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2022 full year results conference call transcript

Frontier Digital Ventures Limited ("FDV" or the "Company") is pleased to release an edited transcript from its 2022 full year results briefing held at 12pm AEDT on 28 February 2023.

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

<https://frontierdv.com/corporate-presentations/>

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Operator: Thank you for standing by and welcome to the Frontier Digital Ventures FY22 full year results briefing. There will be a presentation followed by a question-and-answer session. If you have a question, please type it to the host using the chat function. I'd now like to hand the conference over to Shaun Di Gregorio, Founder and CEO. Please go ahead.

Shaun Di Gregorio: Good afternoon and thanks for joining our full year results call. We posted the results this morning, along with this deck that I'll walk you through over the next 20 to 30 minutes. We recently released our quarterly update which included most of the financial information for the preceding period, which in this case, covered the full year. Today's release is a more complete report of the full year results.

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In terms of what will be covered, we'll go through the statutory results, have a look at the financials and more importantly, remind people of the strategy that underlies the business. To give those who might be newer to the story some background, our group is structured across three key geographies – FDV LATAM, FDV Asia and FDV MENA. FDV LATAM is now the largest business for us and is making up 55% of our revenue. The LATAM region has four market-leading brands, and I'll give some more information about how we're progressing in that part of the world shortly. FDV Asia holds a basket of brands and FDV MENA, which is the smallest, is still an important part of the group and one that we're doing a bit of work on at the moment.

Here you can see the relative share of revenue and portfolio EBITDA. A core function of all of these brands is the focus on market leadership, which is critical when you're running an online classifieds business, as it helps to leverage the economic opportunity that exists across our markets.

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When we look into the results, we'll start with some key highlights. We've had an improved EBITDA result, which has been great. All the individual geographies have improved EBITDA over the year. We continue to focus on sustainable growth and, of course, getting through to our maiden positive group operating EBITDA was a significant achievement for FDV.

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At an operating level, when we look at our three key geographies, we recorded positive EBITDA of A\$6.5m, underpinned by some significant improvements across all geographies. The portfolio EBITDA margin is also something we're focused on continuing to grow, and we've managed to do that. We've hit full year economic share revenue of A\$82.0m. Our balance sheet continues to be very healthy, and we're very focused on our operating cash flows in all three regions. In H2 2022, we were able to reach an operating cash flow positive level for all of our operating regions, excluding one-off restructuring expenses.

As 2022 unfolded, the world changed quickly. We recognized this and took some significant steps to ensure our businesses were as efficient as they could possibly be while still focusing on top line growth. It's a tricky balance to get right, but we feel that we've got a good handle on making sure we continue to focus on growth, while also focusing on getting the businesses to be profitable at a group level to see the EBITDA improvement. 2022 was an extremely busy year that finished very differently to how it started in a macro sense. Our company entered 2022 in a strong position and finished it in an even stronger position given the operating performance we achieved.

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When we look at portfolio EBITDA, which is the sum of LATAM, Asia and MENA, you can see that over time we have gradually improved, which we said we were focused on for some time. We've managed to continue that trajectory and have had some standout performances. This year we saw a significant improvement in MENA at an EBITDA level and particularly in Avito.

By way of example, when we acquired Avito a couple of years ago, it had lost close to A\$3m, but is now profitable in 2022. At a headline level, we managed to improve all the regions we're in. Most of the businesses improved on an EBITDA basis. Although we're still focused very strongly on top line growth, one of the opportunities for companies at the moment is getting the mix right between top line growth and demonstrating that your business model works and that you can deliver profitability. I think it was a very difficult needle to thread in the latter half of last year, but it puts us in a strong position as we head into 2023.

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Looking at the EBITDA margin, it's something we're focused on pretty acutely over time. 11 of our 15 companies improved their EBITDA, which was a pretty good result given the trading conditions that we faced, this is a chart that we continue to focus on. It's the challenge now for a lot of companies to focus on both top line growth and executing your strategy as efficiently as possible. We're seeing our companies really focus on getting that balance right, and I think many of them certainly have.

