

Conference call transcript

27 June 2023

FY2023 RESULTS

Operator

Good day, ladies and gentlemen, and welcome to the Prosus Naspers FY23 results call. All participants will be in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please also note that this event is being recorded. I will now hand the conference over to Eoin Ryan. Please go ahead.

Eoin Ryan

Great. Thanks, Chris, and welcome, everyone. Thanks for joining us on the call today. With me on the call, I have our CEO, Bob Van Dijk, and our CFO, Basil Sgourdos. They're going to take us through the key highlights for the year and then the proposal to eliminate the crossholding. We'll then move to Q&A at which time we'll be joined by Bob's team and the segment CEOs. And as always, please reach out to IR if you have any follow-ups afterwards.

Before I hand it over, I want to do some quick housekeeping items. We've commenced but not completed the exit from the OLX Autos business. So as such, reported IFRS continuing ops still includes some of Autos' operations whose exit Prosus was not finalised at the 31st of March. Our intention remains to exit these businesses, and as such we thought it more useful to present pro forma numbers excluding OLX Autos. So, a reconciliation to the IFRS numbers has been made in the appendix and that's on page 34 of the deck that is on the website. Lastly, FX translation negatively impacted the group's revenue and trading profit by about 7%, or \$2.4 billion and \$347 million respectively. So, to get a true view of our results, we will speak to organic growth, excluding FX and M&A, and the OLX Autos operations. So, with that, I'll now turn it over to Bob.

Bob Van Dijk

Yeah, thanks a lot, Eoin, and thanks everybody for joining us on the call today. Today, we announced strong results, and we also put forward a proposal to simplify the group structure. We are really making clear progress on the commitments that we made to you last year. So, you will have seen that our businesses are growing really strongly and they are on a clear path to profitability. At the same time, we are reducing our share count and we are improving NAV per share every day. We continue to have very strong confidence in and support for Tencent, and Tencent has been rebounding quite well. And today we're proposing a transaction which will meaningfully simplify the structure of the group by eliminating the crossholding.

And we thought we should start there, so if we can go to slide three, we'll talk about the proposal. So, we have received approval from the South African authorities to unwind the crossholding in the group structure, and we will be putting this proposal to shareholders to vote on. Now, Basil will talk you through the specifics in a bit, but first I am very pleased with this outcome. It is an excellent solution with minimal cost and it will ensure the continuation of the open-ended share repurchase program. And second, the elimination of the crossholding will meaningfully simplify our corporate structure while it preserves the benefits that we gain from the listing of Prosus and from the share exchange transaction. And third, the economic interests of both sets of shareholders will be preserved and Naspers will remain domiciled in South Africa. So, more on this later from Basil but let me talk about results now.

So, I'll first highlight our strategy on slide six. And it's been a source of great strength for the group in a very volatile environment, and it will continue to define our path in the years to come. So, we've built a strong portfolio in markets that are really transformed by technology. And it's technology that empowers local marketplaces, and it's technology that disrupts consumer transactions and access to financial services, and it is technology that delivers enhanced education all the way from kindergarten to enterprise. We see a lot of upsides in each of these categories.

And as we build value operationally, we're also taking meaningful steps to improve our NAV per share to our open-ended share purchase program. And every day we sell a small amount of Tencent shares, we buy back our own shares at a discount. And this actually increases our per share exposure to Tencent. We remain very bullish on Tencent's future, about its assets and also the management team. And in the past 12 months, we have repurchased and sold about \$12 billion worth of stock. It's minor compared to the overall size of Tencent, but it's really significant when it compares to the size of Prosus. And in the coming year, we do not expect changes to the parameters of the program.

Now let's move to slide seven, where you can see that sticking to our strategy resulted in another strong year for the group, where we executed well across our key objectives. So first, we delivered a strong set of results. Our food, classifieds, and FinTech segments combined delivered peer-leading growth of 36% in revenue. Now Etail, which is Takealot and eMAG, was negatively impacted by the macroeconomic backdrop, like all of its peers in Etail. And it actually saw a small revenue decline year on year. And that decline had a large impact on our total consolidated revenue growth, which came in at 16% when we include the Etail business.

Second, we've taken significant action to achieve our goal of e-commerce profitability during the first half of financial year 2023, and we are very well on track. Third, our open-ended share buyback is doing exactly what it's supposed to do, which is to grow NAV per share while increasing our per share exposure to Tencent. Fourth, we have a very strong financial position with gross cash of almost \$15 billion, and that is a strategic advantage that provides flexibility to pursue opportunities when they arise. And finally, sustainability is a strategic priority and it is core to our strategy and to our capital allocation process.

And we can take you to slide eight, it shows the strong execution across our core segments with each delivering between 20% and 50% growth, despite tough comparisons from a strong period last year and a weaker economic backdrop. So, food delivery's revenue grew ahead of peers and profitability improved tremendously. And iFood benefited from sustained momentum in the core restaurant business and from improved traction in quick commerce and in groceries. Core classifieds delivered good growth and improved profitability with solid operating metrics and strong performance in Europe. We made a tough decision that you've heard about to exit the OLX Autos business that was facing significant challenges at the end of last year. And this will lead to a sizable improvement in the e-commerce profitability.

Our payments team is making excellent progress and is growing revenues by 52%. And we're especially excited about India's credit business, which continues to scale meaningfully. And in EdTech, our enterprise platforms continue to grow and better position themselves by scaling and by improving their product offerings. And in the future, we will focus our investment on leveraging the group's generative AI capabilities for EdTech in particular.

Now, we're committed to achieving profitability while growing revenue. And slide nine shows that we are doing exactly that across each of our segments in financial year 2023. So, it's not either or, it is both. So, I expect peer-leading growth and improved profitability in financial year 2024 as we look to achieve our ambition of e-commerce profitability during the first half of financial year 2025. And we're making real progress towards that ambition.

