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2022 half year results call transcript

Frontier Digital Ventures Limited ("FDV" or the "Company") is pleased to release an edited transcript from its 2022 half year results briefing held at 12:00pm AEST on 24 August 2022.

The full recording of the results briefing is available on the FDV website:

https://frontierdv.com/investor-centre/videos-3/

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Operator: Thank you for standing by and welcome to the Frontier Digital Ventures half year results briefing. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question via the phone, you'll need to press the star key followed by the number one on your telephone keypad. If you wish to ask a question via the webcast, please type it into the 'Ask a Question' box and click submit. I would now like to hand the conference over to Shaun Di Gregorio, Founder and CEO. Please go ahead.

Shaun Di Gregorio: Welcome everyone to our half year results presentation. Glad you can join us. I'm going to walk you through not a great number of slides, but what we think are the pertinent ones in terms of our results for the half year and some highlights from our quarterly, which came out at the end of July, sort of with a preview of our half year anyway.

Slide 2

Most of you who follow FDV will already have a sense of where we're at financially, but the half year gives us another opportunity to update on our progress, some of the milestones, and to dig a little deeper into how we've achieved those milestones. It is also an opportunity to look ahead, in the current environment where things have been rapidly changing and our businesses have enjoyed the benefit of being quite agile and nimble.

All of our portfolio companies are effectively locally run, so their ability to adjust and reflect the environments in which they operate is a feature of their businesses. We're able to adjust each of the settings in our businesses really rapidly as things change around us. Our businesses have a couple of characteristics which we think are really important as we head into the rest of this year and next. This includes market leadership, which is ever more critical at the moment, and that it has become more difficult for our competitors given interest rates increasing and volatility in the market. We have strong core businesses, which are essentially built around the classifieds model with an ability to help facilitate transactions as a value creating product or service to our clients above and beyond that. We've also worked really hard to get our businesses to cash flow breakeven and into profitability, which we think gives them a really strong platform as we head into the next 18 months.

As we walk through some of our key results, we talk about our company with three regions, which is LATAM, Asia and MENA. LATAM includes all the businesses we have across South America, extending from Panama right down to Chile. Asia covers from as far west as Pakistan across to the Philippines and MENA is really focused on a few key markets in North Africa – a part of the world where we think that there is significantly more potential. You can see the relative revenue run rates based on the half year, so good progress in each of those key three geographic areas. Both operationally and strategically, how we think about the business is very much anchored around these three key regions.

Less than a year ago, we had a sway of companies right across our portfolio. We operationally always had a view that we wanted to get a geographic entity wrapped around each of those. It's very much key to how we operate them day to day and you'll hear us talk more and more about LATAM, Asia and MENA versus just FDV. So, that's just repeating a bit of the narrative that we've introduced to FDV over the last six months.

Slide 4

When you look at our key highlights from our statutory results, you can see some important milestones that we've been able to achieve in this first half year. First and foremost, and close to the heart of many investors is our ability to get back to cash flow breakeven which we did in Q2. If you look at the way we have operated our businesses historically, our ability to find new opportunities to acquire businesses, to improve their operational performance and then get the sum of the parts business back to cash flow breakeven is a feature of what we do, and I'll talk to that in a moment. Our portfolio continues to be profitable at a portfolio level and again, it's something we've been very conscious of achieving. Most, if not all of our businesses are basically breakeven or profitable now.

Our half year revenue was really strong. Keep in mind when we listed, our full year revenue was something less than A$4m. We are now A$42m for the half year, double that and add some for the full year and you can get a sense of how much we've grown since we listed in 2016.

Just to touch on Asia for a moment, we have two equity accounted businesses there. When we talk about our cash flow breakeven, that actually excludes the businesses in Pakistan, which are both cash flow breakeven and Zameen significantly so. Adding those equity accounted businesses back means we're not only cash flow breakeven, we are cash flow positive.

