

Market data

EPIC/TKR	PURP.L
Price (p)	100.0
12m High (p)	N/a
12m Low (p)	N/a
Shares (m)	240.3
Mkt Cap (£m)	240.3
EV (£m)	213.0
Free Float* (%)	24.19%
Market	AIM

*As defined by AIM Rule 26

Description

Purplebricks is the fourth largest branded estate agency in the UK. It has a unique hybrid model combining the convenience of online tools with local property expertise. Customers can add ancillary services to the basic fixed fee.

Company information

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Purplebricks Group

Unique model captures dominant market share

Purplebricks is a 24 hour estate agency, combining technology and customer facing software with local property experts (LPEs) to create something better, more convenient, transparent and significantly cheaper for sellers and landlords. Since launch in April 2014 it has captured over 60% of the online market and even become the 4th largest UK estate agent. Its first mover advantage provides substantial scope for growth and suggests the share valuation is modest. Moreover, the management team have extensive public company experience, estate agency expertise and a track record of building fast-growing businesses. These metrics have supported a successful IPO today, raising £22.8m net new money (£58m in total) to enhance strong growth.

- ▶ **Strategy:** This is a hybrid model. Purplebricks has no high street offices but is in no way 'virtual', as intrinsic to the model and success to date are LPEs (licensed by Purplebricks), trained professionals, who benefit from the model too in their own career aspirations. It has over 170 of these, up from c.30 a year ago.
- ▶ **Significant growth potential:** Since September 2015 Purplebricks has led in Google searches for 'high street' agents – ahead of Foxtons, Connells, Haart and many others. This translates to a clear 'breakout' in sales growth – which we consider can be kept at over 30% pa for each year in model and beyond.
- ▶ **Valuation:** Our valuation model indicates that on a 30.0x PE for 2018, Purplebricks would command a £530m market capitalisation at that stage. This would imply 37% share price CAGR from the current valuation. Given the business's growth characteristics this would not be an unreasonable multiple.
- ▶ **Risks:** Purplebricks is potentially prone to the macro risks of the housing market. There might be challenges over the speed of adoption, the relationship with portals, recruitment of LPEs and it is even possible that further entrants might emerge. Its first mover advantage, management and processes are robust.
- ▶ **Investment summary:** Despite its relative youth (18 months since full launch) Purplebricks already dominates the online market with in excess of a 60% market share in a period where the business was not national, whilst the online competitors offered a nationwide service. Purplebricks has energised the online agency sector doubling its share of the overall market in less than a year. This results from its first mover advantage as the only hybrid business in the market. With the expertise of the management team it is rewriting the rules and seems set fair to grow at a rapid pace for many years. A truly disruptive model.

Financial summary and valuation

Year end April (£m)	2015	2016E	2017E	2018E	2019E	2020E
Income	3.4	17.8	49.2	71.2	100.0	130.0
Gross profit	2.0	9.8	29.5	42.7	60.0	78.0
EBITA	-5.4	-10.7	8.0	18.9	34.0	51.0
PBT Adj.	-5.4	-13.1	8.0	18.9	34.0	51.0
PAT	-5.4	-13.1	8.0	17.7	26.5	38.8
EPS (Dil) (p)	na	na	3.3	7.1	10.7	15.6
Div (p)	na	0.0	0.0	0.0	0.0	0.0
P/E x	na	na	30.3	14.1	9.4	6.3
Yield %	na	0.0	0.0	0.0	0.0	0.0

Source: Purplebricks Admission Document. ALL FORWARD ESTIMATES: Hardman & Co Research

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Executive summary

- ▶ The UK estate agency market is enormous. It is estimated to generate £4.4bn of estate agency fees per annum, with lettings representing a substantial additional market from 1.4m transactions.
- ▶ Purplebricks has quickly established itself as the fourth largest estate agency in the UK and the largest agency online, benefitting from its first mover advantage. We define online as being estate agents that have no high street offices. Purplebricks provides an alternative to the traditional estate agency, combining the convenience of online, instant 24 hour a day transaction management with the advice and support of a local professional expert who is responsible for delivering the service from the time of the customer coming to the market until they move out. Moreover, it offers this service for only £665 + VAT outside London, considerably undercutting the average 'bricks and mortar' agency fee of £4,425. In doing so this hybrid model addresses the real needs in this market. The customer gets everything they would want and expect from the process.
- ▶ Costs and service flexibility (e.g. open 24/7) give Purplebricks an advantage which is incontrovertible. Evidence of the Appeal of flexibility is the fact that the management estimates that 70% of Purplebricks traffic happens when estate agent offices are closed. With Purplebricks you can arrange viewings, make offers and agree sales 24 hours a day. Customers can see what is happening with their marketing, what viewings have taken place, the feedback from those viewings, offers received and obtain performance reports at the click of a button. They can also talk to a knowledgeable helpful professional 24 hours a day.
- ▶ Evidence of success is its rapid growth in the rankings. Purplebricks is already a major nationwide agency, ranking 4th, behind Countrywide, Connells and LSL, but ahead of all others including Spicer Haart and Foxtons. The annualised number of instructions received by Purplebricks in September was 19,920. We compare this to completions for the other agents. Purplebricks is remunerated on instruction – a traditional agent is paid on completion.
- ▶ The company's success has been achieved despite the fact that it has only recently gone national. The service launched in Scotland and is still in the early stages of rollout in many parts of England, Wales and Northern Ireland.
- ▶ Online agencies have been around for some while in the UK, with limited success. Purplebricks has spearheaded a doubling in the non-bricks and mortar market in less than a year. It already has a national share in online of 60%, with 85% achieved in the areas where they first launched.
- ▶ It has established dominance of the fledgling online agency providers. They have very limited technology and do not have Local Property Experts. Purplebricks has invested heavily in technology and has a nationwide team of local property experts (LPEs, 89% licenced, 11% employed) who are there to support the seller and landlord throughout the whole process. These professionals also benefit from extensive development and training. The service launched in mid April 2014 with some 20/30 LPEs, growing steadily and rapidly from January 2015 to 170+ to date. Thus the crucial metric for volume is the rapidly expanding LPE capacity. The model is very attractive to professionals in the market looking for a more entrepreneurial career path. Growth in LPEs is anticipated to be rapid. We consider the rate of expansion (broadly arithmetic) illustrated below to be conservatively achievable.

