

Rightmove and Zoopla

Hang in there

Ahead of the launch of Agents' Mutual (AM) on Jan 26th, early trends are beginning to emerge. It seems that AM are targeting Zoopla, with c.80% of the 800 defectors to announce their intentions so far sticking with Rightmove and dropping Zoopla. We update our forecasts to reflect these trends, lowering Zoopla EPS by c.10% in FY15E and leaving Rightmove numbers unchanged. Our Zoopla PT falls to 250p. It is understandable that the market is worried about Zoopla in particular (shares down 30% vs. FTSE 250 in the last three months) and there are short-term question marks on the scale of customer loss and pricing reaction. We believe that AM won't get the consumer traction it needs. Therefore, we see a re-rating opportunity for both as the market refocuses on the attractive medium-term growth, which we think is what should drive the multiple. In the short term, we prefer Rightmove.

Early Agents' Mutual trends seem to be in favour of Rightmove: c.800 of the 4,000 agent branches that are signed up to AM have announced which of Rightmove or Zoopla they will drop when the AM site goes live on Jan. 26th. It appears the strategy is to target Zoopla: c.80% of the 800 will drop Zoopla and only c.20% will drop Rightmove. We think this is disappointing for Zoopla, who could have hoped for better given they were perceived to have a relatively stronger position in London (where AM is focused) vs the rest of the UK due to the PrimeLocation brand.

We update our 2015E forecasts to reflect early trends: Previously, we had assumed that only 2,500 branches left Rightmove or Zoopla for AM, Rightmove losing 1,000 and Zoopla 1,500. We now 1) opt to be more conservative, assuming 4,000 branches in total will leave; and 2) assume that the early trends we have seen continue through the entire 4,000 population. We assume 75% or 3,000 agents leave Zoopla and 25% or 1,000 leave Rightmove. We also now assume an even more modest ARPA increase for Zoopla in FY15E (£24 year on year increase in FY15E vs £49 in FY14E), which factors in some modest price discounting. This leads us to downgrade our Zoopla EPS forecasts by 10% in FY15E and 8% in FY16E. Our Rightmove numbers are unchanged.

Key driver of multiple is the medium-term growth profile: We revisit the arguments in detail inside the note as to why AM will not gain traction and therefore that the outer year growth forecasts in our Rightmove and Zoopla models are valid. We believe Rightmove can generate an 11% EPS CAGR from 2014-21E and Zoopla 20%. Our work in this note comparing this type of through-the-cycle growth to the rest of the sector (see Figure 11, page 13) suggests there is a material re-rating opportunity (particularly for Zoopla) if the market can be convinced that these growth rates are achievable.

Rightmove the safer option short term: There is a question mark on near-term Zoopla numbers. We are 5% below consensus in FY15E and FY16E and do not expect the Q1 IMS to answer all the short-term questions. In contrast, at their FY results, we expect Rightmove to reiterate the guided £60-70 ARPA increase and to show only modest customer churn. Short term, we prefer Rightmove, where there is more certainty.

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 24.

INDUSTRY UPDATE

European Media

POSITIVE

Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

European Media

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Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	16-Jan-15	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
European Media	Pos	Pos										
Zoopla (ZPLA LN / ZPLAZ.L)	OW	OW	160.0	290.0	250.0	-14	8.1	7.3	-10	9.9	9.0	-9

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.

FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.

Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended

Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

European Media	Industry View: POSITIVE
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Rightmove Plc (RMV.L)	Stock Rating: OVERWEIGHT
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Income statement (£mn)	2013A	2014E	2015E	2016E	CAGR
Revenue	140	165	182	197	12.1%
EBITDA (adj)	105	124	135	147	11.7%
EBITA (adj)	104	122	134	145	11.8%
EBIT (adj)	104	122	134	145	11.8%
Pre-tax income (adj)	104	122	134	145	11.8%
Net income (adj)	81	97	107	116	12.7%
EPS (adj) (GBP)	81.1	99.1	111.2	122.3	14.7%
EPS (adj) pre-buyback (GBP)	81.1	95.2	103.8	111.0	11.0%
Diluted shares (mn)	102.4	102.4	101.2	99.9	-0.8%
DPS (GBP)	28.0	34.2	38.4	42.2	14.7%

Price (16-Jan-2015) **GBP 2,155.0**
 Price Target **GBP 2,500.0**

Why Overweight? Rightmove has good structural growth potential and the story is supported by impressive buybacks.

Upside case **GBP 3,000.0**

Should Rightmove lose less customers than expected to Agents Mutual and deliver a higher ARPA increase, it could see 15% revenue growth in 2015E. We assume a similar cost base, and a slightly higher multiple, applied to 2015 forecasts to derive our upside case of 3,000p.

Downside case **GBP 1,750.0**

If Rightmove's customers will only accept a small increase in 2015E and AM takes share, we could see revenue growth slow to less than 10%. This would also mean a lower multiple. Downside of 1,750p.

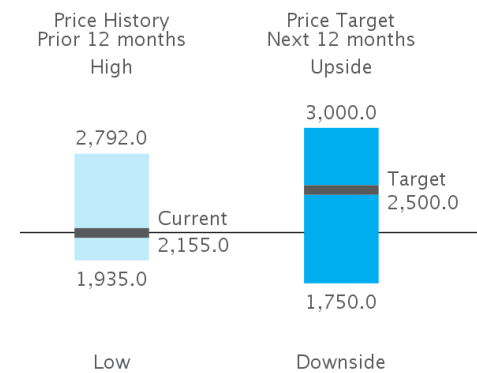
Margin and return data	Average				
EBITDA (adj) margin (%)	75.2	75.1	74.4	74.4	74.8
EBITA (adj) margin (%)	74.3	74.3	73.6	73.6	74.0
EBIT (adj) margin (%)	74.3	74.3	73.6	73.6	74.0
Pre-tax (adj) margin (%)	74.3	74.3	73.7	73.6	74.0
Net (adj) margin (%)	58.1	58.8	59.0	59.0	58.7
ROIC (%)	1,064.4	1,066.7	1,320.9	978.9	1,107.7
ROE (%)	1,082.7	1,086.9	1,193.8	815.1	1,044.6

Balance sheet and cash flow (£mn)	CAGR				
Tangible fixed assets	2	2	4	6	55.2%
Intangible fixed assets	2	2	2	2	6.3%
Cash and equivalents	7	5	7	5	-8.5%
Total assets	39	42	49	51	9.9%
Short and long-term debt	0	0	0	0	N/A
Total liabilities	30	34	37	40	10.3%
Shareholders' equity	9	8	12	12	8.9%
Net debt/(funds)	-7	-5	-7	-5	N/A
Change in working capital	-1	0	0	0	N/A
Cash flow from operations	83	98	109	118	12.5%
Capital expenditure	0	0	0	0	N/A
Free cash flow	82	96	107	116	12.2%

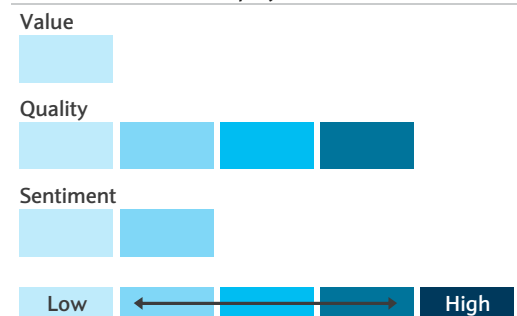
Valuation and leverage metrics	Average				
P/E (adj) (x)	26.6	21.8	19.4	17.6	21.4
EV/sales (x)	15.6	13.3	12.0	N/A	13.6
EV/EBITDA (adj) (x)	20.8	17.7	16.2	N/A	18.2
FCF yield (%)	3.7	4.4	4.9	5.4	4.6
Dividend yield (%)	1.3	1.6	1.8	2.0	1.7
Payout ratio (%)	34.5	34.5	34.5	N/A	34.5
Net debt/EBITDA (adj) (x)	-0.1	0.0	-0.1	N/A	-0.1

Selected operating metrics	2013A	2014E	2015E	2016E
Organic sales growth (%)	17.2	17.8	10.3	8.5

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research
 Note: FY End Dec

European Media	Industry View: POSITIVE
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Zoopla (ZPLAZ.L)	Stock Rating: OVERWEIGHT
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Income statement (£mn)	2014A	2015E	2016E	2017E	CAGR
Revenue	80	85	97	116	13.0%
EBITDA (adj)	40	42	51	68	19.6%
EBITA (adj)	39	42	51	67	19.6%
EBIT (adj)	39	42	51	67	19.6%
Pre-tax income (adj)	34	39	48	64	23.4%
Net income (adj)	27	31	38	51	24.3%
EPS (adj) (GBp)	6.4	7.3	9.0	12.3	24.2%
EPS (adj) pre-buyback (GBp)	6.41	7.26	8.86	11.67	22.1%
Diluted shares (mn)	416.0	426.2	425.6	417.5	0.1%
DPS (GBp)	6.67	3.11	3.88	5.24	-7.8%

