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Stock Rating
Overweight

Industry View
Cautious

REA Group Limited

We see the industry-funded site realestateVIEW as a competitor ... but not a game changer – reiterate Overweight

What's Changed

Price Target **A\$11.50 to A\$13.00**

Conclusion: We keep Overweight. We recently downgraded our overall Media view to Cautious, on concerns of a slowing ad market and rising costs. But REA is one stock we believe can outperform its peers. Its core Australian business enjoys a dominant market share in a fast-growing market. Like most online businesses, having decisive audience leadership provides pricing power, as more ad dollars inevitably migrate from print to online. We believe this pricing power is underestimated, we forecast revenue growth for the next three years of 18%, 17% and 15%, driving EPS from 39c up to 78c in three years time F2013E.

But there are risks. REA trades on a P/E multiple of 23x F2011E and we are mindful that any material change in the competitive environment would likely result in a significant de-rating. With that in mind we have taken a closer look at the competing website realestateVIEW, which is unique in that it is supported by the real estate institutes. It launched in 2001, but has recently increased its growth and is now the #3 player in terms of online audience after REA and FXJ's Domain. **Bottom line, yes, there is a risk that realestateVIEW may become a stronger competitor, but we feel this is unlikely in the short term.** Being supported by the institutes is some competitive advantage, but we feel it is a little late to be introducing a substitute product to the market. As the consumer (and agents) already have the habit of looking for property on REA websites, to change behavior would we believe prove both difficult and costly. In our view, realestateVIEW does not have the capital or wherewithal to effect change of this magnitude.

Key Ratios and Statistics

Reuters: REA.AX Bloomberg: REA AU

Australia Media

| | |
|---------------------------------|---------------|
| Price target | A\$13.00 |
| Shr price, close (Jan 24, 2011) | A\$11.95 |
| 52-Week Range | A\$12.73-8.46 |
| Sh out, dil, curr (mn) | 128 |
| Mkt cap, curr (mn) | A\$1,531 |
| EV, curr (mn) | A\$1,445 |

| Fiscal Year ending | 06/10 | 06/11e | 06/12e | 06/13e |
|----------------------------|-------|--------|--------|--------|
| ModelWare EPS (A\$) | 0.39 | 0.52 | 0.65 | 0.78 |
| Consensus EPS (A\$) | 0.39 | 0.51 | 0.62 | 0.76 |
| Revenue, net (A\$ mn) | 194 | 228 | 267 | 306 |
| EBITDA (A\$ mn) | 78 | 102 | 127 | 151 |
| ModelWare net inc (A\$ mn) | 49 | 66 | 83 | 100 |
| P/E | 27.7 | 23.2 | 18.5 | 15.3 |
| Div yld (%) | 1.5 | 1.5 | 2.2 | 2.6 |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
\$ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates

Recent Reports

| Title | Date |
|--|--------------|
| Australian Media Sector: Advertising still positive, but slowing ... our industry view shifts to Cautious ... stock selection becomes more critical (19 pages) Andrew McLeod / Mark Goodridge | Jan 20, 2011 |
| REA Group Limited: There Is Negative Risk to Earnings/Valuation... If the Australian Property Market Slows Sharply (22 pages) Andrew McLeod / Mark Goodridge | Aug 20, 2010 |
| REA Group Limited: Could REA Put More Capital To Work in Italy ... In The Event Of Industry Consolidation Occurring? (16 pages) Andrew McLeod | Feb 26, 2010 |

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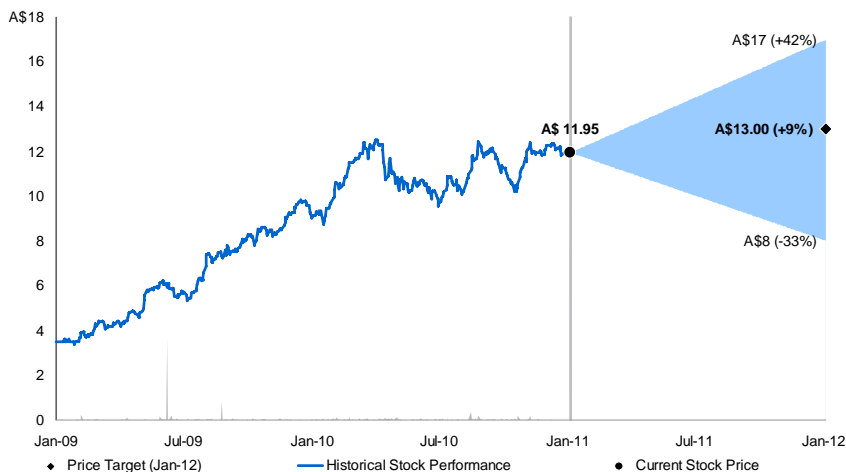
Financial Summary

| Income Statement | | | | | Balance Sheet | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------------------------|---|-------------|--------------|--------------|--------------|--------------|
| (A\$m) Year End June 30 | | F2010A | F2011E | F2012E | F2013E | (A\$m) Year End June 30 | | F2010A | F2011E | F2012E | F2013E |
| Sales Revenue | | | | | Current Assets | | | | | | |
| Australia | A\$m | 178.2 | 209.1 | 241.3 | 275.8 | Cash & cash equivalents | A\$m | 88.2 | 115.7 | 156.4 | 205.2 |
| - change | % | 19% | 17% | 15% | 14% | Trade & other receivables | A\$m | 29.4 | 34.2 | 39.9 | 45.8 |
| United Kingdom | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | Other financial assets | A\$m | 2.2 | 2.2 | 2.2 | 2.2 |
| - change | % | -100% | 0% | 100% | 200% | Total Current Assets | A\$m | 119.8 | 152.1 | 198.5 | 253.1 |
| Italy | A\$m | 8.9 | 10.9 | 16.2 | 20.2 | Non-Current Assets | | | | | |
| - change | % | 4% | 23% | 49% | 25% | Property, plant & equipment | A\$m | 5.8 | 3.9 | 1.6 | 2.0 |
| Luxembourg | A\$m | 4.6 | 5.0 | 5.4 | 5.7 | Deferred tax assets | A\$m | 3.6 | 3.6 | 3.6 | 3.6 |
| - change | % | 7% | 10% | 7% | 5% | Intangible assets (excluding goodwill) | A\$m | 12.3 | 18.4 | 25.6 | 33.8 |
| Other Countries | A\$m | 2.6 | 3.4 | 4.1 | 4.5 | Goodwill | A\$m | 43.0 | 43.0 | 43.0 | 43.0 |
| - change | % | -50% | 30% | 20% | 10% | Other financial assets | A\$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Sales Revenue | A\$m | 194.3 | 228.5 | 267.0 | 306.2 | Total Non-Current Assets | A\$m | 64.7 | 68.9 | 73.7 | 82.4 |
| - change | % | 4% | 18% | 17% | 15% | Total Assets | A\$m | 184.5 | 221.0 | 272.3 | 335.6 |
| Total Operating Expenses | | | | | Current Liabilities | | | | | | |
| - change | % | -18% | 9% | 11% | 11% | Payables | A\$m | 19.6 | 17.6 | 19.5 | 21.7 |
| EBITDA | | | | | Non-Current Liabilities | | | | | | |
| Australia | A\$m | 92.2 | 114.5 | 134.4 | 153.6 | Interest bearing loans and borrowings | A\$m | 0.0 | 0.0 | 0.0 | 0.0 |
| - change | % | 10% | 24% | 17% | 14% | Provisions | A\$m | 2.7 | 2.7 | 2.7 | 2.7 |
| United Kingdom | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | Current tax liabilities | A\$m | 8.8 | 8.8 | 8.8 | 8.8 |
| - change | % | -100% | 0% | 100% | 200% | Other current liabilities | A\$m | 12.4 | 12.4 | 12.4 | 12.4 |
| Italy | A\$m | -6.6 | -5.1 | -0.6 | 3.4 | Total Current Liabilities | A\$m | 43.5 | 41.5 | 43.4 | 45.6 |
| - change | % | 80% | -23% | -89% | -711% | Non-Current Liabilities | | | | | |
| Luxembourg | A\$m | 1.5 | 1.4 | 1.5 | 1.6 | Interest bearing loans and borrowings | A\$m | 0.0 | 0.0 | 0.0 | 0.0 |
| - change | % | 4% | -6% | 7% | 5% | Deferred tax liabilities | A\$m | 1.1 | 1.1 | 1.1 | 1.1 |
| Other Countries | A\$m | -0.8 | -0.3 | 0.2 | 0.5 | Other non-current liabilities | A\$m | 1.0 | 1.0 | 1.0 | 1.0 |
| - change | % | -89% | -60% | -163% | 152% | Total Non-Current Liabilities | A\$m | 2.1 | 2.1 | 2.1 | 2.1 |
| Unallocated | A\$m | -8.3 | -8.3 | -8.3 | -8.3 | Total Liabilities | A\$m | 45.6 | 43.6 | 45.5 | 47.7 |
| Total EBITDA | A\$m | 78.0 | 102.2 | 127.2 | 150.8 | Net Assets | A\$m | 138.9 | 177.3 | 226.7 | 287.9 |
| - change | % | 76% | 31% | 24% | 19% | Total Shareholders Equity | A\$m | 138.9 | 176.9 | 226.3 | 287.5 |
| Depreciation & Amortisation | | | | | Cash Flow Statement | | | | | | |
| - change | % | -17% | 61% | 17% | -8% | (A\$m) Year End June 30 | | F2010A | F2011E | F2012E | F2013E |
| EBIT | | | | | Operating Cash Flows | | | | | | |
| - change | % | 99% | 28% | 25% | 22% | EBITDA | A\$m | 92.2 | 102.2 | 127.2 | 150.8 |
| Interest Income | A\$m | 2.0 | 4.0 | 4.0 | 6.0 | Working capital (incr.)/decr. | A\$m | 0.0 | -6.7 | -3.9 | -3.7 |
| Interest Expense | A\$m | -0.9 | 0.0 | 0.0 | 0.0 | Net interest | A\$m | 1.7 | 4.0 | 4.0 | 6.0 |
| Net interest | A\$m | 1.1 | 4.0 | 4.0 | 6.0 | Income taxes paid | A\$m | -25.2 | -30.3 | -35.4 | -43.4 |
| Profit Before Tax | A\$m | 72.0 | 94.8 | 117.8 | 144.6 | Total Operating Cash Flows | A\$m | 60.9 | 69.2 | 92.0 | 109.7 |
| Income Tax | A\$m | -22.6 | -30.3 | -35.4 | -43.4 | - change | % | 92% | 14% | 33% | 19% |
| - effective tax rate | % | 31% | 32% | 30% | 30% | Investing Cash Flows | | | | | |
| Profit After Tax | A\$m | 49.4 | 64.5 | 82.5 | 101.2 | Purchase of PPE | A\$m | -4.2 | -4.9 | -5.7 | -6.6 |
| Associates / JVs equity accounte | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | Acquisition of subsidiary | A\$m | 2.4 | 0.0 | 0.0 | 0.0 |
| Minorities | A\$m | 0.0 | 1.5 | 0.2 | -1.0 | Other investing | A\$m | -9.0 | -10.7 | -12.5 | -14.4 |
| NPAT (pre-NRIs) | A\$m | 49.4 | 66.0 | 82.7 | 100.2 | Total Investing Cash Flows | A\$m | -10.8 | -15.6 | -18.2 | -20.9 |
| - change | % | 72% | 34% | 25% | 21% | Financing Cash Flows | | | | | |
| Non-Recurring Items | A\$m | 1.3 | 0.0 | 0.0 | 0.0 | Dividends paid | A\$m | -4.0 | -26.4 | -33.1 | -40.1 |
| Discontinued Operations | A\$m | | | | | Proceeds from issue of shares in subsid | A\$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported NPAT | A\$m | 50.6 | 66.0 | 82.7 | 100.2 | Proceeds from borrowings | A\$m | -0.9 | 0.0 | 0.0 | 0.0 |
| - change | % | 5220% | 30% | 25% | 21% | Other financing | A\$m | 1.7 | 0.0 | 0.0 | 0.0 |
| EPS - Basic Reported | cents | 39.5 | 51.5 | 64.5 | 78.2 | Total Financing Cash Flows | A\$m | -3.2 | -26.4 | -33.1 | -40.1 |
| - change | % | 5185% | 30% | 25% | 21% | Net change in cash | A\$m | 47.0 | 27.2 | 40.7 | 48.8 |
| EPS - Basic (Pre-NRIs) | cents | 38.5 | 51.5 | 64.5 | 78.2 | Other Value Drivers | | | | | |
| - change | % | 71% | 34% | 25% | 21% | (A\$m) Year End June 30 | | F2010A | F2011E | F2012E | F2013E |
| DPS | cents | 16.0 | 20.6 | 25.8 | 31.3 | ROFE | % | 36% | 37% | 36% | 35% |
| EBITDA Margin - Group | % | 40% | 45% | 48% | 49% | Net Debt | A\$m | -88.2 | -115.7 | -156.4 | -205.2 |
| EBITDA Margin - Australia | % | 52% | 55% | 56% | 56% | Net Debt / Equity | % | -63% | -65% | -69% | -71% |
| NPAT (Pre-NRIs) Margin | % | 25% | 29% | 31% | 33% | Net Tangible Assets | A\$m | 83.6 | 115.9 | 158.2 | 211.1 |
| P/E Ratio | (x) | 31.0x | 23.2x | 18.5x | 15.3x | NTA/Share | \$ actual | 0.7 | 0.9 | 1.2 | 1.6 |
| EV/EBITDA | (x) | 17.2x | 13.3x | 10.9x | 9.1x | ROA | % | 27% | 30% | 30% | 30% |
| EV/EBIT | (x) | 20.3x | 15.6x | 12.1x | 9.6x | ROE | % | 36% | 37% | 37% | 35% |

