Università
Ca'Foscari
Venezia

Master's Degree in Management

Final Thesis

A Critical Analysis of Rightmove PLC Shareholder Wealth Creation in Five Year Period From 2017 to 2021

Supervisor Prof. Valentina Fava

Student Alaa Ahmed Balila Eiesa
Matricolation number 888056

Academic year 2021-2022

Table of Contents

1. Introduction 3
1.1 Company Background 3
1.2 Industry Background 3
1.3 Aims and Objectives 4
1.4 Methodology 4
1.5 Project Structure 4
2.Literature review 5
2.1 General 5
2.2 Measurement of shareholder value 5
2.3 Ways to create shareholder value 8
2.4 Digital Platforms Innovation & Value creation 9
3.Industry Background 11
3.1 Competitors: 14
4.Company background 17
4.1 Strategy & Business Model 18
5.Valuation and financial assessment 19
5.1 Share price and EPS analysis 19
5.2 Ratio Analysis 22
5.2.1 ROE& ROA 23
5.2.2 Economic Value Added 24
5.2.3 Capital structure and WACC 25
5.3 Dividends and buyback 25
5.3.1 Dividends pay-out ratio 26
6.Value creation 27
6.1 Rappaport Model 27
6.2 Innovation and human capital 28
6.3 M & A activities 30

7. Conclusion 30
8.References 31
8.1 Websites 33

1. Introduction

Maximizing shareholder value remain of the main goals for companies and different scholars studied the ways to create and maintain shareholder value. The project Analyzed shareholder value creation for Rightmove for period from 2017 to 2021, over this period the company showed strong financial position and strong business model that help company to build resilience and create competitive advantage. The company profitability is rising and quickly recovered from COVID.

1.1 Company Background

Rightmove PLC is number one UK property portal that provide buying, selling, renting and valuation services to 18,969 customers whom spent 18.3 billion minutes the platform searching for housing options (Rightmove, 2021). The company founded in 2000 and listed in London Stock Exchange in 2006 as member of FTSE250 and now it's a FTSE100 company with market value of 5 billion (Rightmove,2022).

In the beginning the company was allowing agents to list for free, in 2002 start charging for listing (advertising) on the platform, in 2006 it develops automated valuation model for properties and expanded its operations to overseas in 2015. In 2016 the company as the world's most innovative company by Forbes (Rightmove,2022).

The company strategy is to innovate to make moving home easier and more efficient through digitalization, over the 21 years Rightmove as the first in the market was able to create effective business model that protect it against competition.

1.2 Industry Background

Online property platforms appeared during the era of dot com where all businesses went into developing websites and operate online; as people were impressed more by business with online access. In the beginning internet newspapers were the only source of property information after internet real estate portals set themselves as intermediaries between the agents and home-hunters, by 2020 around 97% of homebuyers rely on internet in their searching(*Real Estate in a Digital Age*, 2021)

Internet property agencies accepted property listing free of charge in order to attract viewers (hits) and generate revenue from advertisement (Rowley, 2005) later this revenue model change for subscription model where agents charge for listing but advertisement still the main source of cash. internet of real estate provided wide range of service from listing property, selling advertising space, helping clients navigate different housing options, valuation, price index, financing and most recently selling digital properties in metaverse.

1.3 Aims and Objectives

This project aims to study and assess Rightmove ability to create and maximize shareholder value from 2017 to 2021, and examine the impact if the economic moat on shareholder value creation. The project objectives are to:

- Discuss literature related to shareholder value maximization with primary focus shareholder value on context of digital platform as it differs from other traditional or pipeline businesses.
- Provide overview on industry conditions and competitions.
- Assess Rightmove shareholder value financial and non-financial performance, dividends policy and buyback and acquisitions.

1.4 Methodology

To meet the aims and objectives set the project discussed literate and theories related to shareholder value creation and link them Rightmove PLC. The data are extracted from different sources using EIKON and annual reports from Rightmove and analysed quantitatively and qualitatively.

The challenge faced during study is lack of literature that discussed value maximization in the context of digital platforms only one paper discussed the value creation within digital platforms and another paper examines the relevance of accounting and economic measures on shareholder value creation within digital platforms, and there is an absence of any paper that discuses or analysed property portals platforms particularly, most of available information are from consulting companies and press report. This paper will help to fill the gap in online portal value creation literature providing Rightmove as a case study.

1.5 Project Structure

<u>Literature review</u>

This section discussed different articles and theories related shareholder value creation and measurement in depth focus on digital platforms and impact of innovation on shareholder's value.

Company & industry overview

This section provided an overview of industry and markets in addition to Rightmove PLC history, competition and strategy.

Shareholder value analysis

This part is 5 years analysis of financial and non-financial performance in order to assess Rightmove shareholder value and relate the result to theories to examine consistency.

Conclusion

This section displayed the main findings and results of the project.

2.Literature review

2.1 General

For long time the ultimate goal of firms is to maximize shareholder value however now other stakeholders' interests have been involved, and sometimes these interests are conflicted. Directors have a legal duty to maximizes shareholder value and failing to comply has major legal consequence on same time CSR consider as voluntary activities and therefore in case of conflicts between two shareholder value maximization prevail(Yan, 2019)

Some arguing that the goal and obligation is to promote firm success which might differ from maximizing shareholder wealth as not all shareholders have same interest or goals (shareholder heterogeneity) and different share holding period (Yan, 2019) some looks for short-term gains associated with share appreciation while others have long term objectives not necessarily linked to movement in stock. Therefore, it is very challenging for managers to cope as maximizing profit in short-term for example by reducing R&D cost could destroy the long-term growth(Yan, 2019).

2.2 Measurement of shareholder value

Maximization can be in form of capital appreciation through share price increase or by dividends or both(Venugopal, Ravindar Reddy M., et al., 2018). Studies confirmed that dividend policy had a strong relationship with shareholder value(Banerjee & Majumdar, 2020). As there are different forms of wealth there are also different way to measure it, moreover shareholders need to measure their value in order to assess managers performance and investment decisions.

Shareholder value can be measured using accounting earnings like per share (EPS), return on asset (ROA), return on equity (ROE) and profit before and after tax or other economic measures which include value added (EVA) and return on capital employed (ROCE).

EPS: is a simple way to measure share price and value which is calculated by dividing net income with total shares, EPS influenced stock price, a strong EPS might increase stock market price however this is not always the case as the stock price is affected by other factors (economic, political, investors sentiment... etc) therefore higher EPS not necessarily will reflect on stock market price (Rashidul Islam et al., 2014).

ROE: which shows how much company generated from the money received from shareholders, usually the higher is better however this should be taken with caution as ROE sensitive leverage while **ROA**: which measure the efficiency of company in utilizing its total assets, the higher ratio means more efficiency and more investment appreciation. ROCE which measures the profitability against capital.

Traditional accounting measures rely on the reported profitability which account for cost of debt but ignore cost of capital and easy to manipulate by managers. **Economic Value Added (EVA)** used to avoid some of the drawbacks of the accounting measures EVA calculates residual income however some scholars criticised it as it requires adjustment and fails to predict share returns (Venugopal, Ravindar Reddy M., et al., 2018) the aim is always to increase EVA however if this achieved through increase in cost of capital the firm overall value will decrease(PANIGRAHI et al., 2014) it proven that EVA line managers decision with shareholder's interest; they invest in projects that have maximum return and minimum cost of capital(Hamidah, 2015), below is the formula to calculate EVA.

EVA = NOPAT – (Cost of capital x Capital employed)

Where:

NOPAT = Net Operating Profits after Taxes;
Capital employed = Capital invested by debt holders and equity holders;
Cost of Capital = Weighted average of the cost of debt and cost of equity after taxes.

Figure 1 EVA formula (PANIGRAHI et al., 2014)

Based on the formula EVA underline that firms value increase if the earnings greater than cost of capital and vice versa. EVA usually discussed and studied with another method called **MVA (Market Value Added)** many scholars examined the relationship between the two methods, while EVA is accounting based MVA is market measures and many scholars argued that EVA is a proxy for MVA.

MVA is founded by Stewart and define as "the excess of market value of capital (both debt and equity) over the book value of capital" (Ramana, 2005,p3.)

Another different method for measuring the value called **SVA (Shareholder Value Added)** introduce by Rappaport which similar to discounted cashflow method however this one driven by seven value drivers (Figure 2).