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When you look at the EBITDA breakdown just over 2022, there are some standout performances. The good thing for us is that all our regions improved, and all but a few of our individual companies improved. Whilst we're very much a growth company, we've got to be able to demonstrate that our strategy works. We've got to be able to demonstrate that our business model works by running companies that are profitable and that's what all regions and most of our companies have achieved.

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When you look at just top line growth, the charts speak for themselves. You can see that COVID put a hand brake on growth, but we've recovered pretty strongly and have continued to grow into 2022.

It's interesting when you look at the performance of individual regions that we now have. LATAM on an economic share basis, which is the chart on the right-hand side, had revenues of A\$45m. That's almost twice the size of the whole group revenue a couple of years ago. If you look back to 2020, our LATAM business alone currently is around twice the size of the entire group. We think we've got a lot of things right as we've come out of the COVID period and entered a very different environment that preceded it. But if you get your settings right, if your strategy is right, you can continue to run good businesses. When looking at both LATAM and Asia, they're both significantly bigger than the entire FDV group was 18 months to 2 years ago. Sustainable growth means you want to be profitable. We think we're getting that mix right.

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When you look at the revenue breakdown, the 100% view is getting closer and closer to our economic share view. In LATAM, we own 100% of all the companies there so revenue mirrors the economic share. In Asia, we don't own 100% of all the companies there, so the 100% view varies from the economic share view. In MENA, we own almost 100% of the companies now, so that mirrors the economic share view also. Over time we hope to have the two views mirror one another.

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Our statutory results are a bit complicated by way of how our group is structured, so we do go to some lengths to help readers understand it. At an operating level, you can see our revenues of all consolidated companies. At a group operating EBITDA level, you see our consolidated entities and our share of the equity accounted entities. For the first time, we've managed to achieve a positive EBITDA at that important group operating level.

Below the line there are significant D&A charges which relate to the amortization of assets purchased a few years ago, but these will expire over the next 12 to 18 months. There are also some contingency payments and some FX movements we're working to minimize, which again are below the line. The important line is group operating EBITDA, which for the first time, we've managed to achieve a positive operating EBITDA.

When we look at the operating view, we're very focused on the company portfolio performance. But we're also very clear about wanting to get portfolio performance closer to the statutory view which includes our central group costs.

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One of the most important geographies for us now is LATAM. It's the most evolved of our 3 regions so it's the best way to get a look at how our strategy will unfold more generally.

In LATAM, we own 100% of the businesses we operate. We've recently put in place a strong local management team. Our ambition was always to get from minority stakes to 100% and then construct a business that could run itself. LATAM has a strong strategy that is based around its core classifieds

businesses, but it is then able to augment that with the ability to help consumers through to the point of transaction. There's a lot of excitement and ambition around this region for us, particularly with the new management team coming in.

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In 2022 LATAM was, in terms of revenues, twice the size of the entire FDV business about 18 months to 2 years ago which is very exciting. Just to remind people of the businesses that are in the region, InfoCasas, Fincaraíz, Encuentra24 and Yapó. They are all market leaders in markets that we've identified as good long-term opportunities. They all have strong classifieds DNA, but also have the ability to augment that with the longer-term economic opportunity, which is helping consumers get past the search and discovery phase and get through to the transaction, which is what these businesses are very focused on.

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Now to touch on the management team that is running FDV LATAM. Up until recently, if you consider the evolution of this region, it was finding businesses that we liked in markets that we like. We focused on starting out as minority holders and then over time, as the business started to grow and develop, we would buy 100% of them and aim to eventually set them free. By setting it free, we mean appointing a team that can run the region more effectively locally than we are able to from Malaysia. The CEO of FDV LATAM is Ricardo Frechou. He was previously running InfoCasas, a very successful business and it made sense to have someone with his background, his record of success, to step in and run the region.