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates

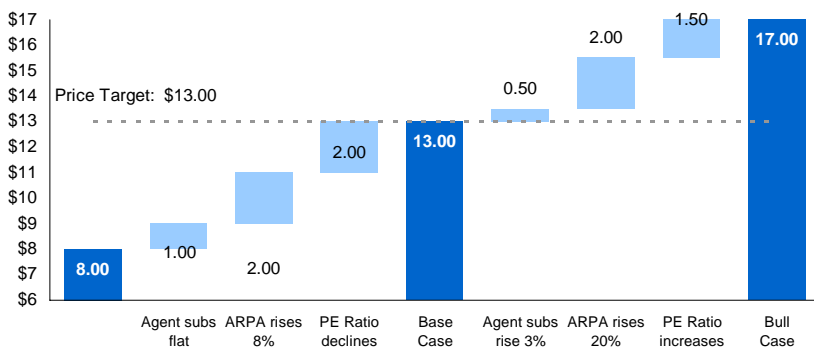
Risk-Reward Snapshot: REA Group Ltd (REA.AX, A\$11.95, OW, PT A\$13.00)

Risk-Reward View: Rising ARPA Drives Earnings & Intrinsic Valuation



| | | |
|------------------------------|---|--|
| Price Target A\$13.00 | Our price target is derived from our base case. | |
| Bull case A\$17.00 | 24x bull case F2011E EPS | Strong economic recovery Australia + M&A potential. Aust. ARPA rises 25% in F2011E and 20% in F2012E, while agent subs rise 3%. Aust revenue up 25% in F2011E and 20% in F2012E. Bull case F2011E EPS of 70cps. We also include A\$1.00/share in value for REA's 69% owned investment in Italy – which is valued at zero in our Base Case. Bull case could also be achieved in the event of M&A interest emerging, represents 15x F2012 EBITDA. |
| Base case A\$13.00 | 25x base case F2011E EPS | Reasonable economic recovery Aust. Aust ARPA rises 15% in F2011E and 13% in F2012E; agent subs rise 3% and 3%. Aust revenue up 18% in F2011E and 17% in F2012E. Base case F2011E EPS of 51.5cps. |
| Bear case A\$8.00 | 19x bear case F2011E EPS | Weak economic recovery Aust + sharp property slowdown. Aust ARPA rises a lesser 10% in F2011E and 8% in F2012E. Aust revenue up 11% in F2011E and 9% in F2012E. Bear case F2011E EPS of 42cps. Lower P/E reflects de-rating by the market. |

Bear to Bull: Real Estate Agents Drive Advertising Revenue



Source: Morgan Stanley Research, FactSet

Investment Thesis

- We retain our Overweight rating.
- We project a capital return of 9% and a dividend yield of 2% for a total return of 11% over the next 12 months.
- REA's key strengths include: a subscription-based business model, the structural migration of classified property advertising from print to online, and the backing of global media conglomerate News Corp (NWS, 61% stake).
- REA's key revenue driver – the number of subscribing real estate agencies in Australia – held up during the economic downturn, with slight positive growth in F2009.
- Meanwhile, the other key driver, average revenue per agent, grew 15% in F2009 and 20% in F2010.
- We expect the core Australian business to continue to generate strong cash flows, with an indicated dividend payout ratio of 30-50%. In the absence of acquisitions, additional capital management is possible.

Key Value Drivers

- Number of subscribing agents.
- Average revenue per agent (ARPA).
- Cost controls.
- Sustainability of 50%+ margins in Australia.

Key Risks

- **To the downside:** Weak economic recovery in Australia; rationalisation of real estate businesses in Australia; offshore businesses fail to become profitable; Italy losses greater than forecast.
- **To the upside:** Economy rebounds in short term; agents increase ad budgets as property sales rise; Italian business breaks even sooner than expected.

Industry-funded Site realestateVIEW is a REA competitor ... but not a game-changer

realestateVIEW.com.au ... is a real estate agent-supported online property portal. It is #3 behind the clear leader REA and clear #2 FXJ's Domain.

It offers another alternative for real estate agents

But a lot of work would need to be done before this could genuinely be a substitute product to REA, in our view.

The key to our thesis on this topic: consumer awareness.

REA is in the forefront of consumers; minds and has the capital to maintain this leadership position.

By comparison, realestateVIEW offers a cheaper product but is limited by funding capacity as to how much it can raise consumers' awareness of the site.

Hence it is unlikely to limit price increases for REA

REA remains a good story

REA's core Australian business enjoys the dominant market share (by a factor of 2x) in a fast-growing consumer market. Its core asset, the website realestate.com.au, enjoys 95% penetration among the nation's real-estate agents. Like most online businesses, having decisive audience leadership provides a significant competitive advantage in terms of pricing power and consumer awareness.

Our expectations are that REA will achieve revenue growth for the next three years of 18%, 17% and 15%...driving EPS to almost double from the 39.1c just reported to 76.5c in F2013E. We have not made any material changes to our earnings estimates, but we have updated our valuation in this report – see pages 9-15. Our fundamental value range is A\$12.50-A\$13.54/share and our new price target is set at A\$13.00/share (was A\$11.50).

We know real estate agents value the REA product highly ... only complaint is cost

Recently we surveyed the main client group of each of the online classifieds portals, SEK, the recruiters, CRZ, the car dealers and REA, the real estate agents (for more detail see our Carsales.com Limited report, *Initiating at Equal-weight: Current Strong Market Performance Limits Underperformance*, October 15, 2010, pages 8-11). Across all three, price was the hot topic. Car dealers were the loudest in vocalizing what they feel is the high price of advertising on

CRZ, with some grumblings from real estate agents and generally we found recruiters were happy with SEK. Following this analysis we hypothesized that car dealers could potentially create a dealer supported website to compete against CRZ (*Fairfax Media: Hypothetically ... Could FXJ/Drive Become a Stronger Competitor to CRZ in Online Auto Classifieds?*, October 18, 2010).

In this report we have extended this analysis to REA and sought to uncover what potential there was for real estate agents to support their own agent-supported website (realestateVIEW). This started in 2001 with the support of the real estate institutes and has recently accelerated its growth.

Any new competitor is always worth watching closely

So what is this new competitor and should we consider it a threat to REA? realestateVIEW is emerging as a new agent-supported real estate portal, which has the goal of becoming the number two player in the Australian online real estate portal market within the next in two years. Many consider this a threat to REA due to the fact that it is supported by the real estate institutes around Australia.

Whilst we recognize that it could be viewed as a competitive advantage to be supported by the real estate institutes, we feel it is a little late for the institutes to be introducing a substitute product to the market. **This is mainly because the consumer has now been trained to look for property on REA websites and to change this consumer behavior would prove both very difficult and costly, in our view.**

What is realestateVIEW?

realestateVIEW was launched in May 2001 as a joint venture between the Real Estate Institutes of Australia and leading real estate agents. The Real Estate Institute of Victoria (REIV) was the main supporter, with a 30% equity stake which was increased to 72% in 2007. Exhibits 1 and 2 illustrate that realestateVIEW has grown its agent penetration quickly over the past year to 78%, compared to REA's 95% and Domain's ~60% agent penetration.

Exhibit 1

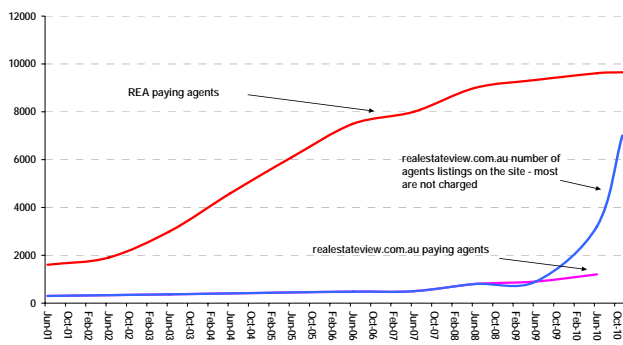
Time Line for Roll-out of realestateVIEW

| Date | Event | Agents Signed Up | Market Penetration |
|--------|--------------------------------|------------------|--------------------|
| May-01 | realestateview.com.au launched | 300 | 3% |
| Jan-07 | | 500 | 6% |
| Jan-08 | | 800 | 9% |
| Jan-09 | Launched into SA & TAS | 900 | 10% |
| Jan-10 | | 1200 | 13% |
| Mar-10 | Launched into NSW | 3200 | 36% |
| Aug-10 | Bought myhome.com | 6400 | 71% |
| Nov-10 | | 7000 | 78% |

Source: realestateVIEW.com.au, Morgan Stanley Research

Exhibit 2

realestateVIEW Growing Australia-wide Real Estate Agent Penetration Quickly



Source: REA, realestateVIEW.com.au, Morgan Stanley Research

On the surface it appears that realestateVIEW.com.au is emerging as a real competitor to REA. **However, while realestateVIEW has 7,000 agents on its site, it has only 1,200 paying agents.** This is really the crux of our argument ... why should agents pay for their migrated offerings from REA to realestateVIEW?

Why should Real Estate agents pay for their offerings on realestateVIEW?

