Conference call transcript

22 November 2021

OLX AUTOS DEEP DIVE CALL

Operator
Good day, ladies and gentlemen, and welcome to the Prosus NV OLX Autos deep dive call. All participants are currently 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 call is being recorded. I would now like to turn the conference over to Eoin Ryan. Please go ahead.

Eoin Ryan
Thanks Chris, and good afternoon everybody, and thanks for joining us on quite a difficult day for the first in a series of deep dive calls we will be doing over the coming months into our businesses. Today we will be taking a look at OLX Autos, and on the call with me today I have the CEO of OLX, Romain Voog, and the CEO of OLX Autos, Gautam Thakar, and they're going to take you through the business. With that we'll go through a quick presentation and then we'll open it up for Q&A. with that I'll throw it over to Romain.

Romain Voog
Thanks, Eoin, and good morning everyone. I'm Romain Voog. I'm the CEO of OLX Group. Thank you all for joining the call today. I wanted to start by saying that we are very aware of the events of the past 24 hours in Ukraine. I wanted to say that our thoughts are with everyone in the area in what is we believe a very concerning time. As you know, OLX Group operates in Ukraine, and the safety of our team is obviously of paramount importance to us. We are taking all appropriate actions to support our team and our customers during those troubled times. So I wanted to acknowledge that.

Now, the aim of today's session is really to update you on our progress and ambition of what we are very excited about, which is our OLX Auto business, our global auto transaction platform. But let me first start by sharing a little bit about OLX Group. If we turn to slide number one, our vision at OLX Group is to build leading marketplaces ecosystems, enabled by tech, powered by trust and loved by customers. What you can see already today at OLX is a translation of this vision in our strategy.

If you look at our business, we clearly have two reinforcing businesses, one which is Classifieds, with brands such as OLX or Avito, and the other one, which is Auto Transaction with brands such as OLX Auto, LetGo OtoPlus in Turkey or WeBuyAnyCar in the US. Both businesses are amongst the leading players in each of their locales. Together we have over 300 million monthly active users, more than one million app installs, and operate in more than 20 countries and are supported by 14,000 employees.

When I say those businesses are a clear testament to our vision, both businesses are actually part of our ecosystem of marketplaces. We leverage common technology and data across several markets and businesses. We leverage our existing supply and demand in countries where we have both business models. For instance in Turkey 50% of the cars we buy in our transaction platform comes from our listed classified website. But we also leverage our local operating teams as well as all global functions and expertise that we have across OLX.

If we turn to slide two I want to share a little bit more about Classifieds before we dive into Auto. In Classifieds we keep on building what I call a successful, high growth classifieds business ecosystems, both with what people will know as horizontal sites which are multi-category sites across real estate, cars, goods, jobs and services where we basically benefit from the power of traffic and dedicated sites, more vertical sites as known in the industry, especially the one in real estate and cars. And you will see us have different assets, whether horizontal or vertical, across the different markets.

Most of those assets are actually leading in their markets. And when you look at our growth rate and profitability, what's very interesting is we actually have generated, as we have shared with you during our H1 results, $4.7 billion worth of revenue in our Classifieds at a staggering 48% growth year on year, which is significantly above industry benchmarks. What you will see in terms of profitability is we are actually at what I would call industry level profitability in our most mature markets. You should see our portfolio as some mature markets and some markets where we keep on investing in Classified.

If you move down the notion of Classified, you will see us evolve from what was probably a traditional classified business to what I would call a transactional classifieds business with a strong category specialisation. What does that mean? It means that we will invest in technology and marketing to build stronger category-specific customer experience and we will grasp more of a profit pool when it comes to monetisation of transactions. By doing so we think we'll be able to further monetise our audience and actually increase the number of customers that come to our platform and increase the relevance of our customer experience, making us even stronger in each of the locales.

A great illustration of that move is what you can see in product investments such as Pay and Ship, which is a major push we are doing this year. On this one I am very pleased to share that we have already reached in record time 3 million monthly transactions in just our two main markets, Russia and Poland. And we were close to zero 12 months ago, so 3 million monthly transactions lately. So that's for Classifieds.

If I'm turning to the next slide, which is more about Auto, and before a more detailed presentation by Gautam, our Auto Transaction CEO, I will just want to provide a high level view. Auto is primarily at this stage a first party marketplace where we buy the cars that we later sell to dealers or consumers. This obviously requires not only technology but also offline infrastructure to inspect, refurbish and sell cars.

When you look at the Auto Transaction business around the world and OLX in particular, you will see that it is actually at OLX already a quite sizable business in our total revenue. It as representing roughly half of our business in H1 when you look at revenue. But the growth rate we're posting here is quite important, 200% year on year or a bit higher when you neutralise for FX.

What is even more exciting with Auto is that there is significant potential for high long term. When you look at it, it's a $2 trillion market. It's a market that is very poorly served by the current incumbents. And the ability of our technology-enabled model to disrupt this market by significantly improving the customer experience, especially trust and transparency but also choice and quality and financing, is actually very impressive. And you will see from the first result that we have already taken a strong path toward achieving that goal.

Now moving to the financial slides, slide number four. This is just a reminder of the last results we disclosed during the Prosus H1 results. And as you can see, overall the group has grown 100% in H1 to $1.3 billion revenue, both driven by Classifieds and more significantly by Auto Transactions. And what we are seeing since then is a continued strong momentum in the second half of this year as our investments in products, marketing and auto inventory are paying off.

On the trading profit side we have demonstrated how we can get leverage out of our growth, especially in Classified. Overall our trading profit has increased 270% to $108 million in H1 FY22. And while this was achieved with some level of investment into our core classified and in our auto business, you will see a further investing at a higher level of to further fuel our growth in classified and to scale our automotive business in the second part of the year. I want to conclude here my part and say that we have strong convictions on the potential of both our classified businesses being transformed into a transactional classified, and in our Auto Transaction business to create significant value for OLX Group and Prosus. With that I would like to turn it over to Gautam, the CEO of Auto Transaction. Thank you.

