

Openn Negotiation Ltd

(OPN \$0.14) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Harry Stevenson	2 nd February 2022	\$0.35/sh

Q2 and North American Markets

Event

OPN has achieved another quarter of record of upload growth delivering 1,664 uploads to the platform, up 29% QonQ and 159% on PCP. A particular highlight was the continued growth in unique users now +90k and the progress made on the US expansion. We have taken the opportunity to review the North American markets, with OPN remaining on track for commercial launch late FY'22.

Impact

We have updated our forecasts to reflect quarterly uploads data.

Action

We retain our **Speculative Buy Recommendation and \$0.35/sh price target.**

Key Catalysts

- Q3 Upload data: launch of Openn Offers looks to be well received by agents, retention of users on paid model to be launched from February will be significant catalyst.
- Openn Access and Openn Tenders due to launch Q'3 FY'22 which should lead to further acceleration of uploads to the platform.
- US commercial launch due 2H'22. OPN has reached agreements with 2 MLS's to share data in pilot program. This is a significant first step in converting to a commercial agreement

Openn Negotiation Ltd	Year End 30 June	
Share Price	0.14	A\$/sh
Price Target	0.35	A\$/sh
Valuation (DCF)	0.65	A\$/sh
WACC	10.5%	
Terminal Growth	2.5%	
Shares on issue	194	m
Market Capitalisation	27.1	A\$m
Enterprise Value	20.8	A\$m
Cash	6.5	A\$m
Debt	0.1	A\$m

Key Financials	2021a	2022f	2023f
Revenue (A\$m)	0.0	2.2	5.6
EBITDA (A\$m)	-1.9	-1.9	-2.6
EBIT (A\$m)	-2.0	-2.8	-1.1
Reported NPAT (A\$m)	-2.1	-2.8	-1.1
Normalised (A\$m)	-2.1	-2.8	-1.1
Gross Cashflow (A\$m)	-1.9	-2.7	-1.0
Capex (A\$m)	-0.4	-0.5	-0.5
Op. Free Cashflow (A\$m)	-1.8	-4.3	-2.2
Revenue Growth (%)	-5%	102%	151%
EBITDA Growth (%)	57%	42%	-65%
Norm. NPAT Growth (%)	72%	37%	-60%
Normalised EPS (Ac)	-0.82	-1.08	-1.48
Norm. EPS growth (%)	na	0.32	0.37
PER (x)	-15.8	-12.0	-8.8
EV:EBITDA (x)	-10.0	-7.0	-20.2
EV:EBIT (x)	-8.9	-6.5	-16.5
DPS (Ac)	NA	NA	NA
Dividend Yield (%)	NA	NA	NA
Net Cash (A\$m)	0.6	4.5	2.4
Net debt to equity	NC	NC	NC

NC = Net Cash

Share Price Chart



Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Openn Negotiation Ltd during the last year. Euroz Hartleys has received a fee for these services.

This analyst declares that he has a beneficial interest in Openn Negotiation Ltd.

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Openn Negotiation Ltd

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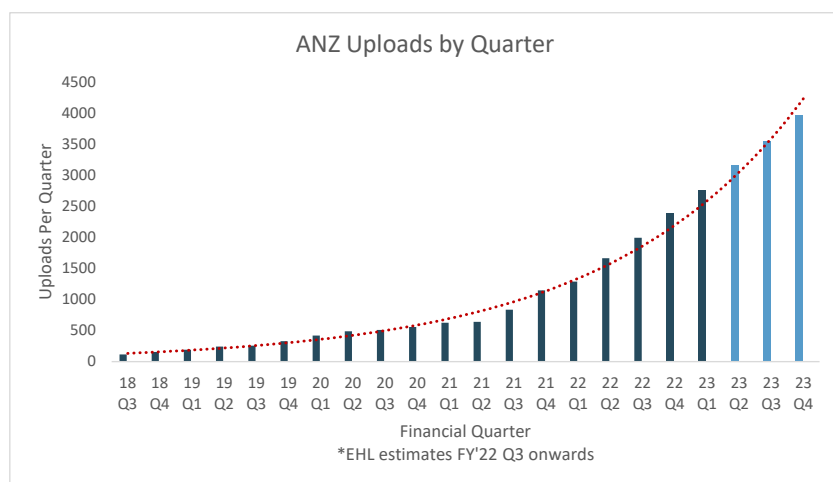
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Analysis

Earnings

We have updated our forecasts to reflect 2Q upload data:

Australian Market	18 Q3	18 Q4	19 Q1	19 Q2	19 Q3	19 Q4	20 Q1	20 Q2	20 Q3	20 Q4	21 Q1	21 Q2	21 Q3	21 Q4	22 Q1	22 Q2	22 Q3	22 Q4	23 Q1	23 Q2	23 Q3	23 Q4
Property Uploads	115	156	193	243	257	330	420	491	511	557	628	642	836	1149	1289	1664	1997	2396	2756	3169	3549	3975
Growth QonQ	-11%	36%	24%	26%	6%	28%	27%	17%	4%	9%	13%	2%	30%	37%	12%	29%	20%	20%	15%	15%	12%	12%



- We are in line with OPN's initial target of 5% of Australian addressable market by June 2024.

ANZ	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25	FY'26	FY'27
Uploads	1979	3255	7346	13449	20506	25871	27639	28405
Growth	93%	64%	126%	83%	52%	26%	6.83%	3%
Penetration	0.49%	0.81%	1.82%	3.33%	5.07%	6.40%	6.84%	7.03%

- If current rates are maintained the company would hit 5% of target market mid FY'23. At 5% OPN achieves statistical significance which should provide a pathway to monetisation of data. On this front OPN has achieved statistically significant share of residential data in Darwin and a number of regional NSW markets. OPN has commenced a number of initiatives designed to demonstrate the unique depth of market data in these markets. Any sale of data (even minor) would be a significant catalyst and proof of concept.

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The following outlines adjustments to forecasts

		Old		New		\$	%	Old		New		\$	%	Old		New	
		FY20	FY21	FY'22	FY22			FY'23	FY23	FY'24	FY24						
ANZ	\$m	0.8	1.0	1.6	1.8	0.2	15%	2.6	3.4	0.8	29%	3.2	4.1	0.9	28%		
USA	\$m	0.0	0.0	0.3	0.3	0.0	15%	2.2	2.2	0.0	0%	7.1	7.1	0.0	0%		
Sales	\$m	0.8	1.0	2.0	2.2	0.2	9%	4.8	5.6	0.8	16%	10.3	11.2	0.9	9%		
Uploads																	
ANZ	#	1979	3255	5909	7346	1437.0	24%	10474	13449	2974.8	28%	15970	20506	4536.0	28%		
USA	#	0	0	1250	1250	0.0	0%	8807	8807	0.3	0%	28537	28537	-0.3	0%		
Total Uploads	#	1,979	3,255	7,159	8,596	1437.0	20%	19,281	22,256	2975.1	15%	44,506	49,043	4536.7	10%		
Avg Pricing	\$	429	321	275	250	-25.0	-9%	250	250	0.0	0%	200	200	0.0	0%		
YOY Sales Growth	%	na	23%	88%	109%	na	na	145%	155%	na	na	114%	102%	na	na		
(-) OPEX	\$m	-2.3	-3.0	-4.9	-4.9	0.0	0%	-6.5	-6.5	0.0	1%	-8.8	-8.9	-0.1	1%		
EBITDA	\$m	-1.2	-1.9	-2.9	-2.6	0.3	-9%	-1.6	-0.9	0.7	-43%	1.6	2.4	0.8	50%		
EBITDA Margin	%	-102%	-178%	-143%	-122%	na	na	-33%	-17%	na	na	15%	21%	na	na		
YOY EBITDA Growth	%	-21%	57%	51%	42%	na	na	-44%	-65%	na	na	na	na	na	na		
EBIT	\$m	-1.3	-2.0	-3.0	-2.8	0.2	-7%	-1.8	-1.1	0.7	-40%	1.4	2.2	0.8	58%		
EBIT Margin %	%	-152%	-195%	151%	-128%	na	na	-36%	-20%	na	na	13%	20%	na	na		
YoY EBIT Growth %	%	-38%	58%	46%	37%	na	na	-41%	-61%	na	na	-179%	-303%	na	na		
Net profit after tax	\$m	-1.2	-2.1	-3.0	-2.8	0.2	-6%	-1.8	-1.1	0.7	-37%	1.4	2.2	0.8	55%		
NPAT Growth %	%	-41%	72%	45%	37%	na	na	-40%	-60%	na	na	-175%	-293%	na	na		

- We have adjusted our avg pricing estimate to \$250 (down from \$275) which reflects 2'Q results (-\$245 per upload).

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North American Markets

OPN continues to make meaningful steps in the North American market during the quarter with a number of key achievements flying somewhat under investment radars.

