TEBs are getting as much traffic as 2nd tier portals.



# co-operative transactional models\_ classifieds operator perspective.

strengths

## PORTAL COMMISSION SHARING

- + higher revenue per listing
- + attract brokers unable to pay upfront subscriptions
- + portals gain lead-to-sales conversion insights
- + well suited to non-exclusive markets

weaknesses

- lead attribution needs strong tech and rigorous processes
- many brokers will resist

implications for classifieds

- pay-for-performance model highlights portal value add
- pay-per-lead model offers an indirect route to similar outcome

## PORTAL DIRECT SALES

- + portal sales teams can build deep skills and specialization
- + live inventory feeds onto portal provide engaging sales environment

- culture and success factors of running direct B2C sales team are different from subscriptions sales
- might generate resistance from brokers

- strategic opportunity which is ideal for emerging markets
- opportunity to introduce into mature markets too



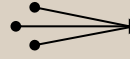










Dom.ria, the largest real estate vertical in Ukraine, has recently completed migrating agents from subscriptions to pay-per lead. Like for like revenue growth is 35% up



Zameen is one of the most successful companies in the world in implementing direct sales for new developments; its parent, EMPG is now valued >\$1B

# renting a home: different models try to solve the same problem.

	CLASSIFIEDS (many to many)	MARKETPLACE (many to many)	PLATFORM (many to one)
client focus	 intermediaries	 both buyers + sellers	 consumers
#1 objective	leads	transactions	transactions
transaction occurs...	off platform	on platform	on platform
rental contract with...	owner/ owner's agent	owner/ owner's agent	platform
in tenancy mgt.	owner/ owner's agent	owner/ owner's agent	platform
examples		 	BUNGALOW SONDER  
US			 
EU + UK			
CHINA			

# platforms offer the most compelling proposition to the would-be tenant and landlord.

Moving made simple

**Residently**

### Easy viewings

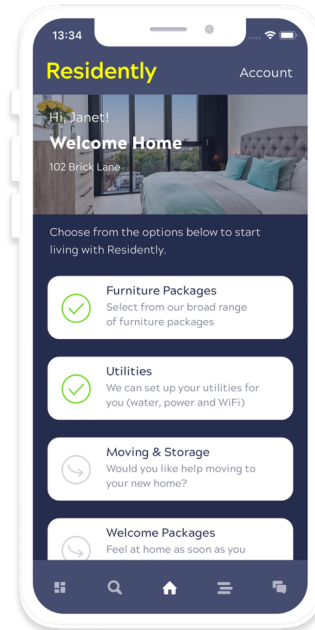
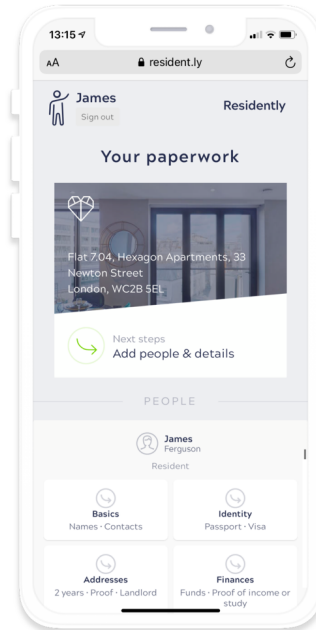
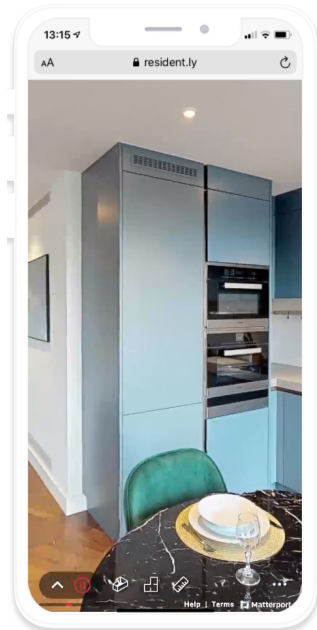
Virtual or in-person, book a viewing when it suits you.

### Speedy application

From viewing to contract in as little as an hour.

### Make it your own

Our move-in services make it feel like home from day one.