We have a good cash balance and as I mentioned, a strong feature of our businesses is the strong classifieds core each company holds, we have worked extremely hard to maintain these core businesses. That's the definition of market leadership, which is really important to us, alongside our ability to look for opportunities around helping more sellers and buyers facilitate more of the transaction.

Key for us is ensuring that the classifieds businesses stay really strong and we think that sets us apart at the moment. Many of our competitors, perhaps they're doing classifieds only which is fine, but they probably lack the strategy to get growth and revenues from transactions. Some of our competitors out there, particularly the last couple of years when capital was free, went straight to trying to do transactions, which we thought was always a bit of a folly, but they're the businesses that are sort of struggling at the moment. So, we think that the core classifieds strength is really important.

Slide 5

This is an important chart for us. It talks to our journey and how that's reflected in our cash flow. We normally start out with a bunch of businesses we work really hard at improving and then get to cash flow breakeven. We then use that moment to look for new opportunities, which we've done. You can see that pattern sort of repeating itself, and we're now back to cash flow breakeven, and this is just on a consolidated basis. It excludes Zameen and PakWheels which are two of our bigger businesses, we just happen to equity account for those, with both of those businesses being significantly cash flow positive. If you were to add those in, of course, the sum of the parts at an FDV level, would obviously be cash flow positive. This is something we recognise as really important, something that we are very conscious of managing and something that I think we've proven over the journey – that we can deliver on and will continue to drive our business toward cash flow positive, which we think in the current environment makes a lot of sense.

If you look back at the evolution of our business, where we've invested in businesses at really early stages, in a lot of instances they have required cash investment to improve their operability. Looking at the acquisitions we've made over the past 18 months, some of those have needed cash to help operate them, but over the journey we've managed to improve the operation of those businesses and helped get them back to cash flow positive again. This is a significant milestone for the business.

Slide 6

Looking at the operation of the portfolio, we've managed to take a bunch of businesses and get them to breakeven. We had COVID halt that progress ever so slightly, but we're now getting back into consistent breakeven profitability at an EBITDA level. We do passionately believe there is significant growth in these businesses to come, but we want to do that sustainably. That means making sure you're operating at around cash flow breakeven, continuing to achieve profitability in each portfolio company, while still focusing on the opportunity around us in emerging markets, particularly as these classifieds businesses do more and more around the transaction and broaden their market appeal to their buyers and sellers.

So, it's just getting the balance right between ensuring that we get to cash flow breakeven, which we've done, and ensuring that we're able to operate the portfolio profitably, which we're able to, while maintaining focused on the significant growth opportunities available to us in emerging markets and the value that we can create by pursuing those growth opportunities.

We are super aware of the fact that our reputation over the years has been built on our ability to do what we say we're going to do and being a trusted investor on behalf of our shareholders, and this goes to that idea of sustainable, profitable growth. But we are still a growth business, we're able to demonstrate that we can do that by managing cash really well and getting our portfolio companies through to breakeven and profitability. I think that's been a feature of how we think about this year and how we'll continue to think about future years – it's starting to see these businesses become profitable but also being able to pursue growth opportunities in each market at the same time.

Slide 7

If you look through the portfolio, you can see that the EBITDA performance in the businesses has improved for all but a few exceptions. When we bought Avito, it had lost A$3m in the previous year, but we reduced that loss significantly while also improving the revenue profile. We're working really hard to get Yapo on track. We invested a bit in Yapo in the first half of the year, they released a new website which we wanted to promote in the market. We relaunched their brand and a whole range of things to get that business in much better shape to grow in the future. But as you can see with most of the businesses, we're really making good, solid progress in getting them through to profitability. And that is, again, something that we've been very focused on over the last few years.

Slide 8

It goes without saying that we still see ourselves as a growth business, but we want to be a growth business that can do so sustainably and that's probably another feature of this chart, which just goes back to our listing year.

