RMA Global Limited

Cash flow positive and growing fast in the US

Share Price: A$0.15

ASX: RMY
Sector: Internet Media & Services
22 July 2022

RMA Global saw a strong uptake across all markets which catapulted its revenue to over A$4m (up 24% year on year – YoY) in 4Q22. It also recorded its first cashflow positive month in June 2022. Although it still recorded operational cash outflow of $474k for the quarter, this was an improvement of 42% from 3Q22 and a 76% improvement from Q421.

Building a position in the US market

RMA Global, already a market leader in ANZ, reported growth in agent and platform usage for the USA. key operational and financial metrics for the USA. As of 30 June 2022, there were 214,000 agents on the US platform with ~406,000 reviews, up 70% and 206% compared to 12 months ago.

The company credited US its growth to a number of initiatives undertaken in FY22, including automation of agent workflow systems, its a "lite" subscription tier, and the introduction of certain initiatives to recognise top performing agents including an agent leader board and recognition badges. These measures differentiate agents from their peers in the eyes of would-be vendors, both those on RMA and those who are not.

Strengthening its position in Australia and New Zealand

Australia is a more mature market for RMY – 78% of the ~33,100 active agents having claimed a profile. RMA recorded $2.1m in revenue in its home market, up 10% on 4Q FY21. RMA also recorded a strong quarter in New Zealand, with 80% higher subscription revenues compared to 12 months ago.

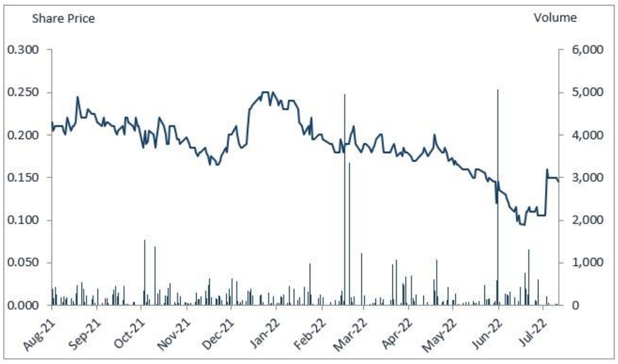
Valuation of A$0.61 per share

In our research initiation on RMY from February 2022, available here, we valued the company at A$0.61 per share in the base case and A$0.66 per share in the bull case, using the DCF model. Following the recent developments, we reiterate our A$0.61 per share valuation.

Please refer to page 6 for details on re-rating and risks.

Market Cap. (A$ m)	71.9
# of shares outstanding (m)	479.4
# of shares fully diluted (m)	479.4
Market Cap Ful. Dil. (A$ m)	71.9
Free Float	32.7%
52-week high/low (A$)	0.24/0.10
Average daily volume (k)	263.2
Website	rma-global.com

Source: Company, Pitt Street Research



Share price (A$) and avg. daily volume (k, r.h.s.)

Source: Refinitiv, Pitt Street Research

Valuation metrics	
Valuation per share (A$)	$0.61-$0.66

Source: Pitt Street Research

Disclosure: Pitt Street Research Directors own shares in RMY

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RMA Global records another quarter of revenue growth

RMA Global has reported another strong quarter of growth in revenues, particularly in the US. The company reported top line revenue growth of 24% from 4Q21. Total cash receipts from customers were $4.8m, up 14% Year on year and 7% Quarter on quarter. Promoter revenues grew 14% in 12 months but subscription revenues rose by 30%. Revenues for the 12 months to 30 June 2022 were $16.9m, up 28% from the year before.

The company reported its first group cashflow positive month in June 2022

Most pleasingly for shareholders, the company reported its first group cashflow positive month in June 2022. Even though the company still recorded a cash outflow for the quarter of $474k, this was an improvement of c. $340k (42%) from 3Q22. It finished the quarter with $5.8m in cash on hand.

Building a position in the US market

There are 214,000 agents on the US platform

Australia is still RMY's major market, but the company has had a successful FY22 in the US. As at 30 June, there were 214,000 agents on the US platform with ~406,000 reviews. The number of agents has grown by 70% in 12 months (by 88,000) and reviews have grown 206% (by 274,000). The company also reported a 207% jump in Annual Recurring Revenue without providing specific figures.

The company credited several initiatives. These include automation of agent workflow systems, its a "lite" subscription tier, and the introduction of certain initiatives to recognise top-performing agents including an agent leader board and recognition badges. These measures differentiate agents from their peers in the eyes of would-be vendors, both those on RMY and those who are not.