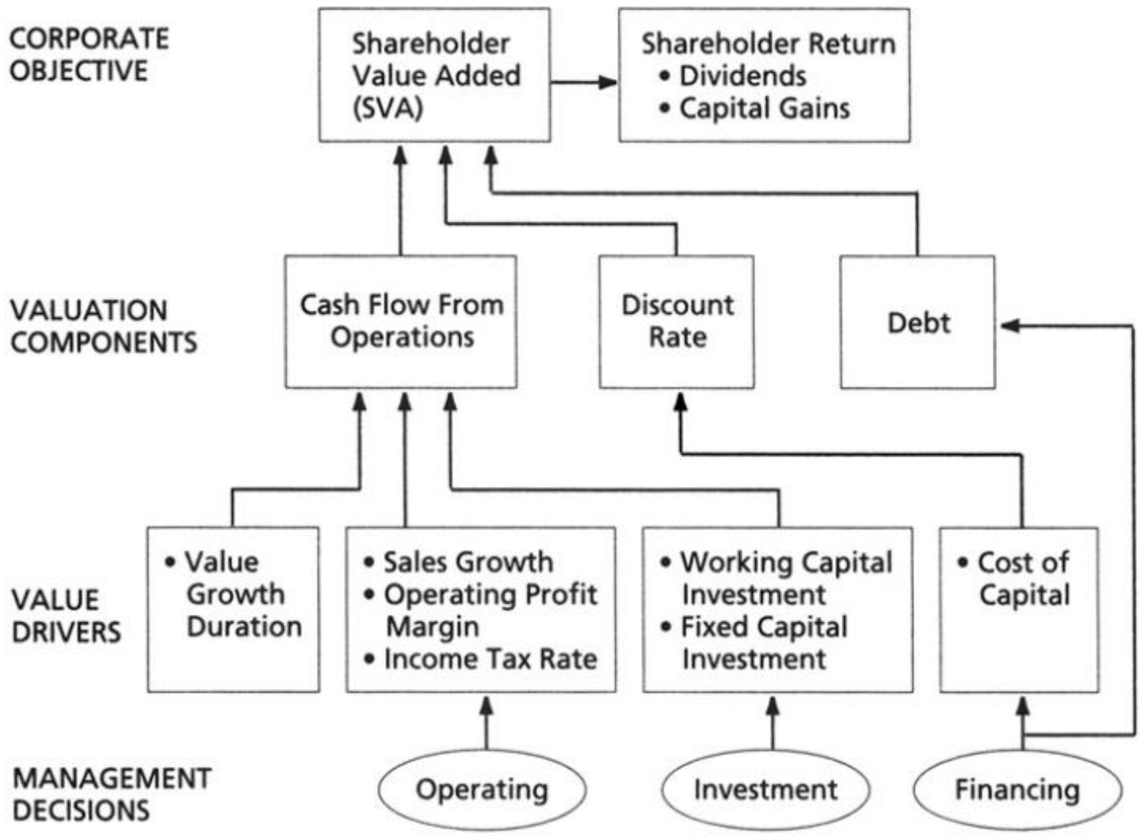


Figure 2 Rappaport's seven value drivers(Rappaport, n.d.)

It's essential to link corporate objective with all value drivers, therefore all the factors (operating, investing and financing) included in order to calculate the SVA.

SVA = NOPAT - (WACC × CAPITAL)

Created shareholder value (CSV) means company generate value when return exceed share cost which is differ from SVA (see figure 3).

$$\textit{Created shareholder value} = \textit{Equity market value} \times (\textit{Shareholder return} - Ke)$$

Or

$$\textit{Created shareholder value} = \textit{Shareholder value added} - (\textit{Equity market value} \times Ke)$$

Figure 3 CSV formula (Largani et al., 2012)

2.3 Ways to create shareholder value

"Creating wealth for the shareholders requires that the firm undertake investment decisions that have a positive net present value (NPV)"(Hamidah, 2015).

There are different variables that influenced value creation this include first corporate governance which plays big role in mitigating conflicts of interest between managers and shareholders (agency problem) studies found that board structure and directors independency impacted the firm's value; where board occupied by independent directors and also when ultimate shareholder controls the majority of voting rights(Banerjee & Majumdar, 2020).

Second capital structure which the combination of debt and equity for financing the firm also impacted shareholder value, although Modigiani and Miller argue that under perfect market conditions capital structure do not influence or determine company's value however in real world an appropriate capital mix reduce the cost of capital resulting in value creation and higher returns (Venugopal, Bhanu Prakash Sharma G, et al., 2018).

Third working capital management as the efficient utilization of current assets and current liabilities increase firm profitability, especially reduction in inventory levels and average collection period(Venugopal, Ravindar Reddy M., et al., 2018) digital platforms have limited inventory levels which increase their ability to manage working capital more efficiently.

Forth dividends policy, the compensation the shareholder receive for their investment is can be price appreciation or dividends or both as dividends very important signal of company's health mangers try to ensure their stability over time. Modigliani and Miller argue that dividends decision is irrelevant and have no impact on company's value(DeAngelo & DeAngelo, 2006)on the other hand dividends can be used as a governance tool which reduce free cash available to managers which reduce risk of fraud or waste(Charbti, n.d.) by default sustain shareholder's value.

Dividend polices are not always in form of cash payment; companies can decide share buybacks which another way for returning capital to original shareholders whom ownership percentage increase after buybacks. Share repurchase create value as it boosts the demand for company's stock, it act as signal of undervaluation then increase share price, moreover buybacks are more tax efficient (Curry, 2022), other benefit for buyback is it reduces an agency cost and, prevent from of hostile takeovers or use to optimize financing ratio when buyback is financed by debt (Hyderabad, n.d.), or change capital structure through enable companies to increase leverage(Rappaport, 1998.)

A recent approach considers external developments activities like mergers and acquisitions, joint ventures and open innovation as tool for value maximization(Miglietta et al., 2018).

Mergers and acquisitions (M&S) provide access to larger scale of resources and also tide the network especially by acquiring suppliers. Majority of researchers agree that the combined returns from the acquiring and target firms are overall positive however some argue that this is only within the short term, others believe that target gain returns following the announcement of the deal while the acquirer possibly incur losses or low returns because of high premium paid(Teti & Tului, 2020).

Innovation provides companies with competitive advantage and cost reduction however it is very subjective to test or measure, Miglietta and others analysed six firms they could not prove the relationship between open innovation and shareholder value creation statistically but they still they have strong believed that open innovation strategies adopted by listed companies create shareholder value(Miglietta et al., 2018).

2.4 Digital Platforms Innovation & Value creation

Digital Platforms the backbone for a so-called sharing economy and provide peer to peer market that enable service exchange between individuals or businesses in areas like transport (car sharing/rental), home rents and freelancing(Mansour & Ghazawneh, 2017). Platforms are designed based on parties participating hence there are three types first C2C which connect consumer-to-consumer like Uber (drivers to riders) second B2C which is business-to-consumer (B2C) as Rightmove (real estate agents to customers) third B2B a business to business such as SAP. It's common to find a combine of both B2B with B2C this combination gives wider access to different market segments like the case of market place (Shopify, Amazon.etc).

Digital platforms have disrupted the traditional business model through creating innovative light business model that require less investment in machinery and tangible assets, and more profitable, unlike traditional the inventory level in platforms is limited or not exist as a result their balance sheet differ(Banerjee & Majumdar, 2020).

Moreover, manufacturing businesses tend to create value through ownership of the products (act as owner) while platforms create value through activities that facilitate interaction (act as intermediate) rather than owning production or service line. Table below summarize the difference between traditional and digital business models

	Manufacturing business	**Platforms**
Firm Role	Producer - operate with network of suppliers / buyers and sellers	Intermediary (enable interactions between users)
Ownership	Firm (ownership change after sale)	Users
Value creation	Product features that attract and benefit customers	Facilitating interaction
Monetization	Revenue from selling (Single steam)	Multi stream (Ads fees, membership fee, commissions
Competition	Product development and pricing (price sensitive)	Software features development
Examples	McDonalds', Airbus	Google, Rightmove

Table 1 difference in business model (Zhao et al., 2020)

Platforms transformed economy from ownership to sharing economy, a study on ride sharing reveal that people interested in receiving convenient ride with low cost that owning a car(Mansour & Ghazawneh, 2017), this transformation in users' preference have boost the economic growth for digital companies only the top 15 public platform companies valued to $2.6 trillion of the market capitalisation worldwide(Banerjee & Majumdar, 2020), in US only platforms market valued at USD 10.11 billion in 2021 and anticipated to increase at a CAGR of 13.3% from 2022 to 2030 (Digital Experience Platform Market Report, 2022-2030, 2022).

Clearly the power of digital platforms is their ability to create value using platform ecosystems this power was appreciated by investors resulting in more demand and higher returns for their stocks, analysis performed between 2008-2017 showed that platforms were generating average stock return of $435.80 mn that more than traditional model companies ($104 mn)(Banerjee & Majumdar, 2020).

However, measuring the value that platforms create is very difficult, from behavioural finance perspective investors tend to value digital platforms more and ignore or underreact to their losses leading to share price increase that not directly attributed to business activities but only speculation as a result some scholars criticised that accounting earnings almost irrelevant for determining digital firms value(Banerjee & Majumdar, 2020). In contrast other scholars found that accounting-based measures were better than economic measures(Banerjee & Majumdar, 2020).

3.Industry Background

UK housing market is considered one of most stable and highly valued markets in the world According to BPF (British Property Federation) the sector contributes by 7% to the GDP the majority of properties are private homes. House prices increased 12.6% year over year as per Nationwide House Price Index (Yahoo, 2022).

The graph below shows the ups and down in real estate during history, and according to a report from EY regardless the hard economic conditions and interest rising the housing prices expected to keep rising through 2023 and 2024 and real estate market will grow (Ball, 2022).

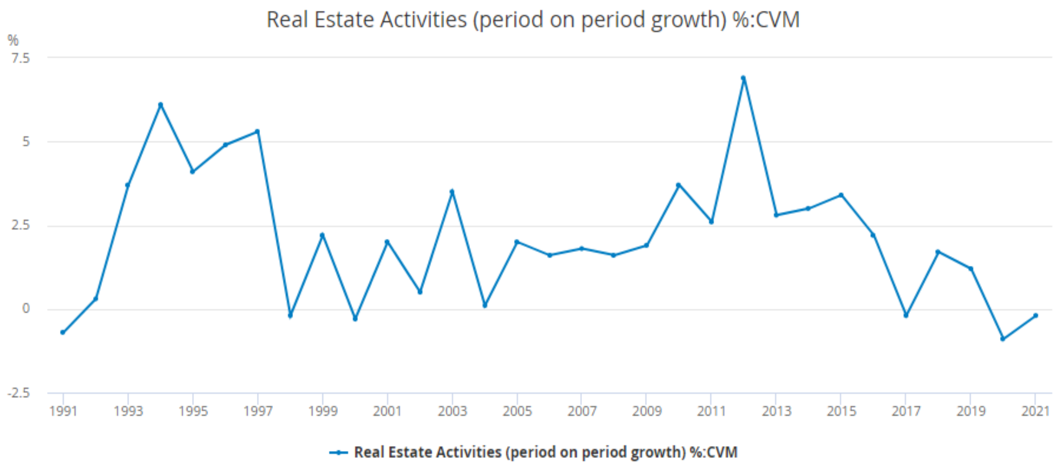


Figure 4 Source National office for statistics.