You can see the turning point was reached in the second half of the year on slide 10. And this is being driven by two things. So first, the benefits of scale. With increased revenue and solid revenue growth, this is falling to the bottom line. And second, we have a leaner cost base following significant reductions at both the business level and at the corporate level. And I'm very confident we will hit consolidated e-commerce trading profit during the first half of financial year 2025.

Now, over the past year, we have been allocating capital to our own stock and to the future growth of our current businesses. Our current businesses we know well, and we believe the risk there is much lower. And slide 11 shows this nicely. So, all in all, we have invested \$13 billion, and \$10.5 billion of that was allocated to share repurchases. And the vast majority of the remaining capital we invested was devoted to the food segment with \$1.6 billion used to acquire the remainder of iFood. And as you can see in today's results, this is a great company that is doing very well and we're very excited about its future. We also invested \$600 million in Delivery Hero, as we have seen some dilution in our holding over time and we continue to believe that stock is undervalued. And we increased our holding to just under 30%. And finally, we've invested \$200 million in early-stage investments, primarily in India, through our Prosus Ventures arm.

The impact of our investment and share repurchase is actually illustrated on slide 12. There are not many other companies of our size that have the ability to do this, and the benefits are many. In the last financial year, we've returned \$12 billion to shareholders. We reduced the free float by more than 20%, and we improved NAV per share by more than 6%. And the buyback has contributed to a significant reduction in the combined holding

company discount, and it equals, in the last financial year \$29 billion of value created for the group's shareholders. And while it's not shown on the slide, Naspers has also bought back about \$3 billion of its shares and it reduced its free float by 12%. And we will continue this program for as long as the large discount to NAV persists. You can see here how the benefits would compound over time, so improving NAV per share by 19% after three years.

And as we make progress on the top and the bottom of the NAV per share equation, we've also made real progress on our sustainability initiatives, and you can see that on slide 13. So, we know that the investment choices we make matter. Recently, we established our responsible investment thesis, and our ambition is to invest more into sustainability-driven businesses. We took decisive action on climate, and in financial year 2023, we implemented all necessary measures to reduce our corporate level Scope 1 and Scope 2 emissions to zero. It's a great achievement, but it's only a step on the journey ahead. And we've worked hard to build a real-world climate transition plan. And we have developed our climate targets, applying the science-based targets initiatives guidance. Our teams are also focused on managing waste, and we've developed principles that enable impactful and scalable packaging strategies for digital delivery platforms in the group.

And finally, before I turn over to Basil, I'll spend a moment on slide 14 that highlights our progress in AI and generative AI. And it's really difficult to capture everything that's going on in one slide, because we've actually prioritized AI across the portfolio. We've been completely embedding it in our workflow for the last five years. So, in 2018, we created our own AI lab. And since then, it's been supporting group companies to accelerate machine learning and AI, and also to scale adoption. And it also helps companies develop AI by design products and services. And we always do this with an eye on ethics and privacy. So, the early start we had, our scale and also our ability to apply AI in real world examples has enabled us to develop really strong connections with important partners in the ecosystem. And that has granted us early access to releases of new models and the very latest tools.

And based on that access and tools, we have developed an AI assistant based on Gen AI, which is called Plus One. Today, there are already 4,000 people across the organisation that are using Plus One to improve their daily work. So, across our group, our colleagues are using AI for better product recommendations, but also for things like fraud prevention, content moderation, logistics optimisation, and much, much more. To give an example, in OLX, AI models are used to attribute ROI to single marketing campaigns and it allows OLX to better optimise spending, which is drastically reducing costs for the same marketing outcomes. And similar initiatives are now being implemented across the group.

Another example is in iFood, which leverages Gen AI to provide a personalised offering to customers, and that really improves the reliability and efficiency of the food and grocery delivery process. Things are moving quickly, and we also continue to look at early stage AI companies. We already invested in a number of those. And actually, in our investment decision-making process, our AI leadership team is actually in the lead and very central, and it's hugely helpful in understanding the right opportunities. And finally, our team are really working across the group to make sure that ethical, social, and legal considerations are integral to our AI development.

And I think it's really crucial to preserving the quality and longevity of AI products and their performance. So, lots going on in AI, and Gen AI, and a lot more to come. And with that, I will turn the call over to Basil.

Basil Sgourdos

Thank you, Bob. And hello, everyone. We appreciate you joining us today. I'm delighted to share the substantial progress we've made on our shareholder commitments. So, let's kick things off with slide 16. The first point I will make is that e-commerce consolidated revenue growth was strong. The group delivered revenue growth of 36% in the four core segments of food, delivery, classifieds, payments, and FinTech and EdTech. Second, we reduced costs across the organisation, including a 30% reduction in corporate headcount. Trading profit margin of our consolidated businesses improved six percentage points in the second half of the financial year when compared to the first half.

We've turned the corner by accelerating profitability while still maintaining good growth. Group trading profit of \$3.6 billion and core headline earnings per share reflect a reduction in Tencent profits and higher losses from e-commerce associates. Encouragingly, post the close of the financial year, Tencent and other significant associates have reported good improvements in earnings. This will factor into our next set of results. Given the challenged macroeconomic conditions and their impact on valuations, we recognised impairment losses of \$2.5 billion for the year. The drop in public market valuations and the increased cost of capital drove these impairments.

Our investments are growing ahead of peers and are committed to delivering significant improvements in profitability. We are confident in their long-term potential. Valuations can scale on continued growth and profitability improvements. Finally, alongside a strengthened balance sheet and excellent liquidity, our free cash flow improved significantly year over year to an outflow of only \$13 million. This figure excludes OLX Autos, which we are in the process of exiting. I'm very pleased with the strong improvement in free cash flow.