Gautam Thakar
Thanks Romain. Indeed an amazing set of businesses in OLX and excellent results in FY22. Hi everyone. My name is Gautam Thakar and I am the CEO of OLX Autos. I look forward to sharing more detail of our OLX transaction journey and how we are solving a massive consumer pain point to build a large, high growth business for many years to come. This is the first time we are sharing details around OLX Autos, I might defer to some of my colleagues in investor relations to come back to you on specific questions so that we remain consistent with our disclosure policy across the group.

That said, I hope to give you a clear sense of our strategy and progress to date and why we believe we are poised to be one of the largest players in this category globally. So let's begin on slide seven. Romain already mentioned this, but I'll skip through this quickly then. Used cars is one of the largest categories in the world. Over 125 million used cars are sold every year in a $2 trillion market. A large part of this trade happens in high growth emerging markets where the OLX Group already has significant assets.

More importantly, this is a category that is ripe for disruption. It is deeply fragmented with multiple dealer and sub dealer networks who do not provide transparency with respect to quality and pricing. In many markets the process is time consuming with analogue documentation needed to complete the transaction. And from a consumer perspective, it is one of the few categories where both the buyer and the seller feel cheated at the end of the transaction because they don't know if they got a good price and an as described car. Having bought and sold seven vehicles myself across three countries, I know personally how uncertain and untrustworthy this process feels like. And it is true in any global market or any culture in the world. This is also a category that is in the very early stage of digital disruption. In fact, only between 1% and 2% of the category transactions are done online and there is tremendous runway here.

If you move to slide 8, I want to start with the genesis of OLX Autos. Our journey started a couple of years ago when we invested in and eventually acquired the Frontier Car Group. I'll use the abbreviation FCG. FCG had over four years had built an extensive network of offline car purchases, inspection centres, valuation capabilities, a dealer platform and a car management app. There was strong synergy in bringing together FCG's offline, automobile and retail experience with OLX's online capabilities, dealer network and millions of high intent users and traffic. This acquisition gave us a start and gave us the capabilities, scale, talent and a new domain in which we started our Auto Transaction journey. As Romain called out earlier, this is a very different business in as much as we control the user experience because we control the product, in this case the car, and it is one of our first big bets in transaction categories.

On slide nine you will see that we have significant transaction already. I am delighted to share that we almost doubled our transactions and tripled our revenue growth in H1 of FY22. While we have yet to report our H2 numbers, I can tell you that the pace of growth has accelerated and we will report significant higher results as part of our formal earnings later in the year. This outcome has been made possible by a strong team, our investment in tech and our FCG integration. We certainly also benefited from some macro factors around new car supply issues in some markets, but this growth is especially pleasing in a period when many of our offline centres were under lockdown for parts of the year due to COVID.

As a business you will see we have crossed $2 billion of revenues since our inception two years ago, and our second billion Dollars took us only a little over eight months to deliver. We hope to better that pace in FY23 as we start to invest even more in our growth. While the growth is pleasing, what is even more satisfying to me personally is the success in some of the specific initiatives witnessed across our markets, and slide 10 will show this well.

We know what it takes to build this business over the last 12 to 24 months, and our execution to date has provided proof points and increased our convictions in the model and confidence in the long term growth potential for OLX Autos. For example, we made a shift to B2C last year, which means selling directly to consumers instead of to dealers, which is what FCG used to do a lot of. And now in some of our markets, for example Indonesia, we are already seeing that 40% of the cars that we sell are sold directly to consumers and we have clear market leadership in this area in that market. This is important because once you start selling directly to consumers is when you really disrupt and really make the consumer experience come alive.

With that Indonesia experience we have started launching through the year B2C in many more markets. In fact, Turkey, which is the fourth largest used car market in the world, we did a B2C first launch which means that our focus is B2C and not so much dealers. Another successful example of a test which we piloted was our financing business in Chile which we started two years ago. And now 30% of our B2C cars sold are actually sold via our own financing offerings as OLX Autos, and this continues to grow with very lower than market delinquency rates.

In India, we began to test brand advertising and have had a significant impact in a very short period of time, doubled our transactions in less than six months in the latter part of last calendar year. This has crystallised our learning and approach and our decision to invest significantly in the global brand over the next few years. Finally, we operate a niche but successful and rapidly growing business in the US where our playbook has been defined over many years with the WeBuyAnyCar brand. Our continued success in the US in launching new domestic markets reinforces our confidence to launch many more cities every quarter in the coming years.

We have not spoken about Auto specifically with the investor community in the past, and some of you may be surprised in the short time the global scale which we have which you can see here on slide 11. Since our inception two years ago, we are already in 11 markets ranging from the Americas to Europe and Asia. As I mentioned, we operate under the WeBuyAnyCar brand in the US, and that's a strong growing business. But it focusses exclusively on selling to businesses. The rest of our global footprint will run on a single global platform and leverage a common playbook.

We have a large team of 5,000 employees now already worldwide, mostly in inspection and retail operations and significant investment in growing a team in technology. We have a wide coverage of offline locations that allows us to offer convenient touchpoints for our users. We are probably today the most global used car transaction marketplace in the world, and that is what OLX Autos is today.

If you go to slide 12 you will see that in the short time by footprint and scale, we are already one of the top digital used car platforms. While we are very focused on solving customer problems and generally don't compare ourselves with other players, given our newness we thought it would be a fair comparison to give you some helpful perspective of our scale and geographic footprint relative to other players, public and private, in our markets.

To caveat, this is by no means a comprehensive list and numbers are based on publicly available data for the last three quarters and extrapolated for the full year, including valuation data where we have picked recent data that public markets have reported. For OLX Autos the numbers that we have extrapolated are for the first half of the year times two, and the actuals when we report them will be far higher because we have had significant acceleration in H2. Despite some of these players having been around for six to eight years, we are already one of the top players and we are well positioned for the future.