Margin and return data	Average				
EBITDA (adj) margin (%)	49.4	49.8	53.1	58.5	52.7
EBITA (adj) margin (%)	49.2	49.6	52.8	58.2	52.5
EBIT (adj) margin (%)	49.2	49.6	52.8	58.2	52.5
Pre-tax (adj) margin (%)	42.7	46.2	49.9	55.6	48.6
Net (adj) margin (%)	33.2	36.5	39.7	44.2	38.4
ROIC (%)	44.7	49.6	61.6	83.2	59.8
ROE (%)	24.8	31.5	32.0	46.3	33.6

Balance sheet and cash flow (£mn)	CAGR				
Tangible fixed assets	1	2	2	2	14.1%
Intangible fixed assets	75	74	72	71	-2.0%
Cash and equivalents	31	54	46	43	11.2%
Total assets	114	136	127	121	2.1%
Short and long-term debt	0	0	0	0	N/A
Total liabilities	16	16	16	16	0.2%
Shareholders' equity	98	120	111	105	2.4%
Net debt/(funds)	-31	-54	-46	-43	N/A
Change in working capital	1	0	0	0	-43.3%
Cash flow from operations	31	35	42	56	21.2%
Capital expenditure	-1	0	0	-1	N/A
Free cash flow	30	34	42	55	22.2%

Valuation and leverage metrics	Average				
P/E (adj) (x)	25.0	22.0	17.8	13.0	19.4
EV/sales (x)	8.0	7.3	6.4	5.4	6.8
EV/EBITDA (adj) (x)	16.1	14.6	12.1	9.2	13.0
FCF yield (%)	4.5	5.0	6.2	8.2	6.0
Dividend yield (%)	4.2	1.9	2.4	3.3	3.0
Payout ratio (%)	104.6	40.0	40.0	40.0	56.2
Net debt/EBITDA (adj) (x)	-0.8	-1.3	-0.9	-0.6	-0.9

Selected operating metrics	2014A	2015E	2016E	2017E
Organic sales growth (%)	22.0	5.6	14.0	19.9

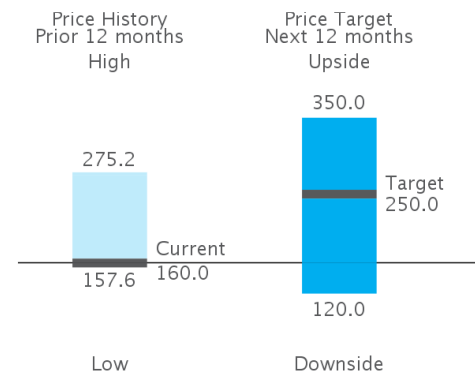
Price (16-Jan-2015) GBp 160.0
Price Target GBp 250.0

Why Overweight? Zoopla has good structural growth potential, potential for margin expansion and we expect the story to be supported by ongoing cash returns. As Agents Mutual concerns abate we expect the shares to rerate.

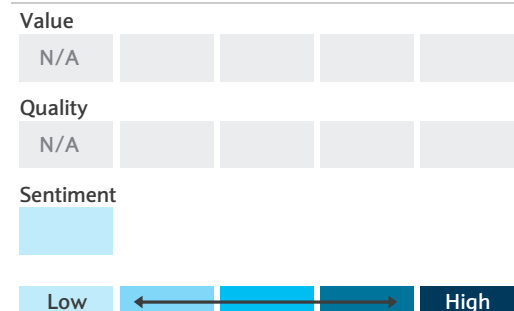
Upside case GBp 350.0
 On an upside case, Agents Mutual concerns abate more quickly than expected and the business rerates in 2016E.

Downside case GBp 120.0
 If Agents Mutual alters the permanent growth profile of the business, the shares could derate further. 120p would represent 11x 2015 EV/EBITDA.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research
 Note: FY End Sep

Early Agents' Mutual indications in Rightmove's favour

Agents' Mutual's site, onthemarket.com, goes live on January 26th 2015. Ahead of the launch, the seven founders and three additional board members have all now announced which of Rightmove and Zoopla they intend to leave in favour of Agents' Mutual. There have also been four other announcements (that we have seen) from agents with a notable number of branches. The early conclusions are as follows:

- **Rightmove is winning:** Of the 14 agency groups / c.770 agent branches who have announced their intentions so far, just over 80% plan to subscribe to onthemarket.com and Rightmove from January 26th and will therefore drop their Zoopla subscription. Only c.20% will stay with Zoopla and will drop Rightmove in favour of onthemarket.com. Essentially it seems that the founders are targeting Zoopla in trying to change their longer-term market positioning, which seems entirely sensible from the agent's perspective. We think it is worth noting that in our view, Spicer Haart is not a typical customer. As one of the largest five players in the market, we believe that Spicer Haart could have been signed up on a longer-term deal by Rightmove. Typically Rightmove gives discounts to the largest players. However, even stripping out Spicer Haart the split is 75% for Rightmove and 25% Zoopla, so clearly still in Rightmove's favour.

FIGURE 1

Breaking down the c.770 agents who have announced their intentions when Agents' Mutual launches

Agent	Number of branches (approx)	Staying with Rightmove?	Staying with Zoopla?
Agents' Mutual founders:			
Chestertons	29		Yes
Humberts	24	Yes	
Knight Frank	57	Yes	
Savills	80	Yes	
Douglas and Gordon	15	Yes	
Strutt and Parker	50	Yes	
Glentree	1		Yes
Other Agents' Mutual board members:			
Spicer Haart	250	Yes	
KFH	50	Yes	
Rook Matthews Sayer	15	Yes	
Other			
Jackson Stops and Staff	44	Yes	
West Wales branches	100		Yes
Winkworth	40	Yes	
CKD Galbraith	12	Yes	
Total	767	637	130
Proportion of Total		83%	17%

Source: Letting Agent Today, Rightmove website, Telegraph, agent websites, Property Industry Eye.

- **Still a small sample size:** Only c.770 agent branches have announced so far out of a population of c.4,000 who have reportedly signed up to Agents' Mutual (the last public figure, the target is 5,000 by launch). The majority of the remaining c.3,200 branches will be from small estate agencies (80% of members have between one and three

branches), who are unlikely to publish a press release with their decision. Indeed, many could well wait until after January 26th until they make their decision.

- **The chances of price aggression from Zoopla must now increase:** Although Zoopla was very clear at its FY results that we should expect little benefit from price in its ARPA increase this year (c.40% of ARPA is price drive, the rest product), the chances of one-off discounting must now be increased given the initial skew in Rightmove's favour. We think it is this possibility of a price reaction that gives the market greatest concern, particularly if one could argue the long-term pricing power of Zoopla with agents has reduced.

Changes to forecasts

Previously we had assumed that only 2,500 branches left Rightmove or Zoopla for Agents' Mutual and assumed the split was 1,000 lost for Rightmove and 1,500 lost for Zoopla. We now opt to be more conservative, assuming that 4,000 branches in total will leave Rightmove / Zoopla.

No changes to Rightmove forecasts

We continue to forecast 1,000 branches being lost to Agents' Mutual and an ARPA increase of £65 year on year in 2015E.

We lower our Zoopla numbers to reflect early migrators

- We now assume that Zoopla will lose 3,000 of its agency customer base in FY15E to Agents' Mutual, equating to 75% of the 4,000 we expect Agents' Mutual to convert in our base case. Starting off a base of 16.4k agency customers from FY14E, assuming 3% market growth and then discounting 3,000 customers lost to Agents' Mutual leaves us with 13.9k agency customers at year end FY15E for Zoopla. By itself this increased churn assumption is worth 7% on EPS in FY15E. We expect customer numbers to rebound in FY16E and are unchanged in our view that Agents' Mutual will not survive (at least exclusively). The downgrade in FY16E is therefore only 5% from this change in churn assumptions.
- We also lower our agency ARPA assumptions in FY15E. Previously we had modelled an agency ARPA of £355 in FY15E, an increase of £32 per year. ARPA increased by £49 in FY14, of which over 50% was driven by product uptake and not price. Assuming a similar level of product uptake in FY15 as in FY14 (i.e. c. £30), implicitly we already had very little price contribution in our ARPA assumptions for next year. We now model an agency ARPA of £347 in FY15E, an increase of £24 year on year, or half of the increase in FY14E. We have concerns over Zoopla's short term response in terms of price given the early swing in favour of Rightmove in terms of which of the two options agents are choosing and we are factoring in some modest discounting in our Zoopla numbers.

Overall our revenue growth assumptions come down by 5% in FY15E and 5% in FY16E. Our EPS estimates come down by 11% in FY15E and 8% in FY16E.