The government support schemes during COVID like stamp duty land tax and help to buy (equity loan) limits the negative effects of COIVD according to the data of residential property transactions from HM Revenue & Customs there was a slight decrease between 2019-2021 however the market recover in 2022

Table 2: Residential property transactions**.**

Year	Residential property transactions completed in the UK
2018 to 2019	1,189,620
2019 to 2020	1,174,360
2020 to 2021	1,184,690
2021 to 2022	1,370,240

Source: Government national statistics

This growth opens the opportunity for more investment and competition in this sector.

For long time real estate and property agencies and brokers control the housing market and newspapers control advertising, however with the technology advancement online property platforms find their way into competition.

Unlike other type of businesses, the online real estate platforms are driven by low-cost model, economize and modernize marketing cost (Rowley, 2005) beside having low entry barriers, as establishing website do not required intensive investment or labor opposite to traditional property companies. The market creating more opportunities as home-hunters are using the internet as a major source of property information(Rowley, 2005).

In the UK the first online portal was Rightmove and for long time until today its monopoly the market although now they are hundreds of housing website that compete against it (Zoopla, OnTheMarket, Nestoria and others). As the value and reputation of the platform depends on the attraction of users, and to direct them towards estate agencies listed on portal(Rowley, 2005), hence estate agencies locked with Rightmove (as first in the market) was able to attract the majority of audience and therefore if agencies divert to new portal, they risk of losing access to those audience.

During COVID online portals grows as they provide easier, safer access and better engagement to clients and agents as they display their offers online. The website traffic increased by 126%, from Q1 2021 to Q1 2020 (Bjorkqvist, 2022).

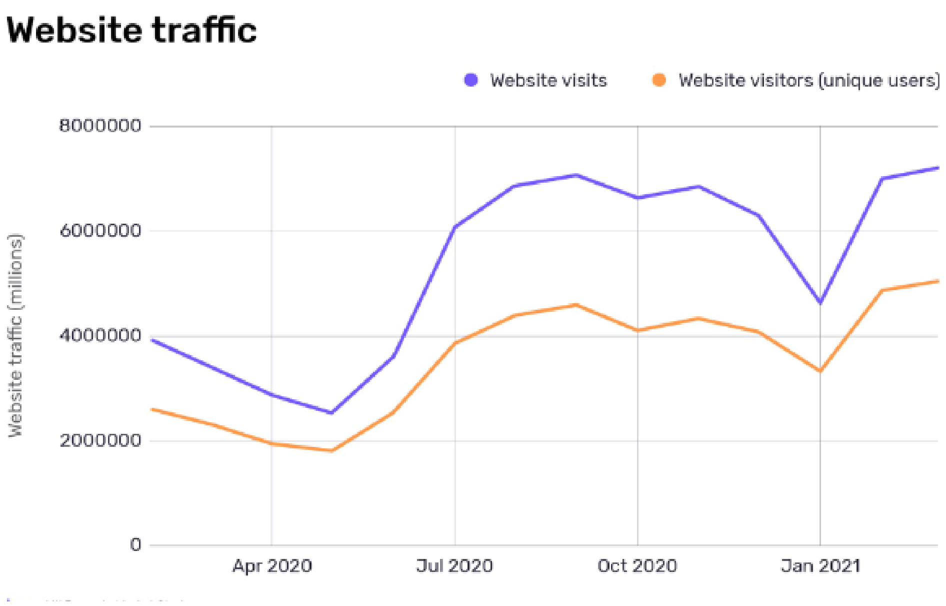


Figure 5 Website traffic - source Giosg market study

Property platforms make browsing housing options in hand of users with one click hundreds of options displayed therefore no surprise when the majority of trafficking comes from mobile users.

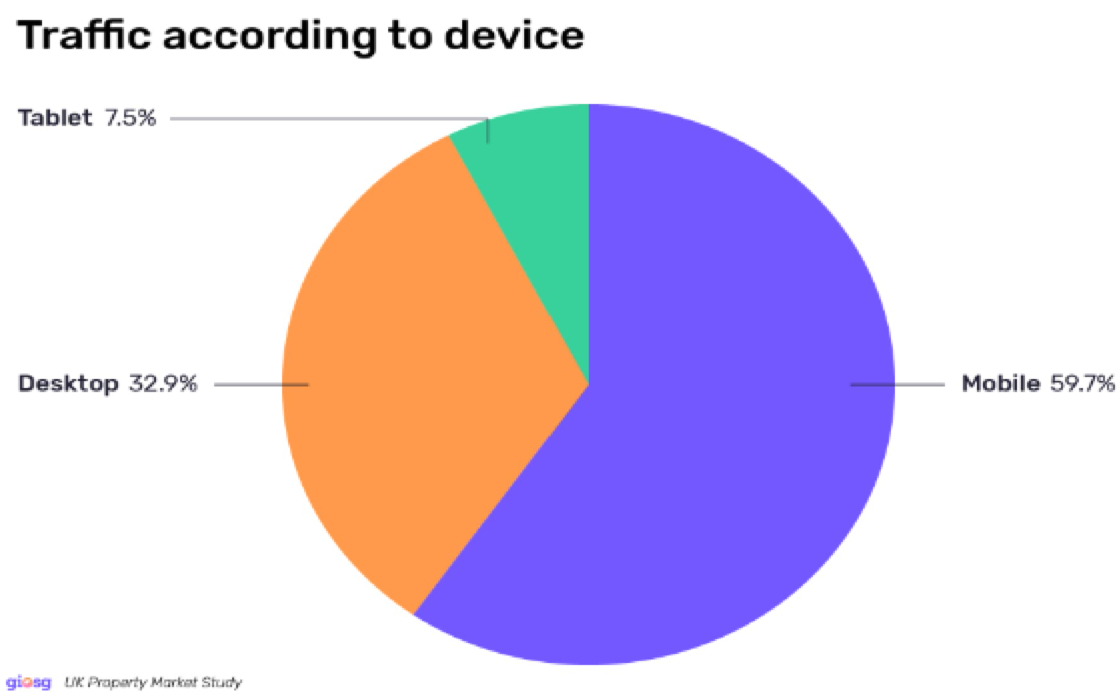


Figure 6 website traffic devices

Platforms success rely on users' engagement therefore it is important to back any website or portal with app and virtual reality house tour to ease access for clients, while customizing the online dashboard for agent's needs.

Digital platforms also help real estate agencies reducing labour cost and time earlier staff should be hire to advertise and communicate offers to clients while now the 24 hours chatbot service available using AI and machine learning the chats and browsing history can be used to analysed what people looking for whether buy, sell home or property rent by understanding client's preferences agents set plans early to meet demands.

3.1 Competitors:

For long time Rightmove monopoly for property portals and the company never face intensive competition until Zoopla founded in 2008 the second property website in the UK, however as of today Rightmove acquired 83% of the market share, Zoopla 10% leaving tens of portals competing for 7%.

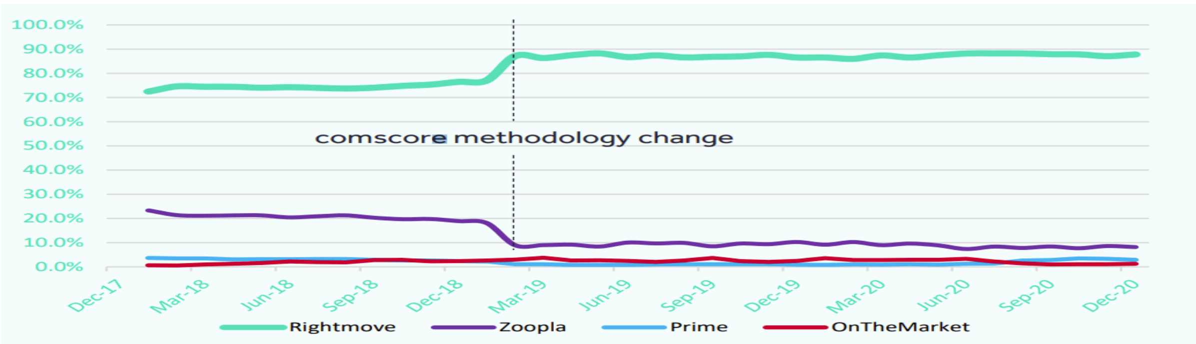


Figure 7 Market share source (Traffic): Seeking Alpha

Looking at the graph below Zoopla seems to acquire some Rightmove agents however in terms of

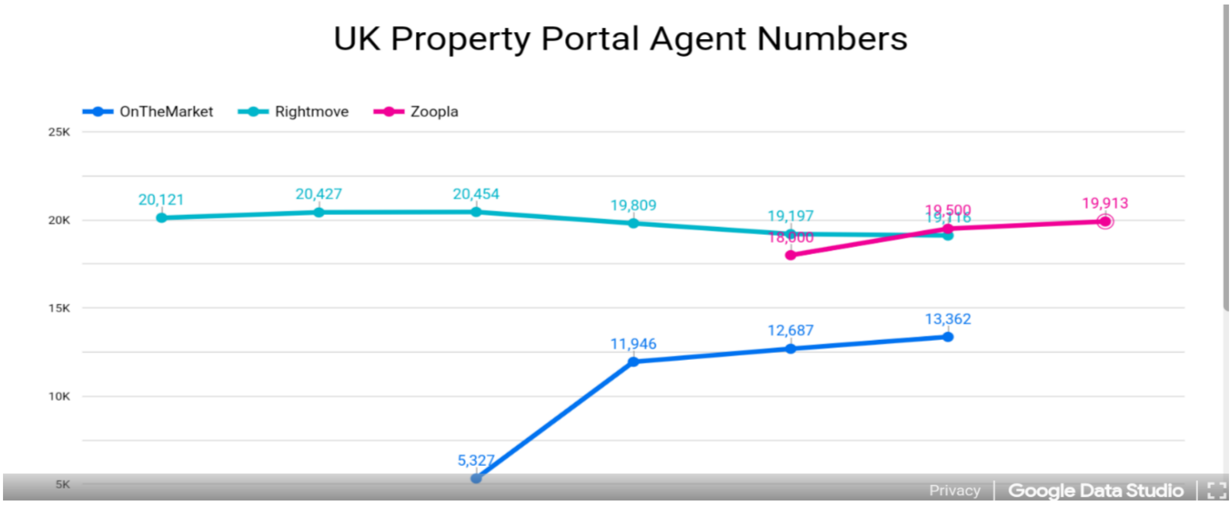


Figure 8 UK property portal agent - Online market

traffic (home- hunters) Rightmove is controlling the market. As most of home-hunters using Rightmove when agents migrate to Zoopla or other portals, they lose access to wide segment of the market.

