FRONTIER DIGITAL VENTURES

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2023 half year results call transcript

Frontier Digital Ventures Limited ("FDV" or the "Company") is pleased to release an edited transcript from its 2023 half year results briefing held at 12:00pm AEST on 29 August 2023.

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

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

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Operator: Thanks for standing by and welcome to the Frontier Digital Ventures Half Year 2023 Results briefing. I would now like to hand over to Shaun Di Gregorio, Founder and CEO.

Shaun Di Gregorio: Good morning and good afternoon. Thanks for tuning in for our half year results. You will have seen much of this information in our quarterly, which came out at the end of July. These are our statutory results as presented to the market. I'll step through this investor presentation, not slide by slide, but for the most part. I'm happy to take questions once we're through.

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The headline for us from an overview perspective is reminding people that our business is founded on a familiar model, the online classifieds marketplace. Classifieds businesses are very well known, particularly ones in developed markets. We're in emerging markets across the three regions that I'll talk to in a moment.

A key feature of our business is market leadership. We have our business in LATAM, which rebranded as 360 LATAM, our business in MENA, which rebranded as MENA Marketplaces Group and our business in Asia or simply FDV Asia, all of which are made up of market-leading businesses in property, which is primarily the focus for us, automotive or general classifieds. We're very focused on those 3 regions.

Our model is heavily weighted towards online classifieds, but in recent times, we've moved much closer to doing transaction activity. The opportunity to help consumers transact beyond search and discover in emerging markets is significant, and it's where we focus. We're not in developed markets. We're only focused in those emerging markets.

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We operate across a big population base, significantly bigger than Australia but very different demographically. If you were to add the GDP up, you get a big number. Now with significant internet penetration, emerging markets have always had a real feature of being highly mobile. A lot of our traffic, consumers and advertisers operate more through their mobile connection than they do a LAN or internet connection. These are big numbers that we are focused on in terms of the economics and the opportunity it creates.

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On a statutory basis, our consolidated companies generated A$31.2 million in revenue, and revenue from associates was A$6.7 million, totalling up to about A$38 million for the half year. We have moved to become EBITDA profitable, both on a statutory basis and with the addition of the EBITDA from associates in Pakistan, which are accounted for on an equity basis. All 3 regions, 360 LATAM, MMG and FDV Asia, were operating cash flow positive in the period as well. We completed a capital raise earlier on in the year, which restocked our balance sheet and puts us in a strong position.

Looking at the key financial highlights for the group on a statutory basis, it has required a lot of work and focus over the last 12 months in trading conditions that have been interesting and tricky – difficult in some, easier in others. Overall, we've seen higher interest rates and higher inflation rates. It's given us an opportunity to pause and make sure our businesses are well run, well operated and efficient. That's been shown in the EBITDA performance, the fact that we're cash flow positive in each of the 3 operating regions, and revenues for our consolidated businesses growing in that period as well.

This gives us a really strong foundation as we head into the second half of the year to build on businesses that are now all profitable and cash generating, and we can focus on revenue growth. Getting the businesses through this period has been a feature of navigating through tricky trading conditions. But the thing that has bode well for us is market leadership, a move to profitability, which was underway, having the balance sheet well stocked, and being very focused on revenue as we start to see some improvement in a number of the countries across the 3 regions that we focus on.

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From a revenue perspective, and this is the statutory piece, you can also add on the Associates from Pakistan which are PakWheels and Zameen. Looking at the half-on-half picture, you can see our track record and focus on growth. We haven't forecasted the second half of this year, but if we repeated the first half, we'd be in good shape. To emphasise, this is only the statutory portion of our revenue that you see in the Appendix 4D.

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If you look at the breakdown, 360 LATAM now has its own management team and is tracking well. We've got all those businesses to profitability, some heavy lifting has been done with a couple of them. As we head into Q3 and Q4, we are very much focused on revenue growth. We will talk to some of the initiatives that the businesses are releasing to the market at the moment, and a little bit more about MENA, in the back of the deck as well.

MENA was a period of consolidation for us, getting the businesses to profitability, and focusing on growth as we see more positive signs in economies around the globe, particularly around inflation abating in some of these markets and interest rates easing.

A real focus for FDV Asia was making sure the businesses were strong, consolidating market leadership and focusing on growth as we head into Q3 and H2 2023. I'll give a bit more detail about those regions further on.

