

Conference call transcript

4 December 2018

1H 2019 RESULTS

Operator

Good day ladies and gentlemen and welcome to the Naspers H1 2019 results conference. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you should need any assistance during the call please signal for an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to Eoin Ryan. Please go ahead.

Eoin Ryan

Good afternoon, and thanks Chris, and everyone for joining us on the call today. You can find our interim report and all accompanying documents on our investor relations website. On the call with me today is our CEO, Bob Van Dijk, and our Chief Financial Officer, Basil Sgourdos. So to kick things off I will hand it over to Bob.

Bob Van Dijk

Yes. Thanks a lot, Eoin, and welcome everybody to our interim 2019 results call. So for today's call I will kick us off with a strategic overview and context of how we have performed against the strategy of the last six months. Then I will hand over to Basil and he will update you on the financial results for the period. After that we will leave plenty of time for any questions that you may have. So if I can start us off on page five, before we jump into the results let's take a quick step back and frame Naspers' overall strategy. I think it will give good context for our results as well as the strategic investments that we've made during the last period.

If you look on the left-hand side of slide five that's the framework that drives our strategic decisions and also serves as a filter for all our capital allocation. So the heart of our strategy is to build and invest in entrepreneurial platform companies in fast growing markets, particularly when they address large societal needs. And while the internet has seen explosive growth from taking traditional offline businesses and moving them online, we believe the next wave of growth will come from tech-enabled offline businesses. And we see this opportunity actually largest in growth markets. At this point in time we see the biggest area for this opportunity in the classifieds, in the food delivery and in the payment space. And you will see we're doing quite well there.

So now actually we will focus on the progress in each of these areas as well as our thinking with respect to the future opportunity in each of them. So now if I can take you to slide six we cover some of the highlights of the period. We continue to execute well and we are delivering on our key objectives. First we reported solid financials, and we've seen strong revenue growth and continue to boost profitability. In e-commerce we've seen revenue growth of 29% year on year, and we've also increased e-commerce profitability meaningfully resulting in good growth in overall trading profit, as well as a 39% increase in our core headline earnings. Basil will go into more detail, but I'm really happy to say that the classified area of the business is now profitable, including LetGo, and there is great progress there.

Second, we saw a really strong execution in all of our three e-commerce segments. So in classifieds user engagement continues to grow strongly, and particularly excellent results were recorded from Avito from Brazil and from our European markets particularly in Poland and in the Ukraine. In our payments business TPV increased

to about \$14 billion and India now accounts for more than half of that. In food delivery GMV increased by 46% on an annualised basis.

Third, we have strengthened our portfolio considerably in the last six months through targeted investments in our core segments, in classifieds, food delivery and payments. And I will talk more about that later. And finally, in September we announced our intention to list Multichoice on the Johannesburg Stock Exchange and to simultaneously unbundle this business to our Naspers shareholders. That is another step to address the discount that we are facing, and we expect it will unlock significant value for our shareholders. It also moved Naspers towards 100% online global consumer internet company, and at the same time it will create an empowered top 40 JSE listed African entertainment group. So this process is developing well and we plan to complete the listing and the unbundling in the first half of 2019.

So now I will dive into each of the segments. If I can take you to slide seven, you will see that in classifieds we are the clear global leader and we took significant steps during the period to further enhance value and also to provide future runway for growth. So classifieds now has more than 340 million monthly active viewers and has the largest global footprint. We have leadership in 35 countries and the activity across the platform actually continues to grow strongly. The average monthly paying user base is up 33% year on year. OLX grew revenue an impressive 37% organically in the first half, and that is more than double the industry average. We also continue to see strong traction in the high growth markets that we focus on. We expect them to contribute meaningfully to the ongoing growth of this segment. In the US LetGo continues to perform very well and we're excited about the potential there. That is also why you saw us take full ownership of the US business during the period. And as I mentioned classifieds is now profitable including LetGo.

If I can take you to slide eight, in classifieds it is not just business as usual but we're actually deepening our market presence. So we are leveraging the strong horizontal market leadership positions that we've had to get deeper penetration in ways that will enhance professional relationships and also growth monetisation. So we are extending the business model by investing into highly monetisable verticals as well as convenience transaction formats that have very high ARPUs. In our initial experience and experiments in this extension they have provided really promising results and we've accelerated our investment here. And WeBuyCars and Frontier Car Group are two excellent examples of that.

