

Higher advertising spend driving growth

MyDeal.com.au (MYD:ASX) was founded in 2011 and has established an online marketplace specialising in household goods such as furniture and homewares. MYD effectively acts as an intermediary, facilitating transactions between consumers and sellers (brand owners). The business now has 930 active sellers with over 6m SKUs on the marketplace. The group listed on the ASX in October 2020, raising \$40m at an issue price of \$1.00/share, with \$5m representing founder selling and the remainder earmarked for additional advertising, inventory and personnel. The inventory investment is targeted for the group's own private label offering with the aim of achieving sales at a higher gross margin (read ~35%-40%) against the FY20 marketplace "take rate" of 16.3%. This is a change to the original business model which is based on being capital light as the sellers warehouse the stock and are responsible for delivery of the stock to the end consumers. The first half result delivered revenue growth of 248%, gross profit growth of 210% but a decline in underlying EBITDA to a loss of \$1.0m as advertising costs increased significantly. The first private label sales were recorded, contributing \$4.3m to sales at margins of 43%, while gross sales in January continued strong, rising +190% YoY.

Business model

MYD provides an online marketplace for consumers and sellers to transact, and in return earns revenue in the form of a commission or "take rate" on the total transaction value. In FY20 the take rate was 16.3%. The group's operating costs centre around the costs of marketing the site together with the licencing of other software to operate the site including AWS cloud processing, Zendesk and Salesforce. The business has negative working capital, with payment upon transaction and no inventory holdings required (other than the company's private label range which was \$2.9m at 31 December 2020).

Advertising spend drove all key metrics in H1 FY21

A four-fold increase in advertising expenses against the PCP drove net transaction values (NTV), revenue and gross profit of 213%, 248% and 210% respectively in H1 FY21. With repeat business said to be 52.7%, this level of advertising should also boost sales in future periods. The \$48.1m cash balance provides opportunities for further investment and/or acquisitions. The company will launch iOS and Android apps in 2H21 while continuing to invest in the underlying platform.

Peers are other online marketplace providers

Key peers for MYD are other online marketplace providers as they are not fundamentally retailers but platform providers & site marketers. Domestically Temple & Webster (TPW:ASX) offers a similar service with a similar product focus. On a more global scale Redbubble (RBL:ASX) is also a peer operating a marketplace for artists, particularly for print-on products such as t-shirts. The likes of eBay and Amazon could be considered peers and competitors.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)
06/18a	5.5	(2.9)	(2.3)	nm	34.6
06/19a	5.4	(1.7)	(1.4)	nm	35.2
06/20a	15.7	(0.5)	0.0	nm	12.1

Source: Company data

Online retailing

12th March 2021

Share details

ASX Code	MYD
Share price	\$0.92
Market Capitalisation	\$238.1M
Shares on issue	258.8M
Net cash at 31/12/2020	\$48.1M
Free float	~15%

Share performance (since listing)



Upside Case

- Continues to take market share
- Private label boost sales/margins
- Expansion into new sectors

Downside Case

- Key sellers go direct/online themselves
- Tough COVID driven sales comparatives (March-November 2021)
- Private label not well accepted by customers and/or sellers

Catalysts/upcoming events

- Q4FY21 trading update (July-2021)
- Full year results (August 2021)

Comparable companies (Aust/NZ)

Temple & Webster (ASX:TPW), Redbubble (ASX:RBL)

Top 5 shareholders

Mr Sean Senvirtne	47.3%
Aavasani Ptd Ltd	19.7%
Silver Globe Inv.	13.4%
HSBC Nominee	2.9%
CS Third Nominee	2.5%

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FINANCIAL SERVICES GUIDE

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