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The big emphasis was making sure we're being careful about our operating expenses. We continue to be focused on improving the efficiency of our businesses. As we see revenue growth improve in Q3, we'll start to see better margins. There is an exercise to get our cost base reduced, while analysing it carefully across the 3 regions and making sure we have an optimised operating model.

The idea is that now we're profitable, with the 3 regions cash flow positive, we have a good base to grow. You're not earning a dollar and spending $1.50 to get it. We've got our cost base well under control. In fact, we've reduced it in the half year. As we grow in Q3, much more of that revenue growth goes to margin.

There are notes here on some of the areas we've worked hard to reduce and become more efficient. As we start to produce more revenue off a lower cost base, we're able to deliver a higher margin as we get into Q3 and beyond.

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The EBITDA breakdown shows we've gone from not profitable to profitable. This is a significant achievement for the business. Now profitable in all 3 regions in which we operate. Our equity-accounted businesses in Pakistan continued to be profitable, even when you add on corporate costs.

Our business is also now statutory EBITDA profitable. That's a significant achievement for the group. It's a significant achievement for each of the individual operating companies in LATAM, MENA and Asia. A number of the businesses have taken some time to get to profitability, there's been a lot of work done to get there. We also look to continue to minimize our overhead corporate costs as well.

The picture gets brighter for us. It's been a tough 12 months, but we now feel we have achieved real milestones that we've set ourselves around profitability, cash, and revenue growth. It's not one particular company or region holding up others. Across the board, our companies are profitable, our 3 regions are profitable. On a statutory basis we've gone past that milestone as well. It's been a significant achievement over the first half of this year to get to this result. This positions us well now to focus on increasing revenue growth in Q3 and into the second half of the year.

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360 LATAM consists of 4 companies that operate across a dozen countries in Latin America, from Central America down to Chile. These results were largely in the quarterly. You can see steady revenue growth in the period and we've moved to a much stronger profitability profile. We're also working on getting the revenue mix right – now a significant amount of recurring subscription revenue is coming out of these businesses, which is the classified business model. There's also significant revenue in the general media category. The growing piece of this pie chart is what we're doing around transactions, which will help grow both revenue and margin over time.

There are some really interesting product initiatives being undertaken in 360 LATAM, one that I'd like to walk you through in particular. These are about saying we've now got a really strong base in our classifieds business. As we move toward transactions, what are the sorts of things beyond trying to take commissions? What are the sorts of products? What are the sorts of initiatives we're rolling out to really help consumers and sellers, agents, property developers? How are we helping them move toward the transaction?

When we talk about transactions, we're not talking about leaping from selling ads to try to be agents or try to be a middleman and take commissions. There's a whole ecosystem of opportunities that you can tap into it. We've now started reshaping a lot of these businesses in LATAM and getting them to profitability. We're starting to take bigger strides in providing consumers and sellers with products that help them get to the transaction. It's moving from search and discover to ultimately transacting houses and cars, and what are the things that have been undertaken to get us there?

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A lot of work we did was around the marketing strategies. It's making sure that consumers can click on a site, product or ad and get through to the seller and successfully engage. There's a lot more being done around that process for sellers as well. Obviously you're doing that in an environment where there are lots of people searching through these sites. One of the products being rolled out across LATAM now is *Iris*, which was originated in InfoCasas and works like an MLS system.

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If we look at the real estate opportunity in LATAM markets, there are ~1.3 million real estate transactions conducted in a year. Multiplying that by the average sale price of A$155k and commission rate of 0.6% results in an annual value of A$1.2bn in terms of potential commission pool.

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And you start to think, how do we move our consumers from search and discover through to transactions? How can we, by virtue of that strategy, capture more of that transaction revenue or commission pool that's sitting there?

A product currently being rolled out is the *Iris* platform. This started in InfoCasas and it really taps into a problem where you have property developers acting independently of one another and trying to have their own brand in the market, trying to reach buyers and trying to go direct. They use all the platforms, but there was a disconnect between developers being able to access more brokers. That leaves you in a situation where consumers feel there's a lack of transparency and information about some of these projects that developers are marketing.

A solution was developed in InfoCasas, which is to create an MLS system for developers in the markets in which we operate. This allows developers to put their content into a centralised database and then provide access to brokers who are clients of our portals, and creates a very simple intermediary channel.

Although it sounds like a simple solution, it's simplicity is part of its elegance. You're taking a definitive problem that developers were having in shifting their stock, plugging it into *Iris*, and allowing brokers to then go and access their inventories and sell more on behalf of the developer. This solves not only a problem for the developer, but it also demonstrates the power you have as a market leader.