Growth in estimated number of LPEs						
Year end April	2015	2016E	2017E	2018E	2019E	2020E
LPEs ave in year	35	153	310	420	560	730
Number of instructions	4,330	19,200	43,000	57,000	76,000	100,000

Source: Purplebricks; Hardman & Co estimates

- ▶ We model a potential revenue five years out (2020) of £130m, driven by this LPE growth and a modest level of growth in income per instruction.
- ▶ This quantum would equate to some 7% of total market transactions – by volume. On top of this, Purplebricks intends shortly to address the lettings market, adding significant and closely allied potential. This is not included in our estimates. We estimate that £130m would, by market revenue size (as opposed to transaction numbers) comprise somewhat over 3% of the UK total.
- ▶ The average fee will rise as the business improves its penetration of the London market and increases the cross selling of complementary services.
- ▶ Our profit estimates are based on gross margins broadly constant at 60% (up from 55% current year and 59% last year); EBITA margins rising to 16% next year and expanding to 39% 2020 illustrative. In addition to overheads, the model assumes ongoing marketing spend of £12-14m pa and excludes the significant likely income from the lettings offering about to be taken to market.
- ▶ Valuation: 13.9x 2018 (April) profits after tax; 9.3x 2019; 6.3x 2020, allowing for dilution. Rating to sales is 4.9x next years' revenue. See fuller analysis, page 17.
- ▶ Purplebricks' expansion has been cash consuming and our model indicates c£10m operational cash outflow this year, with a £8.3m cash inflow 2017. This is post the marketing spend of an estimated £12m. At end 2017 (year to April), Purplebricks would thus hold over £35m cash on the balance sheet with no debt.
- ▶ Purplebricks has raised £58.1m gross, of which £22.8m net is for the company. Post admission, 28.7% of shares are held by Woodford Investment funds; 17.0% of shares will be held by Michael Bruce (founder and CEO) and 12.6% by other directors and senior management (including founder, Kenny Bruce).
- ▶ The management team brings public company experience, estate agency expertise and a track record of building fast growing businesses. The company was founded by brothers Michael and Kenny Bruce, who ran the estate agent Burchell Edwards before its sale to Connells in 2011. The chairman is Paul Pindar, well known to investors from his successes at Capita, now a FTSE company.
- ▶ The funds raised in the IPO enhance the company's ability to invest in growth. In particular, it will enable faster growth in lettings, London, Scotland, international markets and technology. The IPO will also facilitate recruitment, retention and incentivisation of the team; and indeed is attractive for LPEs to see. No other online agency can offer shares or options in a public company. In addition it will raise the company's profile and brand awareness.
- ▶ The risks to the business include the typical macroeconomic ones of the housing market, together with the possibility of regulatory change (although it is difficult to envisage how this might hurt Purplebricks). Other factors to be aware of are the rate of adoption, new competitors, the quality and rate of growth of the LPE force and, finally, the key man risk; these risks seem small and manageable.

Hybrid estate agency success

The perfect combination for today's house sellers

Purplebricks' hybrid model combines online technology that makes things happen instantly 24 hours a day with local property expert (LPE) professionals to provide sellers with everything they would expect from an estate agency service. The Purplebricks offering gives 24/7 visibility and control to sellers with access to their LPE and a team of other professionals around the clock. In fact Purplebricks describe themselves as:

This is THE UK's 24 hour estate agency

"A national property business driven by a mix of professional local property experts, market-leading technology and customer facing software that is changing the experience of selling, buying and letting property. We are rapidly becoming a major brand through extensive advertising and marketing, by exceeding customers' expectations and by charging a fraction of the traditional cost."