Turning to slide 13, this future and our vision for the future is inspired by the opportunity to revolutionise vehicle ownership globally, fuelled by tech, powered by trust and loved by customers. A used car is the second most important purchase in our customers' life, especially in the markets we operate in. Making this experience trusted and the process transparent and hassle free really matters. Financing options are limited in many of our markets and we believe we can make vehicles accessible to more people and improve their lives. The vision serves as a guiding light to reinforce areas which we will disproportionately invest, namely technology first, building a trusted brand with customer experience at the heart of everything we do, and making cars more accessible with embedded financing for our users, and doing this globally.

This vision shapes our strategy which is laid out here on slide 14. I will talk about each pillar in a minute, but at the highest level, we know we have a significant asset in the OLX brand with high intent visitor traffic in many markets around the world. We will leverage this as a starting point for our growth. We will accelerate our investment in direct to consumer offerings (B2C), increasing our penetration of financing steadily across the world. And finally, we have a large and growing technology team that will continue to enhance our global platform which we are very proud of to scale fast, innovate and replicate success in every market as we build product features in one market and take it across the world.

On slide 15 you see that we plan to leverage our portfolio strength of supply and demand in classifieds markets. I want to talk about a couple of things on this page. First, from a portfolio perspective we have a successful but C2B focused business in the US which we treat slightly differently, and we continue to invest in that. But our mid-term focus will be in markets where either we have a well-known OLX Group brand with classifieds, which means we can leverage the high intent consumer buyer and seller traffic, or in large markets where FCG had a presence. Specifically this means that our key investment markets will be Indonesia, India, Turkey, Mexico and Poland. These are approximately $200 billion in used car market size today and continue to be growing rapidly, which means there is tremendous runway for us to build a leading transaction business for many years to come.

Our classified properties allow us to leverage the significant volumes of supply of cars from hundreds of thousands of listers. Additionally, we will also be opening our platform in a managed marketplace model to our highest quality dealers who sell on the OLX Classifieds platforms. This not only improves our cost of acquisition but affords a wide selection of vehicles to OLX Autos users, which is a critical advantage supply constrained markets and something that most of our competitors cannot do.

We will also list high quality retail worthy cars that OLX Autos buys directly from sellers to the millions of buyers who come to our classifieds platform and allow both businesses to feed off each other. Romain already mentioned that in markets like Turkey we are seeing more than 50%, even though it's early days, of our ability to buy cars come from our classified platforms. In Indonesia almost 50% of the cars that we sell are sold to people who visit our classified platform. So there is a natural synergy here which we will exploit as we go forward. And equally important in the mid-term, the vast amount of data that we have on our classifieds listing with respect to pricing can enable our data science and AI/ML models that we have already start implementing to become better than others at pricing which we think will be a key differentiator in the future.

The second element of our strategy is to accelerate our B2C capabilities. We are making good progress on this as shown on slide 16. In FY22 we learned how to build offline infrastructure in different formats. Retail formats like warehouses, supermarkets, own and franchise stores that we piloted in separate countries, and we are learning what works best and then we scale it across every market, leveraging our global presence. We also tested building out refurbishment and logistics in partnership with local companies so that as we learn more we can bring them in-house as appropriate.

Alongside this we invested in product and technology to build an integrated one stop shop for trade-in, buying and financing a car, and also started investing in brand marketing in some markets to educate our customers to buy a car digitally, with full trust and transparency and from the comfort of their home. We have had significant success at scale in India on home inspection of cars where almost 85% of cars now are inspected at home either through self-inspection or sending an inspector to people’s homes and changing how they sell their car.

In Indonesia home test drives have been successful, and in multiple markets our warranty and money-back propositions are things that we have learned from and are ready to scale as we grow B2C. All of this has led to the share of B2C transactions, which means us selling directly to consumers rather than to dealers, grow from approximately 10% in the previous year to 30% this year. We believe we will have accelerated growth here in this share over the next few years as we continue to invest more in all of these capabilities.

Our focus on accelerating B2C naturally aligns with our strategy of embedding financing into our product which is shown here on slide 17. Our customers are under-served with regard to used car financing in most of the markets that we operate in. Traditionally it’s between 20% and 30% of customers who have access to used car finance. Typically that’s because traditional players who offer financing at scale don’t have a good way to value the underlying asset. Nor do they have an efficient way to liquidate the repossessed vehicle in case of default. This is a natural advantage for our business and importantly a real important need to make cars accessible to consumers everywhere. We believe this is something we can invest and grow in.

We launched, as I mentioned earlier, a financing pilot in Chile two years ago, and 30% of the B2C cars in Chile have our own financing. We have learnt many things. Speed of credit decisioning is important. We have built processes now that are faster than traditional lenders. Our credit models that we are continuously improving with external and internal data are actually showing lower than industry default rates. Our unique friendly buyback programme, which means if somebody can’t pay back the full loan we offer them lower priced cars in exchange or allow them to sell cars on our platform and recover our amount, is really helping us manage the risk and differentiate versus other players.

The success in Chile has given us the confidence to launch our business in Mexico and Colombia which we did recently. And we will scale this over time to many more markets, but we will do that treading cautiously to make sure that we are compliant with regulatory environments and that we manage the credit risk in baby steps before we expand and accelerate in every model. In FY23 we will invest extensively in product, process and platform strategy here. Again we believe that financing combined with B2C on our product platform will build long-term advantages for us as we go forward.

This brings me to slide 18 and something the team is really proud of, the investment we made in technology over the last 12 months to build a unified global platform. Our new platform, which we call Roadster, is blazingly fast, micro services oriented architecture with micro front ends that allows us the ability to customise by market and launch new features in one market and scale rapidly to others, whether it's things like home inspections, health inspection, home test drives, and even new countries with ease. The platform is now built for flexibility, allows significant automation – in fact we have reduced our testing time for new launches by 65% – allows us to create rapid instances of testing environments which enables experimentation.

And this now has the ability to leverage data for AI/ML models globally across pricing, credit risk and many more high data intensive activities which we think will be critical for the future. The platform is efficient. It is cloud native. It is now all on AWS. And it operates at much lower cost of operations. We will migrate our transaction business in Turkey, which was on a different platform with the LetGo brand, next week onto this global platform. And going forward our transaction capabilities in every market, whether it's B2C, selling to dealers, financing, will be run off this highly agile, flexible single platform which allows us to scale.