In our view, it is difficult for agents to justify the additional expense of advertising through realestateVIEW, despite the significantly lower price point because it has:

- significantly lower unique visitor (UVs) numbers compared to the websites of both REA and Domain (Exhibit 4);
- significantly less inventory than REA with which to attract UBs to the website (Exhibit 5) even though realestateVIEW does have more listings Australia-wide than Domain. FXJ/Domain's strength has traditionally been in the Sydney/NSW and Melbourne/VIC markets, where FXJ publishes major newspapers; and
- Much lower consumer awareness than both REA and Domain (Exhibit 6).

Bottom line: consumer awareness equates to more sales for agents. realestateVIEW is going to find it very difficult to charge agents unless it is able to improve its consumer awareness.

We note that realestateVIEW is well aware of these limitations and is attempting to address them.

What strategies can realestateVIEW employ to improve its consumer awareness?

In our view there are six different strategies that can be employed to increase consumer awareness and drive more traffic to realestateVIEW:

1. **Building Inventory:** Inventory is vitally important because, in the online space, inventory or the listing volume needed to draw eyeballs (unique visitors or unique browsers) to the website – i.e., you need content to attract people (see Exhibit 3). Note that while realestateVIEW still trails REA, we estimate that it has now surpassed Domain with regard to the total number of listings on its site (Exhibit 5) – a positive – but the majority of these listings are free (Exhibit 2) – a negative.

Exhibit 3

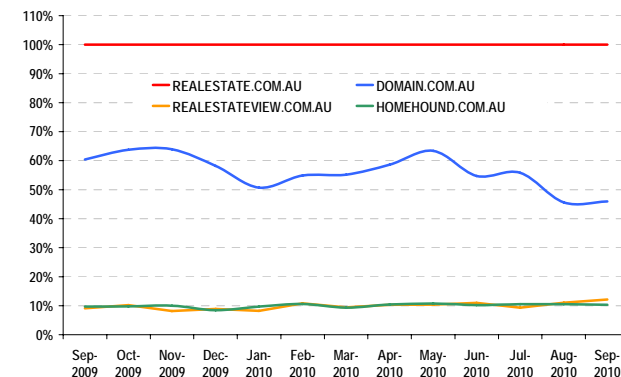
Virtuous Circle for Attracting Eyeballs



Source: Morgan Stanley Research

Exhibit 4

Unique Visitors (UV) of Competitors As a % of Market Leader REA's UVs



Source: ComScore, Morgan Stanley Research

Exhibit 5

**REA Is the Clear No. 1...
realestateVIEW Is No. 2 with Total Listings**

| | realestate.com.au | domain.com.au | realestateview.com.au |
|----------------------|-------------------|---------------|-----------------------|
| Total Listings | 581299 | 251571 | 300000 |
| NSW - Bondi | 56 | 57 | 19 |
| QLD - St Lucia | 126 | 89 | 0 |
| VIC - East Melbourne | 60 | 60 | 55 |
| WA - South Perth | 218 | 38 | 150 |
| SA - Brighton | 26 | 15 | 17 |
| TAS - Claremont | 117 | 73 | 95 |
| ACT - Deakin | 8 | 7 | 0 |
| NT - Darwin | 273 | 98 | 108 |

Source: REA, FXJ, realestateVIEW.com.au. Morgan Stanley Research

Exhibit 6

% of Users Who Went Directly to the Website

| REA | Domain | Realestateview.com.au |
|-------|--------|-----------------------|
| 36.5% | 29.1% | 23.2% |

Source: Alexa, Morgan Stanley Research

- Advertising & Marketing Spend:** This necessitates spending in Traditional media (TV, Outdoor, Radio) combined with search engine optimization (SEO). For example, REA spent A\$17m in F2010 on sales and marketing compared to an estimated ~A\$2m for realestateVIEW. We estimate realestateVIEW view would need to spend at least ~A\$10m-A\$15m on staff and marketing to build consumer awareness.
- Partnerships:** are effective in helping to drive additional traffic to the website. REA has partnered with Yahoo!7; Domain has partnered with ninemsn; and, as of October 2010 realestateVIEW has partnered with Telstra's Trading Post and BigPond websites. We feel this is a positive.
- Mobile Technology:** This involves the development of mobile websites and apps for smart phones and tablets. REA, Domain and realestateVIEW each have mobile websites. REA and Domain also currently have iPhone apps, but not iPad apps. We estimate it would cost realestateVIEW ~A\$50k to develop an iPhone and/or iPad app.
- Improve Website Functionality:** This is key. A website that is easy to use for both the consumer and the real estate agent is vital...particularly if social media is going to be successful. REA launched its new website in March 2010 and has attributed much of the fact that consumers spend on average 52% more time per session on REA than on Domain (July 2010) to its new website. We

estimate A\$1m to A\$2m would need to be spent on realestateVIEW website before it could offer something unique to agents and consumers.

- Social Media:** This is becoming more important due to its low cost and its distribution capability. REA is leading in this space currently with 7.9% of its traffic coming directly from facebook, compared to 6.6% for Domain and only 2.1% for realestateVIEW (see Exhibit 7). A sleek website with great content is essential for success if employing a social media marketing strategy.

Exhibit 7

% of Users Who Came From Facebook Before Coming to the Below Portals

| REA | Domain | Realestateview.com.au |
|------|--------|-----------------------|
| 7.9% | 6.6% | 2.1% |

Source: Alexa, Morgan Stanley Research

Does realestateVIEW have the money to fund this expansion? ... No

We estimate that, to fund this strategy, realestateVIEW.com.au would need at least ~A\$20m. This could either come from industry sources (for example, real estate institutes, franchisees and corporate real estates such as LJ Hooker and Ray White) or private equity.

If realestateVIEW were able to obtain significant funding, particularly from a corporate real estate agent this would definitely attract our attention. Particularly as it could indicate strategic support from a larger group of real estate agents and thereby increase the threat of putting pressure on REA prices.

The challenges to raising substantial capital include:

- REA's market share leadership clear:** REA has ~70% revenue market share, 63% of unique visitors, 95% agent penetration and almost twice the number of listings of realestateVIEW. History globally suggests that the lead of the number one player is difficult to displace once established.
- Incentive Structures:** realestateVIEW is majority owned and controlled by the real estate institutes, which are not-for-profit organizations. In our view, this limits its ability to compete against REA and Domain.
- Value proposition:** Despite REA's and Domain's higher price offering, in reality, advertising online is ~7x as cost

effective as print (see our REA report *“Risk to Earnings/Valuation If the Australian Property market Slows Sharply”* 20 August 2010).

- **Nothing genuinely unique in the offering:** We feel realestateVIEW does not offer anything unique to real agents or consumers as compared to REA or Domain. realestateVIEW is only attracting agents to the site because of its current free offering.

Has the No. 1 Property Portal Been Displaced Anywhere Else In the World?

The US market has recently experienced a change in market leader. August 2010 saw realestate.yahoo.com surpass realtor.com as the most popular property portal in the US according to Hitwise. This was only short lived as October saw realtor.com take back the leading position.

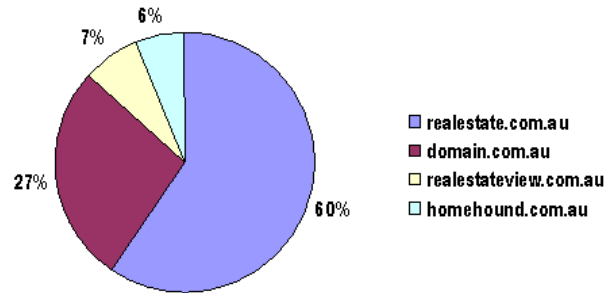
One may view this as an opportunity for a competitor in the Australian market place to overtake REA. However, there are two key things to keep in mind.

- The US market is far more fragmented than the Australian market. REA has a very dominant position and it is going to be difficult to change this.
- The challenger was not capital constrained: Realtor.com is the official site for the National Association of Realtors in the US. Whilst privately owned by Move Inc (NASDAQ:MOVE, not covered), realtor.com lost its number one position (according to Hitwise) to Yahoo! (NASDAQ:YHOO, Equal-weight) for one month. Yahoo! has better access to funding compared to Move Inc and consequently has been able to increase its consumer awareness by effective advertising and search engine optimization. REA is far better funded than realestateVIEW and therefore has the firepower to tackle a competitive threat, in our view.

Morgan Stanley view: Despite the example in the US of the market leader changing, it is our view that this is unlikely to occur in the Australian market place in the medium term.

Exhibit 8

Aust. Property Portal Landscape by Unique Visitors



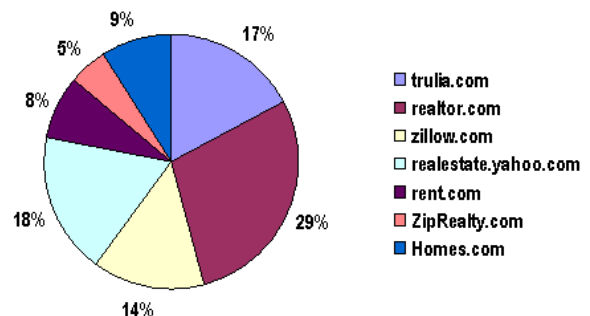
Source: ComScore (Sep 2010), Morgan Stanley Research

Perhaps real estate data is the real opportunity to change the landscape

In our view, real estate sales data have the potential to be the real game-changer within this industry. Why? The over-riding trend in the Media industry is the fragmentation of audiences and content providers becoming more powerful ... and in the real estate space, the real estate agents are a key content provider. Real estate agents' content is the sales data they generate. This data is provided to aggregators like RP Data (ASX:RPX, not covered) only to be sold back again to the real estate agents to help with valuations. At this stage RP Data is the industry leader with ~80% market share, yet we feel realestateVIEW's strong relationships with agents and institutes could provide the opportunity to change this market space. Of course, each of the online portals is well aware of this risk and REA already has an established relationship with RP Data and Domain has a relationship with APM.

Exhibit 9

US Property Portal Landscape by Unique Visitors



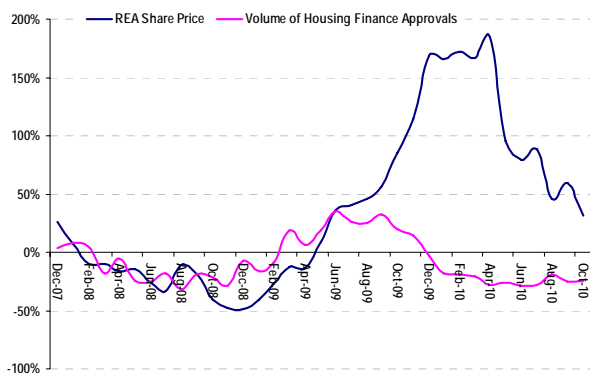
Source: ComScore (Oct 2010), Morgan Stanley Research

Where are we in the Australian property cycle? ... Important, as there is a correlation between the Australian housing market and the REA stock price

REA has historically been regarded as relatively insensitive to the greater property market due to its subscription-based model.

However, the chart below clearly demonstrates the correlation between the greater property market and REA's stock price. Only post-GFC has this relationship distorted, likely due to REA's increasing market dominance and the accelerating migration to online.

Exhibit 10
The Cooling of the Property Market Appears Only to Have Had a Delayed Impact on the REA's Price



Source: ABS, Morgan Stanley Research

This relationship still exists despite REA's subscription-based model because of the makeup of REA's ARPA. REA generates 60% of its ARPA through its subscription revenue and the final 40% is generated through its depth products, i.e. premium listings etc. This final 40% is sensitive to consumers' discretionary spending – hence a weaker economic environment affecting house sales would affect REA's ARPA.