We've put together a small, centralized management team which draws from Fincaraíz, the CFO; Martha Valencia Correa; Martín Coulthurst Sapelli, previously COO of InfoCasas; and Guillermo Tavidian, who was the CTO of InfoCasas. We have a relatively small but very effective centralized team that is now running the day-to-day of the LATAM business. They have a very clear strategy and mandate – build out the classifieds business and ensure market leadership is achieved, then leverage that leadership to get much closer to the transaction. Traffic gives you leads. Leads become transactions. We've also done a lot of restructuring work over Q4 2022, which helped the businesses become far more efficient than they previously were.

The ambition was always to get to this point. Part of the benefit of getting to this point now is that we can run a leaner and more efficient group. Before the restructure, the four businesses duplicated a lot of functions. We've now managed to streamline most functions and by doing so, took out a lot of costs and created a far more efficient structure wrapped around LATAM. This was always where we wanted to get to. It was always a strategy and structure that we laid out for investors. It was really pleasing to be able to put this in place last year, and we're seeing positive results come out of having this structure in place. Not only from a cost perspective, but also from a growth and value perspective. The team are very excited.

It's a much more dynamic structure we have around these LATAM businesses now with a high-quality local management team running it. The value of having a strong local management team can't be understated. We're pleased by where this has got us and ultimately, having this structure in place will allow FDV at a corporate level to be leaner and more efficient as well. It's all about being efficient, having a tight cost base and focusing on the value which can be created in these businesses.

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If you look at the profile of LATAM you can see its growth over time. It's also shown here that it's quite biased toward the high-value property vertical. But more interestingly, when you look at the split of revenues, we now have a significant chunk of the revenue coming from facilitating transactions. To be clear, we've always been advocates of this strategy. We've always been working to maintain strong leadership in the classifieds sense, but we've always been advocates of helping people transact.

This is very different from some of the business models that have come and gone over the last couple of years, which survived on free capital and crazy markets and were advocating the idea of buying your house or car and trying to flip it. We've never advocated that model, and I think the evidence in the market is now clear as to why. What we have advocated in markets where there are low levels of trust is helping consumers get past the search and discovery phase and giving them certainty, giving them a trusted environment in which they can continue to do much more on their way to the transaction.

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InfoCasas is a great example. This slide gives you a profile of the business and a background on why we selected Ricardo to run FDV LATAM. A key reason being due to the success of InfoCasas in demonstrating the growth that they've managed to achieve augmenting the classifieds base with transactions revenue. InfoCasas went about augmenting revenue in a way that's been very tech-enabled. This is the smart path and utilises big data, which works very well at segmenting leads. This goes back to the idea of market leadership bringing really strong traffic to your site, then taking that traffic and turning it into high-value leads to sellers. We then use AI-empowered digital sales engines to help qualify those leads and point them to properties which are most likely to transact.

There is a whole tech system that's now overlapping this idea of helping consumers get past search and discovery and into transactions. It's a template that we're trying to roll out using the experience and the success of InfoCasas. Before our restructure, LATAM businesses were operating independently and trying to learn from each other, but now it's a much more effective structure in being able to roll out the success we've had in InfoCasas, or any of the other businesses, via a centralised team. This is a more efficient operating entity which can execute on some of the strategies that have gone really well in the LATAM businesses.

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In terms of where we want to get, we've made this very clear and very public. We want to get FDV LATAM to US\$100m revenue. We think that there's a clear path to get there based on just organic growth. We think that the markets around the world, and certainly LATAM, have been shaken out over the last 12 months which could potentially lead to M&A opportunities over time, but we think that we're well positioned to get there organically.

We think FDV LATAM is well positioned with its market-leading businesses that are profitable and in good markets in the region. We think we're also well positioned to take advantage of some of the disruption that's happening in markets around us. This means it's all about getting into the strongest possible position so we can execute against this plan over the next couple of years. We think we can build a successful business as we've got a great foundation and we've achieved a lot of the milestones that we set ourselves such as getting to 100% ownership and getting a strong leadership team in place.

Now we need to execute against the clear plan over the next couple of years to maximize the value that's sitting inside LATAM.