In our initiation report we outlined an expectation for a network effect in the USA. Essentially more agents on the platform will attract more vendor reviews, which in turn attracts more agents and so on and so on. Revenues, margins just keep increasing throughout this cycle. We note that, RMY is primarily focusing on a narrow segment of the market – the ~300,000 agents who are responsible for 80% of property deals but are only 20% of the market.

In its 3Q update, RMY outlined to shareholders its growth potential if it could replicate its Australian performance in the US.

Figure 1: Potential in the US based on extrapolation of Australian performance

Business Funnel	Australia (As of April 2022)	US (As of April 2022)	Australian extrapolation to US market
Active Agents (x1,000)	37	860	-
Total Claimed profiles (x1,000)	45	185	-
Agents with Claimed profiles (x1,000)	27	162	616
Number of reviews (x1,000)	1,170	311	27,196
Active agents under paid subscription (x1,000)	12.2	2.6	279,000
Average revenue per subscription (A$)	690	600	600
Subscription ARRR (A$k)	8,280	1,560	167,400
Average # Promoter campaigns per month (x1,000)	0.630	0.110	15
Promoter ARRR (A$k)	3,300	400	73,810

Source: Investor Presentation (April 2022)

All figures in Thousands unless mentioned otherwise

Converting users to paid subscribers

RMY operates with a freemium model.

Clearly RMY has had little trouble luring agents to the platform. The challenge for the company is converting them into paying subscribers. Let's recall that RMY has a database of agent profiles that are market as active agent if they have accomplished at least one property sale in the previous 12 months. RMY sends invites to active agents to claim their profile. RMY operates in a freemium model whereby agents can still have a profile that can be found by vendors looking for an agent. We also observe that beyond subscription revenue, it generates promoter's fees through the promotion of agent and agency campaigns via third-party online advertising providers.

But subscription is still responsible for the majority of RMY's revenue and, it hopes agents will buy a paid subscription that unlocks value added services. For individual agents, a 'Lite' subscription enables them to:

- Add their personalized brand
- Connect social media accounts and share reviews, listing and sold properties; And,
- Request reviews by SMS

A Pro subscription enables agents all the benefits of Lite plus:

- An Agent Market Report that is personalised to them
- Invite clients to leave reviews on Google and Facebook
- Access to the company's library of specially designed social posts
- Automatically displayed reviews on an agent's own website.

There are also paid services for offices and teams that allow provide services including the importing of reviews from external sites and SEO optimisation. The company has shown increasing monetisation from users in recent months recording $438k in subscription revenue during 3Q, up 24% from 2Q, and $528k during 4Q, up 21%. We observe RMY also generates Promoter revenue, but it is seasonal revenue – peaking in January each year when RMY hosts its annual Agent of the Year Awards.

Continued strong performance in Australia and New Zealand

Growing revenue and improving margins to drive company towards a positive cash-flow by the end of CY22

Despite actively pursuing growth in the US market, RMY's dominant market remains Australia, where 78% of the ~33,100 active agents in Australia have claimed their profile. In 4Q, it made $2.1m in subscription revenue, up 10% despite interest rate hikes and inflationary pressures. It also generated $1.1m in Promoter revenues, up 5% from 4Q21. But, like in the US, promoter revenue is highly seasonal revenue. New Zealand was also strong for RMY – the company recorded an 80% YoY jump in subscription revenues.

The Australian property market has begun to feel the impact of rising interest rates. CoreLogic data has depicted that over Q4FY22, dwelling values have fallen by 4.5% across Sydney, 2.8% in Melbourne and 0.6% in Brisbane and the Gold Coast. With interest rates expected to hike to over 2.5% within the next 6-12 months, investors might be forgiven for thinking the downturn in the property market might hurt RMY.

RMY did report that the number of active agents in the market is down 1.2% since February. But we do take hope in that RMY was still able to grow its revenues during the last quarter. Even if the pace of home listings fall, there will be people who will have to sell their property. And there will be additional incentive for agents to promote themselves to would-be consumers, as someone who can find them the best possible deal for their property.