If I can take you to slide nine we dive into food delivery. So in food delivery we have a strong position. So if you combine Delivery Hero, iFood and Swiggy that gives us leadership of 40 markets with really strong customer loyalty and network economics. If you take the segment in aggregate GMV grew with 46% year on year with strong contributions from all businesses, and global orders also growing strongly particularly in Latin America and in India. Food Delivery is a perfect example of our strategy in action with online platform capabilities that address a large offline societal need in a high-growth market. And I want to pause here for a second and underline for you how we think about the food delivery space in this regard. I would say it's still early days, but if you look at the growth in revenue and the underlying operating metrics it gives us real confidence in the potential here. And there is an opportunity to have a profound societal impact and transform the food industry by disrupting and improving the entire value chain.

You would have seen that we have increased our investment in Swiggy and iFood recently because these brands are clear leaders in their space. They are leading in the eyes of the customers that use them, but they are also leading in the eyes of the local restaurant owners that use the platform. What we're doing is we're investing to further strengthen those relationships, very much driven by tech-driven product innovation. And this customer-centric and product-driven approach as opposed to a race to the bottom with promotions and price is what will differentiate and drive growth, expanding the market beyond pure food delivery of today.

On slide ten we talk about our payments business. In payments we're excited about the opportunity to leverage our core global leadership positions in the payment service provider space to expand the markets further and address large societal needs, particularly around credit and convenience to customers who previously had not had access to this. We are making great progress here and the metrics support it. If you look at average daily transactions they are growing strongly. They are up 39% year on year. Total payment volumes are up 29% year on year on a constant currency basis. What is also exciting is that we're operating in the highest growth markets in the world.

PayU has strong leadership positions in many of the markets it operates in. Similarly to food delivery India is really a key market for us in payments. It has a huge market opportunity in excess of \$800 billion with under-penetrated consumer and SMB credit. In payments as a whole India now represents more than 50% of the group volumes with average daily transactions growing 50% year on year for the period. In credit [unclear] has also gaining very significant traction and has reached already over 450,000 consumers.

If we go to slide 11 it shows how we have effectively used M&A to further accelerate the growth in our core segments. What you see is in the past six months we've deployed capital and put more weight behind our operations to solidify our leadership positions. And we continue to do this if we see the right opportunities at the right price. We have about \$9 billion in net cash, and that gives us the flexibility on the balance sheet to pursue our growth ambitions and to build up further our key segments, classifieds, food delivery and payments. And we think that we can make these businesses into large, multi-billion Dollar operations.

I think this slide underlines just that. So in classifieds we increased our ownership in LetGo and in Dubizzle and we deepened our position in key auto verticals by investing in WeBuyCars and in Frontier Car Group. And this increases our exposure to these convenient transaction formats that I mentioned earlier. In food delivery we believe these investments will increase the pace of execution and they will solidify further our leading positions. And in payments we have expanded our strong performing Indian credit portfolio with further minority investments in Pay Sense and Zest Money. So I hope you're excited about our strategy, and I now hand over to Basil to discuss our financial results.

Basil Sgourdos

Thank you Bob. Good morning, good afternoon and good evening all, and thank you for joining us today. As Bob mentioned I'm going to take you through the financial highlights. So a couple of reminders before we kick off. As before the presentation includes growth percentages that isolate the impact of forex translations and M&A. This provides an understanding of the organic growth in local currency terms which better reflects our underlying operating performance. As I work through the deck I'm going to focus on this organic growth. The forex impact is largely a translation impact in the internet businesses. However, in the video entertainment segment the forex impacts are more significant given the large US Dollar cost base versus local currency revenues. And then finally, all amounts are on an economic interest basis, meaning they include our proportional share of associates and JV results.

So folks, let's get going with slide 13 which lays out the financial highlights. In the e-commerce we are really pleased with our progress. With strong underlying growth trends the investments we've made have been well placed and are now showing real returns. For me this underlines the core of the Naspers strategy. We find great assets addressing real societal needs in high-growth markets. We invest to scale them and then we benefit from that scale. We saw strong growth in revenue and the underlying user metrics. Trading losses reduced by a substantial 46% and margins improved meaningfully. Our classifieds business is now profitable including LetGo for the first time. Payments, etail and travel also had a noteworthy reduction in losses. As we balance improving

core profitability with investment in new opportunities we will continue to drive towards e-commerce reaching overall profitability in the coming years.