Understanding this point is key to being able to answer two issues:

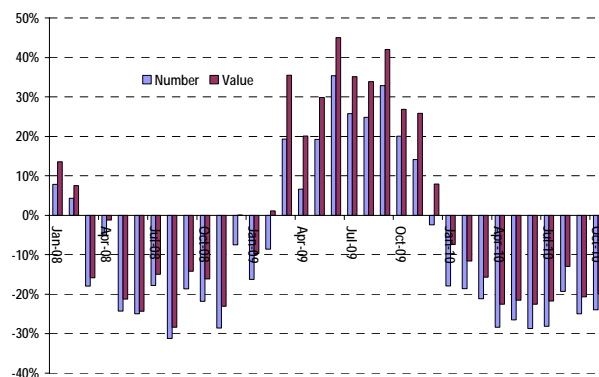
1. Sentiment towards the housing market and the REA stock price; and
2. REA's ability to increase prices (ARPA) with real estate agents.

In our view, Australian housing prices are now likely to enter a period of consolidation, and are set for only modest increases. This should be a reasonable environment for REA and its pricing power.

Importantly, we are not anticipating sharp falls in housing prices, which would be negative for REA earnings and share price – for more detail on this topic see our REA report *"Risk to Earning & Valuation If the Australian Property market Slows Sharply"* dated 20 August 2010.

Looking forward, we highlight that the housing market will shortly start cycling off lower comps as measured by housing finance approvals – see Exhibit 11.

Exhibit 11
Housing Finance Figures % Change on PCP...Are 2 Months Off Cycling Off Low Comps



Source: ABS, Morgan Stanley Research

Valuation

We have increased our price target to A\$13.00 (was \$11.50). There has been no change in our earnings or free cash flow forecasts, the increase comes about due to the rollover of our DCF for another year and a shift forward of our various target multiples to F2012 (from F2011).

We derive our price target from the following methodologies: discounted cash flow (DCF), Price/Earnings and EV/EBITDA (or sum-of-the-parts). Our three methodologies suggest a range for valuation at 12 months of A\$12.50/share-A\$13.54/share. We select A\$13.00/share as the price target representing an approximate mid-point of this range.

1) DCF Valuation

Our DCF valuation in 12 months' time is A\$13.54/share (see page 10).

We calculate the DCF price target by taking the net present value (NPV) today based on our DCF valuation, which is A\$12.13. We then multiply the NPV by 1 + the adjusted cost of equity (13.0%), and subtract the expected dividend payments over the next 12 months (21cps).

Key assumptions include:

- Free cash flows are generated by consolidated divisions.
- We adjust our cost of equity from 11.0%, to account for REA's individual company risk profile, allowing an additional 1.0% to account for liquidity risk plus another 1.0% for execution risk for international expansion. As a result, our cost of equity (based on the capital asset pricing model) increases by 2.0% points to 13.0%. See DCF on page 10 for detail.
- We estimate a target debt/debt+equity ratio of 30%, on the basis that REA will eventually take on conservative gearing in order to help fund its expansion and or return surplus capital to its shareholders.
- We calculate the weighted average cost of capital (WACC) based on our adjusted cost of equity (13%). Our WACC of 10.7% is broadly consistent with the WACC of the other Internet media stocks in our universe coverage such as SEK (11.5% WACC). It is subjective, but we believe a slightly lower WACC can be justified for REA than SEK based on our view of a slightly lower risk profile, a reflection of the relatively stronger position REA enjoys in

online Australian real estate vs. SEK in online Australian job ads; and we also have a more positive view for growth of the long term addressable market for online real estate vs online employment.

- We apply an equity beta of 1.2, higher than the standard beta of 1 that we apply to most of the traditional media stocks in our universe. We believe the extra 0.2 beta reflects REA's systematic risk relative to the market, given the relatively new nature of the Internet sector. We also apply a beta of 1.2 to the other Internet Media stocks under our coverage, SEK and WTF.
- Terminal growth of 3%, risk-free rate of 5%, equity risk premium of 5%, and cost of pre-tax debt of 7.5% are all unchanged.
- Maintenance capex equals 2%-3% of total sales revenue from F2011E to F2015E. Internet media companies generally have a low capex/revenue ratio as they are generally labour intensive businesses (e.g., sales staff) that have low capital requirements. However, we expect capex may increase as a percentage of revenue over the long term as industry competition intensifies and new technologies become available. To be conservative our capex assumption in our DCF terminal year (F2019E) equates to 8% of revenue.

The implied terminal EBITDA multiple in F2019E is 7.1x – see Exhibit 5 below for the valuation's sensitivity to different assumed terminal multiples. Essentially, for every +/- 100 basis points to the selected WACC (i.e. 11.7% vs. our base case 10.7%) the impact is +/- 68c/share.

The present value of REA's perpetual free cash flow beyond the terminal year (F2019E) accounts for about half our DCF valuation.

Exhibit 5

REA: DCF Sensitivity to WACC & Terminal Value

| | WACC | Terminal EBITDA Multiple of Year F2019E | | | | |
|---|-------|---|---------|---------|---------|---------|
| | | 5.1x | 6.1x | 7.1x | 8.1x | 9.1x |
| W | 8.7% | \$11.27 | \$12.29 | \$13.64 | \$14.34 | \$15.36 |
| A | 9.7% | \$10.66 | \$11.60 | \$12.85 | \$13.50 | \$14.44 |
| C | 10.7% | \$10.09 | \$10.97 | \$12.13 | \$12.72 | \$13.60 |
| C | 11.7% | \$9.56 | \$10.38 | \$11.45 | \$12.00 | \$12.82 |
| | 12.7% | \$9.08 | \$9.83 | \$10.83 | \$11.34 | \$12.09 |

Source: Morgan Stanley Research estimates

Exhibit 16

REA: DCF Valuation

| | | F2010 | F2011E | F2012E | F2013E | F2014E | F2015E | F2016E | F2017E | F2018E | F2019E |
|---|-------------|-------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| EBITDA | | | | | | | | | | | |
| Australia | A\$m | 92.2 | 114.5 | 134.4 | 153.6 | 173.7 | 195.1 | 214.8 | 231.1 | 243.6 | 252.7 |
| United Kingdom | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Italy | A\$m | -6.6 | -5.1 | -0.6 | 3.4 | 8.1 | 12.9 | 17.6 | 22.1 | 25.8 | 28.5 |
| Luxembourg | A\$m | 1.5 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.8 | 1.9 | 2.0 | 2.1 |
| Other Countries | A\$m | -0.8 | -0.3 | 0.2 | 0.5 | 0.6 | 0.7 | 0.8 | 1.0 | 1.1 | 1.2 |
| Unallocated | A\$m | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 |
| Total EBITDA | A\$m | 78.0 | 102.2 | 127.2 | 150.8 | 175.8 | 202.2 | 226.7 | 247.8 | 264.2 | 276.2 |
| Growth rate pcp | % | 76% | 31% | 24% | 19% | 17% | 15% | 12% | 9% | 7% | 5% |
| Income Tax Paid | A\$m | -22.6 | -30.3 | -35.4 | -43.4 | -50.7 | -57.5 | -64.8 | -71.0 | -75.6 | -79.3 |
| Operating Cashflow - After Tax | A\$m | 55.4 | 71.9 | 91.8 | 107.4 | 125.1 | 144.7 | 162.0 | 176.7 | 188.6 | 197.0 |
| INVESTMENT | | | | | | | | | | | |
| Change in working capital | A\$m | -1.5 | -6.7 | -3.9 | -3.7 | -3.9 | -4.1 | -3.9 | -3.4 | -2.7 | -2.1 |
| Total capital expenditure | A\$m | -4.2 | -4.9 | -5.7 | -6.6 | -7.5 | -11.7 | -21.8 | -28.8 | -36.4 | -44.9 |
| Other investments | A\$m | 2.445 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cashflow - After Tax, Before Financing | A\$m | 52.2 | 60.3 | 82.2 | 97.2 | 113.8 | 128.8 | 136.3 | 144.6 | 149.4 | 150.0 |
| Total capex as percentage of sales | % | 2% | 2% | 2% | 2% | 2% | 3% | 5% | 6% | 7% | 8% |
| DISCOUNTING OF CASHFLOW | | | | | | | | | | | |
| Date | actual | 26-Jan-11 | | | | | | | | | |
| Year | actual | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Date at End Period | actual | 30-Jun-10 | 30-Jun-11 | 30-Jun-12 | 30-Jun-13 | 30-Jun-14 | 30-Jun-15 | 30-Jun-16 | 30-Jun-17 | 30-Jun-18 | 30-Jun-19 |
| Years Between Now & EOP | actual | 0.00 | 0.42 | 1.43 | 2.43 | 3.43 | 4.43 | 5.43 | 6.43 | 7.43 | 8.43 |
| Discount factor | | 0.00 | 0.96 | 0.87 | 0.78 | 0.71 | 0.64 | 0.58 | 0.52 | 0.47 | 0.43 |
| Free cashflow | | 52.2 | 60.3 | 82.2 | 97.2 | 113.8 | 128.8 | 136.3 | 144.6 | 149.4 | 150.0 |
| Discounted free cashflow | | 0.0 | 57.8 | 71.2 | 76.0 | 80.4 | 82.2 | 78.6 | 75.3 | 70.3 | 70.6 |
| Total discounted free cashflow | | | 592 | | | | | | | | |
| Perpetual free cashflow | | | 920 | | | | | | | | |
| Total present value free cashflows | | | 1,512 | | | | | | | | |
| Net debt/(cash) - last reported | | | (41) | | | | | | | | |
| Total Company Value | | | 1,553 | | | | | | | | |
| Number of REA shares on Issue | | | 128 | | | | | | | | |
| Net Present Value per share | | | \$12.13 | | | | | | | | |
| Value at 12 Months | | | | | | | | | | | \$13.54 |
| Key assumptions | | | | | | | | | | | |
| Risk free rate | | | 5.0% | | | | | | | | |
| Market risk premium | | | 5.0% | | | | | | | | |
| Target Debt/Debt+Equity | | | 30.0% | | | | | | | | |
| Equity beta | | | 1.2 | | | | | | | | |
| Cost of equity | | | 11.0% | | | | | | | | |
| - Plus Liquidity Risk | | | 1.0% | | | | | | | | |
| - Plus Execution Risk for International Expansion | | | 1.0% | | | | | | | | |
| Adjusted cost of equity | | | 13.0% | | | | | | | | |
| Cost of debt (before tax) | | | 7.5% | | | | | | | | |
| Corporate tax rate | | | 30.0% | | | | | | | | |
| Cost of debt (after tax) | | | 5.3% | | | | | | | | |
| WACC (using adjusted cost of equity) | | | 10.7% | | | | | | | | |
| Terminal growth | | | 3.0% | | | | | | | | |

Source: Company Data, Morgan Stanley Research estimates

2) P/E Valuation

Our P/E valuation is A\$12.50/REA share based on F2012E estimates (see Exhibit 6).

Key assumptions include:

- F2012E EPS of A\$0.65 is based on NPAT post associates' contribution and a diluted share base.
- Our target P/E multiple of 19.4x represents a 55% premium to the forecast F2012 market (ASX 200) multiple of 12.1x. Our 19x target P/E is below the 12-month forward P/E multiples for US Internet stocks of 28x and below Asian Internet Media stocks of 29x (see international valuation comps Exhibit 18, page 15). We believe a premium can be justified for REA versus its Australian media peers and the broader Australian market because of its scope for further growth in the Australian online real estate market; net cash position; dominant market leader position domestically.