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The FDV Asia business has continued to grow and continues to be profitable, which is great. It's also more evolved on two fronts. Firstly, it's even more biased towards property with a smaller auto contribution. Secondly, it's evolved more rapidly towards helping consumers complete transactions. Interestingly, Asia used to be the area we spoke about the most. It's interesting how over time the work we've done in LATAM is now what we talk about more, and that's encouraging because it diversifies our revenue more and means we're not relying on any one market. We've got a good spread across the three regions now, which is much more comforting.

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In MENA, a big focus for us in 2022 was to improve the EBITDA in the region. Please keep in mind that all our revenues have suffered slightly by virtue of foreign exchange movements, so they're healthier when you look at local currency. The biggest business there is Avito, and that's gone from a A\$3m loss when we acquired it to now being profitable at an EBITDA level in 2022. That was a really important milestone for us to achieve. It's been done through leveraging the classifieds business in the region, which shows how there's a lot of opportunity. Now there's a much more sustainable base to be able to grow and start to venture down the path of helping consumers complete transactions. A lot of work is being done behind the scenes in MENA to get it to a sustainable position. Now the focus is to double down on growth given that we've got very minimal contribution from transaction revenues.

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Our strategy has always been to look at early-stage opportunities, identify them by virtue of our focus on emerging markets, finding those that make sense and ensure that they have clear market leadership. That's a really important factor and it continues to be for us as when you're a market leader, you tend to have a lot of opportunities.

The fundamental part of the strategy is to grow the classifieds business and leverage the classifieds leadership so we can get closer to the transaction over time. That means helping consumers get past search and discover and then leverage the economics of the transactions.

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The business model is clear for us. When you look at this evolution of classifieds into transactions, you can see that the traditional model is very straightforward. It's focused on content, a good UX and connecting buyers to sellers. Typically, the transaction will then end up moving offline. What the transaction-based marketplaces do is keep consumers in your environment, keep them engaging with the sellers and try and keep them on your website for longer, which enables you to do more for them. It not only unlocks opportunities at the point of transaction, but also unlocks opportunities from search and discovery through to the transaction. That can mean financing, inspections, warranties, insurance and other services.

It's important to note that you don't just leapfrog from search and discover through to helping someone complete a transaction, but that there are a lot of opportunities on the pathway to the

transaction which portals and businesses like ours seek to benefit from. This is an important part of the long-term strategy. It's important to understand this evolution and that it's not a swap from classifieds to transactions, but instead an evolution of that model which we seek to leverage over time.

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Why do we want to do that? If you look at the economics, it's pretty clear. For example, when you look at the classifieds revenue on a per lead basis and then look at the transactions revenue at the point of the transaction, the economics of the opportunity is really compelling. This is about taking a lead which once would have left your environment and simply following along the purchase process to convert into the transaction itself. Our strategy is clear and the compelling reason behind why it's valuable is evident. This is something we'll continue to communicate to our investors over time.

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Moving from left to right, from bottom to top, is a simple way of understanding the overall strategy going from classifieds to a marketplace which facilitates transactions. We know that EMPG, which is the parent company of Zameen, is progressing towards an IPO. We've made it clear that we think FDV LATAM could do something similar in the future. As such, we're starting to see those monetisation opportunities become much clearer and more importantly, the pathway to those monetisation opportunities are becoming much clearer as well. It's not something that we think about every day, but it's important you have a long-term view of how you're going to create value. We're starting to see much more of these opportunities becoming more tangibly real, and something that our businesses can more realistically work toward than perhaps they have done in the past.

2022 was a really busy year. It was a year that changed a lot through the course of it, but we think we kept a good handle on the important drivers and finished the year strongly.

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As we look towards 2023, our priorities remain clear and straightforward. It's continuing to make sure that FDV's companies are operating efficiently and ensuring we are growing revenues in a sustainable manner, which means to concurrently make profits, and that's what we're increasingly focused on ensuring our businesses do. Growth and efficiency are absolutely priorities more than ever.