Being in one of these markets where you effectively have all the developers and all the brokers as customers, we've been able to create a database product, which allows those 2 groups to connect and access inventory without having to go through a process of meeting one by one.

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We've got compelling data from case studies that we've followed by introducing *Iris*. There's a project we tracked in Uruguay, where a developer went 5 months without a sale. We then plugged their project into *Iris*, which allowed more brokers to access it and then brokers went to their consumers. We saw a much stronger sell-through on that project once they plugged into *Iris*.

This is an example of what you can do when you have market power and you can communicate with all the project developers that are there, you can connect them with brokers and generate more sales and then being able to take a share of that commission. You're the middleman, we're not replacing anyone, we're just there to focus on getting consumers through to the websites, but we've now got a product that allows us to sit between brokers and developers and take commissions on those sales. If you're in that position, you can then think about many more products, but this is a significant step that's being undertaken in our LATAM business today, and it's being rolled out over the next number of months into Q3 and early next year into other markets.

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Iris already exists in a couple of our markets, in green, and is being rolled out to the markets in blue. It will ultimately be an important part of the mix for our LATAM business. There are other products like this that are all geared around helping consumers, leveraging our market position and starting to move our consumers through to being much closer to the transaction.

We are rolling out to Fincaraíz in Colombia, E24 in Central America, Yapo in Chile and to our other InfoCasas brands in Peru and potentially Bolivia over the coming months. It's a good example to help people understand what we are doing when we talk about going from classifieds through to transactions. This is to help build the understanding of these sorts of products that are being rolled out.

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MENA was a period of consolidation for us. It was about getting the businesses through to profitability. Avito, which is the largest of our businesses in MENA Marketplaces Group, had never been profitable in its 10 years of existence. We bought it about 24 months ago and turned a loss-making business into a profitable business. We're now very much focused on growth, having stemmed those losses, got it up to profitability, got it up to cash flow positive.

Looking to the revenue pie in the middle, we can see lots of opportunity around helping consumers and sellers move from search and discover through the transactions. Half of the revenue is recurring subscription revenues. The other half is largely in media and advertising, and there is a very big opportunity around what we can do with consumers and transactions.

We launched an auto event back in June, which was around testing our ability to help consumers purchase cars through the website or through the brand. That event generated about 250 car transactions. We feel like we've cracked the code on moving forward on transactions in this part of the world. We've got another event coming up in September, which is focused on the property vertical, a similar event to demonstrate that we can help consumers purchase and we can help sellers transact high-value consumer items through our brands and MENA Group.

There has been a big focus on sustainability at MMG over the last 6 to 12 months. Now we're focused with that strong base in place to get to revenue growth in Q3 2023 – it already looks much better than our previous quarters. We're fairly confident that the plan is proceeding as we hoped with a much more solid foundation upon which to grow.

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Similar to what we're doing in 360 LATAM, we have a big focus on how we drive consumers through to the idea of purchasing houses and cars through the portal. A big feature of this business was profitability in the first half, and now focusing on revenue growth with that foundation in place in Q3 and H2 2023.

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I will talk to Asia in terms of the companies we consolidated and then the Associates. If you look at the consolidated entities, it grew well for us. There's already a big focus in our Asian businesses on transactions and EBITDA on a consolidated basis excluding Pakistan. We improved from being unprofitable to EBITDA profitable. This region ticks the box for us. Some of our smaller businesses are in this region, so we've got work to do in scaling up. That's a big focus for the team now, and most of these results were communicated in our quarterly.

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The initiatives were not dissimilar from the other regions – a big focus on the technology, a big focus on bringing more consumers through the platforms and, ultimately, transactions.

If you think about this in the order of things, Asia is heavily into transactions, and it's all about scale. LATAM is passing through that journey and introducing a lot of interesting products to help consumers and sellers transact more, MENA in its infancy around its movement or evolution from classifieds and transactions. Whilst the Asia part of the business is small, it's doing a lot of transaction volume.

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In terms of Zameen, we wanted to continue to give people transparency as to what's the latest, which is that we're starting to see signs of recovery. We're not predicting anything. We're not forecasting anything, but what we are saying is that the last 3 months have been better than the previous 6 in terms of trajectory.

Things got pretty tough in Pakistan into May and June. There was a lot of public information around the IMF loan, which is now in place. What we have seen throughout is that operating metrics remained fairly consistent and start to actually improve. Again, we're not forecasting anything, predicting or promising anything, but we're pointing to the data that we have, which shows that Zameen is moving in the right direction. It was a tough 6 to 9 months prior to that, but conditions domestically have stabilised. There is some what you could call cautious optimism. In terms of what we'll see in the next few months, we don't know, but the data points to the fact that there's clear improvement in its trajectory.