Potential house sellers pay a non-refundable fixed fee of £665 (+VAT) outside London when placing their property on the market with Purplebricks. This compares to the average estate agency fee of £4,425. For this fee they get access to Purplebricks' technology enabling them to check the progress of the sale, and review adverts, viewings, feedback and offers instantly. A booking with the LPE can be made 24 hours a day. He will provide an initial valuation and continuing market advice and support. For an extra (and modest) fee he can also accompany viewings. There are also a team of Central Property Experts who are on hand 24 hours a day.

The Purplebricks model has the flexibility to provide a tailored service to the confident seller who is comfortable handling some of the process themselves through to the less confident who want to leave the process to a professional, all without the need for the expensive 'bricks & mortar' of traditional estate agents. This flexibility is combined with 24/7 access for the customer. In fact the company claims that some 70% of customer activity occurs when other estate agencies are closed.

Purplebricks offers other complementary services which sellers (and buyers) typically need at the time of a transaction, such as the production of an Energy Performance Certificate, conveyancing, mortgages and even plumbing protection or telephone/TV/broadband offers. This results in the typical fee paid being slightly over £1,000 (+VAT), we estimate. We believe that they also earn significant additional revenue on conveyancing, mortgages and insurance.

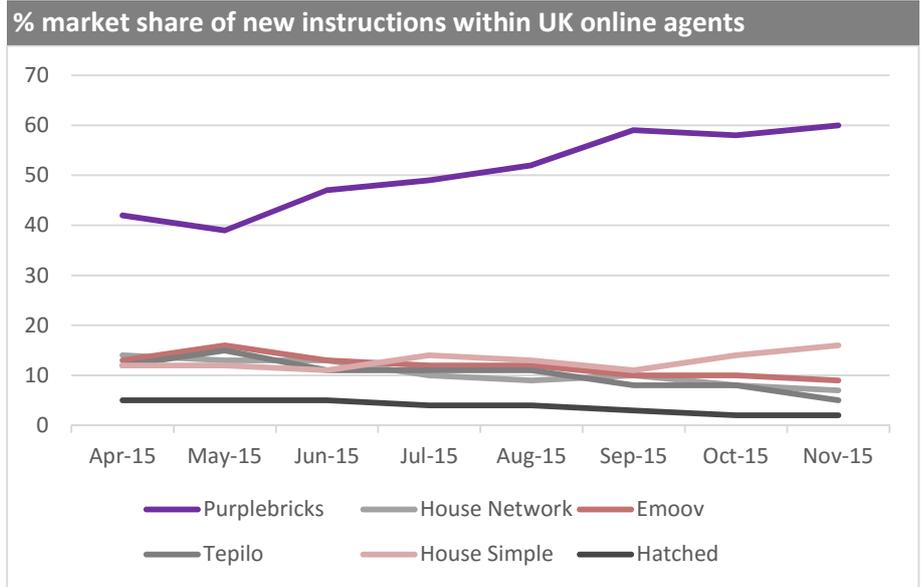
Revenue per instruction just over £1000 (+VAT) non refundable

The proof of the hybrid model

The attraction of the service to consumers is well demonstrated by the success of Purplebricks since it launched in April 2014. Purplebricks is already a major nationwide agency. The company's first mover advantage in the unique hybrid model has made it the 'go to' destination online. In fact, it dominates the online market as evidenced by the statistics in the chart overleaf, which shows that Purplebricks has over 60% market share of new online instructions.

60% share of new online instructions

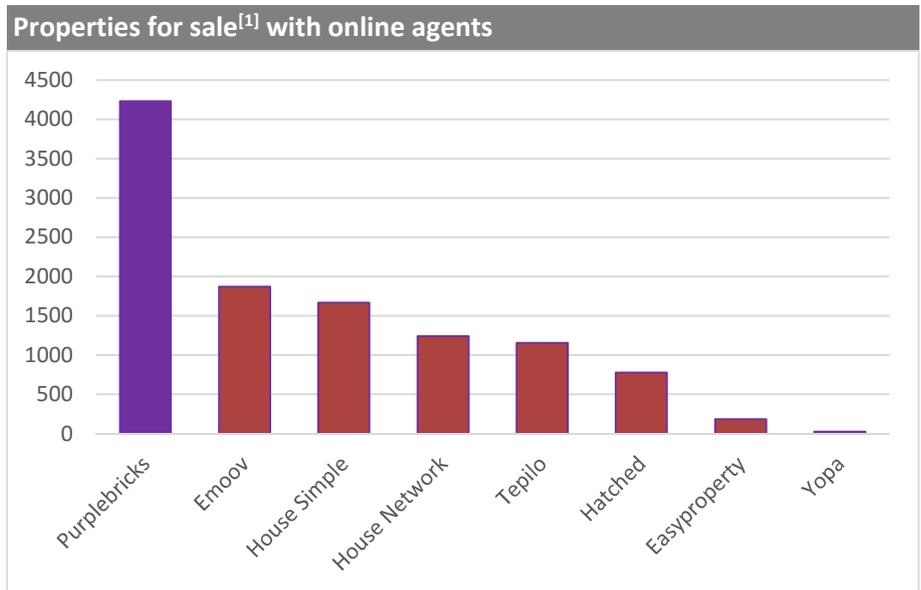
Clearly established first mover advantage – excellent leading market share progression



Source: Rightmove

Another measure of the appeal of the Purplebricks model is to consider its share of properties for sale among the online agencies. The Company also contends that in addition to having more properties on the market they also sell their properties faster than all these online estate agents.