Now let's turn to our consolidated e-commerce businesses on slide 17. You can see we are heading in the right direction, accelerating profitability while still driving better than peer growth. The strong growth was driven by all of our core segments. As I mentioned earlier, the four core segments grew a strong 36%. Each segment is growing significantly ahead of its peers, notable in the world's starved of growth. Etail was the lone exception, declining 4% to \$2 billion. Revenue growth has been impacted by the lapping of an elevated pandemic-related base in the prior year. There was also lower demand in the reported financial year as offline retailers offloaded inventory when COVID restrictions lifted. These trends are stabilising and we are seeing improvements in the new financial year.

So, turning to slide 18, you can see a clear improvement in profit driven by continued revenue growth and cost reduction. The second half of the financial year 2023 represents an inflection point. We are increasingly confident in our ability to achieve e-commerce profitability during the first half of 2025. Now I will share deeper insights into each of the segments financial performance, starting with delivery and iFood on slide 19.

iFood grew revenues 35% to reach \$1.4 billion. Orders increased 7%, which together with growth in order values and advertising revenue growth, drove the strong revenue growth that I mentioned earlier. iFood delivered over 830 million orders in the year, and its gross merchandise value grew 20% to \$9.4 billion. Good growth and enhanced operating efficiency improved margins. Trading losses reduced by a substantial \$110 million. iFood's grocery, marketplace, and quick commerce business saw substantial growth. Focused investment and improving economics drive strong improvements in trading margins in the second half of the year when compared to the first half. The strong results underline the group's conviction when it purchased the remaining stake in iFood in November. There is a clear path to a good return from this investment.

Turning now to slide 20, where classifieds grew strongly and improved profitability. Classifieds has had a challenging year. The segment was most impacted by the significant events of the past year. The war in Ukraine and the stark change in macro conditions for Autos in the second half of the financial year were consequential. The business, however, moved decisively in a tough environment. Avito was sold in October 2022 for \$2.4 billion and we were in the process of exiting OLX Autos.

The financial numbers on this slide focus on what remains, that is a solid European classified business. Core classifieds is well on the path to industry level margins while growing strongly. Excluding the impact of the war in Ukraine, the consolidated revenue of the core classifieds business increased by 20% while ahead of peers. Trading profit margin of 19% was a six percentage point improvement compared to the previous year. The segment has significantly improved profitability in the second half of the year due to good growth and cost action. Profitability and margins should continue to improve in the year ahead. The segment generates substantial profits and positive cash flows, all of which are experiencing healthy growth.

Moving to payments and FinTech on slide 21, which shows strong growth in the PSB business and meaningfully improved profitability for a quick-scaling Indian credit business. PayU grew revenue by 52% to \$903 million, driven by a strong performance in India and in Turkey, and a fast growing India credit business. In the PSB business, the total number of transactions grew 19% year on year. Total payment value grew 39% to more than \$98 billion. India is the largest contributor to the PSB performance and its revenue grew by 42% while its total payment value grew 44% to \$58 billion.

The GPO business grew total payment value by 32% to \$39 billion. Significant progress in Turkey underpins this growth. India credit continued to scale with insurances increasing 47%. Indian credit revenues doubled in the second half of the financial year to reach \$48 million. With a weakening macro backdrop, the business managed default risk well and was deliberate in keeping delinquency low at 2.5%. Good growth, solid risk scoring and continued diversification and reduction in the cost of funding drove the India credit business to a \$1 million profit in the second half of the financial year. There was a 63 percentage point year-on-year margin improvement.

Lastly, let's move to EdTech on slide 22, where the business is expanding offerings to capture a very large opportunity. Stack Overflow and Good Habitz were acquired during the first half of the financial year ended

2022. The numbers in the prior year incorporate 8 and 10 months respectively of trading. For the financial year 2023, numbers capture 12 months of trading. EdTech revenues grew 21% to \$134 million, and investment in the expansion of offerings increased trading losses to \$131 million. Stack overflow bookings grew 37%, driving revenue growth of 20% to \$94 million. Stack Overflow for Teams now accounts for 50% of total revenues of the company, compared to 38% in the prior year. Product development and expansion of sales and marketing capacity drove the Stack Overflow trading loss of \$84 million for the year.

Turning to Good Habitz, they increased the number of courses by 51% and the number of enterprise customers they served by 18% to over 2,600. Good Habitz revenue grew by 24%. And as a result, it significantly improved its profitability in the second half with a margin improvement of 38% when compared to the first half of the financial year.

On slide 23, we reflect core headline earnings, the group's indicator of the operating performance, which adjusts for non-operating items. The decrease in core headline earnings is driven by a drop in Tencent profitability and currency translation impacts. Like the rest of the portfolio companies, Tencent has attacked costs and returned to growth in the new financial year as Chinese COVID restrictions were lifted. Its first quarter results delivered a strong 34% profit improvement.

Moving to slide 24, an improvement in free cash flow. The group's free cash outflow, including the impact of OLX autos, was \$410 million, a sizable year-on-year improvement of \$167 million. Excluding OLX Autos, which the group is exiting, improves the free cash outflow to only \$30 million. The efforts to accelerate profitability and the focus on free cash flow delivered a significant improvement in the second half when compared to the first half of the year.

So, let's move to the balance sheet and funding of the business on slide 25. We have a solid balance sheet, comprising approximately \$15 billion of central gross cash at the year end. We received listed [unclear] shares from Tencent, valued at a sizable \$4.7 billion. In the new financial year, Tencent increased its dividend by 50% and we have received \$750 million in June of 2023. Debt capital markets are important to the group and we continue to manage the balance sheet to support the investment grade rating.

And finally, I'd like to take you through the proposal to simplify the group structure, which is depicted on slide 26. You will be familiar with the share exchange in 2021, which right sized both Prosus and Naspers for the respective stock exchanges. While the resulting crossholding was necessary to sufficiently reduce Naspers' size on the Johannesburg Stock Exchange, it did add a layer of complexity to the group. The solution we've proposed today eliminates the crossholding, allowing for the Naspers open-ended share repurchase programme to continue. The Prosus open-ended share repurchase also continues and is not impacted by the elimination of the crossholding.