The video entertainment segment had a steady six months, growing its subscribers by 400,000 to 13.9 million households. Despite the ongoing economic and currency volatility effort to return Sub-Saharan Africa operations to profitability are gaining traction. Then the group returned to a free cash flow positive position. That's a marked improvement of some \$367 million year on year. Tencent again contributed to healthy earnings growth. And in summary our core objective remains strong returns over the long term and unlocking value for our shareholders.

Turning to slide 14, you will see a brief synopsis of our performance for the six months. Top line grew 29% with Naspers generating a sizeable \$11 billion in revenues. Trading profit grew 34% which fuelled the strong growth in core headline earnings, which were up 39% year on year to \$1.7 billion. On the next slide we unpack the revenue and trading profit in more detail. E-commerce revenue increased 29% to \$2 billion. The combination of good revenue growth and further efficiencies that come with scale meant profit growth was significantly higher than revenue growth. Trading losses narrowed by 46% to \$209 million. The e-commerce segment continues to deliver the highest profitability improvement of all our segments. It grew at nearly twice the rate of Tencent.

In our social and internet platforms revenues grew to \$7 billion driven by Tencent. Although the year on year growth rate is reduced, a 38% growth rate is a great achievement Tencent's size. Mail.ru accelerated its growth and grew our share of revenues by 30% year on year. Tencent was yet again a meaningful contributor to trading profit with the social and internet platform segment increasing its contribution by 24% year on year. Overall margins declined as the business mix evolved and as the significant investment in cloud and other services continued. The video entertainment segment delivered solid results, generating revenue growth of 7% and maintaining a fairly stable trading margin. And this despite stepping up investment to capture additional growth around the FIFA Soccer World Cup.

On slide 16 we double click on the improved profitability of the e-commerce segment. The e-commerce trading margin loss halved from -21% to -11% this year. All margins across the portfolio improved except for food delivery where further investment in scaling operations expanded trading losses. Classifieds continued to show a strong profit growth with a margin improvement from -16% to 12% in the year. Payments improved from -23% last year to -14% this year even as it invested to build out its new credit business. The uplift was driven by our core PSD [?] business which is moving to profitability in the aggregate with several markets already profitable. Our food portfolio continues to exceed our growth expectations. As Bob mentioned earlier we are still at the early stages of a significant tech-enabled shift in eating behaviour. We are leading the shift and we are encouraging our businesses to invest in capturing a sizeable portion of this opportunity going forward. Travel's trading margin also improved substantially from -32% to -14% driven by solid revenue growth and improved unit economics in the hotel business.

Slide 17 analyses development spend in more detail. We continue to make large strides in reducing overall development spend. So folks, those of you who are joining us for the first time and are new to our business, development spend reflects trading losses incurred by businesses yet to reach scale. The total spend continued to trend downwards by 21% year on year. For reference, the consolidated number came down by 27% year on year. Spend on new investments decreased by \$41 million or 33%, and that's mainly related to lower spend in LetGo and MakeMyTrip. We also saw a 13% or \$41 million decline in funding our more established businesses, most notably a 29% reduction in classified spend as developing markets continue to scale.

Slide 18 details the financial performance of our profitable e-commerce entities. So we think this view is useful because we have many businesses at different stages of investment. But importantly we are seeing a consistent

march towards profitability across the portfolio. As I said, this is the Naspers strategy in a nutshell as our goal is to invest in, scale, and then move these businesses to profitability. And I think this is something we have been quite successful at doing, as you can see on this slide. Our profitable businesses demonstrated strong growth. Our revenues grew 29% year on year to \$902 million and trading profit grew even faster at 48% year on year to \$223 million. In FY18 our total e-commerce profits exceeded that of the video entertainment segment. Importantly, overall the sources of profitability are increasing driven by classifieds and payments as these businesses scale.

Slide 19 outlines the financial progress of our classifieds segment. Revenues grew 37% to \$405 million and now already represent 64% of FY18's revenue. Avito performed well and grew revenues by 31% to \$162 million despite weak macro conditions and some competition. OLX Brazil grew revenues 54% and expanded its profit margins. LetGo performed strongly with a solid start in testing monetisation and continued growth in the user base. LetGo's growth is particularly encouraging as it was driven by product enhancements which sparked new activity across the platform and re-engaged past users. Year on year losses are declining meaningfully, so this is very good progress. Overall classifieds' trading profit amounted to \$47 million compared to a loss of \$45 million for the prior period. That's a swing of \$92 million. The classifieds segment is on track to be profitable for the full year. As you look to the second half be sure to factor in the LetGo marketing investment as well as the traditional seasonal patterns. This is the period in the year where we ramp up investment to drive growth in the new year.

