

Mitula Group

Executing to strategy

Forecast changes

We reduce EBITDA forecasts, updating for last November's trading statement and the September 2016 acquisition of Dot Property. This is not a reflection of Mitula's operational performance, which continues to progress to strategy, but of additional investment in its self-serve platform, expansion into the fashion vertical and the strengthening of its market capabilities. Mitula is growing strongly, enjoys high EBITDA margins and is well financed. The 40% EV/EBITDA discount to its peer group average deserves investor attention.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	EV/EBITDA (x)
12/14	10.7	5.4	2.2	1.0	37.5	29.0
12/15	20.6	9.5	3.0	0.0	26.8	15.9
12/16e	30.2	12.5	4.4	0.0	18.3	12.1
12/17e	39.5	18.0	6.0	0.0	13.3	8.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Considerable operational progress during 2016

Mitula continued to be very active during H216. It launched an additional six sites in three new countries, expanded beyond property, employment and motoring with the launch of its first fashion vertical in Spain, and made its second post-IPO acquisition with Dot Property in September 2016 for A\$11m in cash and shares. It has also continued to develop its sales initiatives both by adding to its direct sales team and via the launch of a self-service offering to enable click packages to be bought directly, potentially widening its reach to smaller portals.

EBITDA forecasts reduced

Q316 revenues (published November 2016) were broadly as we expected and management's revenue guidance for FY16 and FY17 is consistent with our existing forecasts. However, we reduce EBITDA estimates in FY16 and FY17 by 18% and 14% respectively to take account of the loss-making Dot Property acquisition (break even expected in December 2016) as well as additional investment in the self-service platform, expansion into the fashion segment and ramp up in the direct sales effort.

Valuation: Progress supports valuation upside

By building its position in higher growth markets rather than fighting for share in more established ones, Mitula is able to maintain a fairly light cost structure while growing above its more established peers. While its exposure to emerging markets may add a degree of trading volatility, in our view the 40% EV/EBITDA discount on which the shares trade versus Mitula's global peer group is unjustified given the operational progress the group is making, as well as its strong balance sheet, which positions it well to add to this growth. Our DCF and peer valuation point to a per share value of approximately A\$1.3 (down from A\$1.4 in our last note). While some discount to reflect its size and geographical profile might be justified, our valuation is at a 50% premium to the current share price.

Media

13 February 2017

Price **A\$0.81**
Market cap **A\$169m**

Net cash (A\$m) at end June 2016	22.2
Shares in issue	208.8m
Free float	45%
Code	MUA
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



Business description

Mitula Group is a leading online classifieds aggregator with 79 vertical search websites in 49 countries, across real estate, employment, motoring and, in some countries, vacation rentals. In 19 different languages, these sites operate under the Mitula, Nestoria and Nuroa brands.

Next events

Full year results Mid-February 2017

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Operational round up

Since [our last update](#) in August 2016, Mitula has continued to make considerable operational progress against its strategy to increase its market share both organically and through acquisitions while working to increase the yield on its traffic. We summarise key developments below:

Adding markets. Over the second half of 2016, a further six new sites have been launched in three new countries (Japan, Ukraine and Myanmar), taking the total to 79 sites across 51 markets.

Widening its reach. Mitula has continued to develop its sales initiatives. It has added to its direct sales team (also bolstered following the Dot Property acquisition), which is targeting large employers, developers and auto manufacturers in select Tier 1 markets (defined as Mitula's established markets where traffic is primarily monetised via cost per click (CPC), such as the UK, Australia, UAE, Germany and France). In addition, in Q3 it launched a self-service offering to enable click packages to be bought directly, widening its reach to smaller portals where it is not cost effective to engage the sales team directly.

Mobile apps. Compared to other classified media groups, Mitula's mobile traffic (accounting for only 0.5% of its total monthly visits in January 2016) is under represented. Since IPO, Mitula has rolled out 108 mobile apps in the real estate and employment verticals across iOS and Android.