The company benefit from the advantage of being first in the market that linking property sellers with property buyers creating strong network effect that locked agent with Rightmove as leaving it is risk of losing access to large segment of customers. Rightmove exploited this advantage and increase its prices continuously. Many agencies around (18%) were not happy with the fees especially during COVID and they formed initiative called Say No To Rightmove to put pressure on company to cut the fees although the movement lost it momentum but some competitors like Zoopla try to attract unsatisfied agents by offering 9 month free listing for any agents quit Rightmove. The chart below showed the drop in number of agencies that advertise on Rightmove yearly downgraded as the company continue pressuring prices up. This drop beside agencies lobbies and is signaling that Rightmove facing extra competition and should consider restructuring fees or provide extra service.

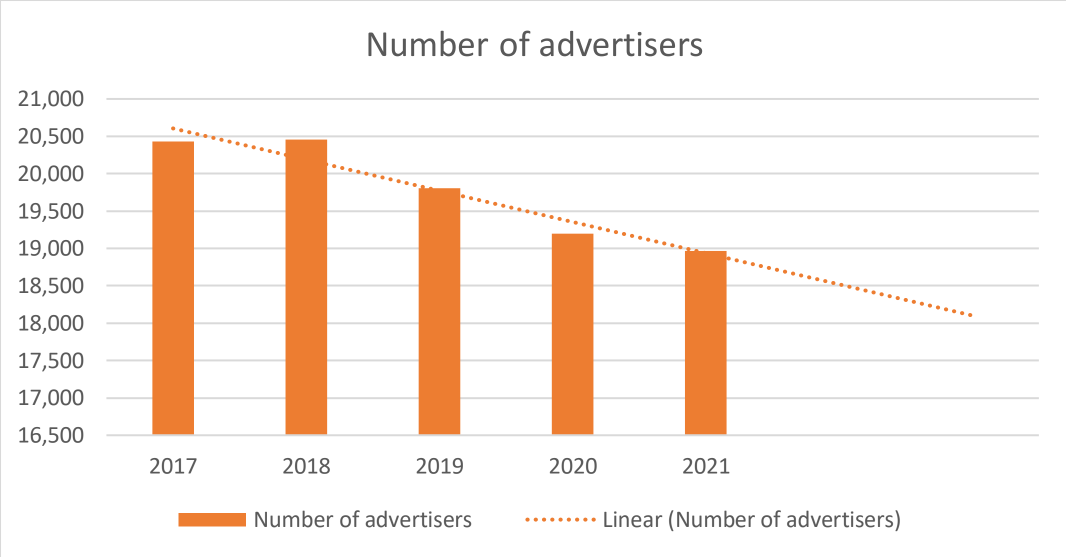


Figure 9 Rightmove Advertisers

Looking at technical assets and customers review Zoopla provide better experience however Rightmove have most properties listing which the main reason it has biggest share (Chapman, 2021).

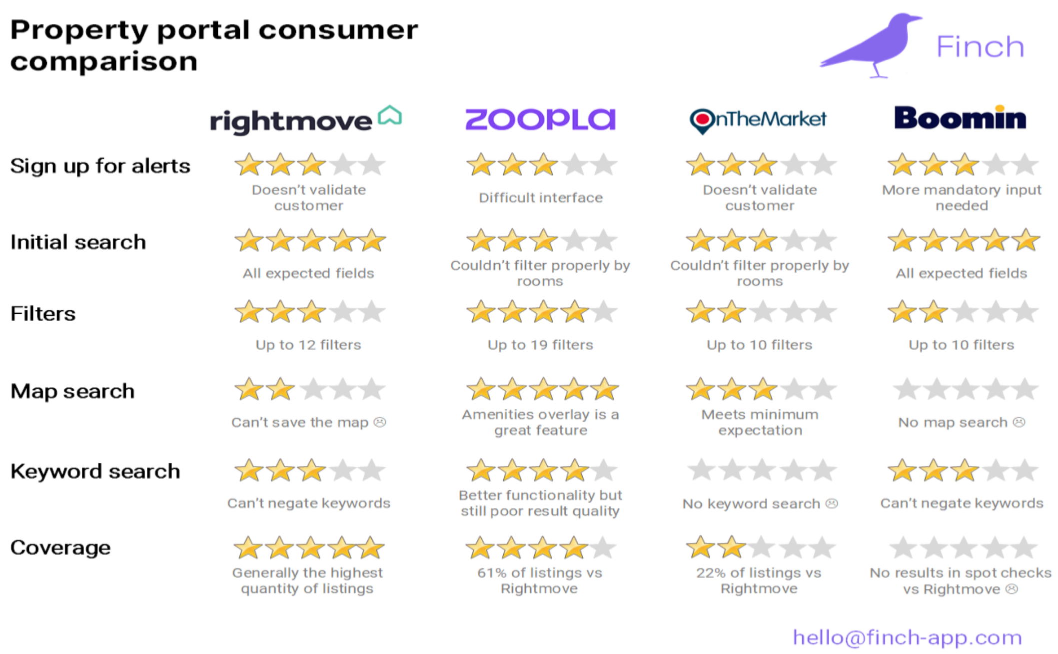


Figure 10 Property Portal Comparison (Finch2021)

According to (Chapman, 2021) although more property portals are entering the competition however as most of them provide similar services and features it's very unlikely to compete with Rightmove and Zoopla and better for portals like OTM and Boomin to merge in order to survive.

4.Company background

Rightmove is a real state website that successfully in short term succeeded to be listed on FTSE100, the company founded in 2000 by four corporate estate agencies (Countrywide, Connells, Halifax and Royal and Sun Alliance), however overtime there was some changes on ownership of the company below table shows the current major shareholders, with top 10 share-

Significant Shareholders	2022	2021	2020	2019	2018	2017
Kayne Anderson Rudnick Investment Management, LLC	11.98%	11.98%	12.07%	12.01%	11.01%	0.00%
BlackRock Inc	8.25%	8.49%	8.25%	8.20%	8.06%	8.53%
Marathon Asset Management LLP	5.06%	5.06%	6.79%	6.76%	6.64%	6.52%
Baillie Gifford & Co	6.93%	6.93%	6.73%	6.70%	6.58%	6.45%
Standard Life Aberdeen	5.35%	5.35%	5.19%	5.17%	5.08%	5.19%
Generation Investment Management LLP	5.33%	5.33%	5.17%	5.15%	5.06%	5.04%
Axa Investment Managers SA	5.13%	5.28%	5.13%	5.11%	5.02%	4.92%
Caledonia (Private) Investments Pty Limited	0.00%	0.00%	0.00%	0.00%	0.00%	5.01%
UBS Investment Bank UBS Group AG	0.00%	0.00%	0.00%	0.00%	0.00%	6.04%

Figure 11 Rightmove shareholders% source Rightmove

holders own over 58% of shares in issue (Rightmove,2022), overtime there was no significant change only between 2017 and 2018 where seem to be USB Bank and Caledonia investment gave up their proportion to Kayne investment. The company have 886,387,616 shares including 1,158,418 share held by employees (EBT- Employees' Share Trust) and 12,480,472 shares held in Treasury and Share Incentive Plan SIP holding 787,000 as of 2021 financial year.

The majority of Rightmove are investment and equity firms (financial institution), there is a small proportion of shares owned by corporates and individuals including company employees. The investors spread over wide geographical area with UK and US holding the biggest share.

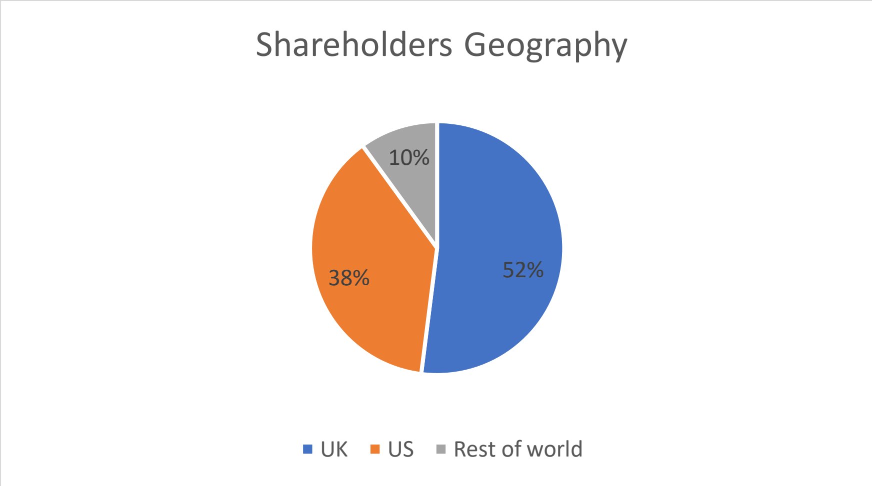


Figure 12 Shareholder Geo

Having mostly institutional shareholders with almost fixed percentages might indicate or show that Rightmove performing well in the long term as these equity firms are backed up with talented investment managers and different information sources enable them to decided profitable business to invest in, unlike retail investors whom mostly look for short term gains and do not have access to data sources.

The company offer widest range of properties for sale out of all UK property portals, and its number one in term of website trafficking in the UK it's mean agent who list their properties with Rightmove will be viewed by the largest segment of clients which create competitive advantage for the company.