Exhibit 6

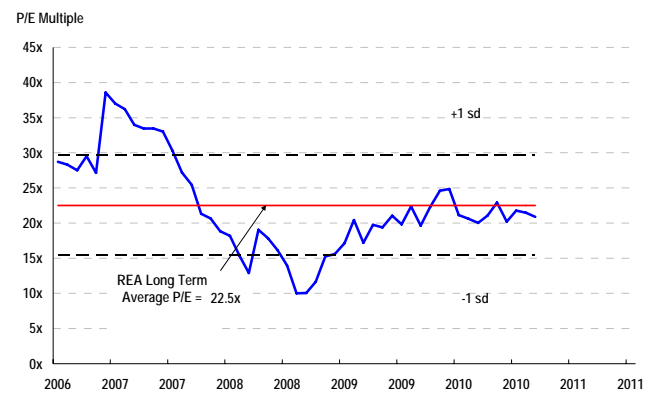
REA: Target P/E Multiple Valuation

| Market Multiple F2012E | 12.1x | | | | | |
|-------------------------|--------|---------|---------|---------|---------|---------|
| P/E | 17.0x | 18.2x | 19.4x | 20.6x | 21.8x | |
| P/E Relative to ASX 200 | 140% | 150% | 160% | 170% | 180% | |
| F2012E | \$0.63 | \$10.60 | \$11.36 | \$12.11 | \$12.87 | \$13.63 |
| EPS | \$0.64 | \$10.77 | \$11.54 | \$12.31 | \$13.08 | \$13.84 |
| | \$0.65 | \$10.94 | \$11.72 | \$12.50 | \$13.28 | \$14.06 |
| | \$0.66 | \$11.11 | \$11.90 | \$12.69 | \$13.49 | \$14.28 |
| | \$0.67 | \$11.28 | \$12.08 | \$12.89 | \$13.69 | \$14.50 |

Source: Morgan Stanley Research estimates

Exhibit 7

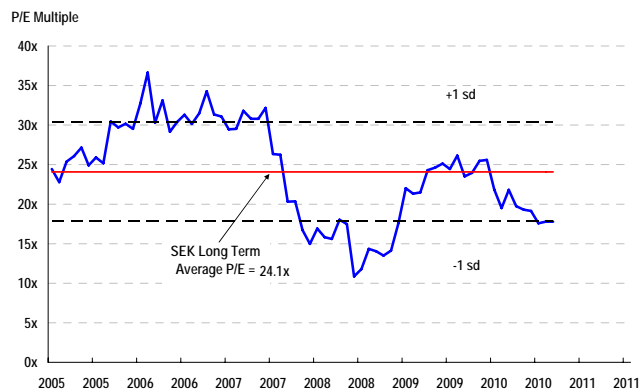
REA: 12-Month Forward P/E Multiple



Source: Factset, Morgan Stanley Research

Exhibit 8

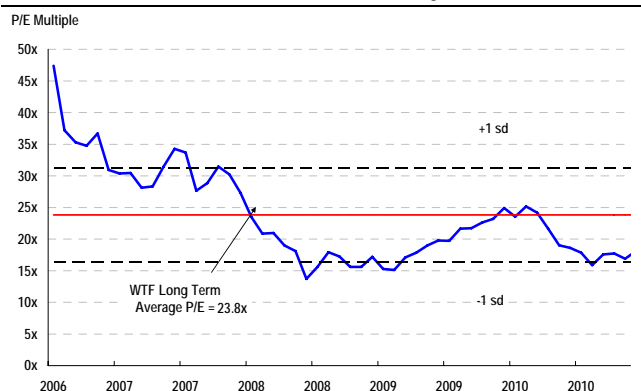
SEK: 12-Month Forward P/E Multiple



Source: Factset, Morgan Stanley Research

Exhibit 9

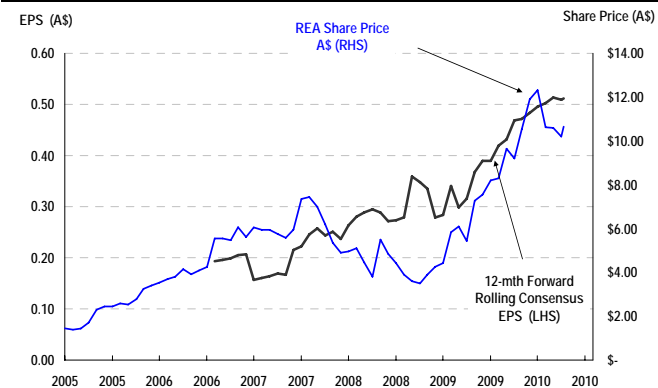
WTF: 12-Month Forward P/E Multiple



Source: Factset, Morgan Stanley Research

Exhibit 10

REA: Share Price & Consensus EPS Momentum



Source: Factset, Morgan Stanley Research

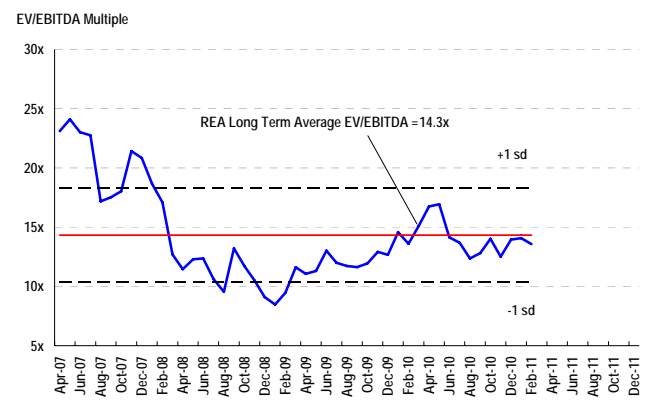
3) EV/EBITDA Valuation

Our EV/EBITDA (or sum-of-the-parts) valuation at 12 months is A\$13.29/REA share, based on our F2012E estimates (see page 13).

Key assumptions include:

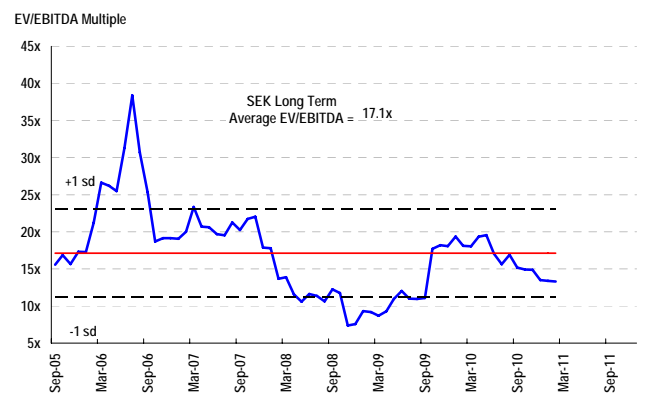
- Australian division target EBITDA multiple of 12x.** This is below REA's long term average of 14x (Exhibit 11); it is in-line with the average one-year forward EV/EBITDA multiple for REA's Australian Internet Media peers of 12x (Exhibit 18); 10% premium to US Internet Media stocks' average multiple of 11x; but well below the 17x EV/EBITDA average of selected Asian Internet Media stocks (see Exhibit 18 on page 15). The implied value for REA's Australian business alone is EV A\$1.6bn.
- Unallocated division target EBITDA multiple of 8x.** This division is corporate and head office expenses.
- We have ascribed zero value to REA's overseas acquisitions.** We estimate REA paid A\$26 million, or ~A\$0.20 per REA share, for its portion of continuing overseas acquisitions. However, we have taken a conservative approach and attributed zero value for REA's overseas interests in our model, because most of these businesses were loss-making at the time of acquisition. Therefore, our EV/EBITDA model measures only the Australian division.
- We assume REA will retain its net cash position from F2010 to F2012E.
- No change in share count.

Exhibit 11
REA: 12-Month Forward EV/EBITDA



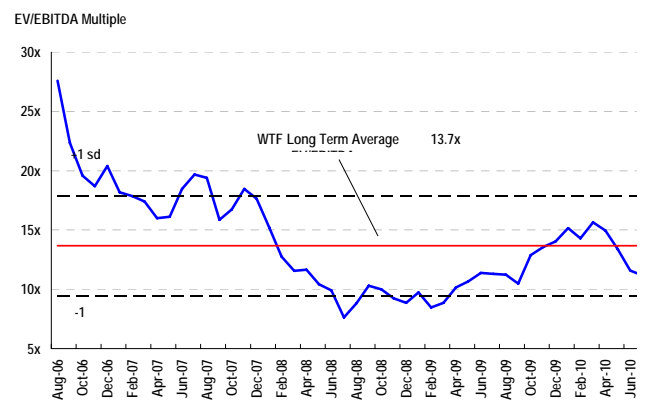
Source: Factset, Morgan Stanley Research

Exhibit 12
SEK: 12-Month Forward EV/EBITDA



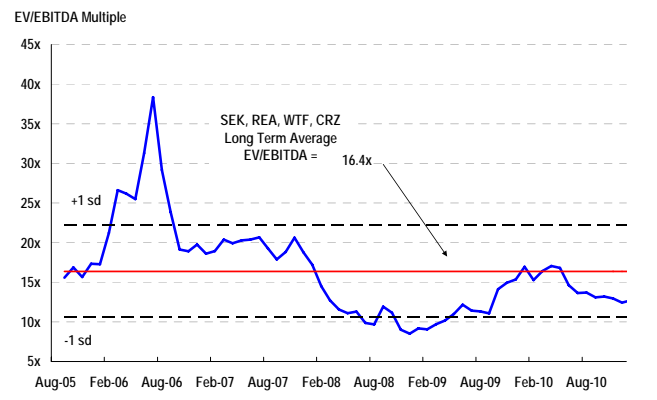
Source: Factset, Morgan Stanley Research