FIGURE 2 Zoopla: KPIs history and forecasts (new vs old)

	FY13A	FY14A	FY15E Old	FY15E New	FY16E Old	FY16E New
Customer Numbers (Period End) (k)						
- Total Agents	15,858	16,373	15,391	13,884	15,698	15,967
- Growth %		3.2%	-6.0%	-15.2%	2.0%	15.0%
- Total New Home Developers	2,539	2,715	2,715	2,715	2,796	2,796
- Growth %		6.9%	0.0%	0.0%	3.0%	3.0%
Total Period End Customers ex Overseas	18,397	19,088	18,106	16,599	18,495	18,763
- Growth %		3.8%	-5.1%	-13.0%	2.1%	13.0%
- Overseas Offices	279	575	863	863	1,035	1,035
- Growth %		106.1%	50.0%	50.0%	20.0%	20.0%
Total Period End Customers	18,676	19,663	18,968	17,462	19,530	19,798
- Growth %		5.3%	-3.5%	-11.2%	3.0%	13.4%
Monthly ARPA (£) (Avg in period)						
- Total Agents	275	323	355	347	403	394
- New Home Developments	206	270	340	340	408	408
- Overseas Offices	139	139	146	146	158	158
Group Monthly ARPA (avg)	264	312	344	336	391	384
YOY increase in Monthly ARPA (£)		49	31	24	47	48

Source: Barclays Research estimates

FIGURE 3 Zoopla: new vs old forecasts

£m	FY15E			FY16E		
	Old	New	Chg %	Old	New	Chg %
---> Agency Revenue	67.7	63.0	-6.9%	75.2	70.6	-6.2%
---> Developer Revenue	11.1	11.1	0.0%	13.5	13.5	0.0%
---> Other Revenue (inc Overseas)	10.6	10.6	0.0%	12.5	12.5	0.0%
Group Revenue	89.4	84.7	-5.2%	101.3	96.6	-4.6%
Operating Costs	-42.5	-42.5	0.0%	-45.3	-45.3	0.0%
EBITDA	46.9	42.2	-10.0%	56.0	51.3	-8.3%
Depreciation	-0.2	-0.2	-0.7%	-0.3	-0.3	-1.7%
Adjusted EBITA ex share based compensation	46.7	42.0	-10.0%	55.7	51.1	-8.3%
Share Based Payments	-2.0	-2.0	0.0%	-2.1	-2.1	0.0%
Adjusted EBITA - inc SBC	44.7	40.0	-10.5%	53.6	49.0	-8.6%
Amortisation of Acquired Intangibles	-1.5	-1.5	0.0%	-1.5	-1.5	0.0%
Adjusted EBITA - Zoopla	43.2	38.5	-10.8%	52.1	47.5	-8.9%
Exceptionals	0.0	0.0		0.0	0.0	
Reported EBIT	43.2	38.5	-10.8%	52.1	47.5	-8.9%
Net Interest	0.7	0.6		0.8	0.8	
Effective Tax Rate	21.0%	21.0%		20.5%	20.5%	
Adjusted Net Income - Zoopla	34.7	31.0	-10.7%	42.1	38.3	-8.9%
Adjusted Net Income - Barclays	35.8	32.1	-10.4%	43.2	39.5	-8.6%
Adjusted Net Income - ex SBC / Amortisation Intangibles / Exceptionals	37.8	34.1	-9.8%	45.3	41.6	-8.2%
Reported Net Income	34.7	31.0	-10.7%	42.1	38.3	-8.9%
Weighted Diluted Average NOSH (ex buyback)	426.2	426.2		432.6	432.6	
Weighted Diluted Average NOSH (inc buyback)	426.2	426.2		425.6	425.6	
Zoopla Adj. EPS diluted before buyback (p)	8.1	7.3	-10.7%	9.7	8.9	-8.9%
Barclays Adj. EPS diluted before buyback (p)	8.4	7.5	-10.4%	10.0	9.1	-8.6%
Adj. EPS diluted ex SBC / A'tisation Intang. / Exceptionals before buyback	8.9	8.0	-9.8%	10.7	9.8	-8.2%
Zoopla Adj. EPS diluted inc buyback (p)	8.1	7.3	-10.7%	9.9	9.0	-8.9%
Barclays Adj. EPS diluted inc buyback (p)	8.4	7.5	-10.4%	10.2	9.3	-8.6%
Adj. EPS diluted ex SBC / A'tisation Intang. / Exceptionals inc buyback (p)	8.9	8.0	-9.8%	10.7	9.8	-8.2%
Dividend per share (p)	3.5	3.1	-10.1%	4.2	3.9	-8.4%

Source: Barclays Research.

Zoopla consensus could come down through the Q1 IMS

We are 5% below Reuters consensus in FY15E and FY16E. We believe that those who have not updated since the FY results are likely to come down as at the Q1 IMS.

FIGURE 4

Zoopla: Barclays vs consensus

	FY15			FY16		
	Barclays	Consensus	Difference	Barclays	Consensus	Difference
Revenues	84.7	88.8	-5%	96.6	101.5	-5%
EBITDA	42.2	44.5	-5%	51.3	54.5	-6%

Source: Reuters, Barclays Research.

A reminder of our key assumptions for 2015

Ahead of Zoopla's Q1 IMS on 12 February 2015 and Rightmove's FY results on 27 February 2015, we thought it would be helpful to outline our key assumptions for this year.

Customer numbers

Rightmove: We expect Rightmove to finish 2014E with 16.9k agency customers. Assuming 3% market growth all other things being equal, this should have increased to 17.4k in 2015E had Agents' Mutual not launched. However, we expect Rightmove to lose c.1,000 agents to Agents' Mutual, or 25% of the 4,000 in total that we expect Agents' Mutual to sign up. This leaves us with 16.4k agency customers at year end 2015E.

Zoopla: Zoopla finished FY14E with 16.4k agency customers. Assuming 3% market growth all other things being equal, this should have increased to 16.9k in FY15E had Agents' Mutual not launched. However, we expect Zoopla to lose c.3,000 agents to Agents' Mutual, or 75% of the 4,000 in total that we expect Agents' Mutual to sign up. This leaves us with 13.9k agency customers at year end FY15E.

ARPA

Rightmove: At its 1H 2014 results, Rightmove indicated that it expected to achieve its normal starting point of a £60-70 per month ARPA uplift in 2015E. We believe this is still valid and model a £65 or 9.5% ARPA increase for Rightmove in 2015E. Historically, around one-third of the ARPA increase has been price driven and around two-thirds product driven. We anticipate a similar split this year. This ARPA increase still marks a slowdown from previous years: the last time Rightmove achieved an ARPA increase of under £75 was in 2011A, when the increase was £63.

Zoopla: At its FY14 results, Zoopla said it would be 'pragmatic' on price rises in FY15E. c.60% of the increase in ARPA is driven by product and c.40% by price. So with price contributing very little, this implied that that ARPA increase in FY15E could be c.60% of the increase seen in FY14E. We now model an agency ARPA of £347 in FY15E, an increase of £24 year on year, or half of the £48 increase in FY14E. At the group level, this translates into a group ARPA of £336, an increase of £24 or half the £49 increase in 2014E. Theoretically, we are therefore assuming Zoopla does some discounting in their numbers this year.

Sensitivity of our key assumptions in 2015E

Ultimately, we strongly believe that what matters for both Zoopla and Rightmove is not where numbers end up in 2015E, where there is clearly some uncertainty, rather what the medium-term growth profile of these businesses are. But for clarity, we present some sensitivities around our 2015E assumptions.

For Zoopla, a downside of only achieving a group ARPA increase of £19 year on year (vs our base case of £24) and a losing an additional 500 customers vs our base case of 3,000 is worth 6% on FY15E EPS. An upside case of achieving an ARPA increase of £29 year on year (vs our base case of £24) and only losing 2,500 customers vs our base case of 3,000 is worth 4% on FY15E EPS.

FIGURE 5
Zoopla sensitivity in FY15E

	FY14	2015 low	2015 base	2015 best
Growth in agents with 3% u/l growth in market (a)		0.49	0.49	0.49
Impact of Agents Mutual (b)		-3.98	-2.98	-2.48
Growth in agents actual (a) - (b)		-3.49	-2.49	-1.99
Number of agency (resale and lettings) customers	16.37	12.88	13.88	14.38
Number of total customers inc overseas	19.66	16.46	17.46	17.96
ARPA per agency (resale and lettings) customer	323	342	347	352
Total ARPA	312	331	336	341
Increase in ARPA year on year		19	24	29
Revenue vs base case		-3.0	0.0	2.0
Drop through		85%	85%	85%
Lost EBITA		-2.5	0.0	1.7
Impact on EPS		-6.4%	0.0%	4.3%

Source: Barclays Research.

For Rightmove, a downside of only achieving a group ARPA increase of £60 year on year (vs our base case of £65) and a losing an additional 500 customers vs our base case of 1,000 is worth 2% on FY15E EPS. An upside case of achieving an ARPA increase of £70 year on year (vs our base case of £65) and only losing 500 customers vs our base case of 1,000 is worth 3% on FY15E EPS.

The impact on Rightmove to Agents' Mutual assumptions is much smaller than for Zoopla given the relative size of the two groups.