As you can see on slide 19 we have already started leveraging the platform in many critical product areas already. The platform allows us to integrate internal and external data and leverage data science models for credit risk assessment to expand the pool of consumers who are eligible for financing by looking at thousands of data points in real time. We are now using AI/ML models to enable visual recognition and identify dent and damage in car inspection and automate vehicle condition reports. This also allows our pricing engine to make accurate assessments for retail cars by incorporating car grading with market data. Finally, this puts the power in the hands of our consumers by making it exceedingly simple for them to do self-inspection on their cars from the comfort of their home with our product and get a price quote which they can choose to use and sell their car to us.

Another example of testing and scaling is our successful pilot with home test drives in Indonesia. The ability to look at a car with immersive 360 videos, book and reserve a test drive combined with our money back programme and warranties has significantly improved the customer experience and disrupted the current car buying process. We are actually seeing way higher than normal retail car conversion through our home test drive integrated programme with the product we are now building. Now with the new platform we can productise this test in Indonesia that has been successful and roll it out across appropriate markets that ask for this at incredible speed which earlier was not possible. Again, our global platform will give us scale and enable us to do things much faster across multiple markets.

While the technology platform drives significant scale benefits and helps our economics, our growth has driven productivity in all areas of our business. On slide 20 you will see us call out a steady state or future state of our unit economics. But already we are seeing through retail efficiency, performance marketing, inventory management, margin improvement from scaling B2C and financing we are starting to improve our unit economics. And we feel very confident that in the long term these are sustainable unit economics that we have shown. In fact, I will point your attention to the box in the centre which calls out that already today we are a unit contribution margin positive business in FY22.

This gives us tremendous confidence for the long-term economics. of the business as we scale. We will remain in elevated investment mode in the next 18 to 24 months to continue our rapid growth, but we will do so while maintaining a positive unit contribution margin positive. We have clear line of sight to drivers of our mid-term profitability which are B2C, financing penetration because of the higher margins we can charge there, investment in technology which will drive automation and reduce cost, and just the scale benefit on marketing and retail operations. This chart calls out our expected margin profile in steady state, but as you can see we are already at a 4% unit contribution positive margin as a business.

We believe from an EBITDA perspective in steady state to be a 5% EBITDA business, and our overall economics we think will compare favourably with some of the leading and highly scaled players in this industry. We've also shown a comparison of what [unclear] thinks their steady state numbers might be. For those of you who are more familiar with our Classifieds business the 5% EBITDA might look low, but it may be helpful to note that the Auto Transaction model we express EBITDA as a percentage of GMV, so a more like to like comparison to Classifieds would really be to express it as a percentage of net revenue. In that light our Autos business will have an approximately 40% EBITDA margin expressed as a percentage of net revenue.

Finally to summarise on slide 21, this has been an exciting year for OLX Autos. We are playing in one of the largest consumer categories with an unsolved pain point of trust and transparency. It is a category that is ripe for disruption by making an inefficient market efficient and accelerating to a whole new digital experience. FY22 has been an incredibly strong. We have grown more than two times amidst a year of uncertainty and change. More importantly delivered multiple proof points such as growing B2C capabilities, scaling financing with risk mitigation, building a global platform and building a global business and team.

In FY23 we will leverage all these learning and scale rapidly with our new unified global tech platform. Our unique ability to create a virtuous cycle with our classifieds properties harnessing the high quality traffic that exists there and the supply will allow us to build the most trusted marketplace with the widest selection of cars in global markets where we operate which are highly supply constrained today. Most importantly, we feel really good that even at an early stage we are unit contribution margin positive and now are confident that we have a clear path to profitability.

It is a competitive environment but we are already one of the largest global players in this space. Our strong global team with unique online and offline capabilities and is excited to make our vision of revolutionising vehicle ownership fuelled by tech, powered by trust and loved customers come alive in FY23 and beyond. Thank you for the opportunity to share our progress and strategy. I hope I was able to convey the incredible progress the team has made for our business and our customers and our technology platform through our many successful pilots, but also my personal conviction in our future. Thanks again for your time and I will hand over to Eoin to facilitate any questions that this presentation may have sparked.

Eoin Ryan
Great. Thanks Romain and thanks Gautam. Chris, would you mind giving some instructions on how to lodge a question please?

Operator
Of course sir. Ladies and gentlemen, 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 joined the queue. If you wish to withdraw your question, please press * and then 2. Again if you wish to ask a question, please press * and then 1.

Eoin Ryan
Great. So while we are building the queue we've collected a bunch of question that have come in when we announced this call a number of weeks ago. So why don't I just pose them now? Romain, this would be to you. With Pay and Ship and now OLX Autos it appears that the Classifieds business is becoming more capital intensive. A question I have received from many investors is whether this makes the model more or less attractive. And what does it mean for long-term investment and cash flow?

Romain Voog
Thank you for the question. Let me maybe separate my answer in two parts. The first one I want to clarify is our core classified model is very attractive both from a growth potential and a profitability standpoint and will continue to prosper. Even if we are moving from a classified marketplace to a transactional marketplace, this is not a transactional marketplace that will be what we call asset heavy. It will be rather what we call asset light. And so while it's requiring investment especially in technology, we expect a limited capital intensity shift at this stage. Now, let me be clear. I think this evolution from traditional classified to transactional classified, moving more towards capturing part of a transaction, is absolutely critical for the long-term success of classifieds in general.

Now, if we move to the second part of our business which I qualify as Auto Transaction, this is indeed a more capital intensive business model as Gautam has shared. Clearly today the process for buying cars is flawed with inefficiency, safety and other concerns, particularly in emerging markets. In order to solve that, you need to bring the transaction mechanism in house. And you do that well by leveraging technology. By doing so you are able to provide a more reliable service through car inspection, better pricing, greater choice and overall more convenience for the customer.