Slide 20 outlines the strong growth of the online food delivery segment and our renewed investment to scale and expand the space. As Bob explained earlier, food delivery is just at the beginning of its journey and the opportunity for continued explosive growth is immense as the markets expand through additional offerings, choice and services to consumers and restaurateurs. As I mentioned, we are encouraging our businesses to invest further in the opportunities to solidify the strong positions we already have. During the period the segment continued to grow strongly with solid contributions from all businesses. Revenues tripled to \$181 million while losses expanded to \$41 million reflecting the investment I just mentioned.

In India Swiggy continues to record outstanding growth with orders growing more than four times and revenue also growing very strongly. In 2018 we invested an additional \$79 million in Swiggy, bringing our effective interest to 25%. Delivery Hero executed well and grew their revenues 48%. iFood continues to execute exceptionally well, doubling its revenue. We recently committed an additional \$400 million to the iFood business over the coming years and believe it will enable iFood to increase the pace of product development and innovation to complement its current offering and accelerate growth. This is a cycle we've been through before and it's a cycle we know very well.

Slide 21 summarises the payment segment financials. PayU showed strong progress in its PSP business, growing revenue while containing costs. The PSP business which lies at the core of the payment strategy and enables expansion into adjacent businesses is approaching profitability. Revenues grew 33% year on year to \$171 million driven by a 35% increase in transactions and a 29% increase in total payments value. Specifically India, which is a market of strategic focus for Naspers, now makes up more than 50% of PayU's total payment value, which is a sizeable \$14 billion. As the number one e-commerce payment gateway in India we are well positioned to lead in the rapidly advancing payment market, unlocking incremental opportunities in areas such as credit, global payments and cross-border transfers. We also substantially narrowed losses, bringing them down by 58% and improving trading margins considerably.

On slide 22 we outline the performance of our social and internet platform segment. Tencent's strong performance continues and we remain convinced of Tencent's long-term prospects and returns. Moving on to slide 23, we illustrate the increased contribution to central cash flows by our internet business. Improved e-commerce profitability particularly in classifieds resulted in a greater contribution to overall central cash flows.

Once we exclude video entertainment free cash flows from profitable units and dividends totalled \$544 million, which is a 43% increase year on year. That's a significant improvement and a trajectory that puts us in a position to take the step to unlock value for our shareholders by unbundling Multichoice.

Slide 24 illustrates our free cash flow position. We are free cash flow positive at the end of the six months, \$271 million of inflows compared to an outflow of \$96 million in the prior year. That's a marked improvement and is driven by the improved profitability, converting it into cash, and the dividend income from Tencent increasing together with positive working capital effects from the video entertainment segment.

Turning to slide 25 we set out the significant M&A transactions included in the first half. Acquisitions in the period totalled \$750 million. We remain disciplined and focussed in our investment approach which is vital to balancing strategic priorities with delivering satisfactory returns to you, our shareholders. As painful as it has been a market correction like the one we've seen typically benefits well-capitalized companies like Naspers and may create opportunities to put capital to good use and deliver great future returns.

Slide 26 we provide an update on our internal rate of return. We continue to deliver healthy returns as we optimise our portfolio. Return on investment remains important when we allocate capital. Rates are significantly ahead of our cost of capital, NASDAQ and many of our peers. This track record including the 29% Flipkart IRR and our disciplined approach to allocating capital provides us with the confidence that we can generate excellent returns for shareholders by investing in growth opportunities.

Then, folks, on slide 27 we revisit the discount. So we understand and acknowledge that the discount is a source of frustration for all stakeholders and we are working tirelessly to identify the best options to address it. The core problem remains Naspers' size on the JSE which has caused forced selling pressure from the South African clients as they align closer to the newly-introduced CAPI index and their prudential limits in terms of single stock exposure. This slide sets out our priorities and several initiatives so far. In the first half of FY19 with increased profitability we were disciplined with capital allocation and we locked in great returns with the Flipkart sale. The announced intention to list MultiChoice group on the JSE is yet another step in this unlock. We have far more work to do here. We are looking at additional measures including primary listings and we will communicate to the market when we are ready to do so.