Exhibit 13
WTF: 12-Month Forward EV/EBITDA



Source: Factset, Morgan Stanley Research

Exhibit 14
SEK/REA/WTF/CRZ: 12-Month Forward EV/EBITDA



Source: Factset, Morgan Stanley Research

January 27, 2011
REA Group Limited

Exhibit 15

REA: EV/EBITDA or Sum-Of-the-Parts Valuation

| Current share price | | Morgan Stanley | | | | | | | | | | Calculated Value (A\$m) | | | | | | Calculated Value Per Share (A\$) | | | | | | | |
|--|-----------|-------------------------|----------------------|---------------|----------------|-----------------------|------------|------------|--------------|-----------------|--------------|--------------------------------|-------------|-------------|--------------|--------------|--------------|----------------------------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|
| \$11.95 ps | | EBITDA (A\$m) | | | | | | | | Target Multiple | F2007 | F2008 | F2009 | F2010E | F2011E | F2012E | F2013E | F2007 | F2008 | F2009 | F2010E | F2011E | F2012E | F2013E | |
| Operating Assets | | F2005 | F2006 | F2007 | F2008 | F2009 | F2010E | F2011E | F2012E | F2013E | | | | | | | | | | | | | | | |
| EBITDA | | | | | | | | | | | | | | | | | | | | | | | | | |
| Australia | | 6 | 21 | 39 | 62 | 83 | 92 | 115 | 134 | 154 | 12.0x | 472 | 743 | 1,002 | 1,106 | 1,374 | 1,612 | 1,843 | 3.71 | 5.84 | 7.87 | 8.64 | 10.73 | 12.59 | 14.39 |
| Unallocated | | 0 | -3 | -8 | -10 | -12 | -8 | -8 | -8 | -8 | 8.0x | -61 | -78 | -96 | -67 | -67 | -67 | -67 | -0.48 | -0.61 | -0.76 | -0.52 | -0.52 | -0.52 | -0.52 |
| Total EBITDA | | 6 | 18 | 32 | 52 | 71 | 84 | 106 | 126 | 145 | avg 12.7x | 410 | 665 | 906 | 1,040 | 1,308 | 1,546 | 1,777 | 3.22 | 5.23 | 7.12 | 8.12 | 10.21 | 12.07 | 13.87 |
| Growth rate on pcp | | 134% | 134% | 59% | 55% | 20% | 76% | 31% | 24% | 19% | | | | | | | | | | | | | | | |
| Consolidated Investments | Ownership | Asset Purchase Price | Private Value to REA | Discount Rate | Assessed Value | Assessed Value (A\$m) | | | | | | Assessed Value Per Share (A\$) | | | | | | | | | | | | | |
| <u>Italy</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| casa.it | 69.4% | A\$18.3m | A\$11.9m | -100% | A\$0m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| <u>Luxembourg/France/Germany/Belgium</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| alHome websites | 100% | A\$7.5m | A\$7.5m | -100% | A\$0m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| <u>Hong Kong</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| squarefoot.com.hk | 100% | A\$3.7m | A\$3.7m | -100% | A\$0m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| <u>UAE (Dubai)</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| propertyfinder.ae | 51% | A\$3.4m (for 51% stake) | A\$3.4m | -100% | A\$0m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| Total Consolidated Investments | | | A\$26m | -100% | A\$0m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| Non-Consolidated Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| Total Assessed Value | | | | | | 410 | 665 | 906 | 1,040 | 1,308 | 1,546 | 1,777 | 3.22 | 5.23 | 7.12 | 8.12 | 10.21 | 12.07 | 13.87 | | | | | | |
| Debt | | | | | | 8 | 2 | 1 | 0 | 0 | 0 | 0 | 0.06 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | | | |
| Cash | | | | | | 10 | 9 | 42 | 88 | 116 | 156 | 205 | 0.08 | 0.07 | 0.33 | 0.69 | 0.90 | 1.22 | 1.60 | | | | | | |
| Derived Equity Value | | | | | | 412 | 673 | 947 | 1,128 | 1,423 | 1,702 | 1,982 | 3.24 | 5.29 | 7.44 | 8.81 | 11.11 | 13.29 | 15.47 | | | | | | |
| Shares on issue | 107m | 127m | 127m | 127m | 127m | 128m | 128m | 128m | 128m | | | | | | | | \$3.24 | \$5.29 | \$7.44 | \$8.81 | \$11.11 | \$13.29 | \$15.47 | | |

Current Equity Value \$11.95 ps
Net Debt (negative = net cash position)
Investments
Current Enterprise Value
EBITDA
EV / EBITDA

| | F2007 | F2008 | F2009 | F2010E | F2011E | F2012E | F2013E |
|---|-------|-------|-------|--------|--------|--------|--------|
| Current Equity Value | 1,521 | 1,521 | 1,521 | 1,531 | 1,531 | 1,531 | 1,531 |
| Net Debt (negative = net cash position) | -2 | -7 | -41 | -88 | -116 | -156 | -205 |
| Investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current Enterprise Value | 1,519 | 1,513 | 1,480 | 1,442 | 1,415 | 1,374 | 1,325 |
| EBITDA | 32 | 52 | 71 | 84 | 106 | 126 | 145 |
| EV / EBITDA | 48.0x | 29.0x | 20.7x | 17.2x | 13.3x | 10.9x | 9.1x |
| EBIT | 19 | 29 | 36 | 71 | 91 | 114 | 139 |
| EV / EBIT | 81.0x | 51.4x | 41.5x | 20.3x | 15.6x | 12.1x | 9.6x |
| Revenue | 107 | 156 | 186 | 194 | 228 | 267 | 306 |
| EV / Revenue | 14.2x | 9.7x | 7.9x | 7.4x | 6.2x | 5.1x | 4.3x |

Source: Morgan Stanley Research. E = Morgan Stanley Research estimates

Exhibit 17

REA: P/FCF Analysis

| | | F2010 | F2011E | F2012E | F2013E | F2014E | F2015E | F2016E | F2017E | F2018E | F2019E |
|---|-------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBITDA | | | | | | | | | | | |
| Australia | A\$m | 92.2 | 114.5 | 134.4 | 153.6 | 173.7 | 195.1 | 214.8 | 231.1 | 243.6 | 252.7 |
| United Kingdom | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Italy | A\$m | -6.6 | -5.1 | -0.6 | 3.4 | 8.1 | 12.9 | 17.6 | 22.1 | 25.8 | 28.5 |
| Luxembourg | A\$m | 1.5 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.8 | 1.9 | 2.0 | 2.1 |
| Other Countries | A\$m | -0.8 | -0.3 | 0.2 | 0.5 | 0.6 | 0.7 | 0.8 | 1.0 | 1.1 | 1.2 |
| Unallocated | A\$m | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 |
| Total EBITDA | A\$m | 78.0 | 102.2 | 127.2 | 150.8 | 175.8 | 202.2 | 226.7 | 247.8 | 264.2 | 276.2 |
| Growth rate pcp | % | 76% | 31% | 24% | 19% | 17% | 15% | 12% | 9% | 7% | 5% |
| Income Tax Paid | A\$m | -22.6 | -30.3 | -35.4 | -43.4 | -50.7 | -57.5 | -64.8 | -71.0 | -75.6 | -79.3 |
| Operating Cashflow - After Tax | A\$m | 55.4 | 71.9 | 91.8 | 107.4 | 125.1 | 144.7 | 162.0 | 176.7 | 188.6 | 197.0 |
| INVESTMENT | | | | | | | | | | | |
| Change in working capital | A\$m | -1.5 | -6.7 | -3.9 | -3.7 | -3.9 | -4.1 | -3.9 | -3.4 | -2.7 | -2.1 |
| Total capital expenditure | A\$m | -4.2 | -4.9 | -5.7 | -6.6 | -7.5 | -11.7 | -21.8 | -28.8 | -36.4 | -44.9 |
| Other investments | A\$m | 2.445 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cashflow - After Tax, Before Financing | A\$m | 52.2 | 60.3 | 82.2 | 97.2 | 113.8 | 128.8 | 136.3 | 144.6 | 149.4 | 150.0 |
| Total capex as percentage of sales | % | 2% | 2% | 2% | 2% | 2% | 3% | 5% | 6% | 7% | 8% |
| FINANCING | | | | | | | | | | | |
| Cash Interest income | A\$m | 1.1 | 4.0 | 4.0 | 6.0 | 7.0 | 9.0 | 11.0 | 13.0 | 14.0 | 16.0 |
| Free Cash Flow Available For Ordinary REA Shareholders | A\$m | 53.3 | 64.3 | 86.2 | 103.2 | 120.8 | 137.8 | 147.3 | 157.6 | 163.4 | 166.0 |
| FCF / REA Share | | \$0.42 | \$0.50 | \$0.67 | \$0.81 | \$0.94 | \$1.08 | \$1.15 | \$1.23 | \$1.28 | \$1.30 |
| REA Current Share Price | | | \$11.95 | | | | | | | | |
| Less: Assessed Value of Investments | | | \$0.00 | | | | | | | | |
| Net REA Share Price | | | \$11.95 | | | | | | | | |
| Current Price FCF Multiple | x | 28.7x | 23.8x | 17.7x | 14.8x | 12.7x | 11.1x | 10.4x | 9.7x | 9.4x | 9.2x |
| REA Free Cash Flow Yield | % | 3% | 4% | 6% | 7% | 8% | 9% | 10% | 10% | 11% | 11% |

Source: Morgan Stanley Research estimates

Global Valuation Comparables

Exhibit 18

International Internet Media Valuation Comps – Consensus Estimates

| Sub-Sector / Company | Code | Home Country | Share Price (local currency) | Equity Market Cap (local currency) | Equity Market Cap (US\$) | EV/EBITDA 12m fwd | P/E Multiple 12m fwd | MS Ratings |
|---|----------|--------------|------------------------------|------------------------------------|--------------------------|-------------------|----------------------|--------------|
| Australia Internet | | | | | | | | |
| SEEK Limited | SEK-AU | Australia | 6.69 | 2,252 | 2,016 | 13.3x | 17.7x | Overweight |
| realestate.com.au (REA Group) | REA-AU | Australia | 12.00 | 1,556 | 1,393 | 13.1x | 21.0x | Overweight |
| Wotif.com Holdings Limited | WTF-AU | Australia | 4.31 | 909 | 814 | 9.4x | 15.7x | Overweight |
| Australia Internet - Average Multiples | | | | | | 11.9x | 18.1x | |
| Australia Internet - Median Multiples | | | | | | 13.1x | 17.7x | |
| United States Internet | | | | | | | | |
| Amazon.com | AMZN-US | US | 176.7 | 79,309 | 79,309 | 21.3x | 49.6x | Overweight |
| drugstore.com | DSCM-US | US | 1.93 | 205 | 205 | 7.8x | 67.4x | Not-Rated |
| eBay | EBAY-US | US | 30.91 | 40,299 | 40,299 | 8.8x | 16.0x | Overweight |
| Google | GOOG-US | US | 619.91 | 153,990 | 153,990 | 10.8x | 17.8x | Overweight |
| Monster Worldwide | MWW-US | US | 21.12 | 2,746 | 2,746 | 11.7x | na | Not Rated |
| Yahoo! | YHOO-US | US | 16.02 | 20,882 | 20,882 | 9.7x | 20.3x | Equal-Weight |
| Expedia Inc | EXPE-US | US | 25.76 | 6,478 | 6,478 | 5.7x | 12.8x | Equal-Weight |
| Orbitz Worldwide Inc. | OWW-US | US | 4.9 | 501 | 501 | 4.9x | 19.3x | Not-Rated |
| priceline.com Inc | PCLN-US | US | 428.86 | 21,055 | 21,055 | 16.0x | 23.9x | Equal-Weight |
| US Internet - Average Multiples | | | | | | 10.7x | 28.4x | |
| US Internet - Median Multiples | | | | | | 9.7x | 19.8x | |
| Asia Internet | | | | | | | | |
| 51job Inc | JOBS-US | China | 55.54 | 1,573 | 1,573 | 21.3x | 37.9x | Overweight |
| Baidu.com Inc | BIDU-US | China | 105.89 | 28,187 | 28,187 | 23.7x | 41.9x | Equal-Weight |
| Sina Corporation | SINA-US | China | 81.3 | 4,972 | 728 | 28.7x | 39.4x | Overweight |
| Sohu.com Inc | SOHU-US | China | 67.85 | 2,574 | 2,574 | 5.4x | 14.0x | Overweight |
| Tencent Holdings Ltd | 700-HK | Hong Kong | 199.1 | 365,626 | 53,509 | 19.0x | 27.5x | Overweight |
| Yahoo Japan | 4689 | Japan | 31950 | 1,857,846 | 20,622 | 8.8x | 18.5x | Overweight |
| JobStreet Corp | 0058-KLS | Malaysia | 2.9 | 923 | 270 | 15.1x | 20.0x | Not Rated |
| Asia Internet - Average Multiples | | | | | | 17.4x | 28.5x | |
| Asia Internet - Median Multiples | | | | | | 19.0x | 27.5x | |
| Europe Internet | | | | | | | | |
| SeLoger.com | SLG-FR | France | 37.84 | 630 | 860 | 11.3x | 20.3x | Equal-Weight |
| rightmove.co.uk | RMV-GB | UK | 8.00 | 898 | 1,412 | 13.5x | 18.7x | Not Rated |
| Europe Internet - Average Multiples | | | | | | 12.4x | 19.5x | |
| Europe Internet - Median Multiples | | | | | | 12.4x | 19.5x | |