FIGURE 6
Rightmove sensitivity in FY15E

	2014	2015 low	2015 base	2015 best
Growth in agents with 3% u/l growth in market (a)		0.51	0.51	0.51
Impact of Agents Mutual (b)		-1.51	-1.01	-0.51
Growth in agents actual (a) - (b)		-1.00	-0.50	0.00
Number of agency (resale and lettings) customers	16.91	15.91	16.40	16.91
Number of total customers inc overseas	21.53	20.67	21.17	21.67
ARPA per agency (resale and lettings) customer	649	705	715	725
Total ARPA	682	738	748	758
Increase in ARPA year on year		56	66	76
Revenue vs base case		-4.1	0.0	4.2
Drop through		85%	85%	85%
Lost EBITA		-3.5	0.0	3.6
Impact on EPS		-2.6%	0.0%	2.7%

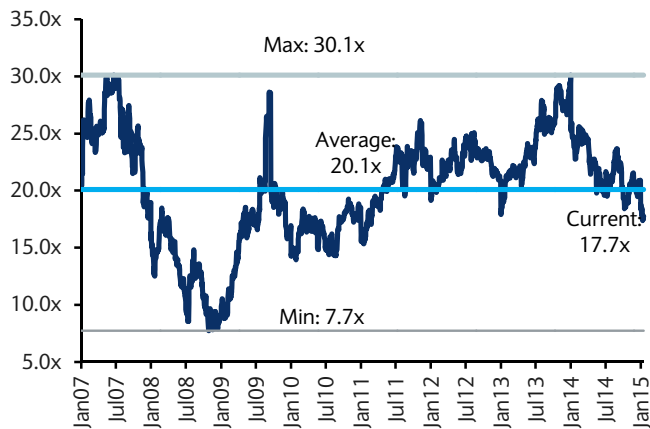
Source: Barclays Research.

What matters is not 2015E, it's the mid-term growth

Shares have de-rated on fears Agents' Mutual changes the market structure

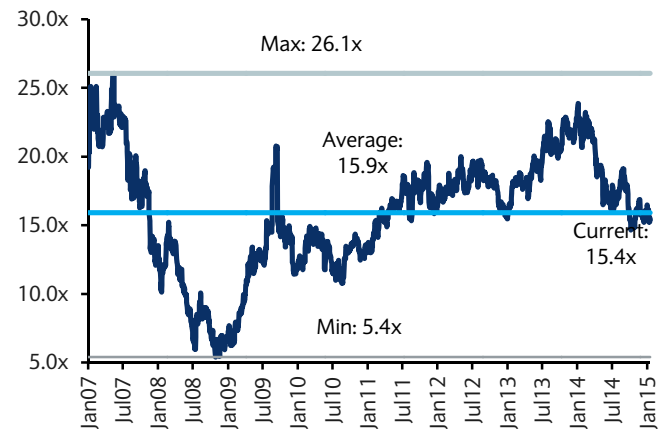
Ultimately, the debate on Agents' Mutual relates to what the medium-term growth profile of Rightmove and Zoopla should be, or more exactly, to what extent this growth profile could be reduced relative to what consensus expected a year ago. This is borne out by the de-rating that Rightmove has seen over the last 12 months and the de-rating that Zoopla has seen since IPO.

FIGURE 7
Rightmove P/E+2 absolute (on consensus numbers)



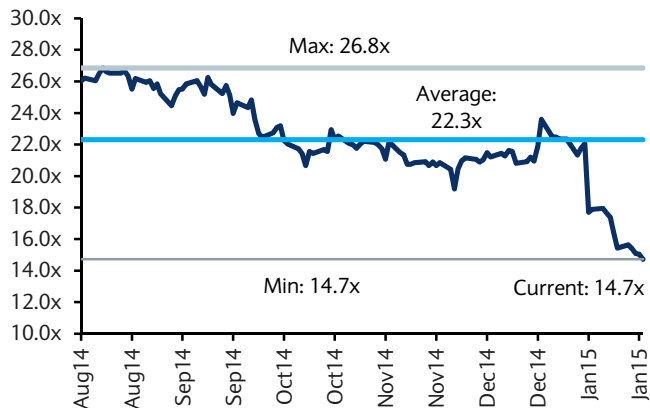
Source: Datastream.

FIGURE 8
Rightmove EV/EBITDA +12m absolute (on consensus numbers)



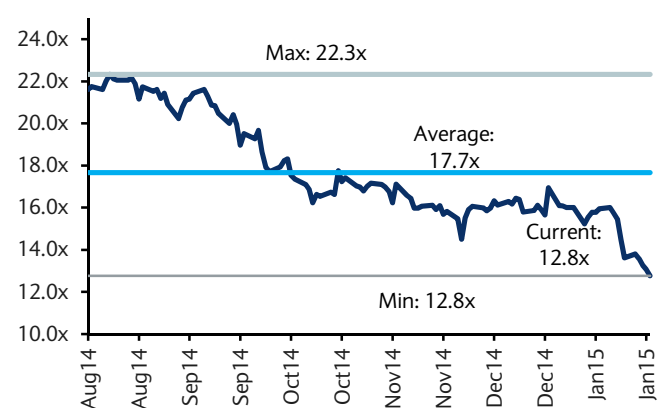
Source: Datastream.

FIGURE 9
Zoopla P/E+2 absolute (on consensus numbers)



Source: Datastream.

FIGURE 10
Zoopla EV/EBITDA +12m absolute (on consensus numbers)



Source: Datastream.

The shares look inexpensive for the medium-term growth in our model

To help investors assess the different business models in media as well as the specificity of companies within their industry, we constructed a through-the-cycle EPS model for all our companies in the latest edition of Media Watch (please see [Preference for cyclical names](#), dated 29th September 2014 for the complete analysis).

We could have used our company models and our current five-year EPS growth forecasts but we thought that building a simple model with a couple of drivers for revenues and costs would enable us to see the proverbial wood for the trees. For each company we have: 1) factored in use of the balance sheet, 2) adjusted for the dividend payouts, and 3) adjusted for recessions (assuming there is a recession every ten years and taking off however many years of EPS growth they lost in the 2008 recession). We performed this analysis for every stock under our coverage.

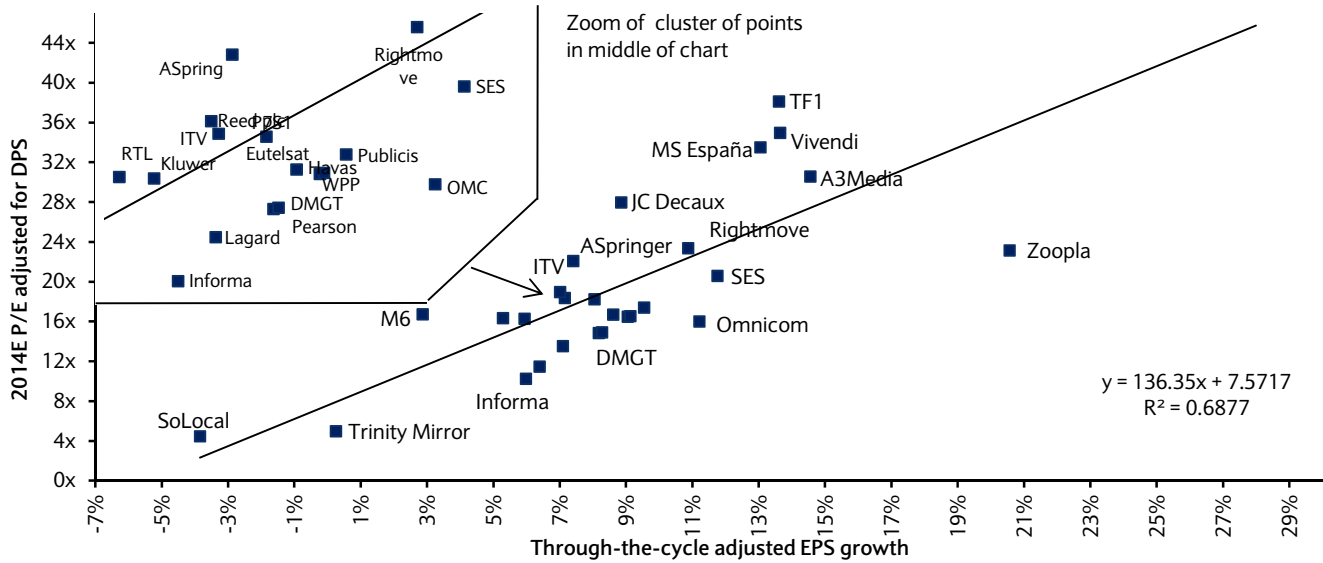
For Rightmove and Zoopla this is a helpful bit of analysis as it refocuses the multiple debate on what the medium term growth profile of the business is as opposed the scope of year 1 downgrades from Agents' Mutual. We assume in our base case for both that:

- The £450m UK property market continues to migrate online with newspapers reducing to c.5% of the market by 2021E.
- The growth in online is split between Rightmove and Zoopla. We assume that Rightmove can achieve a 9% revenue CAGR from 2014-21E and Zoopla 12%.
- High margins can be maintained and both stocks use excess cash flow for a buyback (we note that Zoopla will seek authorisation to buy back their own shares in the AGM on February 12). On this basis we think that Rightmove can achieve an 11% EPS CAGR from 2014-21E and Zoopla a 20% EPS CAGR.

When comparing these medium term growth rates to other companies within the sector, Rightmove looks broadly fairly valued and Zoopla extremely inexpensive. We accept there is more short risk associated with Zoopla and therefore this discount on a longer-term growth adjusted basis is justifiable. But there is a clear rerating opportunity for both if Agents' Mutual doesn't distort the market structure.

The other way of structuring this argument is that the market is pricing Zoopla as a stock that is capable of generating low double-digit EPS growth in the medium term, which seems like an overreaction to us.

FIGURE 11 Through the cycle growth across media: 2014E P/E vs. EPS CAGR post M&A / buybacks adjusted for DPS



Source: Company data, Barclays Research.