Launched in the fashion vertical. The Mitula and Nestoria brands are used in property (both brands), cars (Mitula only) and employment (Mitula only). Management believes there is an opportunity to aggregate the highly fragmented fashion segment, which is gaining momentum in Tier 1 markets. In September, it launched its first fashion vertical in Spain under the Mitula brand, with 50 online stores linked to the site (c 3,800 listings), which itself is linked to the other Mitula sites in Spain (c 3.8 million visits per month). Unlike the CPC model of monetisation used in Mitula's other three verticals, the fashion industry follows a cost per acquisition model, with most stores sharing a percentage of revenues generated in the first 30 days from visitors directed to their site from Mitula.

Acquisitions. In March Mitula acquired Barcelona-based real estate classified vertical search operator Nuroa (for €3m, A\$4.5m, c 9x FY16e EBITDA), adding to its market position across 17 markets in the US, South America and Australia. In September, it purchased Dot Property for A\$11m (of which 60% to be paid in shares over three years). This acquisition is significant not only for its larger size, but also because it marks Mitula's first move 'upstream' in its Tier 2 markets (defined as emerging markets with high levels of traffic but low levels of monetisation, such as Mexico, the Philippines, Colombia, Brazil, and Indonesia), an integral part of its efforts to increase its yields in these markets. Dot Property is a South-East Asian property portal network operating 10 portals across nine South-East Asian markets (generating 123 million visitors in Q216 and 2.7m page views in August 2016). Its revenues for the 12 months to June 2016 increased 123% to A\$1.7m and growth has continued to be strong; Mitula reports an annualised revenue run rate of A\$2.6m in August, putting the company on track to be EBITDA break even in December 2016.

In addition to boosting its South-East Asian presence, the acquisition should deliver a number of strategic benefits. Portals charge advertisers for listings on their sites. This is typically higher yielding than the aggregation model, which is based on CPC (Dot Property yields are several times higher than Mitula's average in T2 markets). By leveraging the traffic to Mitula, management believes it can drive Dot Property yields up towards averages in the region where it is currently trailing (iProperty, for instance, yields 2-3x that of Dot Property, according to Mitula). Although there are clear benefits to the strategy, it does mean that in some markets, Mitula will now be competing with its customers and could push some to churn (we understand that this was an issue for a couple of customers in certain Asian markets following the Dot Property acquisition, but these

customers have since returned). While this is a consideration that must be managed carefully, Mitula is not the first aggregator to use this strategy. Indeed (bought by Japan's Recruit in 2012) employed this strategy in the US, Canada and the UK while also continuing to act as an aggregator. Provided it is not overused as a tactic, it should provide a helpful lever to cross-promote the Mitula brand. We expect management to make increasing use of this strategy in T2 markets, where there are high volumes of visitors to Mitula's sites, but where yields are very low. In these markets, as well as helping to drive Mitula's yield, adopting a direct publisher strategy could also have the added benefit of encouraging local competition to start to pay for clicks (or risk losing market share).

Forecasts

We are belatedly updating our forecasts to reflect the September acquisition of Dot Property, along with the Q3 trading update (published November 2016).

Revenue progression in line with forecasts: Q3 revenue growth was broadly as we expected, +20.5% y-o-y and +3% sequentially. The headline rate of growth, which includes one month's contribution from Dot Property (A\$0.4m), represents a slow down on the growth reported in the first half of the year (Q1 74%, Q2 39%) which benefited from the FY15 acquisition of Lokku (acquired in May 2015 for €6m).

Site visits in Q3 increased 26% y-o-y and click outs also grew accordingly. However, the conversion rate to click outs sold fell during the quarter (reflected in a reduction in the yield from 3.7c to 3.6c per visit) and consequently the majority of revenue growth is still coming from Google AdSense (+33%), whereas CPC grew by 4%. Increasing the rate of conversion of click outs to those sold is a priority of the group and a motivation for Mitula's move upstream into portals (Dot Property).