Note 1: "NAV" means the stock is covered by Morgan Stanley but not rated

Note 2: "Not Covered" means the stock is not covered by Morgan Stanley

Note 3: Forecasts are consensus estimates for all companies

Source: Factset, Morgan Stanley Research

Financial Statements

Exhibit 19

REA: Income Statement (F2002-F2015E)

| | unit | F2002 | F2003 | F2004 | F2005 | F2006 | F2007 | F2008 | F2009 | F2010 | F2011E | F2012E | F2013E | F2014E | F2015E |
|---|--------------|-------------|-------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sales Revenue | | | | | | | | | | | | | | | |
| Australia | A\$m | 5.7 | 9.1 | 19.0 | 33.4 | 54.9 | 85.7 | 120.7 | 149.7 | 178.2 | 209.1 | 241.3 | 275.8 | 311.9 | 350.4 |
| United Kingdom | A\$m | | | | | 5.5 | 17.9 | 22.1 | 18.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Italy | A\$m | | | | | | 1.3 | 5.4 | 8.5 | 8.9 | 10.9 | 16.2 | 20.2 | 24.9 | 30.0 |
| Luxembourg | A\$m | | | | | | 1.2 | 3.5 | 4.3 | 4.6 | 5.0 | 5.4 | 5.7 | 5.9 | 6.2 |
| Other Countries | A\$m | | | | | | 1.1 | 3.9 | 5.3 | 2.6 | 3.4 | 4.1 | 4.5 | 4.7 | 5.0 |
| Total Sales Revenue | A\$m | 5.7 | 9.1 | 19.0 | 33.4 | 60.4 | 107.3 | 155.6 | 186.5 | 194.3 | 228.5 | 267.0 | 306.2 | 347.5 | 391.6 |
| Growth rate pcp | % | 48% | 61% | 108% | 76% | 81% | 78% | 45% | 20% | 4% | 18% | 17% | 15% | 13% | 13% |
| Operating Expenses | | | | | | | | | | | | | | | |
| Australia | A\$m | -6.7 | -8.4 | -16.3 | -27.0 | -33.8 | -46.4 | -58.8 | -66.2 | -86.0 | -94.6 | -106.9 | -122.2 | -138.2 | -155.2 |
| United Kingdom | A\$m | | | | | -8.4 | -26.1 | -32.1 | -36.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Italy | A\$m | | | | | | -1.2 | -8.2 | -12.2 | -15.5 | -16.0 | -16.8 | -16.8 | -16.8 | -17.1 |
| Luxembourg | A\$m | | | | | | -1.0 | -2.5 | -2.9 | -3.1 | -3.6 | -3.9 | -4.1 | -4.3 | -4.5 |
| Other Countries | A\$m | | | | | | -1.2 | -7.5 | -12.2 | -3.4 | -3.7 | -3.9 | -4.0 | -4.2 | -4.3 |
| Unallocated | A\$m | | | | | -3.2 | -7.7 | -9.8 | -12.0 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 |
| Total Operating Expenses | A\$m | -6.7 | -8.4 | -16.3 | -27.0 | -45.4 | -83.6 | -118.9 | -142.2 | -116.3 | -126.3 | -139.8 | -155.4 | -171.7 | -189.5 |
| Growth rate pcp | % | 0% | 25% | 94% | 66% | 68% | 84% | 42% | 20% | -18% | 9% | 11% | 11% | 10% | 10% |
| EBITDA | | | | | | | | | | | | | | | |
| Australia | A\$m | -1.1 | 0.8 | 2.7 | 6.4 | 21.1 | 39.3 | 61.9 | 83.5 | 92.206 | 114.5 | 134.4 | 153.6 | 173.7 | 195.1 |
| United Kingdom | A\$m | | | | | -3.0 | -8.2 | -10.1 | -18.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Italy | A\$m | | | | | | 0.1 | -2.8 | -3.7 | -6.637 | -5.1 | -0.6 | 3.4 | 8.1 | 12.9 |
| Luxembourg | A\$m | | | | | | 0.3 | 1.1 | 1.4 | 1.5 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 |
| Other Countries | A\$m | | | | | | -0.1 | -3.6 | -6.9 | -0.8 | -0.3 | 0.2 | 0.5 | 0.6 | 0.7 |
| Unallocated | A\$m | | | | | -3.2 | -7.7 | -9.8 | -12.0 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 |
| Total EBITDA | A\$m | -1.1 | 0.8 | 2.7 | 6.4 | 15.0 | 23.7 | 36.8 | 44.2 | 77.987 | 102.2 | 127.2 | 150.8 | 175.8 | 202.2 |
| Growth rate pcp | % | -63% | -170% | 263% | 134% | 134% | 59% | 55% | 20% | 76% | 31% | 24% | 19% | 17% | 15% |
| Depreciation & Amortisation | | | | | | | | | | | | | | | |
| | A\$m | -5.1 | -2.7 | -0.4 | -1.2 | -2.3 | -5.0 | -7.3 | -8.6 | -7.1 | -11.4 | -13.3 | -12.2 | -13.9 | -19.6 |
| Total EBIT | A\$m | -6.2 | -1.9 | 2.4 | 5.2 | 12.7 | 18.8 | 29.4 | 35.7 | 70.9 | 90.8 | 113.8 | 138.6 | 161.9 | 182.6 |
| Growth rate pcp | % | -1% | -69% | -221% | 122% | 142% | 48% | 57% | 21% | 99% | 28% | 25% | 22% | 17% | 13% |
| Interest Income | | | | | | | | | | | | | | | |
| Interest Income | A\$m | 0.0 | 0.1 | 0.1 | 0.2 | 0.5 | 0.7 | 0.8 | 0.6 | 2.0 | 4.0 | 4.0 | 6.0 | 7.0 | 9.0 |
| Interest Expense | A\$m | -0.1 | 0.0 | 0.0 | 0.0 | -0.9 | -0.7 | -0.9 | -0.3 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest | A\$m | 0.0 | 0.0 | 0.1 | 0.2 | -0.5 | -0.1 | -0.1 | 0.4 | 1.1 | 4.0 | 4.0 | 6.0 | 7.0 | 9.0 |
| Profit Before Tax | A\$m | -6.2 | -1.9 | 2.5 | 5.4 | 12.2 | 18.7 | 29.3 | 36.0 | 72.0 | 94.8 | 117.8 | 144.6 | 168.9 | 191.6 |
| Income Tax | A\$m | 0.0 | 0.0 | 0 | 2.4 | -3.9 | -7.5 | -13.3 | -16.2 | -22.6 | -30.3 | -35.4 | -43.4 | -50.7 | -57.5 |
| Profit After Tax | A\$m | -6.2 | -1.9 | 2.5 | 7.8 | 8.2 | 11.2 | 15.9 | 19.8 | 49.366 | 64.5 | 82.5 | 101.2 | 118.2 | 134.1 |
| Associates / JVs equity accounted | A\$m | 0.0 | 0.0 | 0 | 0.0 | 0.0 | -0.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | A\$m | 0.0 | 0.0 | 0 | 0.0 | 1.6 | 4.1 | 6.6 | 8.9 | 0.0 | 1.5 | 0.2 | -1.0 | -2.4 | -3.9 |
| NPAT (pre-NRIs, attributable to shareholder) | A\$m | -6.2 | -1.9 | 2.5 | 7.8 | 9.8 | 15.1 | 22.3 | 28.7 | 49.4 | 66.0 | 82.7 | 100.2 | 115.8 | 130.2 |
| Growth rate pcp | % | | -69% | -228% | 217% | 25% | 53% | 48% | 28% | 72% | 34% | 25% | 21% | 16% | 13% |
| Non-Recurring Items | A\$m | 0.2 | 0.3 | 0 | 0 | -1.6 | 0.0 | 0.0 | -13.5 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued Operations | A\$m | | | | | | | | -14.3 | | | | | | |
| Reported NPAT | A\$m | -6.0 | -1.6 | 2.5 | 7.8 | 8.2 | 15.1 | 22.3 | 1.0 | 50.6 | 66.0 | 82.7 | 100.2 | 115.8 | 130.2 |
| Growth rate pcp | % | -4% | -73% | -256% | 217% | 5% | 83% | 48% | -96% | 5220% | 30% | 25% | 21% | 16% | 13% |
| Weighted average no. of shares | | | | | | | | | | | | | | | |
| Weighted average no. of shares | millions | 90.9 | 92.3 | 96.7 | 106.9 | 113.8 | 127.3 | 127.3 | 127.3 | 128.1 | 128.1 | 128.1 | 128.1 | 128.1 | 128.1 |
| EPS - Reported (€) | cents | -6.6 | -1.7 | 2.6 | 7.3 | 7.2 | 11.8 | 17.6 | 0.7 | 39.5 | 51.5 | 64.5 | 78.2 | 90.4 | 101.7 |
| EPS - Pre-Non Recurring Items (€) | cents | -6.8 | -2.1 | 2.4 | 6.8 | 8.3 | 11.8 | 17.6 | 22.6 | 38.5 | 51.5 | 64.5 | 78.2 | 90.4 | 101.7 |
| Modelware EPS (pre NRI) | cents | -6.8 | -2.1 | 2.4 | 6.8 | 8.3 | 11.8 | 17.6 | 22.6 | 38.5 | 51.5 | 64.5 | 78.2 | 90.4 | 101.7 |
| DPS | | | | | | | | | | | | | | | |
| | | | | | | | | | 10.0 | 16.0 | 20.6 | 25.8 | 31.3 | 36.1 | 40.7 |

Source: Company Data, Morgan Stanley Research, (e)=Morgan Stanley Research estimates

Exhibit 20

REA: Cash Flow Statement (F2002-F2015E)