Valuation

We outlined our valuation on RMY in our initiation report from 22 February. To re-state here:

- We built a DCF model for RMY, incorporating its growth plans over a period of five years across Australia, New Zealand and the US.
- The revenue for the Australian operations was forecast assuming an average subscription rate of 45% and ARRR per subscription of A$690.
- The revenues for the US operations were forecast factoring in the company's focus on the 300k US agents responsible for 80% of US residential property transactions.
- The firm's value is the summation of present value of free cash-flows for the period FY22 to FY27 and the present value of RMY's terminal value.
- We used a WACC of 10.2% and a terminal growth rate of 2.5%.
- Other assumptions include a weighted average corporate tax rate of the three operating geographies, with weights based on revenue contribution from each operating geography.

Valuation per share of A$0.61 base case and A$0.66 bull case

Figure 2: DCF valuation for RMA Global

Valuation (A$)	Base case	Bull case
Present value of FCF	50,864,417	56,156,014
Present value of Terminal FCF	237,190,109	258,842,418
Enterprise Value	**288,054,526**	**314,998,432**
Net debt (cash)	(3,211,680)	(3,542,184)
Equity value (A$)	**291,266,206**	**318,540,615**
Shares outstanding	479,359,639	479,359,639
Implied price (A$ cents)	**60.76**	**66.45**
Current price (A$ cents)	15.00	15.00
Upside (%)	*305.1%*	*343.0%*

Source: Pitt Street Research

Figure 3: DCF value in A$ cents using various WACCs

Sensitivity Analysis									
WACC	**10.20%**								
Terminal Growth Rate	**2.50%**	**Change in WACC**							
Implied Price (A$ cents)	**60.76**	*8.70%*	*9.20%*	*9.70%*	*10.20%*	*10.70%*	*11.20%*	*11.70%*	*12.20%*
Change in Terminal Growth Rate	*1.75%*	70.22	64.85	60.16	56.04	52.39	49.13	46.20	43.56
	2.00%	72.54	66.83	61.87	57.52	53.68	50.26	47.20	44.45
	2.25%	75.05	68.95	63.68	59.09	55.04	51.46	48.26	45.39
	2.50%	77.75	71.23	65.63	**60.76**	56.50	52.73	49.38	46.38
	2.75%	80.68	73.69	67.71	62.55	58.04	54.07	50.56	47.42
	3.00%	83.88	76.35	69.95	64.46	59.68	55.50	51.80	48.51
	3.25%	87.36	79.23	72.37	66.50	61.43	57.01	53.12	49.67

Source: Pitt Street Research

Re-rating RMY

We believe RMY is undervalued at its current market cap and may see a rerating based on the following factors:

1) The high potential of the US market and a replication of the Australian experience

2) RMY's leadership position in Australia

3) continuous growth in agent and review numbers as well as the top line across all three geographies, reflective of successful agent engagement.

We think the company's share price has suffered this year from being non-profitable. Amidst the current equity market conditions, investors ignore or disregard growth companies that are not profitable. But RMY's first cash flow positive month was a good sign for its future profitability. If the company can replicate this into an entire reporting period, investors will pay more attention to the company.

Risks

We see three main risks related to our investment thesis on RMY.

– **Dependence on a large number of subscriptions**: RMY's subscription service is one of its primary sources of revenue. The contracts in subscription services, however, are short-term in nature and can be cancelled any time. Inability to replace/renew expired and cancelled contracts can lead to volatility in revenues.

– **Volatility in the real estate industry and property market**: RMY's business revolves around on-boarding real estate agents on its platform. While there is a strong correlation between the number of agents and the number of transactions, a downturn in the relevant real estate markets can lead to a shrinking market.

– **Technological obsolescence**: RMY's platform relies on its technology systems and software. A disruption or security breach of these systems would have a direct impact on the company's operations and market standing.

Appendix I – Analyst Certification

Nick Sundich is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

Marc Kennis has been covering the semiconductor sector as an analyst since 1997.

- Marc obtained an MSc in Economics from Tilburg University, Netherlands, in 1996 and a post-graduate degree in investment analysis in 2001.
- Since 1996, he has worked for various brokers and banks in the Netherlands, including ING and Rabobank, where his main focus has been on the technology sector, including the semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equity research firm.
- In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including technology companies.

Appendix II – Major Shareholders

Investors	Ownership (%)
David Williams	20.6%
Mark Armstrong	11.3%
Moggs Creek Pty Ltd	9.6%
Merchant Fund Mgt pty Ltd	6.0%
EFM Global Growth Fund	5.8%
Xavier Perronnet	5.5%
Pantaraxia Pty Ltd	5.4%

Source: Bloomberg

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