EBITDA forecasts reduced, affected by investment in growth: we make little change to our revenue forecasts, but update EBITDA forecasts to reflect the additional investment the group is making in sales, the development and marketing costs of the self-serve platform (which will now start to be depreciated but is not yet revenue generating) as well as the costs associated with the build out of the fashion vertical. We also update forecasts for the impact of the A\$11m Dot Property acquisition, which was expected to be loss making at the EBITDA level until December 2016. We reduce our EBITDA margin forecast from 56% to 41% in FY16 and from 53% to 46% in FY17 to reflect this investment. The impact of our reduced EBITDA forecast, as well as the cash element of the Dot Property acquisition leads to a reduction in our year end net cash forecast to A\$20m.

We summarise our forecast changes in Exhibit 1. Our new forecasts bring us more into line with management's guidance, for FY16 revenues of A\$28m to A\$29m and FY16 EBITDA of A\$12m to A\$13m. In its November statement it also introduced guidance for FY17 where it is targeting revenues of A\$38m to A\$41m and EBITDA of A\$17m to A\$19m.

Exhibit 1: Summary forecast changes									
A\$m	FY16e			FY17e			FY18e		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues	30.1	30.2	0%	39.6	39.5	(0%)	47.7	47.2	(1%)
Gross profit	26.6	25.1	(6%)	34.7	32.8	(6%)	41.9	39.2	(7%)
EBITDA	16.8	12.5	(18%)	21.0	18.0	(14%)	25.6	22.9	(11%)
EBITDA margin	56%	41%	(26%)	53%	46%	(14%)	54%	49%	(9.5%)
Normalised operating profit	16.5	11.5	(30%)	20.7	16.8	(19%)	25.3	21.6	(15%)
Reported operating profit	14.7	9.5	(36%)	19.9	15.6	(21%)	24.6	20.5	(17%)
Normalised PBT	17.0	12.0	(30%)	21.8	17.3	(20%)	26.8	22.4	(17%)
Normalised diluted EPS (c)	6.4	4.4	(32%)	7.7	6.0	(22%)	9.5	7.7	(19%)
Net (cash)	(30.6)	(20.1)	(34%)	(46.1)	(31.9)	(31%)	(65.4)	(47.4)	(28%)

Source: Edison Investment Research

Peer valuation and DCF point to considerable upside

A reverse DCF of the current share price (assuming a WACC of 11%, 25% tax rate, and a terminal growth of 2% after 10 years) implies the current share price is pricing in very little of the medium-term growth or margin expansion. For instance, a share price of A\$0.8 would be consistent with management delivering on our FY16-FY18 estimates, but with growth then slowing to 2% with no EBITDA margin improvement beyond this point. While there are many uncertainties when it comes to forecasting into the medium to long term, given the operational progress the group is making, this seems pessimistic. Assuming revenue growth reduces gradually from the end of our explicit forecast period to 2% by 2027 returns a DCF value of A\$1.3/share – consistent with the values implied by peer analysis (outlined below). While an element of discount could be warranted due to its smaller size and emerging market exposure, this still points to a valuation considerably above the current share price.

The online classified sector is a highly rated segment of the media market – justified by the strong growth rate of the paid-for online search segment and the sector's typical high margins. The listed peer group is large and we believe a valuation can be extrapolated to Mitula, which despite its smaller size, enjoys good EBITDA margins growth rates vs peers.

Excluding outliers, the average FY17 EV/ EBITDA for the global peer group (Exhibit 2) is 14.5x, with an average EBITDA margin of 18%. Mitula trades on 8.4x FY17 EV/EBITDA despite its higher forecast EBITDA margin of 46% and sector leading revenue growth rates. Mitula's FY17 P/E rating looks similarly out of kilter with its peer set. On a FY17e P/E of 13.3x, it trades at a 40% discount to the sector average.

Applying the average sector EV/ EBITDA multiples to Mitula's FY17e forecasts (which we do not consider overly aggressive given we forecast revenue and earnings growth towards the top of its peer set) derive a value per share of A\$1.3 (EBITDA basis) to A\$1.5 (P/E basis).