Largest online player by far



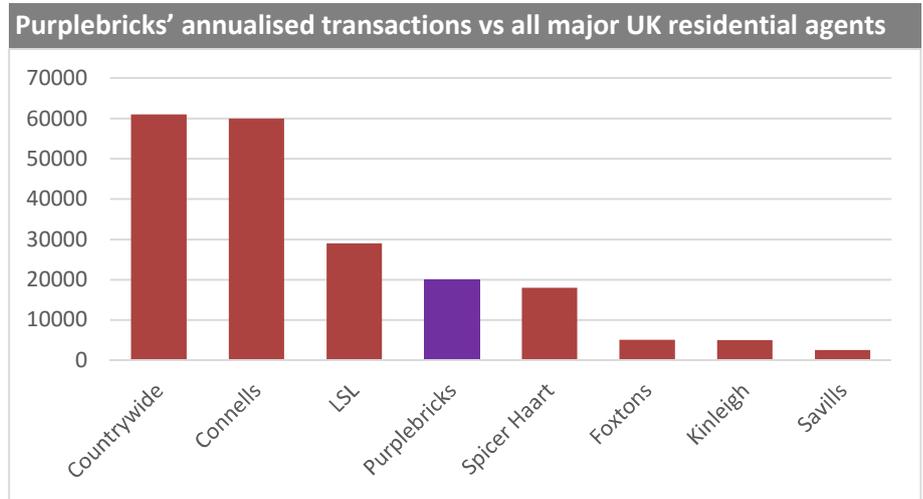
Source: Purplebricks

[1] Listed for sale as of 18 November 2015. Purplebricks: 4232 properties for sale

Furthermore Purplebricks has achieved leading status within the UK’s established agents, ranking fourth, beaten only by Countrywide, Connells and LSL, as outlined below. This chart compares instructions received in September by Purplebricks with estimated completions by the other agents. This seems a fair comparison because Purplebricks is paid on instruction, whilst a traditional agent is paid on completion. Of course Purplebricks’ turnover will not compare as its revenue per instruction is below the other agents’ revenue per completion: that is the benefit to the vendor.

The point is the momentum and visibility – which feeds on itself and is supported by marketing spend.

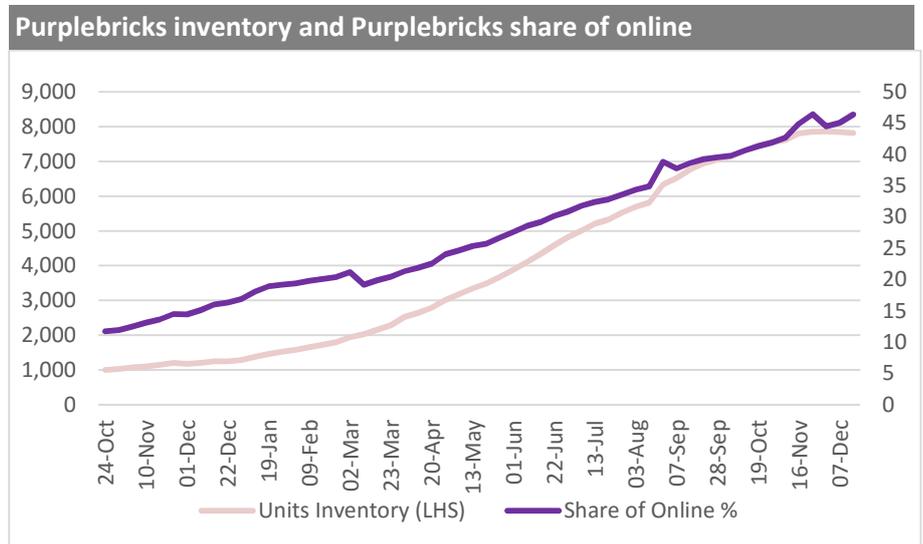
4th largest UK estate agent



Source: Purplebricks

Today since up to 90% of UK property is sold after a search on Rightmove, Prime Location, Zoopla, the internet is 'baked in' to housing transactions. Purplebricks takes this new dynamic to its logical conclusion.

We illustrate below the Purplebricks' progression. This comprises inventory (including sold subject to contract) and is measured compared to all online stock.



Source: Purplebricks

The online leader in volume and trust

Not only is Purplebricks the online market leader, but it is also the most trusted brand

Excellent ranking on Trustpilot

- ▶ Trustpilot, the online review portal rates Purplebricks at 9.4 rated, i.e. excellent. Crucially the brand has received approaching 6 times the number of reviews of its nearest competitor, from over 3,100 independent customer reviews.