In the next few slides we will unpack the performance of MultiChoice Group and our decision to list the group on the JSE. Slide 29 shows the performance of the video entertainment business for the period. Results for the VE business were solid. Revenues grew 7% year on year and trading profit by 6% in local currency. This was achieved on the back of really strong subscriber growth with our products and services now reaching almost 14 million households across the African continent, an increase of 14% or 1.7 million subscribers year on year. A key focus on cost control resulted in programming costs being flat year on year. So that's a remarkable achievement by the team. The business delivered significant improvements in free cash flow general mainly due to the unwind of prior year content payments and setup box [?] inventory through the FIFA World Cup.

The South African operations delivered a stable performance against a challenging macroeconomic backdrop. Subscriber growth remained buoyant in the mid to mass-market segment and the business reported an acceleration in net adds to 285,000. Sub-Saharan Africa reported strong growth momentum with both revenue and trading profit growing 16% in local currency. Translated into US Dollars the business turned the corner and reported stabilising losses despite some significant ongoing currency devaluations, especially the Angolan Kwana which is down 55% year on year. The value strategy delivered a further \$15 million in cost savings. Profitability should continue to improve from here. During the reporting period the business leveraged the growth opportunity provided by the FIFA World Cup and invested significantly into subsidies to grow the subscriber base. This

investment shaved some 9% off the trading margin, but given that it has resulted in a much larger installed base is expected to deliver healthy returns in the years to come.

So turning to slide 30, on 17th September we announced our intention to list and unbundle the video entertainment segment as MultiChoice Group on the JSE sometime during the first half of the new year. We expect this will unlock value for Naspers shareholders and move us towards a 100% online global consumer internet company and create an empowered top 40 JSE listed African entertainment group. As the leading video entertainment platform on the African continent with unparalleled content offering we believe MultiChoice Group is very well positioned as a standalone business. It is high cash-generative. It has no debt at listing. It continues to deliver strong subscriber growth and enjoys an early leadership position in the fast-growing connected video space. It has great local expertise and know-how to bring people across the continent the best entertainment anytime, anywhere. We will update you on the progress of the unbundling in the new year.

So folks, before I conclude I will quickly summarise for me the key take-aways. We have made excellent progress during the period. Revenue continued to grow strongly. Trading profits grew even faster. And our business underlying metrics are encouraging across the board. We have returned to a positive free cash flow generation which is particularly meaningful given the upcoming unbundling of MultiChoice. The investments we have made are proving to be well placed with continued attractive returns on invested capital to date. We will continue to invest in future growth and we will do so in the same disciplined capital allocation approach that has driven our success to date. We continue to work hard on finding the right solution or set of solutions to address the discount, and our and your goals are fully aligned there. So with that I will hand it back to Bob.

Bob Van Dijk

Thanks Basil. Before I close off let's go to slide 32 where we look forward and think about the future. It is clear that the execution during the period has been strong. Revenues have grown strongly as Basil said. Trading profits are on the right trajectory. I would say our confidence in the future of our investments has increased. So to look to the remainder of the year and beyond here is what we're mainly going to be focussed on. So we continue to drive our e-commerce business to profitability while we will also invest in new opportunities to sustain that growth for the long term. And we want to smartly use the flexibility on our balance sheet to pursue our growth ambitions in classifieds, in food delivery and in payments.

We will also continue our focus on innovation and efficiency across the portfolio by embedding AI and machine learning more and more deeply in our products and in our service offering. And finally, we will take further steps to address the discount. So with that I would like to thank you for your time so far, and will open up for questions, and the operator will take you through how that works.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one. Our first question is from Miriam Adisa of Morgan Stanley. Please go ahead.

Miriam Adisa

Good afternoon everyone. Thank you for taking my questions. Firstly, the classifieds business. Given that you're now seeing good profitability in classifieds what level of profitability do you think you need to reach before you would consider a separate listing? And then secondly, linked to that, we know that Schibsted plans to list their own classifieds business next year. Could that be a potential catalyst for the listing of your own business, and are you open to some sort of transaction with them given your overlap? And then secondly just on capital allocation

and your comments around the market correction, do you feel now there are more opportunities on the public markets relative to the private markets, and has that changed your willingness or appetite to do larger-sized transactions? Thank you.

Bob Van Dijk

Let me try to answer both your questions. And Martin, feel free to chime in on the classifieds point. I think we are very encouraged by the trajectory that Martin and team have delivered. And based on operating performance I think the best is yet to come. I think the reality is that we have been able to invest in the business very proactively and we see a substantial further growth trajectory ahead. So I think the company is well positioned to be within the Naspers group for the time being, even though its profile is indeed looking very attractive as well. I would say Schibsted's strategic priority won't influence our decision-making. We play our own cards. As to your question on future consolidation, I think our view stays as it did before. We are building a fantastic business. We are also a pragmatic group of people. If at some stage there is an attractive transaction to be done we will obviously consider it. Martin, maybe you want to add before I move on.