This competitive advantage gives Rightmove controls over the online listings market and had used its dominance to increase fees by double-digits each year (Elder, 2020).

4.1 Strategy & Business Model

Rightmove aim to make home movement easier by creating largest digital platform with thousands of property options. Rightmove like any platform that relies on networking effect (Figure 10) to operate, on one side agents and home developers (provide properties selections) and other side is home hunters while in the middle Rightmove (the intermediary) that promise consumers with easy and painless journey to find home and provide agencies with wider access to optional buyers, sellers and renters.

Figure 13 Rightmove Network effect (Rightmove,2018)

The circular networking effect implies more listing properties from agencies which attract more home hunters (traffic) and more traffic will encourage more agents to join, however all this relies on developing software that provide user friendly experience for visitors and efficiency for agencies. The company develop website and app that easily access through phone or desktop and provide different features like house price index, price comparison, property guide, virtual tour, mortgage calculator and other flexible browsing and searching options.

Rightmove has unique business model driven by its ability to achieve high profit with little capital investment. The company generates revenue from charging mostly agencies whom promote their properties to the website visitors (70 to 80% of total revenue) then through online advertisement and property data selling.

The high revenue is a result of being first in market helped the company to create economic moat and then increase the fees, besides having a robust business model as revenue comes from subscription which is not correlated or linked to housing transaction volumes (insider.co.uk, 2019) as the fees are fixed and paid Rightmove is protected from economic functions that affect housing market. Another featured of the business model is high profit and low capital investment

5.Valuation and financial assessment

5.1 Share price and EPS analysis

Share prices do reflect the company's fundamentals and market valuation for the company Rightmove has consistently outperformed the FTSE100 and real estate indices from 2017 to 2021. The index impacted by Brexit vote 2016-2017 however the share price was gradually increasing in line with other indices in 2019 the performance improved after the company announce the acquisition of Van Mildert until COVID pandemic where it suffered a steep downward trend and it quickly recovered in a V shape and peaked however the share reacted negatively to the news of the living cost and the economic recession in 2022.

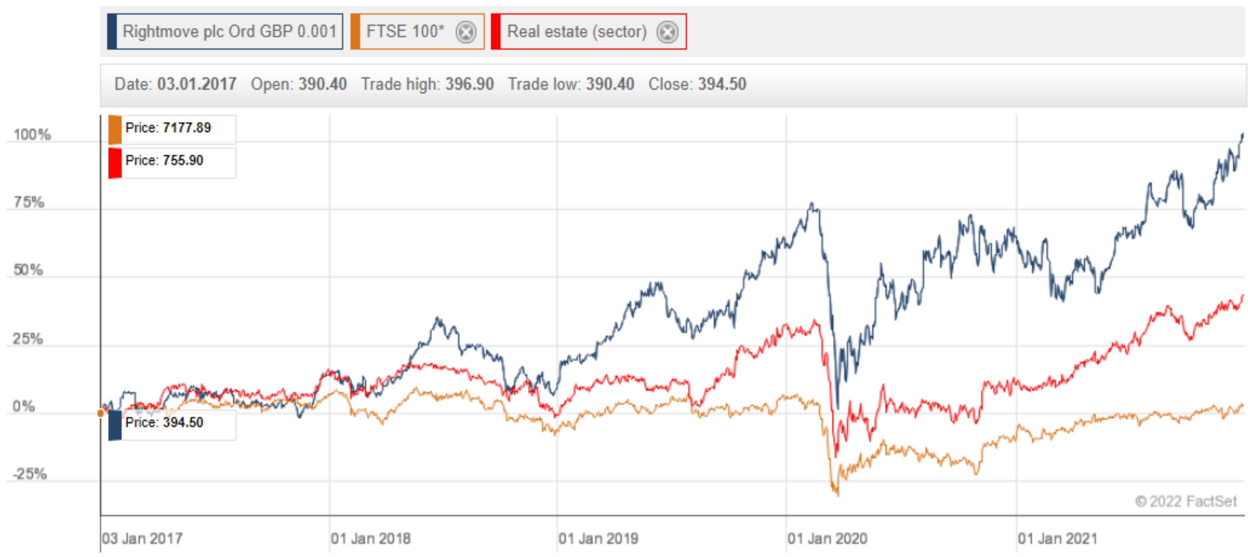


Figure 14 Share price Rightmove VS FTSE100 & Real Estate

The long-term stock outperforming by large margin prove that the subscription model and economic moat helped Rightmove to grow and achieve profitability even during hard economic conditions.

EPS

Earnings per share is one of the basic and simple measures to asses company performance, Rightmove EPS was increasing consistency with the increase in earnings, only in 2020 as a result of COVID EPS fall by 36.9% as the revenue that fall by 36.57 after the quick recovery in 2021 and the increase in profit by 66.7% the EPS reach level higher than post pandemic. It worth to note that Rightmove share buyback scheme result in 6% decrease (2017 to 2021) in shares number which slightly also improved the EPS.

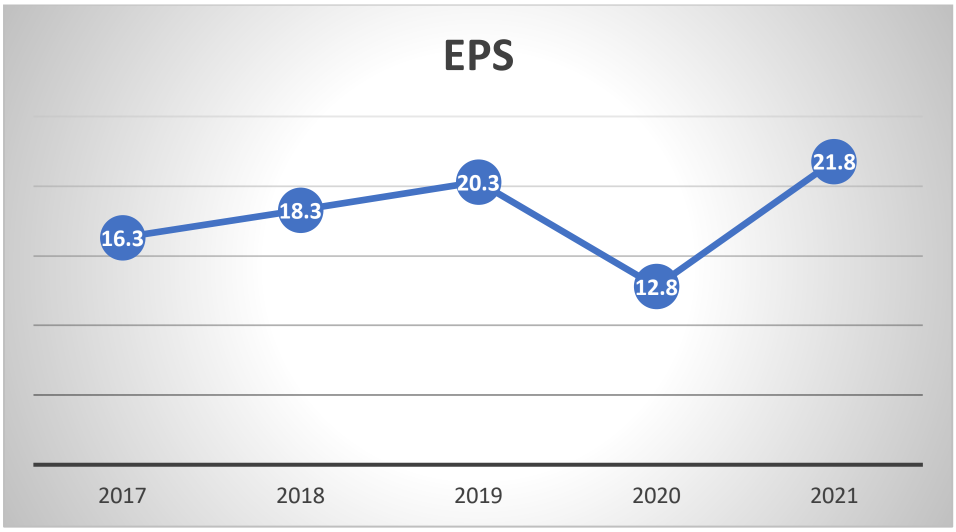


Figure 15 Rightmove EPS - source Annual report

PE Ratio

PE ratio which is a stock price divided by EPS it also defines how investors value the company's stock compare to peers and expected higher returns from their investment, high PE is good however it also a signal of overvalued. The table below showed Rightmove PE for the last 5 years where the PE

Year	PE Ratio	FTSE PE
2017	29.00	22.49
2018	24.43	11.66
2019	32.51	15.39
2020	51.79	17.55
2021	37.35	14.86

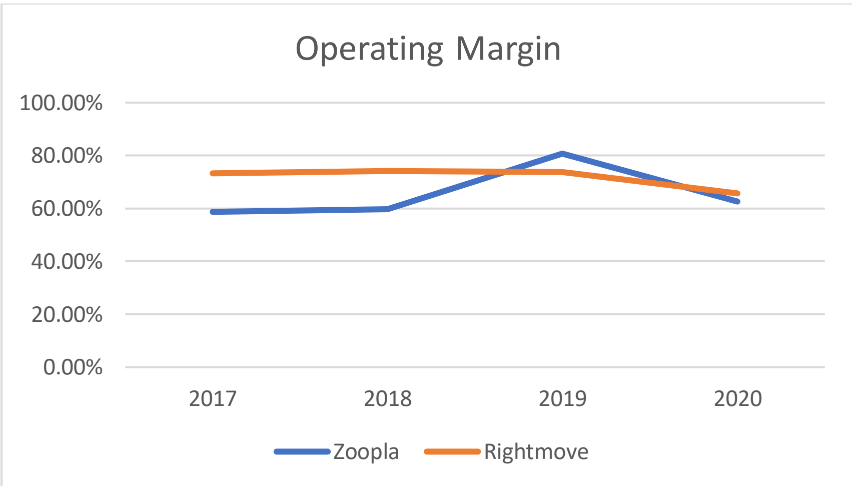
Table 3.Source CEIC Data and Eikon

Ratio for the company higher than FTSE100 PE according to analysis performed by Yahoo in 2019 Rightmove PE was also higher than the industry Average, with availability of cash and low borrowings the company has even more growth opportunity and the high PE is not a sign of overvaluation (Simply Wall St, 2019), moreover sometimes the reason behind stock overvaluation behavioral aspects as noise trading or investors sentiment more than fundamental analysis however most of Rightmove shareholder are credible institutions who conduct research and have sophisticated tools to predict stock performance therefore it clear they have confidence and optimistic expectations on the company.

Assessing the value shares versus glamour shares is out of PE ration ability however most scholars agreed that value shares will definitely beat and outperform glamour shares(Ghaeli, 2017) hence as Rightmove outperformed over the long term it considered as value shares and it value is genuine.

5.2 Ratio Analysis

Profit margin: Rightmove have experienced a stable profit margin before pandemic that higher than their competitor Zoopla, in 2019 ZPG margin increased by 21% while Rightmove margin drop



Year	Zoopla	Rightmove
2017	58.71%	73.29%
2018	59.73%	74.15%
2019	80.72%	73.87%
2020	62.64%	65.69%
2021	N/A	74.16%

Figure 16 Profit margin (Bloomberg & Eikon)

slightly, but still higher than industry average 25.7%. In 2019 liquidate its subsidiary Outside view which was acquire in 2016, the margin recover very quick after pandemic and this for two reasons first the revenue increased 5% from 2019 to 2021 (48% from 2020-2021) another reason is the share based payment plans which deducted from underlying profit before calculating the margins, the plans were introduced in 2014 employees offered 500 shares as a gift on January 1st, 2018, and an additional 475 shares on December 21st, 2018 2017: 500 1 pence shares (Rightmove,2018).