While we do so we are also able to do this in a more efficient way than any incumbent as our technology back end makes this scalable and more efficient across our markets. Obviously, to inspect cars, to price, to sell we indeed need to invest in infrastructure such as inspection centres and to take on inventory which is by design more capital intensive. However, I will stress that our business has already a positive contribution margin, which is a very strong signal of path to profit given the fact that each time you scale it's going to contribute more to your fixed cost. And while the investment required upfront is substantial, we believe there is significant operational gearing over time.

Finally by owning the full transaction it allows us to access a larger part of the value chain, which means at scale the opportunity is potentially larger than the traditional classifieds model. As Gautam has shared, you also see comparable type of EBITDA to net revenue ratios as what you've seen in classified in the long term. The bottom line is yes, the model in Auto Transaction is more capital intensive, especially initially, but we are very capable of generating substantial cash flow over time in a very large market where we are very well positioned.

Eoin Ryan
Okay, great. Thanks Romain. Here is another one for you, another one that we've been getting quite a lot. We've been building this Auto Transaction business alongside the Classifieds business, and it's not something that many of our peers are doing. Can you address why it makes sense to do this and what are some of the synergies?

Romain Voog
Sure. So let's be clear. Each business, Classifieds and Auto Transaction, are relevant on their own. You could totally see in the market currently players building both businesses independently. What we see though, and I think it has been very well articulated by Gautam through a couple of questions, is that bringing both of them together creates an additional flying wheel that contributes to fuelling the growth and profitability of each of them. That is very in line with our mission at OLX which is to build leading marketplace ecosystems enabled by tech, powered by trust and loved by customers.

And we think that combining those two businesses we will actually have a competitive advantage versus any other player on the market. I think it has been very well expressed during the presentation by Gautam around the notion of data power, leveraging what we know about customers, what they want to buy in terms of cars, what they are selling, what the price points are in the market to fuel our auto business. It is through a single technology platform that we have across auto on which we will on-board other parts of our businesses which otherwise might have developed this functionality on their own. It is very clearly expressed through the synergies we are seeing on the supply demand from consumer or dealers selling us their cars, and on the demand side from consumers or dealers buying our cars.

So for us investing in Auto Transaction is a very logical extension for OLX and we see a clear differentiator versus our classified peers here. We believe it is a key strategic priority for us given the opportunity we have to really disrupt this market. And we expect it to be a major source of value creation for our company and to significantly not only benefit from Classifieds, but make Classifieds a stronger business for us.

Eoin Ryan
Okay, great. I have a bunch of other questions, but let's go to the line, Chris, if there are any in queue yet.

Operator
Thank you sir. Our first question is from Will Packer of BNP Paribas Exane. Please go ahead.

Will Packer
Hi chaps. Thanks for taking my questions. I've got three if that's okay. Firstly, I suppose to frame it, it feels like you're doing three separate things. One is you're a classified that we know well. Secondly, you're an online car dealer. Thirdly, you are looking to be a more capital intensive marketplace. Could you just help us think about what you plan to do in that role? Are you going to be doing reconditioning? Are you going to be doing inspection? Are you going to be doing delivery? Obviously you're in lots of different markets, so it will vary a lot. In that marketplace model where is your ambition?

Secondly, in your key classified markets where you make sizeable profits, what has the reaction of local dealers been to you competing with them? Or in those markets are you not yet there? And then the final question. Clearly the geopolitical back ground is very tough in some of your markets right now. In previous crises how materially impacted have operations been? I suppose Avito most obviously. Thanks.

Romain Voog
Thank you. I think the first question is mainly focussed around Auto, so I will ask Gautam to cover it. And I will take the second and third question if that's okay. Gautam, do you want to go with the first?

Gautam Thakar
Sure. I think first of all, as we spoke about, from our ambition I don't actually see this as an online e-dealer and a marketplace. I think we are building a marketplace for customers who can sell their car to us or who can buy their car from us. One of the things that we are doing in the marketplace, which actually talks to something which Romain will probably address as well with respect to dealers, is we want to have this marketplace be a marketplace that has our own cars which we have bought as well as cars from our high quality dealer network.

So we think that we will absolutely be allowing our dealers to leverage the benefit of people who want to buy in a transactional model and continue to partner with them in that fashion. So I think we see a complementarity here which is something we can uniquely do. Also, when we buy cars from consumers not all cars are necessarily going to be retail worthy, but they may be sold to dealers. I think we allow dealers the opportunity on both sides of the house to benefit from our investor in marketing and technology and everything else we do.

On what we do on an ongoing basis, absolutely we will buy the car. In many cases in many markets we are starting to put up either through partnership or ourselves refurbish the car, make sure that the car is right and ready for an end consumer to buy, allow the consumer to take financing from us, and deliver the car either to the consumer's home if that's what they choose or to let the consumer come to us and take it from us. In this journey we will also do thing, as I mentioned, like home test drives which we have piloted in some markets, offer warrantees, over time potentially offer additional services for the consumer in the lifetime of that car.

But it is an end to end car transaction ownership programme that we will embark on. It will be a marketplace where high quality dealers, as long as they meet the criteria that we apply for ourselves on how old the car is, what the condition is, whether it's certified or not, as long as those conditions are met, this will be over time a marketplace that we and our dealers can leverage.

Will Packer
Just to clarify, in the example where the dealer wants to keep ownership of the car, they could outsource the delivery to you potentially?

Gautam Thakar
Yes, potentially in the future. Right now we are only doing it for ourselves. But in theory we will look at it from a consumer lens and we will offer the possibility for high quality cars to be taken through our network and supplied as well.

Romain Voog
So I think Gautam has actually answered question number two. You can see how this move into Auto Transaction is rather an extension of what we can provide dealers as a service. So we do not see at this stage any conflict; rather, an ability for us to consolidate a very fragmented market under a single brand with a high level of quality and processes and a high level of trust, and make some of the dealers benefit from this opportunity.