If you go back to 2016, you can see the number that I was referring to on the right side of the chart there, which is the economic share revenue. We're now up to almost 15 times that number, or thereabouts. So, we're seeing really good growth profile on the revenue side and now starting to focus on marrying that good, strong revenue growth profile with our ability to do it sustainably, to be cash flow positive and profitable as well. All of these charts are pointing in the direction we want them to point. We're really pleased with that outcome, but we also recognise there's a significant opportunity for us ahead in the next couple of years.

Slide 9

In terms of our statutory results, what we focus on is our group operating EBITDA. This is the best reflection of our financial performance that captures what we account for in a controlled or consolidated sense and obviously, also includes our share of the equity accounted businesses – giving you our group operating EBITDA which now maps pretty close to our cash.

It is no small coincidence that our cash flow is most closely mapped to this group operating EBITDA. This includes all of our corporate costs, all of our costs across the company. So, prima facie, we look at our portfolio performance and then, from a group perspective, look at this group operating EBITDA number that has gone from a loss of A$3m to breakeven, which we think is a pretty good achievement, half on half. You can expect us to continue that trend in the second half of the year, which would obviously make us profitable on a full year basis.

The non-cash items below the line are the ones that sort of skew our P&L, some depreciation when we acquired E24 as an asset. So, we're still in the process of depreciating that asset and some accounting treatments, the intercompany loans, and things like that. There are a whole lot of non-cash items that sit below the line, but the most indicative and important number for us is the group operating EBITDA margin, which captures the performance of the businesses and obviously all our group costs.

So that's now basically breakeven and we think that's a pretty good achievement in the current environment. As I just mentioned, we will continue to look at that trend in the second half of our calendar year and we're committed to being profitable in 2022 – that number is a pretty strong indicator of our ability to achieve that this year.

Slide 11

Just from a portfolio perspective, some of the really important components of our business, certainly in the past, even more so now and arguably even more important in the future, is our market positions. If you think about the performance of classifieds businesses, they're always strongly correlated to the market position that the portal has, or the brand has. That is ever more so important in emerging markets where you don't have as many competitors as you might in a developed country. You get a premium for market leadership in emerging markets.

We also know that our ability to build out a really strong classifieds business as a profitable classifieds business correlates highly to market position. It gives you the platform to do more in each of the markets by providing more products and services to sellers and better search experience for buyers. That helps you then generate revenues in terms of facilitating transactions. All of our businesses are now helping to facilitate transactions, which is a really important part of our growth.

Ever more now, we're seeing competitors who have relied on free money over the last couple of years, start to struggle. We're starting to see some of the competitors that came into the market over the last couple of years, funded by VCs that had to do something with their money, try to execute business models that were probably marginal at the best of times, really start to struggle.

So, we think that the next 6, 12, 18 months is a really opportune time for market leaders to improve their market position even further and that goes to trust, it goes to their ability to introduce more products to their consumers and sellers, but it also just goes to the fact that it's going to get a lot harder for competitors over the next 18 months than it is for incumbents. Incumbents have got a real advantage in the markets at the moment as a lot of those competitors start to feel the stress of finding funding if they're not profitable or trying to execute a business model that might be marginal. That held up well over the past few years, because funding was always available, but what we know now is that funding is not available and the strength of being a market leader, of being an incumbent, of having a strong core business is going to be ever more important over the next 18 or so months.

Slide 12

Just to give you some headline numbers and it's always interesting to look at these because you start to appreciate the size of the businesses that have been built and the opportunity that exists in these markets. I guess, just some really big numbers in any given period of time, so I won't stop on them, but when you're talking sessions in the hundreds of millions and leads in the tens of millions, we see an extraordinary opportunity to continue to generate value in these businesses.

We think that we're much closer to the beginning than at the end. But where we've got to already, which is a good, strong growth profile, now doing it on a cash flow sort of sustainable basis, getting to profitability. We think that we've done a lot of hard work to get our businesses to now and starting to see them scale up and really make the most of their market leadership, their incumbency in markets where there's significant audiences that are searching and discovering houses and cars online and continuing to want to, not only search and discover, but continuing to want to do more of the transaction online.

