ASX Announcement
8 February 2019

REA Group delivers double digit growth for the first half

Financial highlights from core operations[1]:

- **Revenue[2] of $469.2m, up 15%**
- **EBITDA of $289.1m, up 19%**
- **Net Profit of $176.6m, up 20%**
- **Interim dividend of 55.0 cents per share, up 17%**
- **EPS of 134.1 cents, up 20%**

REA Group Limited (ASX:REA) today announced its results for the half-year ended 31 December 2018. Financial highlights from core operations[1] include revenue growth of 15% on the prior year to $469.2m and an increase in EBITDA of 19% to $289.1m.

Revenue growth was driven by a 15% increase in the Australian business. This reflects a strong performance in the Residential business as well as the inclusion of the Hometrack business which was not in the prior comparative period. There was also a full half-year contribution from the Smartline business compared to five months in the prior year. The positive result in Australia was achieved in a challenging market with lower listings and fewer new dwelling commencements.

REA Group CEO, Owen Wilson, commented: "This is an exceptional start to the year and I'm pleased with the strong growth we have delivered, despite the tough conditions we faced in the Australian market. Our customers continue to recognise the value our products bring, and we have an audience which remains deeply connected with the experiences we provide.

"realestate.com.au is clearly Australia's preferred place for property with the largest audience of buyers, sellers and renters. We continue to invest in delivering highly personalised and relevant experiences for our consumers, connecting with them every step of their property journey", said Mr Wilson.

Financial results from core operations[1] for the half-year ended 31 December 2018 include:

AUD$m (unless stated)	HY2019	HY2018	Growth YoY
Revenue[2]	469.2	406.8	15%
EBITDA	289.1	242.8	19%
EBITDA Margin	*62%*	*60%*	
NPAT	176.6	147.3	20%
Earnings per share (EPS)	134.1c	111.8c	20%

Operating expenditure grew 10% due to continued investment in product innovation, an increase in costs due to the inclusion of Hometrack, and the variable costs associated with the success of the Audience Maximiser product in Australia.

[1]Financial results/highlights from core operations excludes significant non-recurring items such as revaluation, unwind and finance costs of contingent consideration, transaction costs relating to acquisitions by associates and impairment of goodwill. In the prior comparative period this excluded items such as revaluation, unwind and finance costs of contingent consideration, transaction costs relating to acquisitions and the impact of the change in US tax rates on Move, Inc. results. A full reconciliation of reported financial results and financial results from core operations is attached in Appendix 1.
[2]Revenue is defined as revenue from property and online advertising and revenue from financial services less expenses from franchisee commissions as disclosed in the Condensed Consolidated Interim Financial Statements as operating income.

AUSTRALIA

In Australia, REA Group operates the leading residential, commercial and share property sites: realestate.com.au,[3] realcommercial.com.au,[4] and Flatmates.com.au[5]. Revenue grew 15% to $443.2m for the half, driven by an increase in revenue from the Residential business of 16% to $302.0m and the inclusion of the Hometrack business.

The result was delivered in unfavourable market conditions with national listings decreasing 3% (including listing declines of 10% in Sydney and 1% in Melbourne over the half). The revenue growth reflects the price changes which took effect from 1 July 2018, an improved product mix and further depth penetration. There was also a stronger contribution from products such as Audience Maximiser and Front Page.

The Commercial and Developer businesses achieved 10% revenue growth despite the continued decline in new project commencements. This was driven by an increase in project profile duration, acquisition of new customers and an increase in commercial depth penetration.

Media, data and other revenue increased 19% to $55.4m due to the inclusion of the Hometrack business coupled with greater display advertising from developers arising from longer project durations. Media revenue was lower as a result of reduced advertising spend in key segments and lower inventory as Premiere listings increased.

The Hometrack business, which was acquired in June 2018, remains on track to deliver the previous FY19 revenue guidance of between $14m - $16m and EBITDA of between $6m - $7m.

Tighter lending conditions and the uncertainty from the Financial Services Royal Commission on broker recruitment resulted in flat underlying revenue growth in the Financial Services business. These conditions are likely to continue for the remainder of the financial year further reducing settlement volumes and impacting revenue growth in the second half.

realestate.com.au continues to be the clear number one property platform in the country, with the largest[6] and most engaged[7] audience of property seekers.