Maybe I will address question three as I believe question two has been addressed here. Every crisis is very different, and we are at the very early stage of this crisis here. So it's very hard to comment on it. The only thing I'll say is that in previous situations, especially Crimea that we had to face as part of OLX, what we have seen surprisingly is that there was actually a tailwind of growth for online platform as the offline infrastructure was under stress or had to shut down in some part of it. So we actually have seen marketplaces where this happened in the past get some form of tailwind from the situation. Now, once again, every crisis is very peculiar. This one is developing as we speak, and we will adjust to the situation. What I can tell you obviously is we have plans in place for providing business continuity on our end in Ukraine.

Will Packer
Thanks for the colour.

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

Catherine O'Neill
Thanks. I wanted to ask about the online penetration level which you said is 1% to 2% in most of your markets. Where do you think that can get to medium and longer term? And which of your markets do you see the potential for this to increase at the fastest rate? The other question I wanted to ask is just around competition. Are there any other key operators in markets that are doing this auto transaction type model online, or do you see yourselves as a first mover? And then the final question is on the contribution margin. To get from the 4% that you're at currently to your 9% target I just wanted to understand a bit more about what the main drivers of what would be, where you see the main sources of upside on that margin if you can break down some of those component parts. Thank you.

Romain Voog
Thank you. I'll direct all of those questions to Gautam.

Gautam Thakar
Thanks Romain. There was a slide there where we said our focus markets will be, in no particular order, Indonesia, Turkey, India, Mexico and Poland outside of the US, where we have a different brand that we treat slightly differently. Together they are $200 billion of market and they are under 2% give or take. Some of those markets are larger in terms of digital penetration. India has already accelerated to 7% or 8% already. Some of them are very small. I think Turkey, which is a $90 billion market, is probably under 1% today. So these numbers are averages when you look at it in aggregate terms. We think that most of these markets from external projections are expected to not only grow in used car size but are expected to become in a reasonably short period of time in the 8% to 10% range. Those are the projections that exist.

But irrespective, I think that's a massive size of an opportunity in an already growing market. So we see our role as being a first mover where we can, leveraging and educating consumers and actually changing the game by building a trusted experience, transparent pricing, making sure that the consumer is not left with any concern in the buying journey. So I think we can actually play a big role in accelerating this in really large markets. Yes, there are in some countries already solid competitors who are well funded as well. There are some companies some of you may be familiar with in LatAm. There is a company called Kavak. In India there's a company called Cars24. I think Indonesia and Turkey and Poland we probably have a really nice head-start.

But this is becoming a competitive market. I think some of the things we spoke about which we think others don't have, whether it is our unique ability to get supply and demand because of classifieds, our pricing data, our investment in our single global platform which allows us to test and learn in one market and rapidly take it everywhere else, we think all of those things will stand us in good stead. And ultimately I think it is ultimately a little bit of a retail business, so strong brand and strong execution becomes important. I think all of the component parts of what we are doing to build advantage we think we are very confident about where that will get us to.

To your question on the margin I think there are two or three things that we spoke of. Traditionally margins are slightly higher when you go direct to consumer as opposed to selling to dealers. So as the penetration of our direct to consumer business improves, that grows the margin. As financing gets attached to a car, that improves the margin. Just by the nature of scale, retail operations' efficiencies improve the margin. A lot of the things that we are doing with product and technology around automating things, whether it is things that allow us to have better inventory management, things we are very proud of like self-inspection tools which allow you to just walk around your car with your camera and your phone and you get a reasonably good valuation because the data sciences team has built visual recognition algorithms to make that happen. It takes out a lot of the retail geographic footprint cost. So these are some of the things we think will drive the margin. But again there are very few businesses of this scale today where at such an early stage we are already unit economic from a contribution margin positive. So we feel good and we think we will continue to enhance that.

Romain Voog

Just I would like to add to the second question around competitive situation. At Gautam pointed out, in some markets we clearly have a leadership position. We started before. Turkey is probably a good example. In some others we are a second or third player. I would really encourage us to think about it as maybe we have 1% or 2% of the market. The reality is there is 96% of the market which is still ripe for disruption. I would see this industry when you look at the customer experience of incumbent offline type of dealers they are suboptimal versus what could be brought by a company enhanced by technology. You would actually believe that the real pie is the 96% at the pace at which online will penetrate the market.

Catherine O'Neill

Okay. That makes sense. Thank you. I have actually one more question on funding of inventory, which I think you mentioned is currently funded by yourselves. As this business scales further, is there scope for you to bring in outside funding, other loans or facilities? I don't know if that's something you're already using or whether that's something you could do in the future.

Romain Voog

Maybe I'll take that question. At this stage we indeed do not rely on external funding except in the sense our funding comes from Prosus, who is also leveraging that, if you want to think about it. We don't exclude any other more efficient way of getting funding, including consignment. When you talk about external dealers selling on a platform you can actually have inventory in consignment. You don't pay for it. Or any other means. At this stage we are just focussing on scaling with the current equity funded inventory type.

Catherine O'Neill

Okay. Thank you.

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

Lisa Yang
Good afternoon. Thanks very much for the presentation. It was really helpful. A couple of questions if I may. I was just wondering if you could maybe talk about the opportunity to do cross-border sales. You talked about the synergies by leveraging a common platform, but I was wondering whether there could be an opportunity to take advantage of some pricing or supply demand arbitrage between the various markets where you operate.

The second question is regarding competition. Obviously we're starting to see a little bit of consolidation happening with the merger of Cinch and CarNext. And given the current market conditions some of the competitors might become more rational and try to limit the cash burn. I wonder if you see any interesting consolidation in this space in your market. As you mentioned, there are markets where you are number three. So I was just wondering which market could be interesting.

And the third question is really you're growing extremely fast and I'm just wondering how you ensure that you can keep maximising that growth while at the same time optimising the customer experience or dealer experience. Obviously many of the players have commented on the challenges they could face when they are growing. I was wondering what the potential bottlenecks are to growing faster from here. Thank you.

Romain Voog
I'll let you take one and three. I will take two on the competitive.