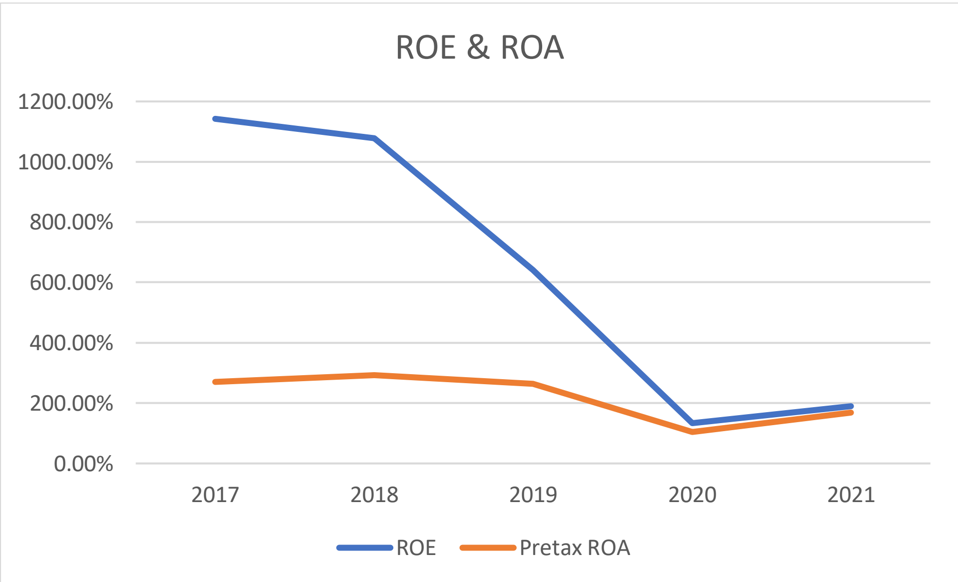
Share based payment	2018 £000	2019 £000
Share-based payments	4,320	4,911
NI on share-based incentives	419	1,069
Total	4,739	5,980

Table 4 Share payment

On the same time Rightmove administration cost increased from post pandemic this due to increase in employee benefit cost by more than 10% from post pandemic level.

5.2.1 ROE& ROA

Return on Equity and assets are measuring efficiency and both decreasing over the last 5 years giving an image that Rightmove is not utilizing it resources efficiently although the earnings were increasing.



Year/Ratio	2017	2018	2019	2020	2021
ROE	1142.50%	1078.10%	642.00%	133.50%	189.10%
Pretax ROA	269.50%	292.60%	263.90%	104.30%	168.40%

Figure 17 ROE & ROA (Eikon)

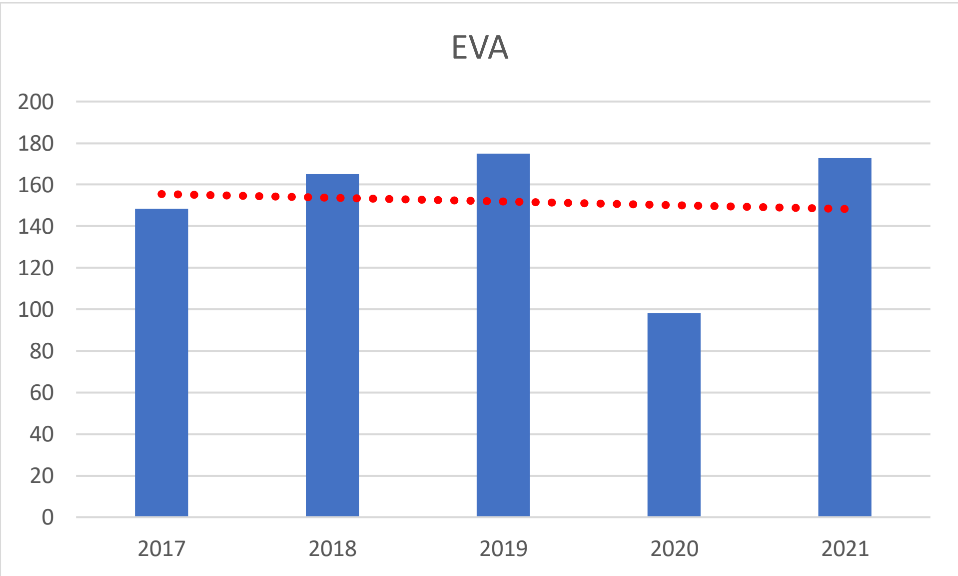
Current and non-current assets have increased significantly, Rightmove is very liquid company as subscription payments paid in cash, the cash and cash equivalents grow by more than 92% over the 5 years. While noncurrent assets rise after the acquisition of Van Mildert with goodwill of £14,051,000. ROA is distorted measure as it can encourage managers not to invest in new projects in order to smooth the ratio, Rightmove is growing and using it resources for generating profit and acquiring new assets.

Return on Equity use the shareholder equity which include retained earnings as dominator, the company have buyback scheme resulted in shares reduction however in the last 5 years Rightmove retained earnings increased by 108.33% which distorted the ROE.

From those ratios it seems Rightmove has cash and equity on the balance sheet is sufficient to cover cost but the company by holding this cash is missing investment opportunities, this fund could be use to expand in other regions or engage in more M & A activities as other online portals doing.

5.2.2 Economic Value Added

EVA as mentioned in the literature review part it has been introduced to avoid problems associated with traditional measures as in case of ROE and ROA that showed Rightmove as inefficient in managing available resources.



Economic Value Added	172.87	98.15	174.99	165.08	148.35

Figure 18 EVA (Bloomberg)

EVA reveal the financial performance using residual income and it is clear the Rightmove EVA was growing and only impacted during COVID but recover again in 2021 unlike ROE and ROA which are declining over all the period.

5.2.3 Capital structure and WACC

Capital structure which the mixture of debt and equity used by company to finance its operations Rightmove works towards having lower or minimum borrowings and cover their operation from internal resources, Rightmove have low debt to equity ratio that's less than industry Average

Year/Ratio	Indusrty Avg	2021	2020	2019	2018	2017
Debt/Equity	0.23	0.16	0.1	0.3	1.04	0
WACC	N/A	15.12	10.22	7.37	10.01	8.69
Capital Charge	N/A	12.28	13.89	5.26	4.04	2.31

Table 5 Ratios

While WACC which determine the required interest or return rate was rising as the cost of capital was rising also.

5.3 Dividends and buyback

Rightmove has a policy of returning free cash to shareholders through share buyback programme and distribute dividend payments in line with increase in EPS and the capacity of retained earnings (Annual report,2021) during COVID the company there was no dividends payment but the company was in healthy position to perform share buyback of £30,125,000 and since 2008 459,375,838 shares have been purchased around 12,480,472 shares of 0.1p were held in treasury and the remainder were cancelled (Annual report, 2021).

Total Shareholder Return (TSR) which measure the gain or decline in total shareholder returns, using share price movement (appreciation or depreciation), plus dividend(Burgman and Van Clieaf ,2012.) when comparing Rightmove TSR with FTESE 100 and 350 in the last 10 years Rightmove TSR significantly outperforming the indices and this because of the company policy to give back any surplus cash.