- Average monthly visits to realestate.com.au are over 2.8 times more than its nearest competitor;[8]
- Consumers spend more than 5.0 times longer on the realestate.com.au app compared to the nearest competitor;[9]
- More than one million Australians visit realestate.com.au every day.[10]

Financial Services Royal Commission ("FSRC")

The FSRC report has recommended changes to the way mortgage brokers are remunerated. These include the removal and grandfathering of trailing commissions, and an eventual move to a model where the borrower pays for mortgage broking services. The removal of trail commissions is unlikely to take place before July 2020.

The Government has not currently endorsed the move to a borrower pays model, proposing to wait until a review of the effect on competition has been completed. The Government's concerns reflect the views of the Productivity Commission which found that a move to a borrower paid broker model could reduce competition in the home loan market and negatively impact consumers. The exact effect any legislated changes will have on broker remuneration remains uncertain. We anticipate that once trail commissions are removed, up front commissions may increase.

“We believe mortgage brokers provide real value to consumers in navigating the complexities of the mortgage application process and determining the best product for their needs. We are confident that quality brokers will continue to be sought out by consumers regardless of which remuneration models eventuates,” said Mr Wilson.

ASIA

The Asian business contributed a 14% increase in revenue to $26.0m and EBITDA of $3.5m, driven by myfun and Malaysia. The Asian EBITDA includes the equity accounted results of REA Group’s 14.1% Indian investment, PropTiger, which delivered revenue growth of 68% for the half. Excluding the contribution from associates, EBITDA increased 27% to $5.7m.

While the half-year result was strong, there have been changes in the macro economic environment, including additional government cooling measures, which have resulted in more challenging conditions in some markets. This, coupled with the decision to increase our investment to further strengthen our market position, will result in the deferral of near-term returns. These factors have reduced the carrying value of goodwill for the Asia segment and the Group has recorded a non-cash impairment charge of $173.2m (pre and post-tax).

The impairment charge has no effect on current trading and does not impact REA Group’s compliance with its banking covenants. REA Group’s 2019 interim dividend has been determined based on the Group’s Net Profit after Tax (NPAT) from core operations.

“The long-term growth potential of Asia is very clear, and we will continue to invest to maintain and strengthen our leadership position while these markets mature. Our focus is on having the best talent in the region, improving our audience lead, and continuing to create innovative products and experiences for our customers and consumers,” said Mr Wilson.

NORTH AMERICA

REA Group has a 20% investment in Move, Inc. which operates realtor.com®, a leading property portal in North America. Average monthly unique users of realtor’s web and mobile sites grew 6% to 53 million.[11]

In October 2018, Move, Inc. acquired Opcity, Inc. (“Opcity”), a market-leading real estate technology platform that matches qualified home buyers and sellers with real estate professionals in real time. The acquisition broadens the lead generation product portfolio, allowing real estate professionals to choose between traditional leads products or a concierge-based model that provides highly vetted, transaction-ready leads.

Move, Inc. increased revenue to US$240m an uplift of 11%[12] for the half, while the share of losses for the period was $2.5m up from $0.6m in the prior period (excluding transaction costs and the impact of the change in US tax rates) due to increased operating costs and the acquisition of Opcity.

“Our investment in Move, Inc. provides us with access to the world’s largest residential real estate market. Since we invested, revenue has more than doubled and Move’s audience position continues to grow, creating an exceptional asset for shareholders,” said Mr Wilson.

INCREASED RETURNS TO SHAREHOLDERS

The Board has declared an interim dividend of 55.0 cents per share fully franked, a 17% increase on the prior year.

The 2019 interim dividend dates are:

Ex-dividend date	4 March 2019
Record date	5 March 2019
Payment date	19 March 2019

OUTLOOK

Market conditions are not expected to improve in the short term. Listings may be weaker in the lead up to the NSW election in March and the Federal election (expected in May). The BIS Oxford forecast for new apartment commencements indicates a continued decline for the remainder of this year. These factors are expected to result in a lower rate of revenue growth in the second half. In January overall, residential listings were down 11% with Sydney down 19% and Melbourne down 13%. January is seasonally a low listings month therefore movements are not typically representative of the longer term. As previously advised, the rate of revenue growth is expected to exceed the rate of cost growth for both the second half and the full year, however, this will not be the case in the third quarter.