Growing the operating metrics is critical because it's all the work that goes on in the background. It's all the work that typically goes on day-to-day to make sure we can have sustainable and high-quality companies. As I said, it's interesting that FDV LATAM today generates almost twice as much revenue as our group had only two years ago. We're getting the first box right, which is continuing to drive growth and profitability, and this can be seen through our results. What people don't see is the work that goes on in the background, which is growing the operating metrics, and that's the day-to-day but it's super important because if you get the operating metrics right, the financials tend to look after themselves. Finally, the opportunity to develop revenue through transactions is the third piece of LATAM. Ultimately, these are the priorities for 2023.

In the rest of the deck, there's additional information which covers some of the company background, information on the share register and historical financials.

Operator: A reminder that if you would like to do so, you can ask questions by typing it into the chat function. Our first question is what does success look like in 2023 for the FDV LATAM region? And how are you thinking about the monetisation pathway for MENA now that you are essentially at 100% of that region?

Shaun Di Gregorio: FDV LATAM has a three-year plan in a sense. The first piece was about getting the settings right, getting the team in place, getting the efficiency level right. We did a ton of work on these goals, particularly in the second half of the year. 2023 is about execution of the plan. The plan is to grow the region, grow it profitably and to grow cash flow positively.

The second piece is to continue to make sure that we leverage the IP and expertise that's been accumulated in those four businesses individually, particularly the success that's come out of InfoCasas. This is something we've spoken about historically and it's something we've put structures in place that enables us to do it. So, the second piece is to take the learnings, particularly from InfoCasas, and push those into the other businesses.

The third part is a function of the first two, which is to run really strong, efficient and market-leading businesses. We will look for opportunities to grow and given what's happening in the world, we're very patient, but we're very observant of potential for M&A. We think that that's another way that we can grow LATAM in 2023.

With MENA we have a lot of the heavy lifting done. We've now refashioned it in terms of what's there. We've got Avito, which was critical to get from a loss-making position to be profitable. Avito has existed for 10 to 12 years and it's never been profitable until now. That means until we got our hands on it, it had never been profitable, and we've been able to achieve that milestone. That was a significant piece of work that was undertaken throughout 2022.

Once we got to that milestone, we want to make sure that it's sustainable and that's what we're going to focus on in 2023. We'll continue to build out in MENA, as its revenue profile right now is almost wholly derived from its classified base. We think that there's opportunities to now, given we've got the businesses much better set, to think about how we can go further with opening up revenue opportunities around the transaction. Of course, we'll also keep an eye out for the potential of M&A. But most importantly in MENA, it's about sustaining what we achieved in 2022 and starting to shift the revenue mix which is currently dominated by classifieds revenue.

We think that there are opportunities to firstly, grow the classifieds piece and secondly, to start to think about how we can do more around transactions given we have a fundamentally much stronger base in MENA than we've ever had before.

Operator: The next question relates to contingent considerations. Could you provide an update on the timing and options for payment?

Shaun Di Gregorio: I think it's due around May. The amount of the consideration is still subject to audit, which is underway and ongoing. We've got a healthy balance sheet and fundamentally, that's the first thing you look to. All our businesses in all our regions are now cash flow positive. That's also an important milestone when you think about contingent liabilities.

Of course, we know that there is also a lot of movement around the shape of our portfolio. It's a little off in terms of timing as it is due around May. The volume of that consideration is still being

determined. Again, we have a healthy balance sheet and our businesses have reached an operating level of cash flow positive so we think we're really well positioned to meet that consideration.

Operator: Thanks Shaun. Our next question is, what specific new countries or markets do you think look the most interesting for an investment?

Shaun Di Gregorio: There's no single individual country. What we do have are a set of countries that we tend to follow and have followed for a long time. I would say in LATAM, we're probably reasonably well covered in terms of markets we want to be in. We've always said that we don't want to be in Brazil, Argentina and Mexico. They're the three markets that are the most difficult. What we have done is chosen markets where we can be a clear leader and the evidence is now shown in our financials and leadership positions. We're focused on markets where the competition is lower as this means it's far cheaper to operate. In LATAM, we're fairly well covered.