Martin Scheepbouwer

No, that's it, Bob.

Bob Van Dijk

Okay. Thank you. The second question was around whether a correction in multiples would push us towards more public market investment. And there I would say you would have seen in the past we've made both investments in private and public companies, and we do that based on the expected return that we think we can deliver for our shareholders. And in many cases in private companies, in some cases we have invested in public companies with exceptional results. So our methodology doesn't change. We are looking for a strategic angle where we can add real value to our investments and at the same time we want to deliver an excellent return for our shareholders. It doesn't change our approach.

Miriam Adisa

That's really helpful. Thank you.

Operator

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

Cesar Tiron

Yes, hi everyone. Thanks for the call and thanks for taking my questions. I have three different questions, the first one on classified margins. Do you think that margins on classifieds that monetise have reached a ceiling at about 47%? I think there was about a 2% decline from 2018, or is that mainly due to the fact that you were adding new properties in the monetisation category which obviously have a lower margin? The second question is on LetGo. Obviously the losses have halved compared to last year. Can we expect this trend to continue, and should we expect to see non-organic ways to further reduce losses such as in-market consolidation? And then the third question is on the M&A. You spent about \$750 million in H1 in acquisitions. Is that the run rate which you are comfortable with or should we expect an acceleration of that spend given that you have about \$9 billion in cash? Thank you.

Bob Van Dijk

Cesar, many thanks for your questions. Maybe I will start by answering your third one and then I will hand over to Martin to answer the two classifieds questions. So we spent about \$750 million and I think it is actually really hard to predict what our go-forward. What I can say is that we see some fantastic opportunities in our core segments

where we could potentially invest the company's money. We are encouraged by food delivery. I think the opportunity is much larger than we previously thought. So it might be if we run into the right opportunities a great destination for further investment. However, M&A is extremely hard to predict and we can't give you any future guidance. The opportunity itself is very significant and we're quite bullish without being able to give you any guidance. Martin, could you answer the first two?

Martin Scheepbouwer

Certainly. When it comes to classifieds profitability as Bob said we are only in the midst of this. As you have been able to see on page 19 we on a blended basis have a 12% profit margin that is really a mix of businesses that trade at very high margin and still loss-making ones. When it comes to the high margin ones I think the main upside comes from revenue growth rather than margin expansion. Many of the loss-making entities including LetGo will cost less in the future and will invest mainly behind big opportunities when we see one. So it does not prevent us from pushing advantage when we spot an opportunity. But for instance LetGo US the losses will continue to shrink going forward as it starts to monetise and mainly sourced from, as Bob called it, product-driven growth.

Cesar Tiron

Thank you very much for your answers.

Operator

Thank you. The next question is from JP Davids of JP Morgan. Please go ahead.

JP Davids

Hi. Good afternoon. A couple of questions from my side. Just firstly to follow up on an earlier question and maybe to make it slightly broader, over the last couple of years you've executed on a number of in-market consolidation trades to improve profitability. Looking ahead how do you think about consolidation of regional assets to scale up the size of key verticals and whether that may be value enhancing. Then switching gear, and probably more for Basil, I see there was some tax leakage around the Flipkart transaction. Can you confirm that this is an isolated tax issue and that generally your e-commerce structure is tax efficient? Thank you.

Bob Van Dijk

Thanks JP. I will give you an answer on the first question and then I will ask Basil to deal with the Flipkart tax situation. So in terms of consolidation I think if you look back on the last few years I would summarise it that we have been a set of assets that we've operationally improved tremendously. I think that is across the board in classifieds, in payments and in food delivery. But there have been opportunities where you could see additional value creation by consolidation. The source of the value creation and consolidation has been quite different. In some cases it was a direct competitive situation that was much more productive by letting companies pursue growth together. In other cases, which is getting to scale, for example in our India payments business, by combining forces we got to better scale and in the end you deliver better solutions at a better margin profile. So for different reasons we have been pursuing consolidation. Underlying considerations are the same going forward. We are building great businesses organically. If there is a compelling reason either from a scale or a competitive point of view and we can create a better customer proposition we will certainly consider it.