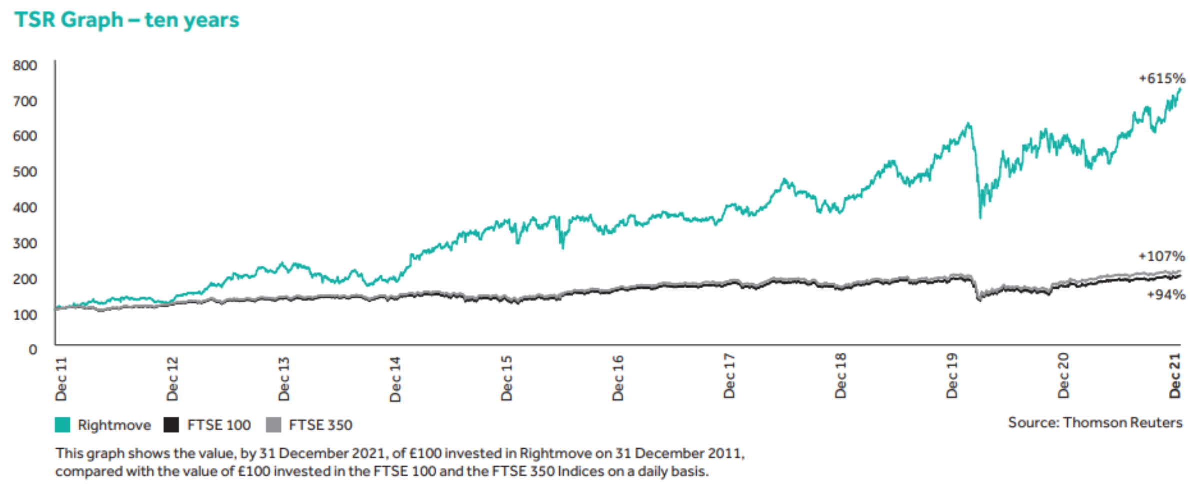


Figure 19 Total shareholder return– Annual report

The graph below showed the cash retunted to shareholders from 2017 to 2021

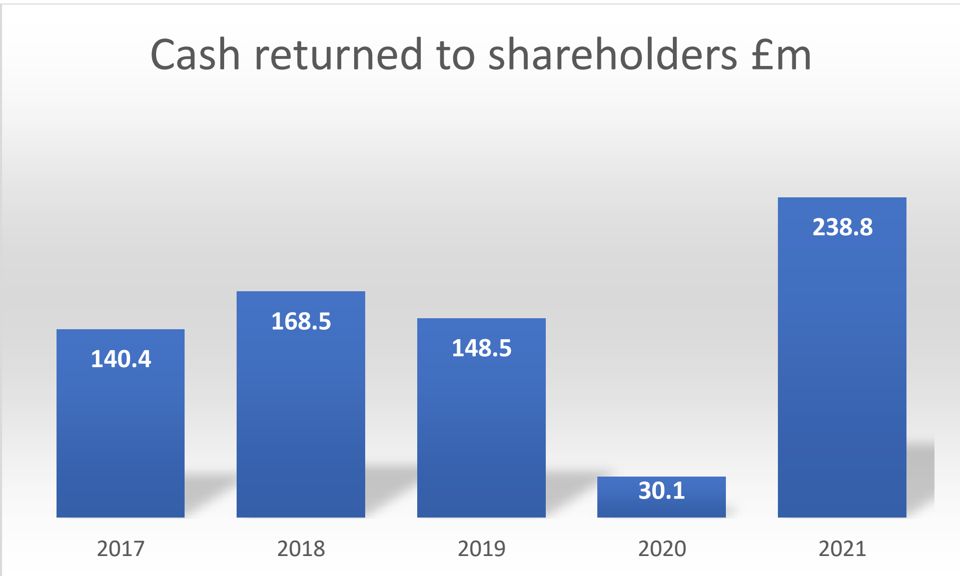


Figure 20 Cash returned - Annual report 2021

5.3.1 Dividends pay-out ratio

Which measure the amount of dividends paid as a percentage of earnings the fact that 2019 was having lowest pay-out ratio because the company used the free cash to finance the acquisition of Van Mildert (net cash outflow £15.9m) (Annual report, 2019)

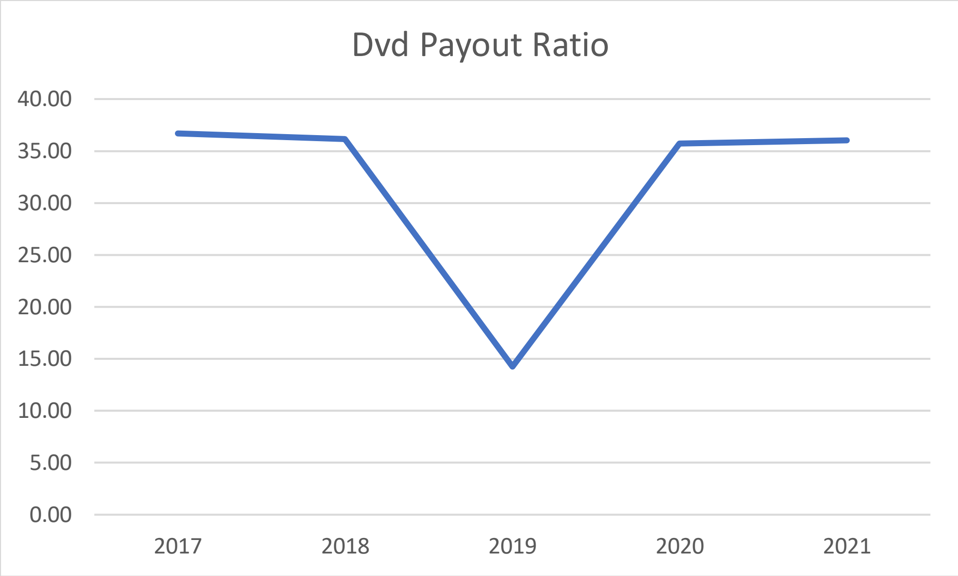


Figure 21 Dividends pay-out ratio (Bloomberg)

6.Value creation

6.1 Rappaport Model

According to Rappaport (1998) the shareholder valued added is drive from sales growth, profit margins, taxation reduction, reduction in working capital investment and value growth or competitive advantage

I will eliminate corporate tax rate as setting tax rates are out of managers control however to reduce tax burden on shareholders Rightmove introduced share buyback scheme along with cash dividends payment which increase the return for investors return.

In terms of sales growth the company has stable growing revenue even during hardest economic conditions thanks to their sustainable subscription business model the company generates revenue from:

- The Agency segment, which includes sale, letting and advertising services on the platforms in addition to tenant referencing and insurance
- The New Homes segment, which give advertising services to housing associations and new home developers.
- Third segment include overseas and commercial property advertising data services.

Year/Segment	2021	2020	2019	2018	2017
Agency	74%	69%	72%	75%	76%
New Homes	16%	20%	19%	17%	16%
Other	10%	11%	8.5%	--	7.6%

Table 7 Sales segment

Last year the revenue grew by 48%, the increased in revenue helped the company to increased free cash available and then management use it for dividends pay-out as mentioned earlier.

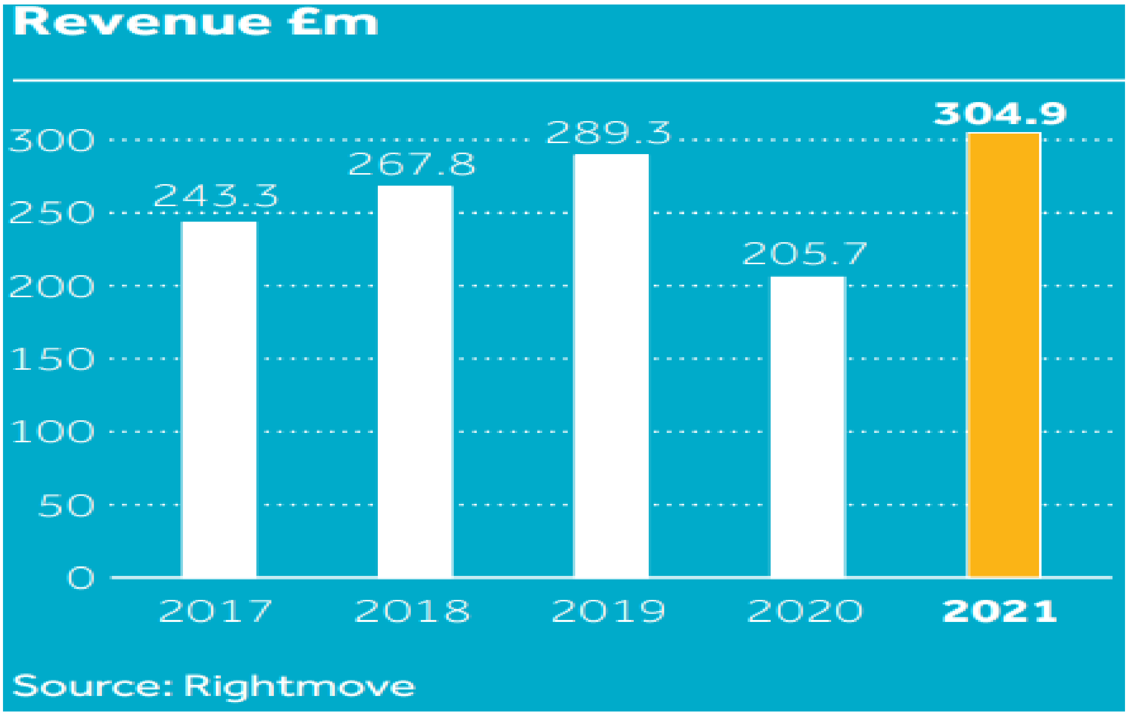


Figure 22 Rightmove revenue

During the pandemic the revenue declined by 83.6m as a result from the discounts the company offered to customers which was around £90m although the company categorized this a CSR activity but on same time the company did not provide financial support or discount to agents during hard time and the following increase the subscription fees which result in Say No to Rightmove, therefore I can not see evidence of CSR activities that increase shareholder value it can be seen as apposite as around 18% join the lobby and some move to Zoopla this could potentially destroy shareholder value in that context.

6.2 Innovation and human capital

As software company the real value is generated from innovation and human capital, in terms of innovation Rightmove build a strong brand name in the market of property analytics the company has been recognised for generating most accurate indices of housing in the UK. Using technology, the company offered accurate valuation tools.

Scholars found that companies with excellent human capital create and achieve more shareholder value(Casalegno & Pellicelli, 2013) when it comes to innovative and hight tech companies the human capital is more important as the success of these companies relies on developing innovative tools regularly.

Rightmove with less than 600 employees understand the value of it employees, the company measure employees satisfaction yearly, the highest cost for the company is employees benefit and it rise annually the company also provide share incentive schemes, it founded that share incentives boost performance.

Company also offers training as it very important to stay up to date with latest technologies

Summary of training provided in 2021	Value
Average hours of training per employee	25
Percentage of employees who received training	100%
Total number of training hours provided to employees	14,509
Number of mandatory training hours	5,499
Number of technical development training hours	9,010
Average training cost per employee	£742

Figure 23 Training summary

The company annually rise pay benefit as the financial incentive is very important to avoid staff turn over

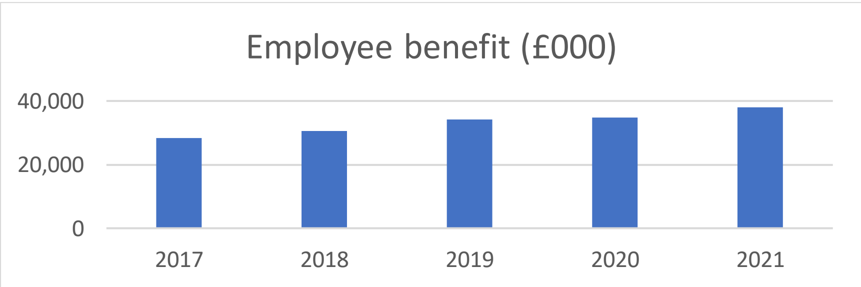


Figure 24 Employee benefit

6.3 M & A activities

Rightmove has four subsidiaries as of December 2021

Company	Nature of business	Country of incorporation	Holding	Class of shares	Trading status
Rightmove Group Limited	Online property advertising	England and Wales	100%	Ordinary	Trading
Rightmove Financial Services Limited*	Online rental services	England and Wales	100%	Ordinary	Trading
Rightmove Landlord and Tenant Services Limited**	Credit referencing and rent guarantee insurance services	England and Wales	100%	Ordinary	Trading
Rightmove Property Services Limited	Online rental services	England and Wales	100%	Ordinary	Dormant

Figure 25 Rightmove subsidiaries

Beside the strong financial performance and market position the company involve in acquisitions activities in 2016 by acquiring "Outside View" which is predictive analytics company that apply machine learning and develop algorithms houses selling, potential sellers (Martlet, 2016) but liquidate it in 2018. Then in 2019 the company acquired Van Mildert Landlord and Tenant Protection Limited which is tenancy referencing provider.