So, touching on the mechanics, both Naspers and Prosus will do a capitalisation issue to the existing pre-flow shareholders. The Naspers and Prosus entities won't participate in each other's issuance. The final step, Prosus

will sell its very small residual holding in Naspers, unwinding the crossholding. These steps ensure Naspers' ownership of shares in Prosus aligns with its current economic interest of 43%. The remaining 57% ownership in Prosus will continue with the Prosus free float, whose ownership also aligns with its existing economic interest. The ownership of Naspers will remain unchanged. Naspers will remain JSE listed and a South African domiciled and tax resident company. It will retain a 72% voting interest in Prosus and Prosus will remain a subsidiary of Naspers. This is a good solution to a complex problem that also has minimal cost for the group. We will ask shareholders for their support of this proposal in a vote targeted for August to then complete the unwind in the third quarter of the calendar year.

I will close with the following messages. We are delivering on the key commitments to our shareholders. We made significant progress in the second half of the financial year ended 2023, maintaining growth while accelerating profitability improvements. We remain committed to achieving consolidated e-commerce profitability during the first half of financial year 2025, and our confidence to do so has increased significantly.

The robust balance sheet is a key strength in the current climate and provides significant flexibility and optionality. Capital allocation will be disciplined and focused. Finally, with the shareholder support, we can now remove the crossholding. This is a significant step enabling continued execution of the open-ended share repurchase for Naspers and delivering simplicity for all shareholders. This action has delivered a reduction in the discount during the financial year 2023 of 17% and created \$29 billion of value to date. The group's ambition is to compound these strong returns. With that, I'll hand you back to Bob.

Bob Van Dijk

Thanks, Basil. Now we've covered a fair bit of ground and I'm looking forward to answering any questions you have. It was a turbulent year and I'm actually really proud of our progress. And in the coming year, you should expect us to continue to focus on what we can control and to follow through on our commitments. And if we do that, we will further strengthen the company and we'll deliver excellent returns. So, we'll stick to our strategy. We'll continue our open-ended share repurchase programme and compound its impact. We will better evidence and crystallise the value of our assets. And we will continue to support Tencent as we firmly believe in its future. And finally, we plan to simplify the structure of the group to the elimination of the crossholding and we would really appreciate your support and vote to get that done. So, with that, thanks for your time so far. And Chris, let's open up the lines for questions.

Operator

Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have during the queue. If you wish to withdraw your question, please press * and then 2 to remove yourself from the list. Again, if you wish to ask a question, please press * and then 1 now. Our first question is from Joseph Barnet-Lamb of Credit Suisse. Please go ahead.

Joseph Barnet-Lamb

Hi team, and thanks for taking my question. I'll stick to one longer one if that's okay. I guess I wanted to ask a bigger picture portfolio and balance sheet question. So, you obviously have circa \$20 billion of cash including Meituan. You also have the rolling buyback funded by Tencent share sales. And you said the cash will be used for M&A. You've also been pretty explicit about your desire to conduct M&A in your four existing operating areas. However, over the last six or so months, we've seen you pull out of BillDesk, exit OLX Autos, and there are obviously rumours around non-India PayU and the exit of some classified territories, I think India and a couple of others.

So, I guess the question is, has there been any shift in your balance sheet approach or M&A priorities? For example, are you more likely to acquire larger, profitable businesses versus earlier stage targets? I obviously don't expect you to state specific target areas, but are there any areas of focus you would draw out? It feels you're exiting more than you're deploying, and it's not entirely clear to me which areas of focus will allow you to deploy many billions of Dollars. So, any colour you can give on the evolution of your thinking would be much appreciated. Thank you, team.

Bob Van Dijk

Yeah, thanks for the question. And actually, thanks for asking one question because it's a lot easier to remember than when you hit three or four. Now, I would say when I look at the way we think about building our business, there's not been a fundamental change. Like I think we communicated quite clearly that the bar is high and we also have been very clear on our commitment to get e-commerce to profitability. That remains true. I think within that, there are certainly very specific opportunities that we've demonstrated, for example, by buying the remainder of iFood, a great business, we think, at a good price. And it's a significant allocation of capital that I think fits both those dimensions of it will not deviate us from the path to profitability and it meets a high bar for expected return.

Now, if I look into the future, I think we are at a very pivotal moment, right? I think we have been very close to generative AI long before the ChatGPT became a publicly available resource. And we see that both sort of the operationalising of Gen AI in our businesses, as well as new business models that will be powered by Gen AI, is a transformational shift in technology. I must say that going into a transition period like that, where I know technology adoption will be at the speed of light, with a substantial cash flexibility is a fantastic position to be in because I'm convinced there will be newer companies that will embrace Gen AI better than many incumbents. I think those will be companies we'd be very interested in. And I also think it will create massive opportunities for potential other M&A. So, both early stage and potentially business that are getting real traction. So that's the way we think about it. I hope it answers your question.

Joseph Barnet-Lamb

It does. Thank you Bob.

Operator

Thank you very much. The next question is from Cesar Tiron of Bank of America. Please go ahead.

Cesar Tiron

Hi, good afternoon everyone. Thanks for the call and the opportunity to ask questions. I have two, if that's okay. The first one is operational and it relates to the pace of reduction in e-commerce losses. Looking at the H2 2023 losses, I wonder if the FY25 guidance is conservative. Maybe you can comment on the trends you're seeing during H1 2024 and so for example, with losses decreased sequentially in H1 2024 as much as it decreased in H2 2023. Just trying to figure out basically if the e-commerce break-even might happen before H1 2025. That's the first one. The second question is around value creation. So of course, the buyback and the e-commerce break-even will deliver value, but does management contemplate other self-help measures? So, for example, in the past, the company has unbundled assets. Is that something which you might consider in the future? Thank you so much.