Slide 13

We look at the transaction volumes as well. This just strips out property and cars in our portals, you can see that the momentum continues to build. This will ebb and flow a little bit just as markets ebb and flow and we figure out the models in different markets, but we're really starting to see some strong growth in houses and cars. We know that if you get that right, it's a wonderful way to add value and revenues and profit to your core business.

Slide 14

As I've said a few times already, really important that the core businesses remain strong and profitable. That's what gives you the ability to go do more in the markets, and you do that if you're a market leader, you do that if your consumers trust you, you do that if your sellers have a dependency on you.

The other feature we're starting to see at the moment as the markets get more interesting is that sellers become more dependent on these platforms. So, if you think about people out there trying to sell houses and cars, if they see that there's fewer buyers in the market because maybe the cost of money has gone up, interest rates are a bit higher, they've got to double down on their ability to sell their product. They've got to try harder, which means that they defer to the channels that deliver for them, and the primary channel that car dealers, property agents and developers have is the market leading portals in their respective markets.

So, what I've learned from my days at REA or iProperty, or being involved in iCar, is that whenever the market gets a bit harder, sellers depend on us more. We're starting to see that trend occur again now. When you think about all of the factors you want to have in place as we move forward over the next 18 to 24 months, it's being a market leader, it's being a strong number one, it's being cash flow positive, it's being profitable, and it's operating in markets where you've got high trust from consumers but you've got an increased dependence from your sellers as they've got to work a bit harder to sell their houses and cars.

So, our strategy is really, really clear. We've observed over time a shift in consumer behaviour that's arguably accelerated through COVID, but not to anyone's great surprise. We have this portfolio of companies now designated in three key geographic areas, which are now more than ever highly active as intermediaries in these markets for all of the reasons I've just mentioned. We know that there's a tonne of value to be created by making sure we have the core classifieds business profitable and then adding transaction revenues over time, which will underpin cash flow positive and profitability and the value in these businesses. We also know that that opportunity remains really, really significant.

What I'd add to this slide is that with the volatility we're seeing in markets, many of those macro factors play to the advantage of a market leading incumbent who has trust from consumers and has dependency from sellers. We've seen that play out when I was at REA back in 2007-2009, or iProperty in 2013-2014, so all of these factors, we've seen before and we see the opportunity that exists in these environments and we're pretty excited about the next 18 months.

Slide 15

So I think about how that plays out for our companies and what that might mean in terms of liquidity events or monetization, because we always get asked this question, if you think about bottom left to top right on this slide, it's a very clear path that these businesses follow and we tend to invest in a lot of them when they're in the bottom left hand corner, and we work really hard to walk them through the stages of their evolution and the value that can be created as they start to evolve their businesses. You can see some really good examples of businesses that are following that curve in our portfolio, and you could plot all of our portfolio along that curve at varying points.

But we know that, as I said, we're probably closer to the beginning than the end, but we're starting to see some graduates of this program if you like. We know the Zameen story. People are now much more aware of the InfoCasas story. We're seeing other businesses like Avito and Fincaraíz in different parts of the world start to progress along this curve as well and we recognise also that there's the ability to create value around these entities, and that's a big reason why we went down the geographic path with LATAM, Asia and MENA.

We think that by putting a little boundary around each of the geographies, we're effectively creating three mini FDVs. This is where the revenues in any one of those three geographies is, including the smallest one being MENA, already double the revenue we had as a total when we listed. So, our smallest geography is twice the size that FDV was when we listed. We think there's a lot of value in each of those key geographies.

The key driver of the value is our ability to walk these businesses up that strategic curve, and we know that when we get there, the opportunity for liquidity, the opportunity for shareholder returns, the opportunity for creating value around those entities is really obvious to us. So, we don't sit around and think about that last box on the right side there. We see those as outcomes if you get everything on the left side to the right, and that's what we're most focused on.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you wish to ask a question via the webcast, please type it into the “ask a question” box and click submit. Your first question comes from Richard Coles from Morgan's. Please go ahead.