We think it is potentially through the worst, again not forecasting anything, but pointing to the data that shows we're starting to grow again over the next few months. The metrics to the right side of the slide have remained consistently strong. With some consumer confidence returning, we're starting to see more activities and more revenue, and it's remained profitable throughout. While this business has had some tough times, it is an example of the strength of the business model that it is clearly recovering, and its in a big market. We appreciate the fact that it's had been bruised and battered, but it is very much alive and kicking and back to growing revenue. We look with interest at the second half of the year. I would say it certainly appears that Zameen is improving, which is a positive sign for everyone.

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There's additional information in the back of the deck with all the financials and tables which people can turn to for themselves. I will point to the EBITDA table, which shows you that all our businesses, with the consolidation of CarsDB and iMyanmarHouse, have now become profitable. That's a good sign for us, and we're excited about the next period of time.

Q&A

Operator: Our first question is can you please explain how 360 LATAM's new *Iris* platform complements the region's marketplace strategy? And what impact do you expect it to have on transaction revenue? Also, are there material costs to expanding the platform into new markets?

Shaun Di Gregorio: *Iris* is really designed to connect developers with brokers. Developers historically shied away from using brokers or would use them sparingly and use their own sales teams instead. That was fertile ground for a portal to come in and say, hey, we think there's a gap in your go-to-market strategy, we think there's a gap in your sales strategy. We can fill a large part of that gap by you using our online platform, we can reach consumers, we can help you generate leads, we can help you transact. That's a big part of the solution.

You then look to say, well, the ultimate goal is to help them connect with more brokers who make a living from selling property. It really is leveraging your role as the intermediary. We've always spoken about moving to becoming an intermediary and putting yourself not just between consumers and sellers, but now, the triangle of consumers, property developers and brokers. It's a very logical space to step into. It's not a very expensive thing to do because it's essentially a digital product that they access from an app.

Our aim is to take a portion of the commission for transactions that are made through *Iris*. Developers are putting their content into *Iris*, and if we then have brokers who are going into that database like an MLS finding properties that their buyers want to purchase, our role is to take a share of that commission. Rolling this out across additional markets is a big part of the plan for the second half of the year. Our goal is to put you front and centre in the transaction more and more. Not trying to do the transaction, but trying to facilitate it using the market position we have.

Operator: Thanks, Shaun. The next question is, you've noted a number of cost optimisation activities over the last 12 months. Is there more that can be done? Or are you happy with the cost base?

Shaun Di Gregorio: I'm never quite happy with the cost base – there's always more we think can be done. If left to natural trajectory, there's always an accepted norm that your costs will increase year-to-year and that's probably fair if you've got inflation. But our goal is to reduce them, and we've found lots of opportunities to do that over the last 12 months, particularly in some of the businesses we acquired from Adevinta.

The other way to think about it is 'can you do things cheaper in one market to another'? The beauty in LATAM now is we've got one group of the companies, we've taken some roles that were in countries that were slightly higher cost and put them into countries that are lower cost. Venezuela, for example, is a country in which we have a call centre. We don't have business in Venezuela, but the price of labour there is much less. So yes, I'd like to think we can still reduce costs, but you've got to be innovative and creative about how you do it.

Operator: The next question is, when you reach some kind of steady-state maturity in LATAM, what EBITDA margin do you consider reasonable?

Shaun Di Gregorio: Well, some of the businesses we've got are getting into the 20s now, and our aspiration is around a 40% margin. Some of our businesses are already heading in that direction, but that's where we'd like to get to. The past 12 months have been hard, but it did give us an opportunity to really look at costs more forensically. If you can get to a reasonable revenue growth rate, then margin is very much on the radar.

Operator: The next question is Zameen has around 17x the audience of its nearest competitor. Can you speak to the LATAM market in terms of FDV position in relation to the nearest competitor?

Shaun Di Gregorio: Yes. InfoCasas are #1 in their markets. As they're not huge markets, they don't tend to have much competition, so there are clear leaders. Fincaraíz is #1 in Colombia, it's more competitive, there's 50 million people, so there'll be 3 or 4 competitors. They're probably about 30% bigger than the #2.