Bob Van Dijk

Yeah, thanks, Cesar. And what I suggest is that I will answer your question on value creation and I will ask Basil to speak more to the pace of profitability improvement in e-commerce. Now, I think you're right, Cesar. In the past, we have unbundled assets when we thought they were maybe no longer a good fit. And MultiChoice was the biggest example of that. I would say besides the continued buyback and getting the business to profitability, we are very keen to demonstrate and crystallise the value of assets in our portfolio and it could take several forms.

It could be an IPO of several of our businesses, which we think is definitely possible when the environment improves. It could also take the form of a sale of assets. It could be M&A. It could be an unbundling. So, we really take a perspective on it that we have valuable businesses. Several of them are, I think, in a position to be properly valued by the market. And we look at a broad range of ways to crystallise that value and potentially give some of that back to our shareholders. Maybe Basil, you can take the point around the profitability improvement base.

Basil Sgourdos

Thank you, Bob. Hi, Cesar. Hello, everyone, again. So, Cesar, the past year, there was significant work by everyone in the organization to really get us on track for this profitability target, and everyone pushed hard, and the ambition is always to do as well as we can. And you've seen that in the second half performance, where the trading loss has decreased by 40% odd. So, the businesses are growing well, as Bob has outlined in the presentation and I repeated, and they continue to grow well in the start of the new year. We continue to manage costs well, and we remain focused on driving that profitability measure as soon as possible. Of course, there's lots of volatility in the market, and it's difficult to predict. So, our focus, we've said that we have significantly increased confidence in achieving that number, and our focus is on doing it as soon as possible. We don't give guidance as you know, so that's about as much as I can say on this topic.

Cesar Tiron

Thank you so much Basil. Can I just also ask, will it involve either shutting down or selling more businesses? So, for example, I think we've seen some news around potentially selling PayU outside of India. I'm not sure if that was confirmed or not by the company. But in any case, the break-even target, does it require selling or shutting down additional assets or is it all kind of organic?

Basil Sgourdos

No, it doesn't require the selling or shutdown of assets.

Cesar Tiron

Thank you so much.

Operator

Thank you. The next question is from Christopher Johnen of HSBC. Please go ahead.

Christopher Johnen

Yes, thanks very much for the opportunity. A quick one on the last one just as a follow-up to keep it smooth. I understand you don't want to give a specific guidance, but could you at least comment on whether the savings that you'll have from no longer having the loss of the OLX Autos would be reinvested or not? That would be interesting. A second quick one also on the 43% share that Naspers will have or will keep in Prosus, can you maybe talk about your intentions? Is there a self-imposed lock-up or anything, any colour on that going forward would be interesting. And then the final one, if I may, on the stake increase in Delivery Hero. 29.9% is obviously quite a magical number, if I may say so. Bob, you said that you believe the stock is undervalued. Can we get a little bit more colour on what the strategy for the investment is, if possible? Thank you.

Bob Van Dijk

Yeah. So, thanks for the questions. On the first question, will we reinvest the savings from OLX Autos? The plan is to not do that. So, that's a short answer. Then on the two other points, I think Basil, if you wouldn't mind commenting on the 43% share and our intentions there. Maybe I can say a bit around Delivery Hero, and Larry, I would love for you to jump in as well. You will have indeed seen that we've come to below 30%. We have actually a lot of conviction around Delivery Hero. We think that the business is on a good path to profitability. We also believe that that growth that has obviously been impacted by lapping effects is foundationally actually quite strong. And we do think the market doesn't give sufficient credit to the strength of the assets. That's why we bought more. It is not... If we would go over the 30%, it would trigger a variety of effects that would make it a very different story, and that's why we're at this point. But Larry, maybe you want to say something more about it.

Larry Illg

No, I think you covered it well. We continue to be impressed by the execution of the team and the strategic vision. And going any further is an entirely different set of considerations. But I think you covered it well.

Basil Sgourdos

Yeah, thanks, Bob. And then on the 43%, no, we have no intentions of changing that. So, that will remain as it is post the unwind.

Christopher Johnen

Is it possible, on the last point, to get a bit more colour whether there is any sort of agreement that's been put in place, maybe, you know, with SARB or anyone that you can share at this point?

Basil Sgourdos

Yeah, so, for those who aren't aware, in South Africa, the filings that you make with the SARB are confidential, as are the responses. So, we're not actually allowed to discuss the filing itself or the response.

Christopher Johnen

Got it. Thank you very much.

Operator

Thank you. The next question is from William Packer of BNP Paribas Exane. Please go ahead.

William Packer

Hi Bob. Hi Basil. Thanks for taking my questions. Two please. Firstly, I wanted to talk through market perceptions of your Tencent sell-down and buy-back strategy. I think it's fair to summarize that for investors that know the Prosus story well, the sell-down and buy-back is very popular and has helped reduce the discount. However, when I speak to Tencent holders, particularly in Asia, there's palpable scepticism. They worry that Prosus is pursuing a strategy closer to SoftBank with its Alibaba holdings and gradually heading for the exit. Prosus selling will therefore be a semi-permanent overhang on Tencent, which is pressuring their share price and in turn a drag on Prosus. Do you have any comments to reassure those investors? For example, would you stop the sell-down if the discount reached a certain level? Could you comment on that level?

And then the second question is, there have been various press reports of you exploring exits beyond OLX Autos within your classified segment. Could you comment on how you see your classified portfolio in the medium to long term? Which geographies and segments are you looking to retain exposure to, e.g., Eastern Europe or not, auto versus generalist classified etc. Thank you.

Bob Van Dijk

Yeah, sure, William. I'll take both of those. Lydia couldn't join the call otherwise I would hand the classifieds question to her. When it comes to classifieds, there were there were a few rumours in the market a while ago. Those rumours were exactly that, rumours, which is why we typically just don't comment on them. I think Basil actually covered it well. The OLX business that we retain is a significant business. It is growing much ahead of its peers. It has both a very strong horizontal, but also very strong verticals in actually all the key markets it is in.

And it has good margins and it's able to increase those margins at above market growth. That's the kind of assets we love. And I think it's a valuable asset that fits well in the group.