Gautam Thakar
Look, I think in many of the markets that we operate in currently we are focussed in the domestic market itself. There are not necessarily as easy cross-border opportunities as perhaps in Europe where they exist. And a large proportion of our operations are in Latin America where regulations [unclear], or in Asia or in Turkey where it's slightly different. It's not part of our immediate plan. That said, one thing I will call out is just like in some of these markets in Europe where there are cross-border opportunities, we are playing in really large population markets.

Tier one cities and tier two cities are very different and there is actually often arbitrage between small towns and large towns, whether in India, whether in Turkey. Those are the things as we start building out our logistics systems we will exploit first before we look at anything that might come from a cross-border perspective just because of the nature of the markets being slightly less homogenous than perhaps in Europe. But absolutely that's something that we will do.

And then the second thing on growing fast and scaling, I think the reason we are so excited about the ability to have this unified global platform which we have now launched and are scaling is that it allows us a lot of flexibility. And the ability to have a portfolio of 11 countries right now allows us to test different things in different markets. Oftentimes, at least in my experience, people trip up and they have to build technology in a 2G way and then they can't scale. Or they have to do the same thing again and again to prove it out in different places. I think we feel really good that we can have a platform where if something works in one market the same instance of that product can quickly be replicated everywhere else.

And more importantly, as you heard me say earlier, the test drive we are testing in Indonesia. Home inspection we are testing in India. Retail warehouse formats, supermarkets we are testing in Turkey. This is a very early stage business. We are disrupting, as Romain said, the 96% or 98% of the offline population and getting it digital. I think all the pilots we are making across our 11 markets, once they work we can rapidly scale. So we don't have to put the burden of execution and test on one team and we can distribute it. And I think that gives us a lot of scale, leverage and confidence.

Romain Voog

Thank you Gautam. To address question two on consolidation, I think we are at a very early stage in those markets. At Gautam said, India is probably quite advanced as well as US with 7% penetration of online. So it's pretty early stage to talk about consolidation. Will consolidation happen in the future? If you look at India there are four players today, so there might be an opportunity for smart consolidation there. We will always be open to looking at opportunities to create additional value for shareholders when it's relevant, as well as we will be very open to look at any opportunity to increase our ecosystem when it's relevant and efficient for our shareholders.

Now, that being said I want to point out something which is important. We've discussed a lot about Classifieds. Classified is a model where the leader of the market can extract additional value by having a bigger platform than the next player. In car transactions this is probably a little bit different. The efficiency and the profitability of an auto transaction platform comes when you reach a certain scale. Even if there is another player which is bigger than you, the reality is the sheer scale of your operation will get you to the right level of economics and business model because you will amortise your network and your infrastructure and have the inventory rotation that is required. So I see auto transaction as a less critical to be the strong number one type of play. I totally see big markets where one, two, three players might actually all succeed. Once again, 96% of the market in most markets is still not online.

Lisa Yang

Thanks. That's very helpful. Can I just follow up maybe? I think you mentioned there will be more investment to come in the next 18 to 24 months. Should we expect the peak of investment to be within the 18 to 24 months and then investment should come down and you will turn margin positive after? How should we think about the level of investment?

Romain Voog

Thank you. I understand this question is for OLX Auto, so I'll defer to Gautam.

Gautam Thakar
Look, we are excited about what we have achieved, and that gives us both the ability as well as the motivation to continue to invest. Certainly the 18 to 24 months we will be an elevated level of investment. But I think it's important to note that all through this period our focus is to remain unit contribution margin positive. Now, what does that mean thereafter? It's actually a good problem if you're going to have to continue to invest thereafter at high levels, which means we are making bigger and bigger dents in the digital transformation of this category.

But also today we are focussed on these markets that we are in. As we learn more, if we scale, if we choose to go into newer markets the cycle of investment that is required to scale up a market will start all over again. So I think this is a hyper-growth phase not for one or two or three years. We believe it could be for a decade. As we execute more, as we hopefully add on more things to the platform and to geographies over the future, I think our investment levels will continue on. But for now in the markets that we are focussed in we think the next 18 to 24 months will be elevated investment, but the hyper-growth period will last for a long time.

Lisa Yang
Thanks. A very last question from me, I promise, for Romain. On the transactional side to OLX Autos what sort of competition are you seeing in marketplaces? It seems like Facebook has been getting a bit more traction in certain markets. I'm just wondering if you could add any colour on that.

Romain Voog
Are we talking about Auto Transaction or Classified?

Lisa Yang
Classified, C2C.

Romain Voog
Oh, yeah. So there are very different answers by markets. If you look at our main markets, Russia doesn't have really any Facebook presence. Then when you go to the rest of the markets, our largest markets have actually developed such a strong presence and are advanced in a way from a product standpoint that we at this stage are not necessarily concerned by the type of competition we could see from large less productised marketplaces such as Facebook Marketplace at this stage. No, we take all competition very seriously, but it is not a concern of ours on cars classified.

Eoin Ryan
Okay. So I think we're past the hour, so I want to be respectful of time. Let's take two more, Chris, and then we'll push on and you can feel free to reach out to IR and we can continue the conversation.

Operator
Of course. Thank you. The next question then is from Cesar Tiron of Bank of America. Please go ahead.

Cesar Tiron

Hi everyone and thanks for the call – it was very interesting – and for taking questions. I have a couple. The first one, do you see any countries where OLX has a strong presence that you do not see the potential for OLX Autos? And can you please explain why? The second question which I have, do you see any synergy in this business between the countries? And the third question. How much capital do you need for the car financing business, and would that be done through an external partner? Thank you so much.

Romain Voog

Maybe you want to take the first and second question, Gautam. I'll take the one on capital car financing.