Investors should also consider the following:

- In addition to driving visits and yields in its existing markets and verticals, with a scalable platform, MUA has opportunities to expand beyond current core verticals – both vertically (portals) and into other industries (as it has with fashion).
- While a fairly young company, Mitula is in the enviable position of delivering strong organic revenue growth at the same time as generating high EBITDA margins. Its business model is scalable at relatively low cost, which has enabled it to launch across four industries and 51 markets around the world.
- While it is the companies Tier 1 markets that are currently delivering the strongest growth rates for the group, Mitula's investment in emerging markets (T2 and T3 markets) should ensure growth rates remain sector leading.
- Mitula is debt free and we forecast net cash position of A\$20m at the FY16 year end. Management has been clear that acquisitions are on the agenda which provides another lever to add scale and drive earnings growth.
- Mitula has a very experienced managing board, led by independent chairman Simon Baker, who has successfully built similar businesses in Australia and Asia; REA Group (REA.ASX) and iProperty, which REA recently acquired. Similarly, CEO and co-founder Gonzalo del Pozo established Spain's leading property portal, Globaliza, along with fellow MUA co-founder and director Gonzalo Ortiz.

Risks and sensitivities

- Mitula's targets the 'long tail' of search engine enquiries by users, rather than pitting itself against the major aggregators in each market that dominate Googles rankings for more generic

enquiries (this also keeps the cost per acquisition down). However, there is little to prevent its competitors from changing their approach, which could have a considerable bearing on Mitula's performance.

- While diversified by industry and geography, Mitula nevertheless derives approximately 40% of its revenues from Google AdSense, leaving it exposed to changes in policy or algorithms.
- Operating across multiple geographies, Mitula, which reports in A\$, is exposed to currency fluctuations, particularly the US\$, sterling, euro and Brazilian real. As well as the translational risks, this can also impact demand for click outs (CPC), which tend to be priced in US\$ (evident in Q316 in the Americas).