Basil Sgourdos

JP, if I can deal with the tax question, a couple of points. First of all, the 29% IRR that I quoted was after this tax amount. So it's a significant return including a very small tax amount. Secondly, we are focused on recovering that tax amount. So we are in the process of doing that and we hope to be able to do so at some point. And then thirdly our structure is really solid across the board. We have got a top notch tax team on board and we make sure we

have substance and that we actually are properly constructed in the markets we operate in. So I'm not worried about that at all.

JP Davids

Very clear. Thanks very much.

Operator

Thank you. The next question is from Richard Kramer of Arete Research.

Richard Kramer

Thanks very much. Just one broad question on the food segment. Do you see real evidence there that these are more than a collection of national businesses, and do you see that building out a footprint as was discussed in the previous question at regional or even global level has some very clear synergies or operating benefits? And second on that business, a lot of the more evolved players in this space are reinvesting now to build up delivery footprints. Can you talk through your approach to that? It's going to be very different in different markets. And then a quick one for Basil. Two-thirds or so of the free cash flow came from a working capital improvement in the media business. Can you talk about how repeatable that is, or whether in the portfolio of activities working capital might be more or less tied up in the future? Thanks.

Bob Van Dijk

Thanks for your questions. I guess your food question is split into two, one about synergies from combining above national level, the other one is around delivery. Maybe I will have a crack at the first one and I will give Larry an opportunity to speak more about delivery. Larry is not on the call, so I have the pleasure of covering both before Basil answers your third question. So I think what we are seeing even without our set of assets is there are actually huge knowledge synergies in being an investor in several of these companies. What we have learned in iFood has given us the opportunity to make a very value-added investment in Delivery Hero. And again what we have learned at Swiggy for example has informed us of what the future of first party is going to look like. I would say in terms of knowledge synergies you are absolutely right. There is huge value in operating in more than one country.

In terms of practical synergies I would say over time that would be more the case than it is today, because I think today it is still very much a county by county, even city by city in some cases, business where you can run a great business on a national level. I think over time we will see more particularly machine learning being added. The technological complexity if you go five years' from now will be higher, which also I think then drives a good reason to look for technology synergies. I don't think we're quite there yet, but I think over time we will get there.

In terms of delivery I think it is a nuanced picture. You see in several markets players investing in more of the first party infrastructure. I think it is because it obviously delivers some more convenience to customers. And I think particularly in high density environments you can build a good business on first party delivery. And second of all, I think it's what customers demand. I think the third party business still works well in less dense environments and can be very attractive. So I think you will see more first party going forward. But I think still the third party model will be there to stay in many parts of the market.

Basil Sgourdos

Thanks Richard. If I can deal with the free cash flow working capital part of the question. I think there are a couple of things that I would like to call out here. First of all you're right to call out working capital. It was a sizeable contributor to free cash flow. But it wasn't the only thing. Our profitable businesses and the cash generation from that improving profitability is a strong driver. And we believe we can sustain that going forward certainly from our e-commerce businesses. The working capital in the e-commerce business is relatively light. It is not very heavy

and it doesn't swing around a lot, and that's well managed. In video entertainment the working capital can be bulky year on year. It really depends on whether we have big contract renewals. There generally what you tend to do is make an upfront payment for a portion of the contract which of course gets amortised over a couple of years. And also if you've got a big event and depending on the timing of decoder inventory that can also have a bulky thing. So last year you saw a big outflow. This year you see a big inflow. I would not say that that's sustainable on a long-term basis. It is going to be fairly lumpy year on year.

Richard Kramer

Okay. Thanks.

Operator

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

Catherine O'Neill

Hi. Yeah, I've got three questions. On food delivery you're clearly very excited about that area. Are you happy with your current holding in Delivery Hero? Is that something you think you need to change in terms of your position there? And could you perhaps just provide a bit more detail about iFood and what the plan is for investment, given it already has a high market share in Brazil, and where that is being focussed. Is it being used to expand into other markets? On education as well with Inventus, I've seen some comments not long ago that suggest that's an area you're also excited about. Could you give us an idea about how you see the outlook for a tech new investment there in the medium term? And finally on etail, you don't really talk about etail much as a core business. Is that an area where you might look to exit at some point? And could you talk about the threat from Amazon or any of the other global operators in some of your existing markets?