Richard Coles: Thanks, Shaun, and congratulations on the result. Just wondering, I know a sort of target level for portfolio revenue this year was around the A$100m mark, which would require an obviously solid second half performance. Are you still comfortable with that target, or how do you see the rest of the year developing after your first half?

Shaun Di Gregorio: The hundred was our big audacious goal. I think we'll get close. I think it's fair to say very early this year when we saw conditions changing, we did take a much more aggressive focus on getting to cash flow breakeven and profitability. So, we're probably okay to have a slightly more moderate growth rate if we can ensure that what underpins our business, which is sustainable cash position and profitability are on track and arguably, we've worked hard to probably bring those two things forward and we're probably okay, whether it's something in the nineties or a hundred, I think we're okay on that front. We're really keen to ensure that there are really solid drivers of the business, which is making sure we have a sustainable cash position and making sure that our businesses are paying for themselves whilst remaining pretty focused on growth.

So whether it's 90, 95 or a hundred, I'm not going to tell you the number, but what I can tell you is that the things that'll drive the business, that underpin that growth, are stronger now than they were when we started out this year and we probably brought that strength forward a number of months in order to make sure that our business remains absolutely rock solid over the next 18 months. So, we're just trying to balance those things, which I think a lot of companies are trying to do at the moment. We're trying to achieve both, which is continuing to focus on revenue growth but making sure that what underpins or underwrites business, being cashflow and profitability, are there as well.

Richard Coles: And just a second one, Shaun. You've obviously seen some really good leverage come through Zameen, doing EBITDA margins of 18 to 19% over the last two halves. Just wondering, is there anything near term that will slow that business, seeing that EBITDA margin expand more materially here given it's at scale, or is there any investment we need to be thinking about given how strong the recent margins were? But are we going to flatline where we are for a while, or do you expect you to take the next steps towards becoming a more mature business without any obstacles of note?

Shaun Di Gregorio: One theme that we have internally is continued improvement and doing better than your last quarter or half. So, to that end, our ambition for Zameen is that it follows that idea as well. People have been asking about Zameen and Pakistan for almost 10 years now, and everyone keeps expecting something negative to happen and good things continue to come out of both businesses. They’re really robust businesses. They've been in the market a long time. They're really dominant, particularly Zameen, so we'd expect it to continue its trajectory and feel pretty confident it'll do so.

Richard Coles: Thanks very much, Shaun.

Operator: Thank you. Your next question comes via the webcast from Roger Colman who asks, on the 10,666 transactions, could you describe the gross revenues per transaction between auto and real estate and the margins on transactions, and the characteristics of the commission charged for a transaction and the cost of the service leading to the net EBITDA margin on a transaction? Are transactions potentially material in future years?

Shaun Di Gregorio: Well, how long we got? I can start with the last... I'll finish at the end and say yes, that it will absolutely be a material part of the business over the journey.

The part about transacting vehicles is varied, depending on where you are. In some markets, it's a focus on new cars and some markets it's focused on used cars. That is sort of determined somewhat by what's going on around us. No one thought two years ago that used cars would go up in price. In a lot of our markets used cars had gone up in price, because they've not been able to get imports and that part of the market is becoming pretty valuable. We've always had a view that your market strength in cars is determined by your ability to own the used car market, because that's where all the volume is and then, a lot of the value in the car market is in the new car market, because that's where a lot of the spending is from manufacturers.

So, our strategy has been to make sure we've got a really good used car business, because that gives you your ecosystem, it gives you the large volume of users, it gives you a large volume of sellers. Then to overlay into that, the new car opportunity. In our view, it's always been a bit easier to tinker with transactions in new cars, because you're dealing with a more generic product at a price point with professional sellers. That’s what businesses like AutoDeal have focused on it's what other businesses like PakWheels have tinkered with.