- ▶ Since September 2015 Purplebricks has been the leader in Google searches for 'high street' agents – ahead of Foxtons, Connells and Haart, amongst many others.
- ▶ Since January 2015 (when the number of Local Property Experts started to grow) Purplebricks has been the leading search for all online operators.

Attraction to LPE partners is clearly demonstrated by the growth in LPEs working with Purplebricks

The model is very attractive to partners as well

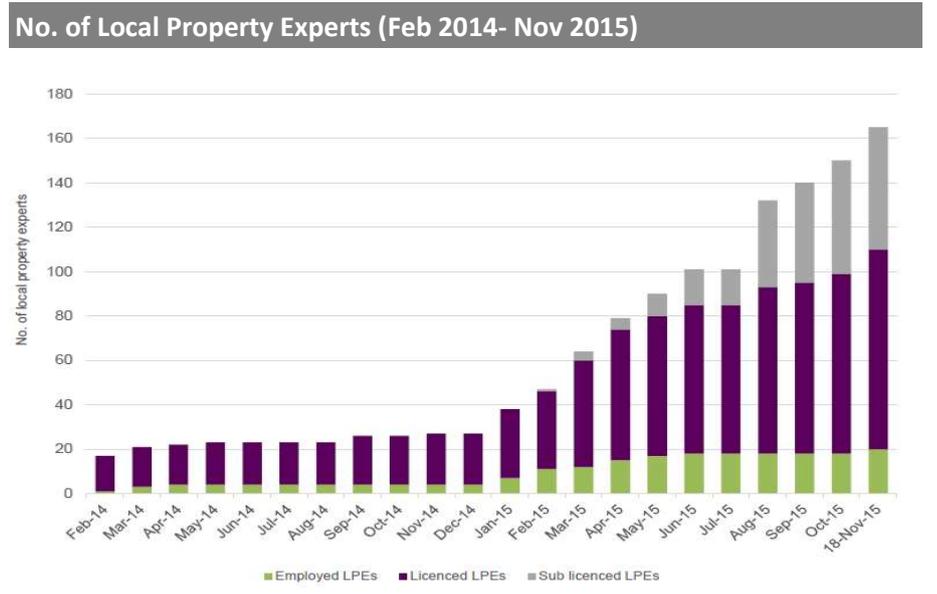
Not only does the Purplebricks proposition appeal to consumers, but it is also attractive to estate agency professionals who want to strike out on their own. It is generally estimated that establishing a typical High Street estate agency cost upwards of £200,000 before it turns a profit and the average agent will then earn £50-75k per annum.

All LPEs go through a two week training program and then receive ongoing support to ensure service quality is high. Purplebricks' LPE partners enter into a business relationship which may seem to offer a relatively modest income per instruction, but, given that the vendor pays the fee on instruction, there is a certainty to the flow of revenues which other estate agencies lack; in fact as many as half of all transactions at other agencies fail before exchange. Not only is the flow of fees more certain, but the chances of a transaction occurring (with the prospect of ancillary income) are much higher since the Purplebricks' model discourages timewasters and 'tyre kickers'. The LPE also earns considerable additional income from conducting viewings, arranging conveyancing, mortgages and insurance. LPE's earn more than they do as a traditional bricks and mortar estate agent on average.

On average an LPE has the potential to earn over £50,000 or more per annum and have a much more flexible lifestyle. Importantly this is all for no upfront capital. A further attraction is that LPEs can manage sub LPEs within their region, boosting that earning capacity. A further incentive which the IPO brings is the potential in the future for LPE's to earn equity in the business.

The attractions of the Purplebricks model can be seen in the growth of LPEs as the chart below shows. Today 11% of LPEs are employed with the remainder being self-employed.

Impressive LPE growth continues



Source: Purplebricks

Purplebricks – an enviable position

Purplebricks' first mover advantage has enabled it to establish a 60% share in online estate agency – indeed, it has had the leading share virtually from inception. Its hybrid model has driven this and differentiates it clearly from pure online. The hybrid model offers an attractive solution to a major structural problem in the UK 'traditional, bricks and mortar' based estate agents. Their fixed costs and inability to offer a full 24/7 interaction with the customer has handicapped them. Consumers are looking for a substantially lower cost solution with ease of use in managing the sale. The model also attracts entrepreneurial estate agents who have perhaps wanted to run their own businesses but have not had the capital, brand or personal circumstances. In summary, it combines an appealing proposition for vendors and partners which disrupts the traditional model.

Where and when income is derived

The ultimate aim is to make the Purplebricks' hybrid model, the most widely accepted, popular and effective way to sell or let a property. Purplebricks has only just launched its lettings service in London (July 2015) which offers a part managed and fully managed service for Landlords. This will not only provide a recurring monthly income for the business but also relets in addition to new lets.

A strong demographic also helps the brand momentum

Currently, sales instructions derive from a demographic which generally has had some previous experience of the house selling process, typically vendors are 45+ years old and with a house sale value above the national average. The process is designed to appeal to all, with early adopters among the more sophisticated (and demanding) clients. It is therefore unsurprising that 70% of Purplebricks 'traffic' happens when estate agents are closed. The benefits to vendors are that the whole sale process from the initial valuation to agreeing an offer can be managed 24 hours a day, which increasingly fits with people's lifestyle, unlike estate agencies which still have restricted opening hours.