Why we continue to believe AM won't gain traction

What is Agents' Mutual?

As a reminder, a group of estate agents are planning to launch their own portal in 2015. The venture, called Agents' Mutual, was originally owned by Knight Frank, Savills, Glentree Estates, Chesterton Humberts, Douglas & Gordon and Strutt & Parker. Spicerhart, Kinleigh Folkard and Hayward and Rook Matthews have since joined the board. The CEO, Ian Springett, founded Primelocation, which is now part of the Zoopla portfolio. The brand name at launch will be On The Market and the date of launch is 26th January.

The idea is similar to both Rightmove and Zoopla's origins: get estate agent groups to deliver their listings and build critical mass. And they are clearly reacting to the duopoly of Rightmove and Zoopla as well as the longer-term disruptive threat from online agents. The interesting angle to the Agents' Mutual offering is that it will only allow agents who commit to it to advertise on one other portal. So this would mean that anyone who subscribes currently to both Zoopla and Rightmove (which is most agents) and wanted to take out an Agents' Mutual subscription would need to cancel one of their existing Zoopla or Rightmove subscriptions.

There are three types of membership an agent can take. To be a Gold member, agents have to provide upfront funding. Initially this was £3,000 per office of funding in exchange for 15% interest on the loan notes and a discount to the monthly fee once the site launched. This has since come down to £2,000 per office (£1,000 for a lettings only office) in exchange for 7% interest on the loan note and a discount to the monthly fee once the site launched. Finally, agents have to sign up for five years.

To be a Silver member, agents have to initially sign just a letter of interest pledging to sign up for five years post launch – but there is no binding commitment at this stage. According to Agents' Mutual, once they reach support from over 4,000 offices, those agents that signed a Silver membership would then have to sign a contract, which presumably ties them in for five years. The language is somewhat ambiguous here, but nothing we have heard suggests that Silver members have actually signed a contract so far.

Finally, agents can sign up as bronze members, which does not require a long-term agreement (12 months with a 6-month break fee) but commands higher listing fees.

Over 4,000 offices have now signed up to Agents' Mutual. We don't know the exact split between Gold and Silver, but believe there are over 2,000 Gold members. The target before launch is 5,000 members.

Why we are sceptical that Agents' Mutual will take notable share

We think there are several compelling arguments that will make it difficult for Agents' Mutual to take share:

1. **They are not pricing particularly attractively, in our view:** The Gold monthly tariff is between £199 and £536 per month depending on the geography and volume of listings. A Silver tariff is between £220 and £595 per month. Bronze pricing is a 10% premium to Silver. So overall pricing is roughly what agents pay on Zoopla – the average agency ARPA of Zoopla was £323 in FY14A. Clearly, Agents' Mutual could choose to lower prices, but this seems unlikely given the mutual structure.
2. **They will need to spend a large amount on advertising:** Rightmove spends c. £10m per annum on marketing. Zoopla's marketing push over the last couple of years (c.£20m per annum) has had little impact on Rightmove's share of the market (by page views). In aggregate, both Rightmove and Zoopla have both spent hundreds of millions of pounds building up their brands over the years. We believe that Agents' Mutual would need to spend at least Zoopla's sum to gain any notable national brand recognition. We simply do not believe they have this budget. Assuming 2,500 members have signed up to Gold memberships and paid £3,000 each, this would imply that Agents' Mutual have £7.5m of upfront funding (consistent with the £8m development funds Agents' Mutual referred to in their most recent marketing leaflet). We presume most of this would go into launching the website, paying the salesforce and potentially a small upfront advertising campaign. From there, if they can get 4,000 members to pay £300 per month, they will have annual revenues of c. £12m. The recurring advertising budget would therefore likely be under £10m – possibly £6m or £7m. This could buy a meaningful TV campaign, but it is likely not enough for a prolonged campaign plus the required SEO spend – we estimate Zoopla is generating over 90% of its traffic organically now (we presume Rightmove is similar) but building up this position doesn't come cheaply.
3. **They currently don't have the necessary volume of listings:** Agents' Mutual only has just over 4,000 branches signed up, well below the 16-17k that Rightmove and Zoopla have (in their agency businesses). So they will likely not have a representative sample of the market on the site. Even if all 4k convert and 75% come from Zoopla, Agents' Mutual will still have c.30% of the inventory of Zoopla. Only one of the top five agents (Spicer Hart) is going with Agents' Mutual. Without volume of listings, it is tough to envisage Agents' Mutual attracting a good enough consumer experience to generate sufficient visitors. There could be exceptions to this in particular areas.
4. **Non-exclusivity / break of five-year contract hard to enforce:** Rightmove and Zoopla have many of these agents contracted past January 26th. However, we would be surprised if either party chose to pursue legal action should an agent break a contract. Ultimately, these agents would then become potential customers of Rightmove and Zoopla and it would seem strange to take legal action against a prospective new customer. However, this has a flip side: if an agent starts paying Agents' Mutual a monthly subscription but chooses to keep both Rightmove and Zoopla (i.e. breaking the non-exclusivity clause), we are not sure what Agents' Mutual would be able to do about this. Similarly, if an agent found it was not getting a good ROI on its Agents' Mutual subscription and wanted to leave, we find it tough to see how a five-year contract could be enforced. An article in *Property Industry Eye* on 22nd October indicated that Agents' Mutual will let agents in Scotland join On The Market, Citylets (a specialist lettings site in Scotland) and one other portal (i.e. Rightmove or Zoopla). More recently, Student Crowd,

a student's letting portal, has been declared exempt. This would suggest that Agents' Mutual does not regard Citylets as a competitor and it wants to give its Scottish agents more flexibility. The same could be said of Student Crowd. But it could also suggest a potential crack in the Agents' Mutual policy of only allowing its agents to be on one other portal. And the comments underneath the Property Industry Eye article on Citylets suggested that at least some agents who have signed up to AM see this as problematic.

5. **Is it anti-competitive?** Agents' Mutual has excluded online agents from signing up. eMoov has complained to the OFT that this is anti-competitive. We have sympathy with this debate and think that it's a key issue. Fundamentally Agents' Mutual is a protest against the disruption that may take place to a physical agent's business model, both with regard to Rightmove and Zoopla but also against ultimately online agents that offer a significant price discount to a consumer (1.65% commission vs. c. £500 to sell a property). However, to us this argument feels flawed – ultimately does a consumer not pay too much to the agent when a lot of the value is actually from Rightmove and Zoopla, which represent a small chunk of the aggregate commissions? We would also note a press article in *the Telegraph* on 24th November that speculated that Agents' Mutual would encourage agents to put listings exclusively on the On The Market site for a period before being on Rightmove and Zoopla. We don't see how this would benefit the consumer. The most recent development here was a letter from the CEO of Easy Property to the Agents' Mutual CEO protesting at the launch and arguing it is not to the benefit of the consumer – see [here](#).
6. **Agents' Mutual isn't doing anything different, in our view:** Zoopla emerged as the clear number two by 1) being the consolidator, and 2) doing it in a recovery time for the UK market so agents didn't feel the squeeze of paying for two not one. Rightmove had first mover advantage. Now agents have two options that do a very similar thing. We don't see what Agents' Mutual offers that Rightmove and Zoopla don't. The product development spent is £8m according to the Agents' Mutual website. Rightmove spends that amount in Technology and Product Development in any one year, we estimate. According to Estate Agent Today (13 November), Agents' Mutual will not offer feature listings, not carry third-party advertising, will not offer a valuation service and will not offer email alerts. This suggests that the product could actually be substantially worse than Rightmove or Zoopla.
7. **Agents could have a lot to lose:** The practicality of telling a prospective customer that their house won't be listed on Rightmove or Zoopla and the subsequent threat of them walking down the street to your nearest competitor could be scary for estate agents. A YouGov Survey of 2,000 UK adults in February 2014 showed that 80% of people would consider changing agents if they felt as if they weren't getting maximum exposure online. The average agent generates c. £5,000 of fees per transaction (2% on 250k), which equates to more than an annual Zoopla membership. So losing one transaction from not being on Zoopla would outweigh all the benefits on converting.

Australia an interesting read over

Investors often look at Australia's REA Group as a close comparable to Rightmove and Zoopla. So we think it is worth keeping an eye on Squiiz – the Australian version of Agents' Mutual. This has evolved in exactly the same way as AM: some Australian agent chains have started it up to compete with the two market leaders: realestate.com.au (owned by REA Group) and Domain.com.au (owned by Fairfax Media – Australian newspaper and radio group). As said before, there are very clear analogies between the Australian and the UK markets for property portals. Squiiz soft-launched in the middle of November and they have been promoting it heavily: <http://youtu.be/Zq2uvSXjDC8>. The main difference is that Squiiz is not forcing agents to leave realestate.com.au or doman.com.au.

There was an interesting article in Property Portal Watch (link [here](#)), looking at what has happened since the soft launch. At launch Squiz had 3,500 agents signed up (out of 10,000 in Australia), and around 200,000 listings. This actually looks like a bigger chunk of the market than Agents' Mutual will have in the UK. The model is a freemium model, with basic listings free and agents paying \$250/month for profile listings (that include the agent's logo). There are no feature listings or banner advertising. Intuitively, running a freemium model makes this site more attractive to agents than Agents' Mutual in the UK does.