And we have a lot of confidence in the leadership team because frankly, just to call it out, it's been obviously a rough year with the invasion of Ukraine, the changes that that brought to the team, the fact that we had to sell our Avito business, then the decision around Autos. But the team has worked through it really well, has retained exceptional motivation and has delivered excellent results on the business that we have, and the future looks really bright.

And on the market perception of the open-ended buyback programme, I'm aware that there are some rumours around that. What I can say, and Basil and Eoin can comment, is that we love our Tencent stake. The reason why we do the open-ended buyback is to make use of a market inefficiency that helps us create value for shareholders. And in fact, on a per-share basis, which is in the end what matters, our shareholders have more exposure to Tencent, not less. And this really matters to us, right? We believe firmly that the Chinese consumer internet market remains to be the most exciting place, one of the most exciting places in the world to deploy capital. And we think Tencent is going to do exceptionally well in that context. So, the programme doesn't in any way reflect on our views in Tencent. We will be very large shareholders for a long time and there is no intention whatsoever to do anything like what SoftBank has done because we believe in the business and we actually are increasing the per share exposure.

William Packer

Thanks very much for the colour.

Operator

Thank you. The next question is from Andrew Ross of Barclays. Please go ahead.

Andrew Ross

Great. Good afternoon, everyone. I wanted to ask about quick commerce within food delivery. It looks like iFood is making very good progress, both in terms of growth and margin on this bit of their business. Can you talk about your expectations into FY24 and whether we should expect the quick commerce business of iFood to be profitable on a standalone basis as we go through this year? And then more broadly, can you talk about how you see the space globally? What have you learned through this year around the viability of this business model. As you exit out of the pandemic across your various investments, what gives you confidence that this will be an attractive space going forward? Thanks.

Bob Van Dijk

Yeah. Thanks, Andrew, for the question. It would be amiss not to ask Larry to talk to this because he spends his every waking hour on this business. So, Larry, do you want to give an answer to Andrew?

Larry Illg

Yeah, happy to give it a spin. I think we tend to talk about this space like it's the same model everywhere. And I think quick commerce became the shorthand, but really we're talking about grocery. And I think we see the model play out differently depending on the geography. I think it's important to remember, we covered some of this on the investor day, that this is structurally a local business. So, the version of quick commerce that you might see with an iFood, and that would be in terms of who's picking the order, who's packing it, who's delivering it, and frankly, the nature of the inventory might look different than what you would see in Swiggy's version of quick commerce or Delivery Hero's, or frankly some of the companies that we're not invested in. It's a structurally... it is a local business. And in the case of iFood, iFood has explored on the margin more of a marketplace type model that leverages grocery, external grocery and logistics providers that allows for different economics that then you might see in other markets. So, I think as a general rule, we do see a path to profitability for the model, but the form that the model will take looks different by geo.

Bob Van Dijk

Yeah, and if I may add something to that, I think one of the other learnings that we have, and I think it's a profound one, is that if you are a standalone pure play, quick commerce player, it is a tough model to make profitable. If you are a food delivery company that is going into grocery, you have all the customers already because they are the same customers that order food from you. You also have a very well-established logistics network that you can leverage and you don't have to build from scratch. So, I would say the other learning that we have, which I think pretty much holds everywhere, Larry, is that you have a massive advantage if you have a strong food delivery footprint and you're going into the grocery delivery business.

Larry Illg

Yeah, that's spot on. We've gone through the hard work of figuring out who the valuable customers are on the food delivery side and what the valuable neighbourhoods are and how best to serve them. So, that gives a huge leg up versus people that are starting from scratch.

Andrew Ross

That's helpful. Thank you.

Operator

Thank you. The next question is from Lisa Yang of Goldman Sachs. Please go ahead.

Lisa Yang

Good afternoon and congratulations again on the results and on the simplification. I have a few more questions, please. I think, Basil, you commented earlier about some of the trends you've seen, for instance, the e-commerce. And you said eMAG is now seeing a better trading performance. I was just wondering if you could make similar comments for maybe the rest of the portfolio, how maybe the macro is currently affecting operations, and obviously when we're going to enter much easier comps when it comes to like post-COVID normalisation. So, should we expect an acceleration in growth in FY24? That's the first question.

The second question is, Bob, I think you mentioned in the past several times that private valuations are still way too high related to public. I'm wondering if you could maybe give us an update, and at what point do you actually see maybe more opportunities coming out, whether it's in private, public, and which segment today would probably look the most undervalued to you? And the third question is, you obviously have a stake in Meituan. It looks like they want to expand out further to China. I think they just recently entered Hong Kong and it look like they're not going to just stop there and might expand elsewhere internationally. So, I'm just thinking, given your presence and international expertise, and obviously your stake in Meituan, do you think that there might be ways to collaborate with them going forward. Thank you.

Bob Van Dijk

Yeah, Lisa, thanks for the questions. Basil, I think I'll leave the first one to you to answer without giving guidance. So, good luck with that. And I will have a stab at the second two. So, let me start with Meituan. We think Meituan is actually a great company besides some international experience. I think their progress in China has been really, really strong, excellent execution. So, we at this point in time are supportive. There's been increasing contact between the companies, but we have a relatively small stake there. So, it's a very different relationship than the one we have with Tencent, where we are on the board and we have very close links at every level of the company. But we see it's a great and well-run business.

To maybe say a little bit more about the private valuations. Look, I think if I look at public markets, I still think there are pockets of undervaluation. And food is an example. I think public food companies are undervalued, Delivery Hero in particular, because they have fantastic assets that are improving well and growing. So, I think in public markets we see it. In private markets, the dynamic where we've seen a lot of fundraising while rates were low and money was flush, that hasn't entirely shaken out, I would say. So, what I see is that many companies that raise that high valuations basically have managed to not raise capital. The ones that did have to raise capital typically have seen a fairly significant haircut to their valuations.