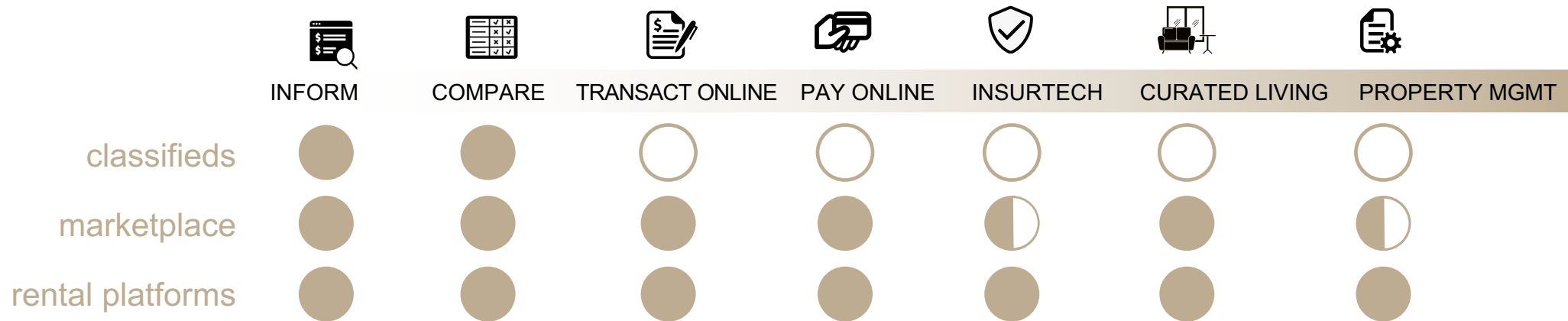


- ✓ high quality listings make in-person visit optional
- ✓ rental agreement via the app
- ✓ assistance with moving, furnishings, utilities
- ✓ landlords sign long term leases with the platform—property management fully outsourced to platform

 movebubble

highly curated rentals marketplaces aim to offer the consistency and service of the platforms at greater scale

# rentals: consumer value proposition comparison.



**classifieds** model relies on passing the tenant lead on to a landlord or his agent

**rentals marketplaces** aim to transform rentals transactions into a fully-digitized, service

- richer and more comprehensive listings, making a physical visit less necessary
- rental agreement in app/on website
- deposits or guarantees replaced by an “insurtech” product for small monthly fee

**rentals platforms** take the marketplace one level higher

- platform as sole point of contact for both transaction and property management
- branded styles, furniture, amenities

# rentals marketplaces\_

## more value added, more EBITDA?

ILLUSTRATIVE FINANCIALS PER UNIT

USD	Classifieds 2.0	Rentals Marketplace	Rentals Platform
<b>Revenue per Listing/Letting</b>	<b>20</b>	<b>3000</b>	<b>6000</b>
Gross Margin	95%	8%	11%
<b>Gross Profit</b>	<b>19</b>	<b>240</b>	<b>660</b>
Sales & Marketing Costs	-2	-225	-225
Refurbishment (annualized)	0	0	-250
Operations	-1	-60	-120
Product & Tech Costs	-1	-50	-125
EBITDA / Property	<b>15</b>	<b>-95</b>	<b>-60</b>
EBITDA Margin 2019	75%	-3.2%	-1.0%
<b>Target EBITDA at scale / Property</b>	<b>15</b>	<b>108</b>	<b>231</b>
Target EBITDA Margin at Scale	75.0%	3.6%	3.9%

**classifieds** rentals listing pricing varies from free to ca. \$50 per listing, with EBITDA margins of 75% achievable for sites with traffic dominance

**rentals marketplaces** are getting 5%- 8% of annual rent

- higher operational costs and much higher sales and marketing costs to acquire inventory and tenants







**rentals platforms** earn higher take rates but incur higher outlays for refurbishment, tenant management and service; Chinese player Danke Apartments lost \$656 per unit in 2019, including \$342 per unit for sales & marketing alone

- profitability looks compelling if the required scale can be reached

**3** new paths to value creation.



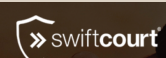





# home sales: strategic options for real estate classifieds.

	CLASSIFIEDS 3.0+	“SHOPIFY”	OWN LABEL TEB
new services	virtual tours as standard home survey / conveyancing marketplace bridge funding or rent to own	provide core property transaction service infrastructure, either co- branded or agency branded	offer own label TEB services like a Purple Bricks or Compass; offer bridge finance and/or rent to own
role of agent	brings seller mandate, runs the transaction	brings seller mandate, still runs the transaction but via a faster, more digitized process	unchanged – will still get high quality leads and be able to run own brokerage service
net revenue growth	<b>material</b> although extra costs to manage fintech activities	<b>material</b> taps into conveyancing spend and potentially shares agent commission pools	<b>most</b> upside especially if combined with direct sale of own fintech services
inspired by	   	   	  



# home rentals: strategic options for real estate classifieds.

	CLASSIFIEDS 3.0+	RENTALS MARKETPLACE
focus	digitally enable Intermediaries	enable landlords to transact directly with tenants
new services	book virtual tours, tenant “passports”, deposit insurance, online transaction facilitation	marketplace responsible for acquiring listings from landlords, verification, listing quality management; deposit insurance, tenant referencing, transaction management
role of agent	acquire listings, upload content, select tenant, close contract for landlord	contribute listings to platform in return for commission share
net revenue growth	<b>material</b> ARPA growth in return for enhanced services commissions on deposit insurance sales and selling reference products	<b>step change</b> in revenue per listing higher opex, but faster route to profitability given existing platform liquidity
inspired by	  	  



## conclusion.

- for classifieds players, a continued focus on subscriptions and sales of ancillary services is unlikely to deliver expected returns
- to re-ignite growth, classifieds players will need either to evolve into fintech plays in partnership with intermediaries (real estate sales), launch their own TEBs, or become true marketplaces themselves e.g. (real estate rentals)
- the upside from taking meaningful commission share, within the vast markets they dominate from a lead gen perspective, is arguably worth the potential risk of agent / broker defection



thank you

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