Property Portal Watch suggests that the SEO execution on Squiiz has been poor. Google and Bing are not displaying their website in their results. A quick check of this at the time indicated that Googling 'Squiiz' does direct a user to a Squiiz.com.au website. But Googling (on google.com.au) "4 bedroom house Melbourne" doesn't lead to any Squiiz results for at least the first eight results pages.

Whilst this sounds like a technical issue at Squiiz, it does indicate a problem that OnTheMarket will have – namely directing traffic to their site. It seems unlikely that users will Google "OnTheMarket" directly at the start given no brand recognition, rather chance upon it on a more generalised search. A high proportion of Rightmove and Zoopla's traffic is now organic. But that has been a very expensive and time-consuming position to build.

Rightmove price target unchanged at 2,500p

Our price target for Rightmove is unchanged at 2,500p on unchanged forecasts.

FIGURE 12
Summary DCF valuation

Terminal Multiple Method	Dec 2015E	% Total
PV of FCF using WACC	740.9	29.1%
Terminal Value	1,802.6	70.9%
Firm Value	2,543.6	
Net (Debt)/ Cash (Dec 2014E)	5.3	
Operating Leases	(4.6)	
Equity Value £m	2,544.2	
NOSH	101.8	
Equity Value per share (p)	2,500.0	
Current Value per Share	2,155.0	
Upside / (Downside)	16.0%	

Source: Barclays Research estimates. Priced as of 16 Jan 2015.

Zoopla price target comes down to 250p

Our price target comes down to 250p due to our lower forecasts and a lower terminal multiple to reflect more uncertainty. Although the Agents' Mutual situation is an uncertainty, on a fundamental basis, the stock looks cheap if the outer year growth rates in our model prove to be correct.

FIGURE 13
Summary DCF valuation

Terminal Multiple Method	Dec 2015E	% Total
PV of FCF using WACC	336.8	32.8%
Terminal Value	690.5	67.2%
Firm Value	1,027.3	
Net (Debt)/ Cash (Dec 2015E)	36.8	
Operating Leases	(3.2)	
Equity Value £m	1,060.9	
NOSH	424.4	
Equity Value per share (p)	250.0	
Current Value per Share	160.0	
Upside / (Downside)	56.3%	

Source: Barclays Research estimates. Priced as of 16 Jan 2015.

Rightmove: summary forecasts

FIGURE 14 Summary income statement

Year End December (£mn)	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Resale Estate Agents	81.6	95.2	116.6	128.9	140.0	154.4	168.9	184.7	201.8	220.3
% Growth	20.2%	16.7%	22.5%	10.6%	8.6%	10.3%	9.4%	9.4%	9.3%	9.2%
Letting/ Rentals agents	10.8	12.1	13.2	14.0	14.6	15.6	16.6	17.7	18.9	20.2
% Growth	15.1%	11.9%	9.5%	5.6%	4.4%	6.8%	6.8%	6.7%	6.7%	6.7%
New Home developments	20.6	24.2	25.8	28.1	31.1	34.2	37.3	40.7	44.4	48.4
% Growth	22.2%	17.5%	6.3%	9.0%	10.7%	10.1%	9.1%	9.1%	9.1%	9.1%
Overseas offices	1.7	3.5	3.6	4.8	5.2	5.6	5.9	6.5	7.1	7.7
% Growth	13.4%	111.4%	3.0%	33.4%	7.0%	7.0%	7.0%	10.2%	9.1%	8.1%
Other	4.7	4.9	5.7	6.1	6.5	6.9	7.4	7.9	8.5	9.1
Total Turnover	119.4	139.9	164.8	181.8	197.3	216.6	236.2	257.6	280.8	305.7
% Reported Growth	23.1%	17.2%	17.8%	10.3%	8.5%	9.8%	9.0%	9.1%	9.0%	8.9%
% Organic Growth	23.1%	17.2%	17.8%	10.3%	8.5%	9.8%	9.0%	9.1%	9.0%	8.9%
Sales costs	(8.9)	(9.7)	(11.2)	(12.9)	(13.8)	(15.2)	(16.7)	(18.3)	(20.2)	(22.2)
% Growth	19.0%	10.0%	15.0%	15.0%	7.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Tech and product dev costs	(5.7)	(6.3)	(7.3)	(8.5)	(9.1)	(10.0)	(11.0)	(12.1)	(13.3)	(14.7)
% Growth	20.0%	10.0%	15.0%	17.0%	7.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Marketing costs	(6.0)	(7.9)	(11.2)	(13.0)	(15.0)	(16.5)	(18.0)	(19.6)	(21.4)	(23.3)
% Growth	10.4%	30.6%	42.0%	16.5%	15.0%	10.0%	9.0%	9.0%	9.0%	9.0%
Other costs	(10.2)	(10.8)	(11.4)	(12.1)	(12.7)	(13.5)	(14.5)	(15.4)	(16.5)	(17.6)
% Growth	13.6%	5.8%	5.8%	5.8%	4.9%	6.9%	6.9%	6.9%	6.9%	6.9%
Total Operating Costs	(30.8)	(34.7)	(41.1)	(46.5)	(50.6)	(55.2)	(60.1)	(65.5)	(71.4)	(77.8)
% Growth	15.6%	12.7%	18.3%	13.2%	8.7%	9.2%	8.9%	8.9%	9.0%	9.0%
EBITDA	88.6	105.2	123.8	135.3	146.8	161.4	176.0	192.1	209.4	227.9
% Margin	74.2%	75.2%	75.1%	74.4%	74.4%	74.5%	74.5%	74.6%	74.6%	74.6%
Depreciation	(0.8)	(0.8)	(0.9)	(1.0)	(1.1)	(1.2)	(1.3)	(1.4)	(1.5)	(1.7)
Amortisation of Intangibles	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Adjusted Operating Profit	87.5	104.0	122.4	133.9	145.2	159.8	174.3	190.2	207.3	225.7
% Growth	26.2%	18.9%	17.7%	9.3%	8.5%	10.0%	9.1%	9.1%	9.0%	8.9%
% Margin	73.3%	74.3%	74.3%	73.6%	73.6%	73.8%	73.8%	73.8%	73.8%	73.8%
Share-based payments	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)
NI on share options under issue	(2.0)	(4.5)	(1.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Operating exceptional items	(4.4)	(7.0)	(3.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Operating Profit - Reported	83.1	97.0	119.0	129.4	140.8	155.3	169.8	185.8	202.9	221.3
Net Interest	0.1	(0.0)	0.1	0.1	0.1	0.1	0.0	0.0	0.0	(0.0)
Pre-tax Profit (Headline)	87.6	104.0	122.5	133.9	145.3	159.8	174.3	190.2	207.3	225.7
Taxation (Headline)	(20.6)	(22.7)	(25.6)	(26.7)	(28.9)	(31.9)	(34.8)	(38.1)	(41.6)	(45.4)
Effective Tax Rate (%)	23.6%	21.8%	20.9%	19.9%	19.9%	19.9%	20.0%	20.0%	20.1%	20.1%
Minorities	-	-	-	-	-	-	-	-	-	-
Net Income - Actual (Reported)	62.6	74.3	93.5	102.8	112.0	123.5	135.0	147.7	161.3	175.9
Net Income - Headline	67.0	81.3	96.9	107.3	116.4	128.0	139.5	152.1	165.7	180.4
% Growth	26.9%	21.4%	19.1%	10.7%	8.5%	9.9%	9.0%	9.1%	9.0%	8.8%
Weighted Shares - Actual	102.0	100.3	97.8	96.5	95.2	93.8	92.4	91.0	89.7	88.4
Weighted Shares - Fully Diluted	105.6	102.4	102.4	101.2	99.9	98.7	97.3	96.0	94.8	93.6
EPS (Headline) pre buyback benefit	0.0	81.1	95.2	103.8	111.0	120.2	129.1	138.7	148.9	159.6
% Growth	0.0%	0.0%	17.4%	9.1%	6.9%	8.3%	7.4%	7.5%	7.3%	7.2%
EPS (Headline) inc buyback benefit	65.6	81.1	99.1	111.2	122.3	136.4	150.9	167.1	184.7	204.0
% Growth	30.4%	23.5%	22.2%	12.2%	10.0%	11.5%	10.7%	10.7%	10.5%	10.5%
Dividend per Share (p)	23.0	28.0	34.2	38.4	42.2	47.1	52.1	57.7	63.8	70.4
% Growth	27.8%	21.7%	22.2%	12.2%	10.0%	11.5%	10.7%	10.7%	10.5%	10.5%