Payment of £665 +VAT at the initiation and a weighted total payment of a little over £1,000 per instruction

The sales fee 'upfront' is £665 (or £965 in inner London) +VAT, which of course we exclude from turnover. In addition the company offers other ancillary services at further cost. The table below shows the fee schedule and the take-up of ancillary services assumed in our model.

Calculating the average fee		
Unit economics	UK ex London	London
Revenue per instruction	£665 100%	£965 100%
EPC revenue	£70 40%	£70 40%
Accompanied viewings revenue	£110 30%	£110 30%
Other income: various weightings	various	various
Combined average fee	£1,020	£1,320

Source: Purplebricks; Hardman & Co estimates

Rising over time as a function of geography (London) and also additional services...

Other income comprises 1) Conveyancing revenue; 2) Mortgages revenue; 3) Sky and Virgin commission; 4) Other. These potential income streams are weighted as they clearly will not be applicable to all instructions.

.... We do not model for rises in fees but these may transpire...

Our model using these weighted contributions from all services produces an average fee of £1,080 per instruction currently. We see scope for the total income per transaction to rise over time, partly as the mix to inner London rises and partly as more services are selected by clients. London (and Scotland) were the last two regions to go live. Lettings will be launched across the UK and will become a core offering as it scales.

When income is received

There is an important cash flow positive arrangement here.

The customer commits to pay their fees when they instruct Purplebricks. They can choose to either pay immediately or to defer the cost until the earlier of sales completion or 10 months after instruction. This is an arrangement with Close Brothers which pays Purplebricks the day after instruction. There are no credit checks required by Close Brothers, but customers are required to use Purplebricks' conveyancing service.

The arrangement with Close Brothers gives Purplebricks working capital flexibility, which is unusual for such a growth orientated model. Indeed, we anticipate the business becoming cash generative in the early part of the year to April 2017.

Potential size of Purplebricks' market

A large but inefficient market

A £4bn+ market just in sales – Purplebricks' will in due course also extend to lettings

The UK residential property market is estimated to generate £4.4bn of estate agency fees per annum, with lettings representing a substantial additional market. With the average UK housing transaction being £204,674, the average estate agent's commission to sellers on completion of 1.8% (including VAT) amounts to £4,425. Total annual transactions are running at some 1.4m or more (not all through agents) so, simply estimated, the order of magnitude of the agency sales fees is in excess of £4bn (although not all transactions involve an estate agent). Transactions peaked at 2.3m (England and Wales data) in 1987 and averaged 1.3m per annum since the 1990s.

The hybrid nature of Purplebricks model has been key to its success. Momentum and credibility is of particular importance to an online service business. Clients will gravitate to the most 'liquid' venues. Purplebricks' share within the online agents (of which it is the largest) is 2.25x the size of the next largest (Emoov) by properties for sale and 3.7x (House Simple) by new instructions.

In the past six months, Purplebricks has grown share of new instructions (among the online agents) from 42% to 60%

In the past six months, Purplebricks has grown share of new instructions (among the online agents) from 42% to 60%. Four of the next five have seen market share fall and only House Simple has experienced growth - from 12% to 16%.

As house sellers and buyers conduct more of their transactions online, we believe that Purplebricks will be able also to grow revenue at a rapid and consistent quantum, whilst maintaining a target market share of online at or even above its current 60%. With first mover advantage it is difficult to argue for a market share reduction.

The UK market is particularly open to a disruptive new entrant taking substantial market share. Rightmove, founded in 2000, did this in its platform. Purplebricks is at the start of doing it in online agency.

Our model assumes Purplebricks' market share of 7% by 2020, generating 100,000 transactions from a total market of 1.4m. Adding other services to the basic fee of £665 (outside London) and taking into account the higher London fee, we model just over £1,000 income per instruction (+VAT). The table below illustrates the group revenue on 100,000 and 200,000 transactions and on revenue per instruction running at the estimated current levels of £1,080 and (more plausibly) £1,300. The increase to £1,300 would reflect a higher proportion of London instructions and/or greater income from the existing portfolio of other services. The model makes no allowance for the planned expansion to a lettings service. Our Financial Analysis section provides our full estimates for each year to 2020.

We model a market share of 7% of total UK transactions at the end of our modelling period

The table below provides a matrix of potential revenue scenarios. The first two scenarios illustrate Purplebricks' market share at 7% of the total, being a combination of Purplebricks maintaining a strong market share within online and driving online as a higher portion of the total market. We see every possibility of Purplebricks benefitting from even higher online share (driven by its hybrid model) and thus illustrations [C] and [D] show higher levels of turnover.

Sales of £130m would generate over £50m PBT after robust marketing spend

Our core model is for income to reach £130m, with £51m PBT by 2020. This is a Hardman & Co estimate.