I think in the next six months I expect that situation to occur more often, where companies that have previously raised but are running towards the end of the funding they have put aside are going to have to come back to market. And then I do think we'll see further correction in private valuation, because a lot of it has actually not shaken out. But maybe Ervin, you want to comment because you spent a lot of your time on this particular topic.

Ervin Tu

Happy to, Bob. I think you've said it well already. The market has not fully adjusted in the private setting and we expect it will. As to whether it's six months or 12 months or what the precise timing is, I don't think anyone really knows. There are a number of good businesses out there though, and we have a lot of gross cash on our balance sheet. We will remain patient to wait for the opportunities that are most attractive for us.

Basil Sgourdos

And then, Lisa, on your first question, I'll say a couple of things. So, first of all, it's impossible to predict how the macro's going to impact the world over the next year. We don't know where interest rates are going to settle, we don't know where inflation is going to settle, we don't know what's going to happen in geopolitics. So, it's an impossible thing to try and predict. But what we do want to do is sustain the trends that we've been delivering in the second half of this year. And what are those? One is we want to continue to outgrow our peers. So, if the world is impacted and growth slows down, what you will see from our businesses is that they continue to meaningfully outgrow and outperform their peers.

Then, from there, we've set plans for the year, right? And it's still very early in the year. We're basically almost three months into the year, and the businesses are hitting those plans, both on the top line and the bottom line. So, we're confident. And I think that's about as much as I can say. One, we don't issue guidance, but even if we did, it's impossible for people to predict given everything that's going on in the world right now.

Lisa Yang

That's really helpful, thank you.

Operator

Thank you very much. The next question is from Catherine O'Neill of Citi. Please go ahead.

Catherine O'Neill

Great, thank you. I wanted to ask you more about your comments on generative AI and investments there, if you could give us more colour on which areas you've been invested in and are most interested in for your business. Separately, but slightly linked to that, Stack Overflow, what they're doing in that space, because I guess that's the one where there's potentially most near-term impact. That's on generative AI.

Secondly, on Delivery Hero, it looks like you increased the stake from what I could see more recently between December and March. I wondered if you could give us a bit more detail on the timing of that and what the highest price was you paid in the last six-month period.

Then finally, just on the balance of your portfolio really, where you're selling Tencent in a sort of measured way at steady pace and you're planning to crystallise value of unlisted assets. That I guess means the balance portfolio shifts further towards Tencent theoretically. I wondered if you could give us a bit more of an idea of the pipeline of businesses you've got in Ventures. Previously, it's been quite obvious about where EdTech was coming through or food delivery. It seems less obvious now. I just wondered if you could give us an idea of what you see coming through you think is interesting from a scalability perspective.

Bob Van Dijk

Yes, that was four questions if I kept count, which for my brain is the far end. So, let me try to answer or ask for an answer on all of them. Let me start with the rest. So, I think what is important to say when it comes to

crystallising, crystallising doesn't actually mean that we get out of things, right? It could also be a listing, it could be a merger, it could take several different forms. So, the idea that we're exiting businesses at scale is not necessarily the right conclusion. So, if we, for example, list one of our businesses in the next 12 months, we'd probably not get out completely, but rather put a business on its own legs and remain a significant shareholder to make sure we benefit. So, I think that's one point.

The other thing I would call out is Ventures actually has been steadily investing in some magnificent companies. That's been in a number of exciting areas, but in particular also in one very exciting geography, which is India. If you look at the capital that the Ventures team has deployed, the vast majority of it has been deployed in India. And if you take the top ten of the most exciting, fastest growing start-ups in India that are still private, I think we're probably in seven out of ten of those. And frankly, I could talk about them for hours, but we don't have hours. But if I call out one, I think Meesho, for example, is a spectacular business that has, in terms of the number of active users, actually surpassed both Flipkart and Amazon in a very short amount of time, seeing spectacular growth and very rapidly improving unit economics.

Then there's business like ElasticRun, Eruditus. We have the Urban Company, which is doing something very unique, which is getting to scale. There's PharmEasy, which we're very excited about. So, we've deployed a lot of capital into highly promising Indian business, where I think we'll see a lot of scaling in the next few years. And I think we'll also see the value of those companies actually rise quite significantly over the next couple of years. And we continue to look for new opportunities with the Ventures team. They're still very, very active.

Now, on Deliver Hero, I think we don't disclose this information, so I don't think I can give you more colour on that. Let me talk a bit more about generative AI. So, what I think about generative AI is that it is a, and I mentioned it earlier when we talked about the firepower, I think it's going to be a generational shift in technology that will do a number of things. I think it will increase productivity in many, many parts of any profession, frankly, if well adopted. We intend to be on the absolute forefront of that. And I think with our Plus One product we are actually at the absolute forefront of it. I think it will also improve not just productivity, but will improve business models, like what we're starting to see happen in our food and in other businesses. The business model will adjust. It will incorporate Gen AI elements, and it will become foundationally better as a result of it.

And then the third category, which I think will be very interesting from an investment point of view, is new companies or newer companies that are going to use Gen AI to disrupt existing business models in the space they're in. In the same way as Uber has changed the taxi business, the way that Spotify has changed the music business, I think we will see a generation of new companies come out that are formed now and that will scale in the next few years that will be the new challengers to existing business models that will not be able to deliver on what Gen AI can do for the world.

Because I think the step change in technology is probably even larger than that of the mobile phone. It's probably the order to the magnitude of the internet. So, big changes ahead. There will be new winners, and

those new winners are the companies we're looking for. Then maybe Larry, I've been talking too much already, but I get very excited about this topic. But Larry, you can say a little bit more about what is going on with the Stack Overflow.

Larry Illg

Yeah, happy to. I think you touched on it, a lot of it, but for Stack specifically, we think that Gen AI is going to be an important evolution to how developers work and learn in the future, helping them to be more efficient and also learn new techniques while they're in the flow of work. We think, and the Stack team believes the developer community can play a crucial role in how AI evolves and accelerates, ultimately, with the community being helpful in ensuring the quality of Gen AI offerings. And Stack itself sees its role as is bringing the power of its developer community – and it's important to remember that they have assembled one of the biggest developer communities in the world – bringing that community together with the technology power of AI with the goal of creating highly trusted solutions to technology problems. And the team is working and launching a variety of AI solutions and more to come here.

