

hipages Group Holdings Ltd

Nailing it with its target market

hipages Group Holdings (ASX:HPG) is Australia's dominant online "tradie" platform and Software as a Service (SaaS) provider connecting tradespeople with residential and commercial consumers to simplify property management. The core business is a marketplace with the company expanding its offering to include workflow management services to help tradespeople to better manage their businesses. hipages listed on the ASX in November 2020, raising \$100.4m at \$2.45/share to give a market capitalisation of \$318.5m. Of the proceeds raised, \$60.4m went as cash payment to existing shareholders under a share restructure, \$7.3m went to offer costs, \$1.9m in cash redemption of convertible notes and \$12.9m to repay debt. hipages had net cash (no debt) of \$29.2m at 31 December 2020.

Business model

hipages operates a subscription model in which tradespeople pay a monthly fee for access to jobs posted on the platform. Subscriptions are for 6 or 12 months with automatic 12-month renewal. The company currently has 28,800 tradies paying a monthly subscription with the majority located in New South Wales and Victoria. The platform is free for the 3.3m unique consumers who have posted jobs, with 64% of jobs coming from repeat customers in H1 FY21. In November 2019, hipages moved to a subscription-only offering for new tradies with only 16% of tradies remaining on the legacy transactional product. This transition is driving strong growth in Average Revenue Per User (ARPU) as new subscribers join the platform and existing subscribers upgrade to higher price tiers. In H1 FY21, 94% of revenue was recurring, generated from tradie subscriptions and contracted partnerships with the NSW Department of Education and retailers such as Bunnings and IKEA.

Interim result suggests tracking ahead of prospectus forecast

hipages reported H1 FY21 statutory revenue of \$26.9m, up 18% on a pro forma basis, while statutory recurring revenue of \$25.3m was 26% higher on a pro forma basis. The company noted that Monthly Recurring Revenue (MRR) of \$4.6m in December 2020 was up 31% on pcp which is ahead of the FY21 prospectus forecast for MRR growth of 21%. ARPU per tradie is now at \$1,483, ahead of the prospectus forecast for ARPU to be at \$1,449 by June FY21. HPG reported pro forma H1 FY21 EBITDA excluding one-time items of \$6.9m, compared with a \$0.1m loss in H1 FY20, putting it well-on track to meet or exceed its prospectus full year pro forma EBITDA forecast for \$9.9m.

Look to SaaS/online marketplaces for peers

Online marketplaces using a SaaS model, particularly mature marketplaces such as Domain Group Holdings (ASX:DHG) and REA-Group (ASX:REA), provide a good look-through on the long-term EBITDA margins these companies can deliver as they mature. Category leader and Australia's most mature online marketplace REA-Group's EBITDA margins are now consistently around the 55% mark, Domain Group's EBITDA margins are around 30%. HPG's forecasted FY21 EBITDA margin is 18% so there is an opportunity to expand this margin as the business matures. We include Freelancer in the mix of comparable companies as it operates a global online services marketplace for professional services which has expanded into online payments to support accurate transfer of goods and services and more recently an online freight marketplace. FLN's GP margins have consistently been ~85% which you would expect from this sort of business. Upcoming IPO Airtasker will also be a peer.

Pro Forma Historical earnings and ratios (in A\$m unless otherwise state)

Year end	Recurring Revenue	Total Revenue	EBITDA Adj. [^]	EBITDA Rep.	EBIT Adj. [^]	NPAT Adj. [^]	EPS [^] (c)	EV/Sales (x)
06/18a	34.771	41.518	(2.660)	(2.660)	(9.566)	(10.456)	na	na
06/19a	37.297	42.261	(3.143)	(3.143)	(12.164)	(13.629)	na	na
06/20a	42.200	46.939	6.122	6.033	(2.967)	(4.157)	na	5.1
06/21e*	50.507	53.932	9.905	8.712	(0.876)	(1.751)	(1.35)	4.5

Source: Company data *Prospectus Pro Forma forecast [^]Adjusted for significant items

Software & Services

12th March 2021

Share details

ASX Code	HPG
Share price	\$2.10
Market Capitalisation	\$273.0M
Shares on issue	130.0M
Net cash at 31/12/2020	\$29.2M
Free float	51.2%

Share performance (12 months)



Upside Case

- Subscription mode with high level of recurring revenue (90%)
- Opportunity to leverage other services to subscriber base
- Penetration rate of tradies is 14%, opportunity to increase share and lift ARPU

Downside Case

- Sensitive to macro-economic environment
- No guarantee that acquisitions will fit the model, company has sold off several past acquisitions
- A 5% decline in fcst tradie ARPU (\$1,449) has a big impact on fcst FY21 EBITDA (-29%)

Catalysts

Delivery of prospectus forecasts for FY21; evidence of expanded revenue opportunity from added services

Comparable companies (Aust/NZ)

Domain Group Holdings (ASX:DHG) Freelancer (ASX:FLN), REA-Group (ASX:REA)

Top 5 shareholders

News Ltd	25.68%
Robert Sharon-Zipser (founder)	6.60%
Sajo Hill Pty Ltd.	6.10%
Ellerston Capital	5.02%
Right Click Capital	4.45%

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FINANCIAL SERVICES GUIDE

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