Illustrative Purplebricks' revenue 2020 (excluding lettings income)

	Total market share	Instructions	Sales/instruction	Purplebricks sales
[A]	7%	100,000	£1,080	£108m
[B]	7%	100,000	£1,300	£130m
[C]	14%	200,000	£1,080	£216m
[D]	14%	200,000	£1,300	£260m

Source: Hardman & Co estimates

[A] Our core projection of volumes (online 12% of transactions and Purplebricks 60% share of online) and current average fee levels

[B] The same volumes as [A] but a richer mix to London, slightly more add-on services and nil fee inflation

[C] and [D] Volumes: online takes 25% and Purplebricks just under its current 60% of total online

By 2020 Hardman & Co estimate between £110m and £260m sales are achievable. We model for £130m, with scope to raise our target.

Management

The management team of Purplebricks brings a combination of public company experience, estate agency expertise and a track record of building fast growing businesses. The company was founded by brothers Michael and Kenny Bruce, who ran the estate agent Burchell Edwards before its sale to Connells in 2011.

Board

*Experience of growing
quoted stocks to FTSE
100 status*

Paul Pindar, non-executive chairman. Paul is best known as the former Group CEO of Capita PLC, which he joined in 1987. The business was floated in 1989 with a market capitalisation of £8m, which had grown to £7.5 billion by the time he stood down in February 2014. He acts as senior advisor to TowerBrook Capital Partners as well as chairman of ICS (TowerBrook), Integrated Dental Solutions (Carlyle) and ITC Luxury Travel Group.

Paul was a founder investor and NED of Purplebricks.

*Deep industry
expertise*

Michael Bruce, founder and CEO. Michael qualified as a solicitor and went on to become managing partner of two law firms. He was subsequently CEO and chairman of the Burchell Edwards estate agency group, before founding Purplebricks.

Neil Cartwright, Chief Financial Officer. Neil brings 20+ years of experience as a chartered accountant to the business, along with eight years at Capital where he was responsible for the Local Government and Education sector businesses. He completed the IPO of IFTE plc on AIM in 1999. Neil joined Purplebricks in January 2015.

Nick Discombe, non-executive director. Nick has been an advisor and board member of a number of private equity backed businesses since 2007, having previously been CEO of Witness Systems, an Atlanta based business, which was sold for \$1 billion in 2007.

IPO, fund raise & use of proceeds

Admission statistics

Placing price	100p
Shares post placing	240.3m
Fully diluted shares	255.0m
Placing shares	58.1m
New ordinary shares	25.0m
Net proceeds received by Purplebricks	£22.8m

Source: Purplebricks' admission document

The funds raised in the IPO enhance the company's ability to invest in growth. In particular it will enable faster growth in:

- ▶ Lettings
- ▶ London
- ▶ Scotland
- ▶ International
- ▶ Technology

This will allow Purplebricks to build on its current momentum and market share. The IPO will also facilitate recruitment, retention and incentivisation of the team; no other online agency can offer shares or options in a public company. In addition it will raise the company's profile and brand awareness.

Selected shareholdings (% prior to Admission; post Admission and share issuance)

DIRECTORS:

Michael Bruce	23.9	17.0
Neil Cartwright	0.4	0.0
Paul Pindar	5.0	4.5
Nick Discombe	3.9	2.7
William Whitehorn	0.8	0.5

HOLDERS OVER 3% post flotation

CF Woodford Investment Fund	26.5	19.9
Woodford Patient Capital Trust	4.1	8.8
Kenny Bruce	7.0	5.0
Old Mutual GI	0.0	6.5
Artemis Asset Management	0.0	4.4
Fidelity Investment International.	0.0	3.4

Source: Purplebricks' admission document

Approximately £33.1m is being sold down by existing investors, less than 20% of their aggregate stake in most cases. Post-IPO the management and related parties will be subject to a hard lock-up for 12 months, followed by a 12 month orderly market provision. For other shareholders these periods are 6 months and 6 months respectively.

Risks

Any business involved in the housing market is inevitably exposed to the macroeconomic risks of that sector, such as consumer confidence, interest rates, mortgage availability and, even, changing tax approaches.

Beyond the macroeconomic perspective we consider the main risk for Purplebricks to be the reliance on third party portals, such as Prime Location, Rightmove and Zoopla, for its listings. It does not compete with portals' businesses but it does list all its properties on these sites. Purplebricks pays a fixed fee to use these sites, but it is possible they might change their models. However, comfort can be taken from the fact that Rightmove has not changed the terms to estate agents who use the new 'onthemarket.com'.

There is the possibility of regulatory change in the housing market, although the previous Government's experience with the failure to make the 'Home Information Pack' compulsory in England and Wales, as envisaged in the Housing Act 2004 will discourage it. It seems unlikely that such change would negatively impact a service that cuts transaction fees by 85%.

Momentum and adoption are critical to online businesses such as Purplebricks. It is always difficult to judge the speed of adoption, but the evidence (viz Rightmove) is that the property market is very similar to others which have seen their shape change dramatically in a short span of time.

It is possible that a new competitor could evolve. Given Purplebricks first mover advantage and the cost of getting to the same stage (£40m so far) this seems an outside possibility.