Source: Company data, Barclays Research estimates

FIGURE 15

Summary cashflow statement

Year End December (£mn)	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBIT (Adjusted)	87.5	104.0	122.4	133.9	145.2	159.8	174.3	190.2	207.3	225.7
Depreciation	1.1	1.2	1.3	1.4	1.5	1.6	1.8	1.9	2.0	2.2
Cash Interest	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	(0.0)
Cash Tax	(14.6)	(16.1)	(25.6)	(26.7)	(28.9)	(31.9)	(34.8)	(38.1)	(41.6)	(45.4)
Change in Working Capital	(0.5)	(1.4)	0.2	0.3	0.2	0.3	0.3	0.3	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	71.6	83.0	98.4	108.9	118.2	129.9	141.6	154.4	168.1	183.0
Capex	(2.1)	(1.1)	(2.0)	(2.2)	(2.4)	(2.7)	(2.9)	(3.2)	(3.4)	(3.7)
Acquisitions & Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from sale of associate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(2.1)	(1.1)	(2.0)	(2.2)	(2.4)	(2.7)	(2.9)	(3.2)	(3.4)	(3.7)
Dividends paid	(20.4)	(25.1)	(29.8)	(34.6)	(38.0)	(41.5)	(45.4)	(49.5)	(54.0)	(58.8)
Share Issue / (Buyback)	(66.8)	(60.9)	(68.0)	(70.0)	(80.0)	(85.0)	(100.0)	(100.0)	(110.0)	(125.0)
Proceeds on share options	3.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	(84.3)	(82.3)	(97.8)	(104.6)	(118.0)	(126.5)	(145.4)	(149.5)	(164.0)	(183.8)
Change in Net Debt	(14.7)	(0.4)	(1.4)	2.1	(2.2)	0.8	(6.7)	1.7	0.7	(4.6)
Net (Debt) / Cash	7.1	6.7	5.3	7.4	5.2	6.0	(0.7)	1.0	1.7	(2.9)
Free Cash Flow (£m)	69.6	81.9	96.4	106.7	115.8	127.3	138.7	151.2	164.7	179.2

Source: Company information, Barclays Research estimates

FIGURE 16

Summary balance sheet

Year End December (£mn)	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Goodwill & Other Intangibles	1.6	1.6	1.7	1.8	1.9	2.1	2.3	2.6	2.9	3.3
Tangible Non-Current Assets	1.8	1.7	2.5	4.3	6.3	7.4	9.8	12.4	14.1	17.2
Other Non-Current Assets	11.3	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Current Assets (ex cash)	18.5	22.8	26.9	29.7	32.2	35.4	38.5	42.0	45.8	49.9
Cash	7.1	6.8	5.3	7.4	5.2	6.0	(0.7)	1.0	1.7	(2.9)
Total Assets	40.3	38.5	42.0	48.8	51.2	56.5	55.6	63.6	70.2	73.2
Current Liabilities (ex debt)	32.6	29.5	33.9	36.9	39.7	43.2	46.7	50.5	54.6	59.1
Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities/Provisions	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	32.8	29.6	33.9	36.9	39.7	43.2	46.7	50.5	54.6	59.1
Net Assets	7.5	8.9	8.1	11.9	11.5	13.4	8.9	13.2	15.6	14.1
Shareholders' Funds (inc minor.)	7.5	8.9	8.1	11.9	11.5	13.4	8.9	13.2	15.6	14.1

Source: Company data, Barclays Research estimates

Zoopla: summary forecasts

FIGURE 17 Summary income statement

Year End	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18	Sep-19	Sep-20
GBPm	FY (A)	FY (A)	FY (E)	FY (E)	FY (E)	FY (E)	FY (E)	FY (E)
Agency Revenue	51.6	63.0	63.0	70.6	85.2	96.0	107.2	118.6
% Growth		22.0%	0.1%	12.0%	20.7%	12.7%	11.7%	10.6%
Developer Revenue	5.7	8.5	11.1	13.5	16.3	19.3	22.7	26.3
% Growth		49.4%	29.7%	21.8%	20.9%	18.3%	17.3%	16.3%
Other Revenue	7.2	8.7	10.6	12.5	14.3	16.0	17.8	19.9
% Growth		21.4%	21.9%	18.3%	14.1%	11.8%	11.5%	11.4%
Group Revenue	64.5	80.2	84.7	96.6	115.8	131.3	147.7	164.8
% Growth		20.6%	24.4%	5.6%	14.0%	19.9%	13.4%	12.5%
% Organic Growth		19.4%	22.0%	5.6%	14.0%	19.9%	13.4%	12.5%
Staff Costs	-9.7	-12.8	-14.8	-16.3	-17.8	-19.4	-21.2	-23.2
% Growth		-5.8%	31.5%	15.9%	10.3%	9.2%	9.2%	9.2%
Marketing Costs	-19.0	-20.9	-19.2	-19.6	-20.0	-21.6	-23.3	-25.2
% Growth			9.8%	-8.0%	2.0%	2.0%	8.0%	8.0%
Other Operating Costs	-6.3	-7.0	-8.5	-9.4	-10.2	-11.1	-11.9	-12.8
% Growth			9.8%	22.2%	10.4%	8.8%	8.9%	7.2%
Adjusted EBITDA	29.4	39.6	42.2	51.3	67.8	79.1	91.2	103.6
% Growth		96.9%	34.6%	6.5%	21.6%	32.1%	16.7%	15.2%
% Margin		45.6%	49.4%	49.8%	53.1%	58.5%	60.3%	61.8%
Depreciation	-0.1	-0.2	-0.2	-0.3	-0.3	-0.5	-0.5	-0.6
Adjusted EBITA ex SBC	29.3	39.5	42.0	51.1	67.5	78.7	90.7	103.1
Share Based Payments	-0.1	-3.9	-2.0	-2.1	-2.2	-2.3	-2.4	-2.6
Adjusted EBITA - Barclays	29.2	35.6	40.0	49.0	65.3	76.4	88.3	100.5
Amortisation of Intangibles	-1.2	-1.5	-1.5	-1.5	-1.5	0.0	0.0	0.0
Adjusted EBIT - Zoopla	28.0	34.0	38.5	47.5	63.8	76.4	88.3	100.5
Exceptional Items	0.0	-5.6	0.0	0.0	0.0	0.0	0.0	0.0
Reported Operating Profit	28.0	28.5	38.5	47.5	63.8	76.4	88.3	100.5
Net Financing Charge	0.3	0.2	0.6	0.8	0.7	0.6	0.6	0.6
Reported Income Tax	-6.0	-7.6	-8.2	-9.9	-13.2	-15.8	-18.2	-20.7
% Rate		21.1%	26.5%	21.0%	20.5%	20.5%	20.5%	20.5%
Adjusted Income Tax	-6.0	-7.6	-8.2	-9.9	-13.2	-15.8	-18.2	-20.7
% Rate		21.1%	22.2%	21.0%	20.5%	20.5%	20.5%	20.5%
Adjusted Net Income - Zoopla (inc PPA / SBC)	22.3	26.7	31.0	38.3	51.2	61.2	70.7	80.4
% Growth			19.4%	16.1%	23.8%	33.7%	19.5%	15.4%
Adjusted Net Income - Barclays (ex PPA / inc SBC)	23.3	27.8	32.1	39.5	52.4	61.2	70.7	80.4
% Growth			19.5%	15.4%	22.9%	32.7%	16.8%	15.4%
Reported Net Income	22.3	21.1	31.0	38.3	51.2	61.2	70.7	80.4
Weighted diluted NOSH pre buyback	413.1	416.0	426.2	432.6	439.0	445.5	452.1	458.8
Zoopla Adjusted EPS - Diluted pre buyback (p)	5.4	6.4	7.3	8.9	11.7	13.7	15.6	17.5
% Growth			18.6%	13.3%	22.0%	31.7%	17.8%	13.7%
Barclays Adjusted EPS - Diluted pre buyback (p)	5.6	6.7	7.5	9.1	11.9	13.7	15.6	17.5
% Growth			18.7%	12.6%	21.2%	30.7%	15.1%	13.7%
Weighted NOSH (m) - Diluted post buyback		416.0	426.2	425.6	417.5	409.4	400.6	390.6
Zoopla Adjusted EPS - Diluted post buyback (p)		6.4	7.3	9.0	12.3	15.0	17.6	20.6
% Growth			13.3%	24.0%	36.3%	21.9%	17.9%	16.7%
Barclays Adjusted EPS - Diluted post buyback (p)		6.7	7.5	9.3	12.6	15.0	17.6	20.6
% Growth			12.6%	23.1%	35.2%	19.2%	17.9%	16.7%
Dividend per share (p)		6.7	3.1	3.9	5.2	6.3	7.5	8.7
% Growth			-53.4%	24.9%	34.9%	21.2%	17.9%	16.5%