Gautam Thakar

So from a country perspective, as we said, we are present in the 11 countries. The large markets within that of Indonesia, India, Turkey, Mexico and Poland is something that we are focussed on. The US we operate a different brand. We love that business. We will invest in it, but it's run slightly differently. As we look at new markets we evaluate a number of things. Size of the market, regulatory environment, competitive presence, and also our own assets. So we are looking at that constantly, and at this point in time we believe that the markets that we are in over the next 12 months or so are something that we really want to double down on and invest. But we keep every six months or so looking at how things change. We don't believe there is any market where the Auto Transaction model will not work. It's just a question of prioritisation, focus, size and scale. I think that's how we think about it. I may not have fully understood. I think you asked synergy between countries, i.e. of having classifieds and transactions, or just having a cohort of countries that are more synergistic?

Cesar Tiron

There were two other questions. I just wanted to make sure I understand if there are any synergies between the countries. And then also on the capital which you need specifically for the financing business which you discussed.

Gautam Thakar

I think synergy-wise there are a ton of synergy that we have seen between the classified and the transaction business within a country where we can divert traffic as well as have the data and pricing become a competitive advantage. I think I mentioned earlier – sorry if it wasn't clear – at this point things like cross-border trade are not something that we look at. But the synergy of learning on a product feature or learning on a test in one country and then rapidly scaling it across countries is the way we think of leveraging our global portfolio and our global presence. I will let Romain talk to the third one.

Romain Voog

Maybe just complementing what Gautam was saying, obviously one of the big synergies is single platform. In classified there is a history of having platforms which are developed by countries, which we have partly in OLX and we have partly platformised our technology. In OLX what is very interesting and I think an absolute competitive advantage is a single platform across 11 countries. This is a big synergy, because when you think about the level of tech stack you need to build to be able to operate the business online, offline, moving from online to offline, managing inventory, it is a more complex type of technology and stack than what you'll see in classified. So the synergies are actually quite significant when it comes to our OLX Auto business and its architecture.

The third question about capital for car financing, what's very interesting in car financing is a couple of fold. What we have discovered is we believe we have also here a little bit of a competitive advantage because we know exactly what we sell. As Gautam was saying, when you're trying to get a loan for your car you are getting a loan but the person who is providing you the money doesn't really know the quality of what you buy. And we know very well what people buy with us because we have inspected the car with more than 300 points. So we know exactly the value of the asset.

More importantly, what we've seen in our businesses is if there is delinquency we are able to provide a process where we actually get back the car. And our strength is we're able to actually resell it. So we are able to recover more of default than probably other traditional players. So that's one very important thing on car financing that makes us think that we actually could drive that business with a lower level of default than any other incumbent player.

When it comes to capital of car financing, as you would know, in any type of those businesses when you start you need to actually have a track record. And this track record is built across multiple years. Some people say two. Some people say three years. So you will probably see us in the first three years in a given country rather financing with our own equity. And as we build our credit history we will go and leverage more external debt. We actually have done some of it already, some leveraging of external debt in Latin America. But you should expect us to fund a large part of our next year at least car financing through our own equity.

Cesar Tiron
Thank you so much.

Operator
Thank you sir. The now last question is from Miriam Josiah of Morgan Stanley. Please go ahead.

Miriam Josiah
Thanks for squeezing me in. Three from me if I may. Firstly, if you can just comment on the current environment with the car supply shortage, how that is impacting on your ability to source vehicles. I think you might have said it was a tailwind earlier on, but if you could just clarify that. And when thinking about your investment over the next one to two years, how do you rank your investment priorities? Is it inspection centres, marketing spend, technology, logistics? Where do you see the greatest area for investment? And then finally, how are you thinking about the future of car buying in your markets? What are you doing today or planning to do around car leasing or subscriptions or those kinds of things? Thanks.

Romain Voog
Gautam, I'll let you answer.

Gautam Thakar
Thanks for that question. I think from a supply constraint I think depending on different industry experts everybody believes for the next six to 12 months the situation is going to improve but it's not going to materially change. We think that new cars will remain in short supply because of the chips and everything else, and that has helped our business in some ways shift people to buying used cars. It has increased ASPs etc. Now, we are seeing some gradual declines there, but we have really focussed on units of cars that we sell.

I think if more people buy used cars, that's good for the business. If ASPs are higher, that's good for the business. That's something that will keep happening at least for the next six to 12 months. So we expect to see that momentum not receding. And through that period of time as we grow our business, scale our footprint, drive our tech and brand investment we think the momentum that we have achieved now will propel us beyond the new car supply period that we have.

I think from an investment perspective I think you called out all the areas. I would say in the next 12 months we're going to significantly continue to over-invest in our platform and technology, even though we feel really good about it. I think there is a lot of product features on top of the incredible platform that we want to build, which may have benefits over the next multiple years. I think that investment is something we want to make now. So technology will be a big part of our continuing investment in the next 12 months. As I said, we are piloting a variety of different offline infrastructure methods. And I think as we see success in one market, retail footprint or geographic footprint from being closer to customers, refurbishment, logistics, I think these are the areas that we will invest more in.

Then I think trust is very important. Of course we will build trust into every process that we have. But we want to educate customers about the new way of buying and selling their cars, and brand investment will be a third area in the next 12 months that we will invest in. From a long-term perspective if you notice when we spoke about our vision we said revolutionise vehicle ownership. We didn't necessarily talk about a better way to buy and sell a car. So we are starting to think about what the future might hold, whether it is around different ownership models.

And it is very early stage. This is not going to happen in the next 12 months. One of the things we think about is that we have large amounts of inventory in every market. Are there ways to have short-term leasing/renting options? That we may evaluate over the next two years. So it's still some time away, but we are looking at trends around ownership and what we could do differently. But it is more in discovery phase and it is probably 18 months away before we have anything concrete on that topic.

Miriam Josiah

Great. Thank you.

Eoin Ryan
Great. I think we have to leave it there. I'd like to thank everyone for joining today. I hope you found it interesting. Please follow up with us in IR if you have any follow-up questions. We are glad to help out. And I would like to thank Romain and Gautam also for spending the time with us today. Thanks all, and have a great rest of your day. All the best.

Romain Voog
Thank you everyone.

Gautam Thakar
Thank you.

Operator
Thank you very much, sir. Ladies and gentlemen, that then concludes this event and you may now disconnect.

END OF TRANSCRIPT