Purplebricks' model relies on Local Property Experts (LPEs). Getting the right quality of candidates, particularly those running a region is critical.

Purplebricks has a limited financial history and has experienced rising losses, as per budget, with marketing historically running at circa 1x revenue. We see marketing costs as core to the business. However, it has succeeded in growing market share to the largest in the online sector and, whilst we see the marketing spend rising (from estimated £12.4m current year to £14m for later years within our forecasting period), the proportion to sales should fall rapidly and significantly.

Finally, the management team at Purplebricks has been key to its success. There is some key man risk but this is reducing as the business grows.

Valuation

There is strong visibility to profitability at PBT level in FY17 (to end April). With 170+ LPEs currently, we consider around 250 to be the number which would likely generate sufficient revenue to achieve breakeven. If growth continues at an arithmetic rate of only half that of the recent months, this level of breakeven would be attained by the close of calendar 2016.

In understanding how to value Purplebricks we have considered the most recent revenue growth rates of Rightmove (low teens) and Zoopla (low 30s%), which compares to Purplebricks' 176% in the following financial year and a minimum of 30% estimated sales growth in any year in our modelling period (to 2020).

In our modelling period, sales growth remains at or above the growth at our 'comparison' stocks

With growth in various metrics sustainable well beyond 2020 at twice the rate of those shown at Rightmove's latest interims, we consider that Purplebricks' investment valuation ratings should be considered at or above those of Rightmove. Like Purplebricks, Rightmove's balance sheet is characterised by modest tangible assets and a net cash position. Rightmove shares are trading at 35.4x historic PE and 30.0x current year consensus forecasts. Zoopla trades on a multiple of 28.7x historic PE (Adjusted).

It is, therefore, not unreasonable to envisage Purplebricks potentially trading on 30.0x PE of 2018 during that year. Earnings (post tax) of £17.7m equate to £530m market capitalisation on this 30x multiple. In turn, this would imply 37% CAGR (to April 2018 valuation target date) from the current valuation. This illustrative fiscal 2018 valuation and the appropriate CAGR rate of return between flotation and fiscal 2018 do not constitute a price target. Nonetheless, on this particular basis of comparison, which we deem relevant, the investment proposition does appear to have substantial logic.

We compare PEs using Purplebricks' 2018 estimates

Purplebricks is at an earlier stage of development compared to Rightmove and Zoopla. We note it trades at 4.9x 2017 (April year end) revenue multiple. For comparison, the table below states Rightmove and Zoopla sales multiples based on historic revenue.

Purplebricks on 4.9x 2017 sales, well below HISTORIC levels at our 'comparison' stocks

Comparable valuations: multiple historic sales

£m	Sales	Mkt cap	Multiple
Rightmove (December 2015 consensus £m sales)	193	3792	19.6x
Zoopla (September 2015 £m sales actual)	108	950	8.8x

Source Rightmove and Zoopla

Note, our EV calculation, page 1 is based on end April 2016 (next financial year end) net debt and undiluted market capitalisation at flotation price

Financial analysis

ALL FORWARD ESTIMATES ARE HARDMAN & Co

Income account						
Year end April £m	2015	2016E	2017E	2018E	2019E	2020E
LPEs	35	153	310	420	560	730
No. instructions	4,330	19,200	43,000	57,000	76,000	100,000
£ per instruction	784	929	1145	1250	1300	1300
£m						
Turnover	3.4	17.8	49.2	71.2	100.0	130.0
Gross profit	2.0	9.8	29.5	42.7	60.0	78.0
GP margin %	59	55	60	60	60	60
Overheads	-4.1	-8.1	-9.5	-11.0	-12.5	-13.0
Marketing	-3.4	-12.4	-12.0	-12.8	-13.5	-14.0
EBITA	-5.4	-10.7	8.0	18.9	34.0	51.0
EBITA margin %	loss	loss	16	27	34	39
Interest	0	0	0	0	0	0
PBT	-5.4	-13.1	8.0	18.9	34.0	51.0
PAT	-5.4	-13.1	8.0	17.7	26.5	38.8
Tax rate %	0	0	0	6	22	24

Source: Purplebricks; Hardman & Co estimates

Cashflow				
Year end April £m	2015	2016E	2017E	2018E
EBITDA	-5.4	-10.7	8.0	18.9
Trade and other receivables/ payables	0.5	0.4	0.3	0.2
Net cash from operating activities	-4.9	-9.9	8.3	19.1
Funds from share issue	8.1	32.6	0.0	0.0
Net cashflow	3.2	22.7	8.3	19.1
Cash year end	4.6	27.3	35.6	54.7

Source: Purplebricks; Hardman & Co estimates

Balance sheet				
Year end April £m	2015	2016E	2017E	2018E
Fixed assets	0.1	0.3	0.3	0.3
Cash	4.6	27.3	35.6	54.7
Net current assets non cash	-0.4	-0.9	-1.0	-1.0
Net assets	4.3	26.7	34.9	54.0

Source: Purplebricks; Hardman & Co estimates

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