In E24, it's across multiple markets and has a very competitive position. There's a bit in Panama and Costa Rica. In Panama, there's a little bit in houses, not as much in cars. In Costa Rica, there's a bit more competition in cars, not as much houses, but they're a leader. Yapo in Chile is a leading horizontal platform. If you pull apart the verticals and look at houses and cars, they actually have more traffic and more content. You can mount the argument of Yapo being #1 in the verticals, but it's very much a horizontal play.

Products like *Iris*, which is being rolled out in Chile, will make a difference. Each of the businesses are all in strong competitive positions. We're not coming at the market with one arm tied behind our back. The events of the last 12 months have certainly made it really clear to everyone the value of market leadership, and that continues to be something that you want to absolutely have.

If you have nothing else in this model, market leadership is what I would take every day of the week and we have that. It then becomes an execution exercise. You can keep one eye on your competitors without being too myopic, that's not a bad strategy. But yes, the value of incumbency is important.

Operator: The next one is, where does MercadoLibre sit across each LATAM market?

Shaun Di Gregorio: Varying. They're in some, not all, but most of the markets. They shifted to more of an Amazon model some time back, so that was fine with us. That left open the part of the market that we operate in, which is classifieds. I would say they are bigger competitors on the Amazon product, not as much in the classified space. We have other competitors who are more relevant than them.

Operator: The next question is what steps need to take place in MENA to achieve meaningful transactions?

Shaun Di Gregorio: Transactions work well when a few various factors come together. It's market leadership. It's domination in the verticals and it's a market that's probably evolving and ready for the model. That's not always the case in every market you're in. It's only been as recently as June that we've really cracked the code on demonstrating that a portal can do transactions for cars. We were able to help do about 250 automotive transactions in June.

That was kind of a proof of concept that it works. And it's like saying, how do you now commoditise that? How do you scale that? How do you get more out of your customers? And that's an execution question. Strategically, we've proven that we can sell cars through the portal.

The next one is really property, and that's the one you want to get to. It's high value, it's good margin, and it's where you can make money. We have a similar strategy rollout, which we're doing for property in September. That will demonstrate an ability to transact property through the portal or by the brand.

We've been looking at transactions in MENA for a while. We had a few false starts last year. We learned a bit in the market, you've got to be tougher. We returned to the task in June with automotive and will again in September with property. We're really interested to see how that property piece goes. Then you can basically pick up that model and drop it into the other markets in the region with a business like Tayara, for example.

It's going to be really interesting to watch the Q3 2023 outcome of the trial that we're running with property transactions, but we're quietly confident or cautiously optimistic on all of the early signs. As I said, we buy our time a little bit. One eye always on the long game, which is getting transaction volumes and revenues into the businesses. And that's how that's happened with automotive in June, and we should have them with property in September.

Operator: How should investors be thinking about the second half of 2023 in terms of growth and bottom-line performance?

Shaun Di Gregorio: Well, we have every right to expect it to be better based on existing data. Q3 2023 is looking better than we've had in Q1 and Q2. People are more optimistic now than they were 6 months ago. That's reflected in businesses that are largely consumer-driven like ours. The metrics we track, being people coming to your site, what they're doing, the leads they're generating, the volume of ads – that's remained relatively good throughout. We haven't seen the commercial activity on the end of it, which we're now starting to see pick up a little bit. That's very positive for us.

I think what it has demonstrated for us is the robustness of the underlying model, which is still core classifieds. The variable is the move to transactions, but that's a long-term play that we think is highly valuable. And then, doing it from market leadership. When you roll all those 3 things up and look forward, I think the sky is a lot bluer today than it was 12 months ago. Those are some things you can't predict, but we feel a lot better about what's happening in this early part of the second half of the year.

Operator: Thanks, Shaun. There are no further questions at this time. I'll now hand back over for closing remarks.

Shaun Di Gregorio: Once again, thanks everyone for dialling in and appreciating the work that's been done across our group. Each region growing, each region profitable, each region cash flow positive and more blue sky being seen now than perhaps this time last year. We think our stock price has been whacked and it is pretty harsh given that the metrics that the businesses are producing and the financials as well. We're looking forward to a much more enjoyable second half of the year.

Operator: Thank you. That concludes our conference for today. Thank you for participating, and you may now disconnect.

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This announcement is authorised for release by Shaun Di Gregorio, Founder and CEO of Frontier Digital Ventures Limited.

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About FDV
Frontier Digital Ventures (FDV) is a leading owner and operator of online classifieds marketplaces in fast growing emerging regions. Currently, FDV operates across three regions – 360 LATAM, MENA

Marketplaces Group and FDV Asia. 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.