Van Mildert acquisition helped Rightmove to develop a new version of the tenant passport and developed a second phase which allows agents to simply and easily assess the property's affordability and suitability for customers, so they customize offers based on client's preferences and financial profile this helps to save clients and agents' time.

After acquisition Van Mildert the reported gross assets of £3.3m revenues of £3.6m and profit before tax of £1.4m, 19% higher than before the deal (Manchester, 2019)

After the deal Rightmove generated goodwill of £14,051,000 and also increased on it intangible assets from the recognition of The credit referencing software and customer relationship that acquire from Van Mildert.

7. Conclusion

The 5 years analysis showed that Rightmove have high and strong financial profile the company was able to build economic moat using subscription model and benefiting from the high number of its customers (No. in UK in terms of Traffic) which in its turn create circular networking effect as more traffic bring more agents and home developers resulting in more money and more value. On same time company dividends policy reduce agency cost and build trust.

The only concern that the rising fees with competition might lead to agents loss.

8.References

Banerjee, R., & Majumdar, S. (2020). Determinants of shareholder value creation – platform versus traditional business models. *International Journal of Business Performance Management*, *21*(1–2), 230–244. https://doi.org/10.1504/IJBPM.2020.106114

Casalegno, C., & Pellicelli, M. (2013). *The Human Capital Impact on the Shareholder Value Creation*. https://doi.org/10.13132/2038-5498/2008.2-3.1-31

Charbti, S. (n.d.). *Dividend policy, irrationality approaches and behavioral corporate finance : theory and evidence*. https://tel.archives-ouvertes.fr/tel-02936213

DeAngelo, H., & DeAngelo, L. (2006). The irrelevance of the MM dividend irrelevance theorem. *Journal of Financial Economics*, *79*(2), 293–315. https://doi.org/10.1016/j.jfineco.2005.03.003

Ghaeli, M. R. (2017). Price-to-earnings ratio: A state-of-art review. *Accounting*, *3*(2), 131–136. https://doi.org/10.5267/j.ac.2016.7.002

Hamidah. (2015). EVA, ROCE, ROE, and EPS as Method of Assessment of Financial Performance and Its Effect on Shareholders' Wealth: Evidence From Bank Listed at Indonesian Stock Exchange in 2011-2013. *International Journal of Scientific and Research Publications*, *5*(2). www.ijsrp.org

Hyderabad, R. L. (n.d.). *PRICE PERFORMANCE FOLLOWING SHARE BUYBACK ANNOUNCEMENTS IN INDIA*.

Largani, M. S., Kaviani, M., & Abdollahpour, A. (2012). A review of the application of the concept of Shareholder Value Added (SVA) in financial decisions. *Procedia - Social and Behavioral Sciences*, *40*, 490–497. https://doi.org/10.1016/j.sbspro.2012.03.221

Mansour, O., & Ghazawneh, A. (2017). *Value Creation in Digital Service Platforms*. https://www.researchgate.net/publication/320297913

Miglietta, N., Battisti, E., & Garcia-Perez, A. (2018). Shareholder value and open innovation: evidence from Dividend Champions. *Management Decision*, *56*(6), 1384–1397. https://doi.org/10.1108/MD-04-2017-0408

PANIGRAHI, S. K., ZAINUDDIN, Y., & AZIZAN, A. (2014). Comparing Traditional and Economic Performance Measures for Creating Shareholderâ€™s Value: a Perspective from Malaysia. *International Journal of Academic Research in Accounting, Finance and Management Sciences, 4*(4). https://doi.org/10.6007/ijarafms/v4-i4/1345

Ramana, D. v. (n.d.). *Market Value Added and Economic Value Added: Some Empirical Evidences*. http://www.sternstewart.com

Rappaport, Alfred. (n.d.). *Creating shareholder value : a guide for managers and investors*.

Rashidul Islam, M., Rahman Khan, T., Toufic Choudhury, T., Mahmood Adnan, A., & Lecturer, S. (2014). How Earning Per Share (EPS) Affects on Share Price and Firm Value. In *European Journal of Business and Management www.iiste.org ISSN* (Vol. 6, Issue 17). Online. www.iiste.org

Real Estate in a Digital Age. (2021).

Rowley, J. (2005). The evolution of internet business strategy. The case of UK estate agency. *Property Management*, *23*(3), 217–226. https://doi.org/10.1108/02637470510603556

SSRN-id2147777. (n.d.).

Teti, E., & Tului, S. (2020). Do mergers and acquisitions create shareholder value in the infrastructure and utility sectors? Analysis of market perceptions. *Utilities Policy*, *64*. https://doi.org/10.1016/j.jup.2020.101053

Venugopal, M., Bhanu Prakash Sharma G, & Ravindar Reddy M. (2018). Impact of Capital Structure on Shareholder Value in Indian Pharmaceutical Industry: An Empirical Approach Through Created Shareholder Value. *Global Business Review*, *19*(5), 1290–1302. https://doi.org/10.1177/0972150918788741

Venugopal, M., Ravindar Reddy M., & Bhanu Prakash Sharma G. (2018). Shareholder Value Creation: A Review of the Theoretical and Empirical Literature. *Asia-Pacific Journal of Management Research and Innovation*, *14*(3–4), 74–80. https://doi.org/10.1177/2319510x18817189

Yan, M. (2019). Corporate Social Responsibility versus Shareholder Value Corporate Social Responsibility versus Shareholder Value Maximization: Through the Lens of Hard and Soft Law Maximization: Through the Lens of Hard and Soft Law Corporate Social Responsibility versus Shareholder Value Maximization: Through the Lens of Hard and Soft Law. In *Northwestern Journal of International Law & Business* (Vol. 40, Issue 1). https://scholarlycommons.law.northwestern.edu/njilb

Zhao, Y., von Delft, S., Morgan-Thomas, A., & Buck, T. (2020). The evolution of platform business models: Exploring competitive battles in the world of platforms. *Long Range Planning, 53*(4). https://doi.org/10.1016/j.lrp.2019.101892

8.1 Websites

1. Curry, B., 2022. *What Is A Stock Buyback?*. [online] Forbes Advisor. Available at: <https://www.forbes.com/advisor/investing/stock-buyback/> [Accessed 13 August 2022].
2. Grandviewresearch.com. 2022. *Digital Experience Platform Market Report, 2022-2030*. [online] Available at: <https://www.grandviewresearch.com/industry-analysis/digital-experience-platform-market> [Accessed 12 August 2022].
3. Finance.yahoo.com. 2022. *Yahoo is part of the Yahoo family of brands*. [online] Available at: <https://finance.yahoo.com/news/rightmove-dominates-uk-housing-market-215753214.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvLnVrLw&guce_referrer_sig=AQAAAKgmcCRXp1TAR6OIfyC_Lze7-> [Accessed 13 August 2022].
4. Ball, H., 2022. *Why UK house price rises are continuing despite economic challenges*. [online] EY. Available at: <https://www.ey.com/en_uk/growth/why-uk-house-price-rises-are-continuing-despite-economic-challenges> [Accessed 13 August 2022].
5. Bjorkqvist, N., 2022. *UK Property Market Study 2021: How Online Engagement Has Changed*. [online] Giosg.com. Available at: <https://www.giosg.com/blog/uk-property-predictions> [Accessed 14 August 2022].
6. Rightmove PLC. 2022. *History*. [online] Available at: <https://plc.rightmove.co.uk/about-us/history> [Accessed 13 August 2022].
7. Rightmove PLC. (n.d.). Significant Shareholders. [online] Available at: https://plc.rightmove.co.uk/investors/shareholder-information/significant-shareholders> [Accessed 24 August 2022].
8. UK Business Angels Association. 2016. Rightmove Acquires The Outside View - UK Business Angels Association. [online] Available at: <https://ukbaa.org.uk/blog/2016/08/22/rightmove-acquires-the-outside-view/#:~:text=The%20strategic%20acquisition%20will%20see,identify%20and%20market%20to%20them> [Accessed 13 August 2022].

9. Elder, B., 2020. *Rightmove's 'network effect' could be thrown into reverse*. [online] Ft.com. Available at: <https://www.ft.com/content/0d106d09-b9cd-4733-a007-27e7da86c251> [Accessed 22 August 2022].
10. Simply Wall St, 2019. *Yahoo is part of the Yahoo family of brands*. [online] Uk.finance.yahoo.com. Available at: <https://uk.finance.yahoo.com/news/why-rightmove-plcs-lon-rmv-113616257.html> [Accessed 18 August 2022].
11. Chapman, R., 2021. *Portal Wars – Do the public really have the appetite? - Finch*. [online] Finch - Collect, validate, and manage data securely. Available at: <https://www.finch-app.com/blog/2021/08/06/portal-wars-do-the-public-really-have-the-appetite/> [Accessed 18 August 2022].
12. insider.co.uk, 2019. *Rightmove's online advertising model saves it from sales slowdown as revenue and profits jump*. [online] businessInsider. Available at: <https://www.insider.co.uk/news/rightmoves-online-advertising-model-saves-14071194> [Accessed 1 August 2022].
13. Manchester, S., 2019. *Rightmove acquires Van Mildert Landlord and Tenant Protection Limited*. [online] The Negotiator. Available at: <https://thenegotiator.co.uk/rightmove-acquires-van-mildert-landlord-and-tenant-protection-limited/> [Accessed 17 July 2022].