Exhibit 2: Online classified peer comparison												
	Market cap	Sales growth (%)		EBITDA margin (%)		EV/Sales(x)		EV/EBITDA (x)		PE (x)		Reported year-end
	US\$m	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	
Mitula Group*	136	47	31	41	46	7.4	5.0	12.1	8.4	18.3	13.3	12/2015
Property verticals												
Rea Group	5,275	15.5	14.0	57.4	57.4	10.0	8.7	17.3	15.2	27.8	22.7	06/2016
Rightmove	4,834	13.2	9.1	76.0	76.1	17.8	16.3	23.4	21.4	30.2	27.0	12/2015
ZPG	2,062	15.3	12.0	39.2	40.3	8.0	7.1	20.3	17.6	27.1	23.2	09/2016
Zillow Inc - A	6,540	30.8	23.1	16.6	22.8	7.5	6.1	45.2	26.7	209.3	62.0	12/2015
Auto verticals												
Truecar Inc	1,131	5.8	12.4	4.5	6.3	3.8	3.4	85.9	53.9	(79.2)	(200.5)	12/2015
Bitauto - ADR	1,342	39.6	21.0	9.9	15.0	1.3	1.1	13.4	7.3	26.7	14.4	12/2015
Auto Trader	4,940	10.3	7.2	68.0	69.6	13.9	13.0	20.4	18.6	26.2	22.9	03/2016
Carsales.com	1,868	4.8	8.4	50.7	51.2	7.3	6.7	14.4	13.2	20.3	18.3	06/2016
BCA Marketplace	1,853	N/A	11.9	7.2	7.4	1	0.9	14.1	12.2	21.6	18.1	04/2016
Recruitment verticals												
Seek	3,859	9.3	9.4	38	39	5.5	5.0	14.6	13.0	24.8	21.3	06/2016
Recruit Holdings Co	25,869	16.3	16.0	12	12	1.5	1.3	12.5	11.0	37.2	36.5	03/2016
Zhaopin - sponsored ADR	888	18.2	13.8	18	17	2.6	2.2	14.4	13.1	23.2	21.6	06/2016
DHI Group Inc	281	(12.7)	(2.9)	26	24	1.5	1.6	5.9	6.4	15.7	17.7	12/2015
Info Edge India	1,497	27.3	25.6	5	13	7.6	6.0	151.1	44.8	142.2	66.3	03/2016
Marketplaces												
eBay Inc	35,852	9.4	5.7	37.3	37.4	4	3.8	10.7	10.1	15.8	14.4	12/2016
Mercadolibre Inc	8,397	28.6	33.4	24.9	24.5	10	7.4	39.5	30.0	62.7	46.8	12/2015
Just Eat	4,627	50.1	30.9	30.0	32.6	10	7.4	32.1	22.6	48.3	33.3	12/2015
Kakaku.com Inc	3,117	12.0	11.1	49.6	49.7	7.0	6.3	14.2	12.7	23.1	21.0	03/2016
Grubhub Inc	3,501	36.3	25.8	29.2	29.6	6.5	5.2	22.2	17.5	45.2	35.6	12/2015
Shutterstock Inc	1,888	17.4	15.7	19.7	20.8	3.2	2.8	16.2	13.3	34.2	31.6	12/2015
Trade Me Group	1,501	9.9	8.3	64.8	65.2	9.0	8.3	13.8	12.7	22.3	20.0	06/2016
Etsy Inc	1,461	32.9	22.6	15.5	16.8	3.3	2.7	21.4	16.0	173.2	58.0	12/2015
Takeaway.com Holding	1,451	44.8	38.3	(16.3)	(5.0)	12.2	8.8	(74.9)	(176.9)	(50.6)	(93.0)	12/2015
Angie's List Inc	380	(5.6)	(1.4)	7	11	1.2	1.2	16.7	11.5	(128.4)	48.3	12/2015
Retailmenot Inc	444	9.9	5.5	22	20	1.0	0.9	4.6	4.6	14.2	18.0	12/2015
Care.com Inc	244	15.6	13.1	7	9	1.4	1.2	18.6	13.3	53.5	29.0	12/2015
Liquidity Services Inc	307	4.7	7.2	(1)	2	0.5	0.5	(90.6)	26.3	(23.7)	(280.0)	09/2016
Diversified												
Axel Springer	5,455	0.8	2.9	18	19	2.0	1.9	11.2	10.4	19.3	18.8	12/2015
Next Co	822	15.5	14.4	19	21	3.0	2.6	15.8	12.5	29.7	23.7	03/2016
Schibsted Asa-CIA	5,869	4.4	3.7	13	16	3.1	3.0	23.5	19.2	81.1	44.0	12/2015

Source: Bloomberg. Note: *Based on Edison estimates. Priced at 9 February 2017.