But ever more so, where the last few years have been fascinating, because it's kind of turned it on its head a bit where there's been no new cars in a lot of markets, so the used car markets become more important. There are lots of models that are available there, you can allow your private sellers to auction their car, or their used car to a dealer network dealer. Dealer network's number one issue is supply, so that's been an interesting way to have people who are coming to your website with a car to sell while they look for another one, and be able to auction that effectively to your dealer network. There’s the chaperone model, there's the iBuyer model, where you go out and buy people's cars, we don't do that. The margins vary, but we certainly think that'll be an important part of the mix in auto in the years to come.

In property, a little bit different again, where the transaction models been more about new property and again, for the similar reasons as it is in auto, you're dealing with a generic product where you might have a set of apartments, you're doing it at a price point, you're doing it with professional sellers. That's always been the sweet spot in property. But similarly with cars, you've built your ability to roll that model out by having really strong secondary market business and that's all that the suburban real estate agents assisting millions of people a month who come to look at existing housing.

The model is always about trying to do stuff up to the transaction and in some cases the entire transaction. But similarly with auto, when we talk about transactions, we’re not simply saying we must control the end transaction. What we’re saying is, there’s a whole lot you can do up to the transaction and in some cases, you can do the last bit of the transaction. But that the margins are generally pretty good, depending on where you are.

The market size is enormous, and we see it as a really significant part of the value that these property portals can create. Their core businesses which are classifieds, are profitable. They then have the ability to leverage that trust they’ve built in their different operating markets to go work with, primarily property developers and in some markets, the secondary markets, on getting more out of the transaction.

It is absolutely going to be an important part of the future mix. The unit economics for houses or cars, when you go beyond classifieds and inter-transactions, continue to get better, because the ability to figure it out continues to evolve and that means identifying a part of the market which you can operate in profitably.

For example, the guys at InfoCasas, they have a really good, classifieds business. They started to help some of their property developer customers with transactions of new properties. They zeroed in on a particular type of property that works well for them and it is typically apartment blocks, they're five to eight levels in height, they have 30 to 40 apartments. They're somewhere between 800 to 1,500 square feet in size, they're two bedroom, they're one bathroom and they're within a decent radius of the city and transport. So, they work with a limited number of developers who do projects just like that and that's their sweet spot, where they can absolutely help that developer sell those apartments more rapidly, obviously at greater, better of price ideally and faster than they otherwise would and that's the part of the market they go after.

When you figure out the part of the market that works for you, you figure out the unit economics of it and you go after it really hard, the ability for that to add value to your businesses is enormous over time. So, that's a really deep question, Roger. I hope that gives you a substantive enough answer given the platform which we're doing it on.

Operator: Thank you. There are no further questions at this time. I'll now hand back for closing remarks.

Shaun Di Gregorio: Once again, just like thank everyone for dialing in. We're pretty pleased with the half year, we've worked really hard to get there and we think that we've built the right platform to see us through the next sort of 18 to 24 months in a really strong position. So, cash flow breakeven, profitability, market leading businesses. We know we're in a really strong spot, so we're pretty excited about the next 18 to 24 months and look forward to talking to everyone again soon.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

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This announcement is authorised for release by the Board of Directors of Frontier Digital Ventures Limited.

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About FDV
Frontier Digital Ventures (FDV) is a leading owner and operator of online marketplace businesses in fast growing emerging markets. Currently, FDV's portfolio consists of 16 market leading companies, operating across 20 markets in FDV LATAM, FDV Asia and FDV MENA. FDV works alongside local management teams across property, automotive and general classifieds, providing strategic oversight and operational guidance which leverages FDV's deep classifieds experience and proven track record. FDV seeks to unlock further monetisation opportunities beyond the typical classifieds revenue, to grow the equity value of its operating companies and realise their full potential. Find out more at frontierdv.com.