Bob Van Dijk

Thank you very much. I think I will take all of those. So I would say when it comes to food we are looking across the globe at opportunities. I would say with Delivery Hero we're very happy with our holding there. We're happy with the performance of the company, and I think it will continue to do extremely well. In terms of iFood I think I can elaborate a little bit more. So we committed a substantial amount of capital. There is much to do with the further size of the opportunity. So I think iFood has been a great success in terms of building a market that didn't exist before in Brazil. And we see that there is huge further potential in several directions. One is we see opportunities for "dark kitchens" in Brazil that now are still quite nascent. We have also seen that actually there is the desire to have food at even lower price points, which we think we can also achieve for example through private label. So I think when we invested in iFood we got excited about the progress. I think the overall market opportunity is probably four or five times what we thought it was. That is what we're very much investing against.

In education we have invested in a number of businesses that we are strong believers in, and we added one recently with SoloLearn, which is another one that is on the cutting edge between on-line learning and software development. The world probably needs another 10 to 15 million software engineers and we think that the kind of edu-tech products that we've invested in can actually deliver those. And if you look at the majority of how education still happens the disruption I think is only a fraction of the way there. So we look for the right opportunities to do more there, and I think it is one of those offline parts of the world that people spend a huge amount of time and money on where I think technology will play a much bigger role if you look ten years down the line. So a great opportunity.

And finally on etail, I think what we've seen over time for different reasons is we've divested of a number of assets, in some cases because there was a buyer for it who was very interested and we could lock in an excellent return for our shareholders. And we're pragmatic about that. In other cases because we would end up being a small

minority that is not strategic, and we thought it was better to lock in a return than to be a passenger on somebody else's investment fundamentally. I think we are really happy with the operational performance of the assets that we still have. I think they are in strong markets and have a strong market position. And it is still quite early days. In Eastern Europe eMAG has an extremely strong market position but is growing rapidly and can still strengthen its position. Takealot in South Africa is doing well, is market leader, but I would say is a fraction of what it can be. So we're excited about the assets we still have and their potential.

Eoin Ryan

I think we have time for just one more question.

Operator

Of course sir. Our last question would be from Ziyad Joosub of HSBC. Please go ahead.

Ziyad Joosub

Hi everybody. Thanks for the question. I've just got a question on PayU please. I know it's early days and it's probably very difficult to give completely clear guidance going forward. But I would just like to get your initial thoughts on how big you see the Indian consumer create an opportunity for Naspers. Do you think an online platform could become a scaled player in this space? And having Kreditech as well as [unclear] technology in-house as well as the consumer payment and transaction data you have, do you see those as clear differentiators in this consumer credit space or do you expect it to be a highly competitive area of the medium to longer term? Thank you.

Bob Van Dijk

Thanks for your question. I think we have Laurent on the line. Laurent, I don't want to steal your thunder. Do you want to have a crack at those questions?

Laurent Le Moal

Yes. Hello. Absolutely. So for the consumer opportunity around credit in India we approach it in three ways. The first one is we build our own products leveraging the data that we have from the payments business and the distribution that we have from our merchants in India. And the second thing is we do distribute other people's credit. So you mentioned Kreditech, and Kreditech is one partner among others in the market. And the third one is we have also made a few investments in other companies especially in India, companies like Pay Sense, that do add slightly different products for the consumers. The reason for this approach is first we believe that in a market like India which is still a the early stage of alternative lending we believe that first there would be different products, buy now pay later type of products for small ticket items, like [unclear] which is very successful with a merchant like Swiggy. We believe also that there is a market for instalment products for higher tickets at the point of sale.

And the third one is there is also an opportunity to go directly to the consumer. So that's why we have a multi-pronged approach. To your question on competition, I think this is a very different market from payments. Payments is a game of sale. It's a game of efficiencies to get to profitability. I think when it gets to credit this is first and foremost a game of access to data because with the right data about consumers then you can successfully build a credit scoring system. We do have the data. We have learned about credit scoring through our investments. Now it's a matter for us of scaling that business. But it's fundamentally different in terms of assets and in terms also of business economics for the business. It is still very early on, right. There are still less than 10% of our revenues coming from credit. But it is growing very fast. So we will be investing more over time and building the team specifically for that business going forward.

Ziyad Joosub

That's it from me.

Bob Van Dijk

Many thanks, Laurent. I think that was the last question we have time for. I want to do two things. First and foremost, if there are further questions please do reach out to Eoin. Eoin is here to run our investor relations arm, ready to interact with you at any time. Second of all I want to thank you for your time and attention. It was a great set of questions. I look forward to talking to you soon again. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, that then concludes this conference call and you may now disconnect your lines.

END OF TRANSCRIPT