- **Patent Accepted:** US Patent and Trade Mark Office issued patent covering the “the system for conducting for conducting real-estate sales over the internet where the sale is administrated by a sales facilitator. It covers the type of real estate processes enabled by the Openn platform where agents facilitate the sales process between buyer and seller”
 - **Simply put the patent is broad.** It covers online sales facilitated by “Openn Negotiation” and “Openn Offers” where the sellers agent will pre-approve offers prior to acceptance on the online platform.
 - The patent provides significant barriers to entry from competitors looking to enter North American market and will be back dated to June 2016.
- **Pilot Launched:** agreements with two US based real-estate brokerage firms to participate in the company’s Pilot Program.
 - Century 21 - All Points Realty
 - Connecticut’s largest and most active Century 21 firm with 8 agent centres and over 325 agents.
 - Forms part of the larger Century 21 Real-estate Group which consists of approximately 14,000 broker offices with over 147,000 sales professionals globally.
 - Commentary from the Owner of All Points Realty, Kelly Petersen, on the reasons for participating the in the Pilot program is supportive of the Openn platform and concept “the real estate industry needs transparency and today’s market has bought it to the forefront. Openn allows us the opportunity to provide the transparency and efficiency to our clients”
 - RE/MAX Revolution - Boston
 - Appears to serve 7 agents in the state of Massachusetts.
 - Forms part of the RE/MAX global network supporting 90,000 real estate agents across 90 countries.
- **Multiple Listing Service (MLS)**
 - MLS data access agreements have been executed with two MLS organisations covering the initial pilot states.
 - Enhancements, including integrations to each pilot MLS have been developed for release in March Quarter.
 - OPN continues to engage with MLS’s within and external to the initial pilot area.
- **Entry into Canadian REACH**
 - Entry into Canadian REACH program provides strong opportunity given the political policy of Canada’s recently re-elected Liberal to Government to introduce a Home Buyers Bill of Rights.
 - Two Key pillars of this policy will be:
 - Banning blind bidding, which prevents bidders from knowing the bids of other prospective buyers, and ultimately drives up home prices.
 - Ensuring total transparency on the history of recent house sale prices on title searches.

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We see these as meaningful milestones on the pathway to commercialisation in the US. In our view the US market structure and strategy targeting MLS partnerships is conducive to viral take up, with the potential for growth to quickly outpace the Australian market. We explore the MLS opportunity below.

Multiple Listing Service Strategy

A key pillar of the initial North American go to market strategy is partnerships with Multiple Listing Services (MLS).

Ultimately, the MLS is a collective of brokers that have signed covenants to establish and enforce rules for corporation and compensation for sales.

The MLS also maintains a database that real estate agents use to share their listings with other agents and to search for homes for sales. Each MLS database serves a specific region, and is available to agents who pay for annual membership.

MLS's in each region will have their own staff, software and agreements with vendors for services.

For clarity sites like Zillow will scrap data from MLS's in each region and upload.

There are 531 MLS's servicing 1.48m agents in the US.

	US	Canada
#MLS	531	18
#Agents	1.48	141K

The market is particularly top weighted with the top MLSs accounting for 50% of MLS subscribers. Providing opportunity for OPN to rapidly grow users on platform through a targeted sales campaign.

The following is a list of Top 20MLS's in the US.

Organization Name	Organization City	Organization State Or Province	Organization Member Count
California Regional Multiple Listing Service (CRMLS)	Chino Hills	CA	103100
Bright MLS	Rockville	MD	90930
Stellar MLS	Altamonte Springs	FL	58450
First Multiple Listing Service (FMLS)	Atlanta	GA	53500
Toronto Regional Real Estate Board	Toronto	ON	52000
Toronto Regional Real Estate Board	Toronto	ON	52000
SEF MLS (Miami Association of REALTORS®)	Miami	FL	49400
Georgia MLS	Tucker	GA	48256
Midwest Real Estate Data (MRED)	Lisle	IL	45260
OneKey MLS	West Babylon	NY	43000
MLS Property Information Network (MLS PIN)	Shrewsbury	MA	42440
Arizona Regional Multiple Listing Service (ARMLS)	Tempe	AZ	40940
North Texas Real Estate Information Systems (NTREIS)	Dallas	TX	40630
Houston Association of REALTORS®	Houston	TX	37480
BeachesMLS	West Palm Beach	FL	35610
Northwest Multiple Listing Service (NWMLS)	Kirkland	WA	31770
REcolorado®	Greenwood Village	CO	25680
Garden State MLS	Parsippany	NJ	24100
MetroList	Sacramento	CA	22000
Canopy MLS	Charlotte	NC	21280
NorthstarMLS	Minnetonka	MN	20010
SmartMLS	Milford	CT	18200

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OPN is currently completing a pilot program in the tri-state area which is serviced by MLS's highlighted above.