In MENA, it's more interesting. Our big focus is getting the existing businesses right. Our geographic footprint is relatively modest and there are some significant markets in the region we will monitor through the course of this year.

Asia is the interesting one where we've been very selective regarding the markets we're in and for good reason. But what we are seeing in Asia is that businesses which weren't as fundamentally strong or had good strategies were wobbling going into 2022, and they're probably highly stressed now. We think that there will be stress to businesses in Asia over the course of 2023. Where they will be? I can't predict that, but there are some substantial markets in Asia and you just can't have so many businesses doing the same thing, as is the case today, where many of them are trying to do models that fundamentally don't work. A lot of the models that don't work are where car portals or property portals say they're going to buy your car or house from you and then try and flip it. This model is referred to as the iBuyer model.

These iBuyer businesses are the businesses that are most stressed. Why? Because that model fundamentally doesn't work. It's not scalable, and it's not sustainable. We've seen evidence of that in developed markets where large portals have flipped to that model and we've seen it's just not sustainable. We're now seeing people walk away from that model and what's left is a fair bit of carnage in the industry. These businesses are everywhere, they're in LATAM, Asia and in MENA. So, we'll see what happens over the course of 2023. I think we've been on the record saying that the iBuyer model was never a model that we thought was a good idea, and those that were pursuing it probably found out the hard way, but it might be good for us because amongst all of that wreckage there could be some good opportunities. But I guess we'll have to wait and see.

Operator: Can you provide an update on Zameen, the operating environment in Pakistan and any progress of EMPG's IPO plans?

Shaun Di Gregorio: Yes. The first thing is that Pakistan has had some economic difficulties over the last few months. That's clear for everyone to see. What they are in the process of doing is negotiating an IMF loan. It's also interesting as I was just doing some research and I think there are around 195 countries officially in the world, with more than 100 of them having received IMF loans in the past. So, I think when you hear that headline it is quite shocking when you hear about the IMF loan. But when you look beneath the covers, it's quite amazing the number of countries that have been down that path.

IMF loans come with a lot of conditions, and those conditions are generally geared around economic discipline and putting in place policies, tax rises, spending cuts, whatever it might be. These conditions often are to the absolute long-term benefit of the economy in the country. So yes, Pakistan is going through a bit of a rough patch at the moment. Typically, that will not last forever and we'll see how close they get to finalizing that IMF loan. Once that's in place, you hope that stability occurs as a consequence of it. Again, we take a very long-term view but we're monitoring that situation closely.

In terms of EMPG progressing to their IPO, they are continuing on that process and preparation. Preparing for an IPO is not a trivial, short or an easy undertaking. So, there's a lot of work that goes into it and they are absolutely continuing that path. I think their view is that it will take a while for them to get ready and in that time, the situation in Pakistan will probably stabilize and hopefully improve, but it's still very much their ambition to proceed to IPO.

Operator: Thank you. That's all the time we have for Q&A today. I'll hand back to Shaun for closing remarks.

Shaun Di Gregorio: Thanks everyone for dialling in. Do feel free to reach out directly at any time. Always happy to give time for our investors.

I would just like to remind people of the hard work that went into FDV in 2022 and that we've got a strong EBITDA and a growth trajectory heading into 2023. Our ability to build strong market-leading businesses and have a clear strategy around where we want to go, while also achieving the important things like cash flow positive, EBITDA improvements while making sure we have a strong platform for not only 2023, but beyond. I think one feature of our business is that we're very aware of market changes at any moment in time, and we're able to pivot and move quickly which we've demonstrated over the last couple of years. However, we are still very focused on building long-term value and you can't lose sight of that. We think we've always had an ability to get that mix right. We'll continue to focus on that as that's a big feature of our company. So again, thanks everyone for tuning in.

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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 15 market leading companies, operating across 19 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.