| | unit | F2002 | F2003 | F2004 | F2005 | F2006 | F2007 | F2008 | F2009 | F2010 | F2011E | F2012E | F2013E | F2014E | F2015E |
|--|-------------|-------------|------------|-------------|-------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Operating Activities | | | | | | | | | | | | | | | |
| Receipts from customers | A\$m | 5.9 | 9.7 | 19.7 | 36.1 | 63.8 | 112.7 | 163.5 | 205.4 | 211.5 | | | | | |
| Payments to suppliers & employees | A\$m | -6.1 | -8.7 | -15.3 | -29.5 | -53.0 | -88.7 | -130.8 | -157.4 | -127.1 | | | | | |
| EBITDA | A\$m | -0.2 | 1.0 | 4.4 | 6.6 | 10.9 | 24.1 | 32.7 | 48.0 | 84.5 | 102.2 | 127.2 | 150.8 | 175.8 | 202.2 |
| Working capital - change in acc receivable | A\$m | | | | | | | | | | 4.7 | 5.8 | 5.9 | 6.2 | 6.6 |
| Working capital - change in inventory | A\$m | | | | | | | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Working capital - change in accs payable | A\$m | | | | | | | | | | -2.0 | 1.9 | 2.2 | 2.3 | 2.5 |
| Total working capital (incr.)/decr. | A\$m | | | | | | | | | | -6.7 | -3.9 | -3.7 | -3.9 | -4.1 |
| | A\$m | | | | | | | | | | 95.5 | 123.3 | 147.1 | 171.9 | 198.0 |
| Net interest | A\$m | 0.0 | 0.0 | 0.1 | 0.2 | -0.1 | 0.2 | 0.0 | 0.4 | 1.7 | 4.0 | 4.0 | 6.0 | 7.0 | 9.0 |
| Interest received | A\$m | 0.0 | 0.1 | 0.1 | 0.2 | 0.5 | 0.7 | 0.8 | 0.6 | 1.7 | 4 | 4 | 6 | 7 | 9 |
| Interest paid | A\$m | -0.1 | 0.0 | 0.0 | 0.0 | -0.6 | -0.5 | -0.7 | -0.3 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Income taxes paid | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -3.2 | -16.9 | -16.5 | -25.2 | -30.3 | -35.4 | -43.4 | -50.7 | -57.5 |
| Total Operating Activities | A\$m | -0.2 | 1.0 | 4.5 | 6.8 | 10.8 | 21.1 | 15.9 | 31.8 | 60.9 | 69.2 | 92.0 | 109.7 | 128.2 | 149.6 |
| Growth on pcp | | | -726% | 337% | 50% | 59% | 96% | -25% | 100% | 92% | 14% | 33% | 19% | 17% | 17% |
| Investing Activities | | | | | | | | | | | | | | | |
| Purchase of property, plant & equipment | A\$m | -0.1 | -0.3 | -1.0 | -1.7 | -2.0 | -3.2 | -3.0 | -4.2 | -4.2 | -4.9 | -5.7 | -6.6 | -7.5 | -11.7 |
| Purchase of intangible assets | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | -0.5 | -2.3 | -2.7 | -1.0 | -9.1 | -10.7 | -12.5 | -14.4 | -16.3 | -18.4 |
| Proceeds from sale of PPE | A\$m | 0.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.1 | 0 | 0 | 0 | 0 | 0 |
| Disposal of shares in joint venture | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Loan to related party | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Repayment / (issuance) of loan from / (to) JV | A\$m | 0.0 | 0.0 | -3.0 | -0.1 | -0.1 | 0.4 | 0.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Investment in associate | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.6 | 0.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Acquisition of subsidiary, net of cash acquired | A\$m | 0.0 | 0.0 | -0.2 | 0.0 | -48.3 | -27.2 | -23.4 | -1.2 | 2.4 | 0 | 0 | 0 | 0 | 0 |
| Total Investing Activities | A\$m | 0.1 | 0.1 | -4.2 | -1.8 | -51.0 | -32.9 | -29.1 | -5.9 | -10.8 | -15.6 | -18.2 | -20.9 | -23.7 | -30.1 |
| Financing Activities | | | | | | | | | | | | | | | |
| Dividends paid | A\$m | | | | | | | 0.0 | 0 | -4.0 | -26.4 | -33.1 | -40.1 | -46.3 | -52.1 |
| Proceeds from issue of ordinary shares | A\$m | 0.0 | 0.0 | 0.1 | 0.1 | 27.2 | 0.0 | 0.0 | 0 | 2.2 | 0 | 0 | 0 | 0 | 0 |
| Payment of transaction costs on rights issue | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from issue of ordinary shares in subsidiary | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 17.5 | 6.0 | 13.8 | 7.6 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 1.4 | 3.1 | 0.0 | 0 | -0.9 | 0 | 0 | 0 | 0 | 0 |
| Payment of finance lease liabilities | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | -0.3 | -0.7 | -1.3 | -1.0 | -0.5 | 0 | 0 | 0 | 0 | 0 |
| Total Financing Activities | A\$m | 0.0 | 0.0 | 0.1 | 0.1 | 45.7 | 8.5 | 12.5 | 6.5 | -3.2 | -26.4 | -33.1 | -40.1 | -46.3 | -52.1 |
| Net change in cash | A\$m | -0.1 | 1.1 | 0.4 | 5.2 | 5.5 | -3.4 | -0.7 | 32.4 | 47.0 | 27.2 | 40.7 | 48.8 | 58.2 | 67.4 |
| Net foreign exchange difference | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | 0.3 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash & cash equivalents at beginning of period | A\$m | 1.2 | 1.1 | 2.2 | 2.6 | 7.7 | 13.2 | 9.8 | 8.9 | 41.6 | 88.6 | 115.7 | 156.4 | 205.2 | 263.3 |
| Cash & cash equivalents at end of period | A\$m | 1.1 | 2.2 | 2.6 | 7.7 | 13.2 | 9.8 | 8.9 | 41.6 | 88.6 | 115.7 | 156.4 | 205.2 | 263.3 | 330.7 |

Source: Company Data, Morgan Stanley Research, (e)=Morgan Stanley Research estimates

Exhibit 21

REA: Balance Sheet (F2002-F2015E)

| | unit | F2002 | F2003 | F2004 | F2005 | F2006 | F2007 | F2008 | F2009 | F2010 | F2011E | F2012E | F2013E | F2014E | F2015E |
|--|-------------|------------|------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Assets | | | | | | | | | | | | | | | |
| Cash & cash equivalents | A\$m | 1.1 | 2.2 | 2.6 | 7.7 | 13.2 | 9.8 | 8.9 | 41.6 | 88.2 | 115.7 | 156.4 | 205.2 | 263.3 | 330.7 |
| Trade & other receivables | A\$m | 0.8 | 1.5 | 3.2 | 4.9 | 10.4 | 20.4 | 27.8 | 27.9 | 29.4 | 34.2 | 39.9 | 45.8 | 51.9 | 58.5 |
| Other financial assets | A\$m | 2.7 | 0.4 | 0.2 | 0.4 | 1.1 | 2.0 | 3.0 | 10.7 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Total Current Assets | A\$m | 4.6 | 4.1 | 6.0 | 13.0 | 24.7 | 32.2 | 39.6 | 80.2 | 119.8 | 152.1 | 198.5 | 253.1 | 317.5 | 391.4 |
| Non-Current Assets | | | | | | | | | | | | | | | |
| Receivables from related parties | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments in associates | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments in subsidiaries | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, plant & equipment | A\$m | 0.3 | 0.4 | 1.0 | 1.9 | 3.5 | 4.8 | 5.1 | 5.5 | 5.8 | 3.9 | 1.6 | 2.0 | 2.5 | 2.5 |
| Deferred tax assets | A\$m | 0.0 | 0.0 | 0.0 | 2.4 | 1.9 | 1.7 | 1.6 | 2.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Intangible assets (excluding goodwill) | A\$m | 0.0 | 0.0 | 2.0 | 2.0 | 9.6 | 16.3 | 18.9 | 7.7 | 12.3 | 18.4 | 25.6 | 33.8 | 43.2 | 53.7 |
| Goodwill | A\$m | 0.0 | 0.0 | 7.2 | 6.8 | 54.3 | 78.5 | 93.2 | 47.3 | 43.0 | 43.0 | 43.0 | 43.0 | 43.0 | 43.0 |
| Other financial assets | A\$m | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Non-Current Assets | A\$m | 0.6 | 0.4 | 10.2 | 13.2 | 69.2 | 102.0 | 118.8 | 63.0 | 64.7 | 68.9 | 73.7 | 82.4 | 92.3 | 102.8 |
| TOTAL ASSETS | A\$m | 5.2 | 4.4 | 16.2 | 26.2 | 93.9 | 134.2 | 158.4 | 143.2 | 184.5 | 221.0 | 272.3 | 335.6 | 409.7 | 494.2 |
| Current Liabilities | | | | | | | | | | | | | | | |
| Payables | A\$m | 0.8 | 0.8 | 2.2 | 3.1 | 7.4 | 17.5 | 19.7 | 19.8 | 19.6 | 17.6 | 19.5 | 21.7 | 23.9 | 26.4 |
| Interest bearing loans and borrowings | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 | 6.2 | 1.2 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | A\$m | 0.3 | 0.2 | 0.3 | 0.5 | 1.0 | 1.6 | 2.3 | 2.4 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Current tax liabilities | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 3.5 | 8.4 | 6.2 | 10.1 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 |
| Other current liabilities | A\$m | 0.5 | 1.1 | 2.4 | 3.1 | 5.3 | 8.8 | 9.8 | 14.3 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 |
| Total Current Liabilities | A\$m | 1.6 | 2.1 | 4.9 | 6.8 | 19.1 | 42.5 | 39.2 | 47.1 | 43.5 | 41.5 | 43.4 | 45.6 | 47.8 | 50.3 |
| Non-Current Liabilities | | | | | | | | | | | | | | | |
| Payables to related parties | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest bearing loans and borrowings | A\$m | 0.8 | 0.8 | 0.0 | 0.0 | 0.8 | 1.6 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred tax liabilities | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 2.6 | 3.8 | 3.4 | 1.7 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Provisions | A\$m | 0.0 | 0.0 | 0.1 | 0.2 | 0.3 | 0.5 | 0.7 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total Non-Current Liabilities | A\$m | 0.8 | 0.8 | 0.1 | 0.2 | 3.7 | 6.7 | 4.4 | 2.6 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| TOTAL LIABILITIES | A\$m | 2.3 | 2.9 | 5.0 | 7.0 | 22.8 | 49.1 | 43.6 | 49.7 | 45.6 | 43.6 | 45.5 | 47.7 | 50.0 | 52.5 |
| NET ASSETS | A\$m | 2.9 | 1.5 | 11.2 | 19.1 | 71.1 | 85.1 | 114.8 | 93.5 | 138.9 | 177.3 | 226.7 | 287.9 | 359.8 | 441.8 |
| Contributed equity | A\$m | 21.5 | 21.7 | 28.8 | 29.0 | 56.0 | 56.0 | 56.0 | 56.0 | 64.7 | 64.7 | 64.7 | 64.7 | 64.7 | 64.7 |
| Foreign currency translation reserves | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | -1.2 | -4.6 | -0.3 | -5.7 | -5.7 | -5.7 | -5.7 | -5.7 | -5.7 |
| Other reserves | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -1.7 | 0.6 | 0.0 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Retained earnings / (accumulated losses) | A\$m | -18.6 | -20.1 | -17.7 | -9.8 | -1.9 | 13.1 | 35.5 | 36.4 | 74.4 | 113.9 | 163.5 | 223.6 | 293.1 | 371.2 |
| Parent interests | A\$m | 2.9 | 1.5 | 11.2 | 19.1 | 54.8 | 66.2 | 87.4 | 92.1 | 134.6 | 174.2 | 223.8 | 283.9 | 353.3 | 431.5 |
| Minority interests | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 16.4 | 18.8 | 27.4 | 1.4 | 4.2 | 2.7 | 2.5 | 3.6 | 6.0 | 9.9 |
| TOTAL SHAREHOLDERS EQUITY | A\$m | 2.9 | 1.5 | 11.2 | 19.1 | 71.2 | 85.1 | 114.8 | 93.5 | 138.9 | 176.9 | 226.3 | 287.5 | 359.4 | 441.4 |

Source: Company Data, Morgan Stanley Research, (e)=Morgan Stanley Research estimates



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|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
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|---|-----------------|---------------------|
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| carsales.com Limited (CRZ.AX) | E- (10/15/2010) | A\$4.94 |
| Andrew McLeod | | |
| APN News & Media Ltd. (APN.AX) | U (01/27/2009) | A\$1.78 |
| Austar United Communications Ltd (AUN.AX) | U (02/25/2010) | A\$1 |
| Austereo Limited (AEO.AX) | O (08/28/2007) | A\$1.95 |
| Fairfax Media (FXJ.AX) | O (07/14/2006) | A\$1.4 |
| REA Group Limited (REA.AX) | O (01/26/2011) | A\$12 |
| SEEK Limited (SEK.AX) | O (05/20/2009) | A\$6.69 |
| Seven Group Holdings Limited (SVW.AX) | U (02/27/2008) | A\$8.99 |
| Ten Network Holdings (TEN.AX) | O (08/05/2009) | A\$1.44 |
| West Australian Newspapers (WAN.AX) | U (10/07/2005) | A\$6.26 |

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.