OPN Current Pilot States	
Pilot State Members	218,670
Penetration US Agents	15%

OPN has executed data share agreements with two MLS's in the pilot area.

We see one potential route to market where OPN may look to offer a licencing agreement for basic functionality to MLS's and upsell premium products to agents separately.

Basic Functionality: Integration of "make an offer" website functionality across broker website and LMS and file retention.

Premium functionality: Openn Negotiation / Openn Offers, lead generation, chat etc.

We explore potential outcomes below.

		LOW	MEDIAN	HIGH
Members	#	18,200	42,440	90,930
Monthly Sub (US\$1)	A\$	1.43	1.43	1.43
ARR	A\$m	0.3	0.7	1.6
Upsell Penetration	%	1%	1%	1%
Agents	#	182	424	909
Monthly Sub (US\$50)	A\$	71.4	71.4	71.4
Revenue*	\$Am	0.2	0.4	0.8
Upsell Penetration	%	5%	5%	5%
Agents	#	910	2,122	4,547
Monthly Sub (US\$50)	A\$	71.4	71.4	71.4
Revenue*	\$Am	0.8	1.8	3.9
Potential Revenue per MLS	\$Am	1.1	2.5	5.5

*Assumes monthly subscription of US\$50/month with A\$/US\$0.70

- We sensitise member numbers (low, median, high) based on the current MLS's in the current pilot region.
- Monthly subscription of US\$1 (translated to A\$ at \$0.70 AUD/USD) is arbitrary given monthly subscription fees in the US typically range from US\$20 to US\$50 a month.
- Upsell penetration assumes conversion of Agents to a premium monthly subscription of US\$50 sensitised at 1% and 5% of agents on MLS.
- It is plausible that a deal signed with a single MLS could see business activity double on a basic subscription basis alone.
- OPN remains on track to target a commercial launch in North America during the first half of calendar year 2022, any commercial deal will be significant proof of concept and should see stock rerate.

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Valuation

Our price target continues to be derived on an EV/Revenue and NPV based valuation.

FY	Units	2023	2023	2023	2023
Revenue	A\$m	5.6	5.6	5.6	5.6
EV/Revenue	x	3.0	8.0	10.0	17.5
EV	A\$m	16.7	44.5	55.7	97.4
(-) Debt	A\$m	-0.1	-0.1	-0.1	-0.1
(+) Cash	A\$m	6.5	6.5	6.5	6.5
Equity	A\$m	23.1	50.9	62.0	103.8
(/) SOI	m	193.8	193.8	193.8	193.8
Equity/Sh.	A\$/sh.	\$0.12	\$0.26	\$0.32	\$0.54

Components		Weighting	Equity
NPV		25%	0.65
Revenue multiple	8x	75%	0.26
Blended			0.35

Trading at \$0.14/sh, we continue to see significant upside with potential commercialisation in the US as a major catalyst in the short term.