Exhibit 3: Financial summary

	A\$m	2014	2015	2016e	2017e	2018e
		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
31-December						
Revenue	10.7	20.6	30.2	39.5	47.2	
Cost of Sales	(1.2)	(2.5)	(5.1)	(6.7)	(8.0)	
Gross Profit	9.5	18.1	25.1	32.8	39.2	
EBITDA	5.4	9.5	12.5	18.0	22.9	
Normalised operating profit	5.3	9.3	11.5	16.8	21.6	
Amortisation of acquired intangibles	0.0	(0.9)	(0.8)	(0.7)	(0.6)	
Exceptionals	0.0	(1.7)	(0.6)	0.0	0.0	
Share-based payments	0.0	(0.6)	(0.6)	(0.5)	(0.5)	
Reported operating profit	5.3	6.2	9.5	15.6	20.5	
Net Interest	0.0	(1.8)	0.5	0.5	0.8	
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0	
Exceptionals	0.0	0.0	0.0	0.0	0.0	
Profit Before Tax (norm)	5.3	7.5	12.0	17.3	22.4	
Profit Before Tax (reported)	5.3	4.4	10.0	16.1	21.3	
Reported tax	(1.5)	(1.8)	(2.6)	(4.2)	(5.5)	
Profit After Tax (norm)	3.8	5.7	9.4	13.1	16.9	
Profit After Tax (reported)	3.8	2.6	7.4	11.9	15.8	
Minority interests	0.0	0.0	0.0	0.0	0.0	
Discontinued operations	0.0	0.0	0.0	0.0	0.0	
Net income (normalised)	3.8	5.7	9.4	13.1	16.9	
Net income (reported)	3.8	2.6	7.4	11.9	15.8	
Basic average number of shares outstanding (m)	172	189	211	214	216	
EPS - basic normalised (c)	2.2	3.0	4.4	6.1	7.8	
EPS - diluted normalised (c)	2.2	3.0	4.4	6.0	7.7	
EPS - basic reported (c)	2.2	1.4	3.5	5.6	7.3	
Dividend (A\$)	1.00	0.00	0.00	0.00	0.00	
Revenue growth (%)		92.3	46.8	30.8	19.4	
Gross Margin (%)	89.1	87.8	83.0	83.0	83.0	
EBITDA Margin (%)	50.7	46.4	41.3	45.7	48.6	
Normalised Operating Margin	49.3	45.2	38.0	42.6	45.8	
BALANCE SHEET						
Fixed Assets	0.3	11.7	19.7	19.1	18.8	
Intangible Assets	0.0	10.8	18.8	18.1	17.5	
Tangible Assets	0.3	0.7	0.7	0.8	1.1	
Investments & other	0.0	0.2	0.2	0.2	0.2	
Current Assets	7.1	25.0	25.9	39.4	56.4	
Stocks	0.0	0.0	0.0	0.0	0.0	
Debtors	2.5	3.9	5.7	7.5	8.9	
Cash & cash equivalents	4.2	21.0	20.1	31.9	47.4	
Other	0.4	0.1	0.1	0.1	0.1	
Current Liabilities	(1.8)	(2.2)	(3.2)	(3.8)	(4.1)	
Creditors	(0.4)	(1.5)	(2.5)	(3.1)	(3.5)	
Tax and social security	(1.3)	(0.7)	(0.7)	(0.7)	(0.7)	
Short term borrowings	0.0	0.0	0.0	0.0	0.0	
Other	0.0	0.0	0.0	0.0	0.0	
Long Term Liabilities	(0.1)	(1.7)	(1.7)	(1.7)	(1.7)	
Long term borrowings	0.0	0.0	0.0	0.0	0.0	
Other long term liabilities	(0.1)	(1.7)	(1.7)	(1.7)	(1.7)	
Net Assets	5.5	32.7	40.7	53.1	69.4	
Minority interests	0.0	0.0	0.0	0.0	0.0	
Shareholders' equity	5.5	32.7	40.7	53.1	69.4	
CASH FLOW						
Op Cash Flow before WC and tax	5.4	9.5	12.5	18.0	22.9	
Working capital	(0.5)	(0.3)	(0.8)	(1.2)	(1.1)	
Exceptional & other	0.0	(1.7)	(0.6)	0.0	0.0	
Tax	(0.4)	(2.7)	(2.6)	(4.2)	(5.5)	
Net operating cash flow	4.5	4.9	8.4	12.6	16.3	
Capex	(0.2)	(0.8)	(1.0)	(1.3)	(1.6)	
Acquisitions/disposals	0.0	(9.1)	(8.9)	0.0	0.0	
Net interest	0.0	0.2	0.5	0.5	0.8	
Equity financing	0.0	23.7	0.0	0.0	0.0	
Dividends	(1.1)	(2.9)	0.0	0.0	0.0	
Other	(0.5)	0.7	0.0	0.0	0.0	
Net Cash Flow	2.8	16.8	(0.9)	11.8	15.5	
Opening net debt/(cash)	(1.4)	(4.2)	(21.0)	(20.1)	(31.9)	
FX	0.0	0.0	0.0	0.0	0.0	
Other non-cash movements	0.0	0.0	0.0	0.0	0.0	
Closing net debt/(cash)	(4.2)	(21.0)	(20.1)	(31.9)	(47.4)	

Source: Mitula and Edison Investment Research

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