HY19 Results Presentation webcast link

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About REA Group Limited: REA Group Limited ACN 068 349 066 (ASX:REA) ("REA Group") is a multinational digital advertising business specialising in property. REA Group operates Australia's leading residential, commercial and share property websites - realestate.com.au, realcommercial.com.au, Flatmates.com.au – as well as Spacely, a short-term commercial and co-working property site. In Asia, REA Group owns leading portals in Malaysia (iproperty.com.my), Hong Kong (squarefoot.com.hk) and Indonesia (rumah123.com), and prominent portals in Singapore (iproperty.com.sg) and China (myfun.com), and a leading property review site in Thailand (thinkofliving.com). REA Group owns Smartline Home Loans Pty Ltd, an Australian mortgage broking franchise group, and Hometrack Australia Pty Ltd, a leading provider of data property services. REA Group also holds a significant shareholding in property websites realtor.com in the US and PropTiger.com, housing.com and Makaan.com in India.

References

[3]Nielsen Digital Content Ratings, (Jul 2018 - Dec 2018), tagged, People 2+, text, computer & mobile, comparing average monthly sessions of realestate.com.au to nearest competitor.
[4]Nielsen Market Intelligence – Home and Fashion Suite, total sessions (exclude apps). Nielsen Digital Content Ratings; average app launches for the audited site realcommercial.com.au and app, compared to nearest competitor, for the half-year ended 31 December 2018.
[5]Hitwise market share data, comparing visits to flatmates.com.au to nearest competitors (Jul 2018 – Dec 2018).
[6]Nielsen Digital Content Ratings (Jul 2018 – Dec 2018), tagged, People 2+, text, computer & mobile, total sessions compared to nearest competitor.
[7]Nielsen Digital Content Ratings (Jul 2018 – Dec 2018), total time spent on realestate.com.au website and app compared to nearest competitor website and app.
[8]Nielsen Digital Content Ratings, (Jul 2018 - Dec 2018), tagged, People 2+, text, computer & mobile, comparing average monthly sessions of realestate.com.au to the nearest competitor.
[9]Nielsen Digital Content Ratings, (Jul 2018 - Dec 2018), tagged, People 2+, text, computer & mobile, average app previous sessions length compared to the nearest competitor.
[10]Nielsen Digital Content Ratings, (Jul 2018 - Dec 2018), People 2+, text, computer & mobile, daily average unique audience.
[11]NewsCorp's earning release stated in US Dollars (7 February 2019) for the six month period ended 31 December 2018.
[12]NewsCorp's Form 10-Q stated in US Dollars for the six month period ended 31 December 2018.

APPENDIX 1

Reconciliation of the financial results from core operations to reportable financial results.

As reported in the Financial Statements for the half-year ended 31 December 2018:

Core and reported results	**2019 HY $'000**	**2018 HY $'000**
Reported operating income	**469,234**	406,779
EBITDA from core operations (excluding share of losses of associates and joint ventures)	**293,980**	246,799
Share of losses of associates and joint ventures	**(5,016)**	(15,858)
Business combination transaction costs*	**120**	-
US tax reform - revaluation of deferred tax balances	**-**	11,846
EBITDA from core operations	**289,084**	242,787
Revaluation of contingent consideration	**(6)**	254
Impairment charge	**(173,200)**	-
Business combination transaction costs*	**(120)**	(552)
US tax reform - revaluation of deferred tax balances	**-**	(11,846)
Reported EBITDA	**115,758**	230,643
Net profit from core operations	**176,583**	147,255
Unwind, revaluation and finance costs of contingent consideration	**(795)**	(2,335)
Impairment charge	**(173,200)**	-
Business combination transaction costs, net of tax*	**(120)**	(552)
US tax reform expense – revaluation of deferred tax balances	**-**	(11,846)
Reported net profit	**2,468**	132,522

*Transaction costs incurred in the current period relate to the Group's share of costs from an associate's acquisition.