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Financial Statements	2021a	2022f	2023f	Performance Ratios	2021a	2022f	2023f
Income Statement				Growth & Margins			
Revenue	1.0	2.2	5.6	Revenue Growth	-5%	102%	151%
Other Revenue	0.1	0.1	0.1	EBITDA Growth	57%	42%	-65%
Revenue	1.1	2.2	5.6	EBIT Growth	58%	37%	-61%
OPEX	-3.0	-4.9	-6.5	Normalized NPAT Growth	72%	37%	-60%
EBITDA	-1.9	-2.6	-0.9	EBITDA margin	-168%	-118%	-16%
Depreciation & amortisation	-0.2	-0.1	-0.2	EBIT margin	-183%	-124%	-19%
EBIT	-2.0	-2.8	-1.1	Normalized NPAT margin	-187%	-126%	-20%
Borrowing Costs	0.0	0.0	0.0	Effective tax rate	30%	30%	30%
Interest Income	0.0	0.0	0.0	Liquidity			
EBT	-2.1	-2.8	-1.1	Capex/depreciation (x)	1.9	2.5	2.3
Tax expense	0.0	0.0	0.0	Current ratio (x)	1.0	11.0	6.2
Norm NPAT	-2.1	-2.8	-1.1	Quick ratio (x)	0.7	10.8	4.2
Cash flow (A\$m)				Receivable days	95	89	90
Profit before Tax	-2.1	-2.8	-1.1	Payable days	93	31	31
(+) D&A	0.2	0.2	0.2	Risk Measures			
(+/-) Other	-0.1	-0.1	-0.1	Dividend Cover (x)	NA	NA	NA
(+/-) write-downs/revs	0.0	0.0	0.0	Payout ratio (%)	NA	NA	NA
(-) Tax Paid	0.0	0.0	0.0	Net debt/equity (%)	Net Cash	Net Cash	Net Cash
Gross Cashflow	-1.9	-2.7	-1.0	Returns			
(-) Capital Expenditure	-0.4	-0.5	-0.5	ROIC(%)	0%	0%	0%
(-) Change in WC	0.6	-1.1	-0.7	Return on assets (%)	0%	0%	0%
Operating Free cashflow	-1.8	-4.3	-2.2	Return equity (%)	0%	0%	0%
(-) Dividends Paid	0.0	0.0	0.0	Share Data/Valuation			
(+/-) Other	-0.2	0.0	0.0	Share Data			
(+) Equity Raise	2.4	8.3	0.0	Issued shares (m)	146.7	193.8	193.8
Net Cashflow	0.4	4.0	-2.2	Weighted ave shares (m)	77.2	170.3	193.8
Bop Net Cash	0.7	0.6	4.5	Fully diluted shares (m)	77.2	171.0	194.5
(+/-) Net Cashflow	0.4	4.0	-2.2	Basic EPS (c)	-0.8	-1.1	-1.5
(+/-) AASB16 Adj.	-0.6	0.0	0.0	YoY change (%)	na	30%	37%
EoP Net Cash	0.6	4.5	2.4	Fully diluted EPS (c)	-0.8	-1.1	-1.5
Balance Sheet (\$m)				YoY change (%)	na	30%	37%
Cash	0.6	4.5	2.4	Dividend/share (c)	na	na	na
Research and Development	0.0	0.0	0.0	Franking (%)	na	na	na
Other Receivables	0.3	0.5	1.4	Gross cashflow/share (c)	-1.3	-1.4	-0.5
Total Current Assets	0.9	5.1	3.7	NBV/share (c)	0.9	3.5	2.9
Property, plant and equipment	0.1	0.1	0.1	NTA/Share (c)	0.9	3.2	2.6
Intangible Assets	1.2	1.6	2.0	Valuation			
Other Receivables	0.0	0.5	0.6	PER (Basic) (x)	-17.0	-13.1	-9.6
Deferred Tax assets	0.0	0.0	0.0	PER (Fully diluted) (x)	-17.0	-13.1	-9.6
Total Non-Current Assets	1.3	2.2	2.6	PER (Fully diluted, normalized) (x)	-17.0	-13.1	-9.6
Total Assets	2.2	7.3	6.4	P/CFPS (x)	-10.8	-10.1	-28.3
Payables	0.8	0.4	0.6	Price/NBV (x)	15.5	4.0	4.8
Loans and borrowings	0.0	0.0	0.0	Price/NTA (x)	15.7	4.4	5.4
Lease Liabilities	0.0	0.0	0.0	Dividend Yield (%)	na	na	na
Total Current Liabilities	0.8	0.5	0.6	Market Cap	27.1	27.1	27.1
Borrowings	0.0	0.1	0.1	EV	20.8	20.8	20.8
Lease Liabilities	0.0	0.0	0.0	EV/EBITDA (x)	-11.1	-7.8	-22.6
Deferred Tax liabilities	0.0	0.0	0.0	EV/EBIT (x)	-10.0	-7.3	-18.4
Total Non-Current Liabilities	0.0	0.2	0.2	EV/Revenue (x)	18.7	9.2	3.7
Total Liabilities	0.9	0.6	0.8	Other Information			
Net Assets	1.3	6.7	5.6	12-mth High/Low (A\$/sh)		0.13/0.43.5	
Issued capital	1.3	6.7	5.6	Average daily volume (A\$'000s)		166	
Reserves	7.9	16.2	16.2	ASX Code		OPN	
Retained profits	0.0	0.0	0.0	Next result		Feb-22	
Total Equity	1.3	6.7	5.6	Company Description			
<p>OPN operates a property technology company in Australia and New Zealand. It offers a cloud-based software platform that facilitates a negotiation process to support real estate agents in selling properties online. The company is currently undertaking a pilot to expand into the US Market.</p>							

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