Source: Company data, Barclays Research estimates

FIGURE 18

Summary cashflow statement

Year End	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18	Sep-19	Sep-20
GBPm	FY (A)	FY (A)	FY (E)	FY (E)	FY (E)	FY (E)	FY (E)	FY (E)
Operating cash flow pre taxes and WC	29.5	34.0	42.2	51.3	67.8	79.1	91.2	103.6
Change in Working Capital	4.3	1.3	0.2	0.2	0.2	0.3	0.3	0.3
% Revenue	6.7%	1.6%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Cash Taxes	-2.2	-4.3	-8.2	-9.9	-13.2	-15.8	-18.2	-20.7
Operating Cashflow - Zoopla	31.6	31.0	34.1	41.6	54.8	63.6	73.3	83.2
Op Cashflow - Adjusted (inc Interest)	31.9	31.2	34.8	42.4	55.5	64.3	73.9	83.8
PPE Total	-0.1	-1.1	-0.4	-0.5	-0.6	-0.7	-0.7	-0.8
% Revenue	0.2%	1.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Interest Received	0.3	0.2	0.6	0.8	0.7	0.6	0.6	0.6
Acquisitions	-4.5	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Investing Cashflow - Zoopla	-4.3	-2.4	0.2	0.3	0.1	0.0	-0.1	-0.3
Investing Cashflow - Adjusted (ex Interest)	-4.6	-2.6	-0.4	-0.5	-0.6	-0.7	-0.7	-0.8
Share Issuance / (Repurchase) / Unpaid share capital call	0.0	9.8	0.0	-35.0	-40.0	-40.0	-50.0	-55.0
Borrowings Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid	-10.2	-35.5	-11.2	-14.7	-18.8	-23.4	-27.3	-31.2
Financing Cashflow - Zoopla	-10.1	-25.7	-11.2	-49.7	-58.8	-63.4	-77.3	-86.2
Financing Cashflow - Adjusted (ex Interest)	-10.1	-25.7	-11.2	-49.7	-58.8	-63.4	-77.3	-86.2
Net Cash Flow	17.2	2.9	23.2	-7.8	-3.8	0.2	-4.2	-3.2
Cash & Equivalents at end of Period	28.1	31.0	54.2	46.4	42.6	42.8	38.6	35.4
Free Cashflow to Firm	31.8	30.1	34.4	41.9	54.9	63.6	73.1	83.0
% Cash Conversion (of adj EBITA)	109%	76%	82%	82%	81%	81%	81%	80%
% Cash Conversion (of adj Net Income)	142%	113%	111%	109%	107%	104%	104%	103%
% Growth		-5%	140%	167%	83%	85%	75%	51%

Source: Company information, Barclays Research estimates

FIGURE 19

Summary balance sheet

Year End	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18	Sep-19	Sep-20
GBPm	FY (A)	FY (A)	FY (E)	FY (E)	FY (E)	FY (E)	FY (E)	FY (E)
Property, plant and equipment	0.2	1.5	1.7	1.9	2.2	2.4	2.6	2.9
Goodwill	66.6	70.8	70.8	70.8	70.8	70.8	70.8	70.8
Other intangible assets	5.1	4.4	2.9	1.4	-0.1	-0.1	-0.1	-0.1
Trade and other receivables	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	3.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total Non Current Assets	79.7	77.1	75.8	74.6	73.3	73.5	73.7	74.0
Trade and other receivables	6.5	5.9	5.8	5.6	5.4	5.2	5.0	4.7
Cash and equivalents	11.0	31.0	54.2	46.4	42.6	42.8	38.6	35.4
Total Current Assets	17.4	36.9	60.0	52.0	48.0	48.0	43.6	40.1
Trade & other payables	6.2	11.4	11.4	11.5	11.5	11.5	11.5	11.6
Loans & borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current tax liabilities	1.0	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Provisions	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total Current Liabilities	7.2	15.2	15.2	15.3	15.3	15.4	15.4	15.5
Deferred tax liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans & borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total Non Current Liabilities	0.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total Equity	89.9	98.2	119.9	110.7	105.4	105.5	101.3	98.0
Net (Debt) / Cash	28.1	31.0	54.2	46.4	42.6	42.8	38.6	35.4
Net Debt / EBITDA	-1.0x	-0.8x	-1.3x	-0.9x	-0.6x	-0.5x	-0.4x	-0.3x

Source: Company data, Barclays Research estimates

Valuation Methodology and Risks

European Media

Zoopla (ZPLA LN / ZPLAZ.L)

Valuation Methodology: We value Zoopla on a DCF, using our forecasts out to 2022 and applying 10x EBITDA to our terminal forecast to drive our terminal valuation.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to attaining our target price are a material slowdown in the UK housing market, more competition on price, or a pull-out from the service of several major agency chains/developers.

Source: Barclays Research.

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Primary Stocks (Ticker, Date, Price)

Rightmove Plc (RMV.L, 16-Jan-2015, GBp 2155.0), Overweight/Positive, J/K/N

Zoopla (ZPLAZ.L, 16-Jan-2015, GBp 160.0), Overweight/Positive, D/J/K/L/M

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ITV Plc (ITV.L)	JC Decaux SA (JCDX.PA)	Lagardere SCA (LAGA.PA)
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Publicis Groupe SA (PUBP.PA)	Reed Elsevier NV (ELSN.AS)	Reed Elsevier PLC (REL.L)
Rightmove Plc (RMV.L)	RTL Group PLC (AUDKt.BR)	Schibsted ASA (SBST.OL)
SES SA (SESFd.PA)	Sky Deutschland AG (SKYDn.DE)	Sky Plc. (SKYB.L)
Solocal Group (LOCAL.PA)	Television Francaise 1 SA (TFFP.PA)	Trinity Mirror PLC (TNI.L)
UBM Plc (UBM.L)	Vivendi SA (VIV.PA)	Wolters Kluwer NV (WLSNc.AS)
WPP (WPP.L)	Zoopla (ZPLAZ.L)	

Distribution of Ratings:

Barclays Equity Research has 2679 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 56% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Firm.

IMPORTANT DISCLOSURES CONTINUED

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Guide to the POINT® Quantitative Equity Scores:

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A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

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IMPORTANT DISCLOSURES CONTINUED

Rightmove Plc (RMV LN / RMV.L)

GBP 21.55 (16-Jan-2015)

Stock Rating

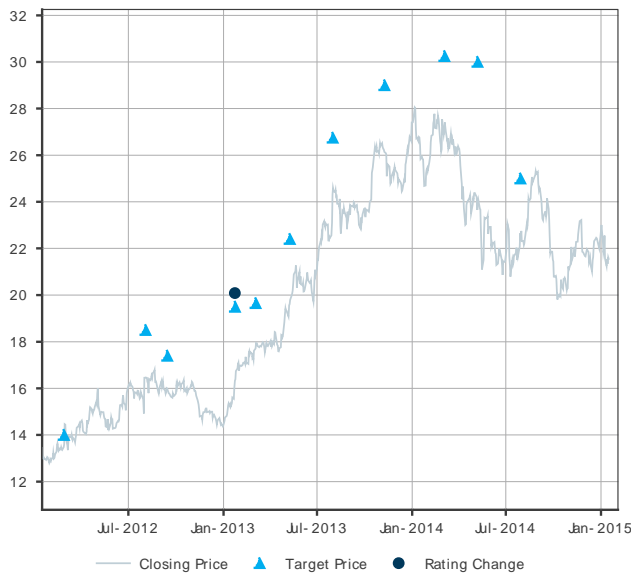
OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - GBP (as of 16-Jan-2015)

Currency=GBP



Date	Closing Price	Rating	Adjusted Price Target
29-Jul-2014	22.65		25.00
07-May-2014	23.65		30.00
04-Mar-2014	27.09		30.25
08-Nov-2013	26.14		29.00
31-Jul-2013	24.31		26.75
09-May-2013	19.61		22.40
04-Mar-2013	17.71		19.65
23-Jan-2013	16.33	Overweight	19.50
14-Sep-2012	16.00		17.40
03-Aug-2012	16.47		18.50
27-Feb-2012	13.48		14.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Rightmove Plc.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Rightmove Plc within the past 12 months.

N: Rightmove Plc is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We value Rightmove on a DCF, using our forecasts out to 2022 and applying 12x EBITDA to our terminal forecast to drive our terminal valuation.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to attaining our target price are a material slowdown in the UK housing market, more competition on price, or a pull-out from the service of several major agency chains/developers.

IMPORTANT DISCLOSURES CONTINUED

Zoopla (ZPLA LN / ZPLAZ.L)

GBP 1.60 (16-Jan-2015)

Stock Rating

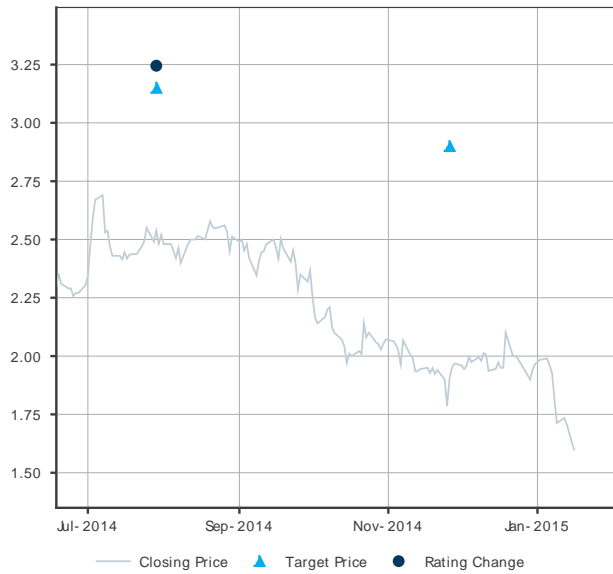
OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - GBP (as of 16-Jan-2015)

Currency=GBP



Date	Closing Price	Rating	Adjusted Price Target
26-Nov-2014	1.90		2.90
29-Jul-2014	2.54	Overweight	3.15

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Zoopla in the past 12 months.

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Valuation Methodology: We value Zoopla on a DCF, using our forecasts out to 2022 and applying 10x EBITDA to our terminal forecast to drive our terminal valuation.

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