Bob Van Dijk

Yeah. I think that's well put, Larry. So, the user feedback to improve models is one of the essential ingredients to the quality of Gen AI. And when you have 100 million users that are critically looking at your content, that is a tremendous asset in building the best Gen AI solutions in the technology space. And what is also important to call out is that that Stack Overflow has an absolute wealth of proprietary data on how software developers solve problems, right? There's no other company that has the wealth and the depth of data on how developers who are confronted with an issue actually go through different steps to solve it, which should be probably one of the most valuable data aspects to actually build the best Gen AI software engineering solutions.

Catherine O'Neill

Okay, thank you very much.

Operator

Thank you very much. The next question is from Warwick Bam of RMB Morgan Stanley. Please go ahead.

Warwick Bam

Good afternoon everyone. I've just got a few here. The first topic probably goes to Basil in terms of cash flows because OLX Autos has been a large cash drag on the business, especially when you look at your disclosure excluding OLX Autos for 2023. Do you still need to contribute further cash to OLX Autos prior to its sale or can we consider the \$380 million a non-repeat item? And then just on the same topic, just in terms of other one-off items, I understand you've done some restructuring costs, some of which fall into the prior year, some which fall into 2024. Can you call out any once-off items which could assist us in understanding the sustainability of that \$30 million cash outflow, excluding OLX Autos? And then lastly, just a simple question on the removal of the crossholding structure. Does the proposal to shareholders require an ordinary or special resolution? Thanks.

Bob Van Dijk

Basil, I think these are mainly questions for you. And maybe the last question is one for David if David's on the call.

Basil Sgourdos

I'll take the first two, and then David can deal with the votes. So, on the cash flows, remember, we haven't fully exited and OLX Autos is a going concern. So yes, there is cash consumption in the current year. And what that will be and how it will be will really be driven by how we actually engineer the exit. So, that's an ongoing process and I can't really give you a definitive number until we have a definitive outcome. On the once-offs, of course, there were once-offs in the prior financial year, particularly with regard to retrenchment costs and other restructuring costs. And again, how it plays out this year also depends on how the exit in OLX Autos plays out. But I think the largest chunk of that has already been captured in H2. And what we hope to see from here is fairly stable operating environment as things stand now. Of course, the world changes, things change, and that's why it's really hard to give firm guidance. So, overall, the bulk of the costs happened last year. There may be a bit this year, depending on how things play out, and then we have a fairly stable operating environment.

Bob Van Dijk

Thanks, Basil. Very helpful. So, David is actually on the call, but he is in the listen-only mode, so he can't answer the question. Luckily, there are several other people who can. And Ervin, maybe you can cover the question while we can't ask David.

Ervin Tu

Happy to do that, Bob. For the Prosus vote, the answer is it's a simple majority vote. That's for Prosus. For Naspers, there will be certain matters that [break in audio]. So, the answer differs by Prosus versus Naspers. This will all be laid out, of course, crystal clearly in the shareholder circulars that go out ahead of the vote.

Warwick Bam

Thanks very much.

Bob Van Dijk

I think we have time for one more question, Chris.

Operator

Yes, thank you. Then our last question will be from Sylvia Cuneo of Deutsche Bank. Please go ahead.

Sylvia Cuneo

Good afternoon, everyone, and thanks for taking my question. I just have one follow-up on the classifieds business. Can you provide a little more context around your strategic decision to exit OLX Autos and your view for this segment? I'm curious to hear if beyond the immediate impact to profitability, you also considered exiting

since it is still possible to improve the consumer experience by adding transactional features with a capital light approach going forward like some of your peers are doing. Thank you.

Bob Van Dijk

Yeah, thanks, Sylvia, for the question. It's actually, I think, a very pertinent one. And I spoke about it actually quite a bit in the last few days. I think what happened with the OLX Autos was two things at the same time. One, cost of capital went up a lot. And as you indicated, this business model typically has a certain level of inventory. And particularly if you want to improve your margins, having a certain level of inventory and doing the sales of the vehicles yourself rather than being fully asset-light, it is actually really helpful. So, when cost of capital went up a lot, I think the economics of the business model deteriorated. And I do think that if you go much more asset light, you will potentially have a consumer experience issue as you indicate. But I think what you also will have is that it's harder to generate the margin that you require to achieve profitability in the model.

The other thing that obviously happened in the post-pandemic year was that second-hand car prices came down quite meaningfully, which means that even if you manage to run at similar gross margins, you end up with lower sales prices, so therefore with less metal margin to work with, which also puts real pressure on the ability to cover your fixed costs. So, with all those factors combined, we believe that the business case had just been significantly eroded and we were better off by exiting the business. Not that there is no traction. Several of the businesses have traction and consumers like it, but the economics have been made much more tough.

Sylvia Cuneo

Okay, very clear.

Bob Van Dijk

Thanks, Chris. I think that was our last question. So, if okay, I will close from here. First of all, I really appreciate that people take the time for this because we also take a lot of time to try to do our best to present it well. Great questions today. It was a turbulent year, and I'm very proud of the progress we made. I think we're on the right path to really strengthen the company and deliver excellent returns. And we will continue with our open-ended share repurchase programme. We will look to better evidence and crystallise the value of our assets. We'll continue to be huge believers in Tencent and of the potential upside of there. And we plan to get the circular out that details the simplification to the elimination of the crossholding. And we really appreciate your support to get that approved. And with that, I want to thank you all and wish you a great morning, afternoon or evening, depending on where you are.

Operator

Thank you very much, sir. Ladies and gentlemen, that then concludes today's event and you may now disconnect.

END OF TRANSCRIPT