

Conference call transcript

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ANNUAL RESULTS

Operator

Good day ladies and gentlemen and welcome to the Prosus and Naspers full year 2021 earnings call. At this time the participants are in a listen-only mode. Later we will conduct a question and answer session, and instructions will follow at that time. While this is the FY2021 results call, there may be discussion of Prosus' exchange offer for 45.4% of Naspers. As such this presentation and discussion is not for release, publication or distribution directly or indirectly in or into the United States or any jurisdiction in which such release, publication or distribution would be prohibited by applicable law. If you are an analyst based in the United States or an investor that is not a PIB or QP, you must please disconnect from this call now. I would now like to turn the conference over to Eoin Ryan, Head of Investor Relations. Please go ahead.

Eoin Ryan

Thank you, Chris. Hello everyone and welcome to the Naspers and Prosus full year 2021 results call. On the call with me today is our CEO, Bob Van Dijk, and our CEO, Basil Sgourdos. Bob and Basil will walk through the operational and financial progress we made during the period, and then we'll open up the call for questions. During that section of the call we will have the broader management team available to answer some questions. Before I hand over the call a quick reminder and a few housekeeping items. As a reminder, Prosus is a subsidiary of Naspers and its financial results almost completely account for Naspers' results. So ensure that shareholders of Prosus and Naspers are provided with the information simultaneously we are having one results call focussing on Prosus' results, but where necessary we will highlight the impact on Naspers. We report revenue and trading profit on an economic interest basis, meaning they include our proportionate share of the results of our associates and joint ventures. The results of our associates, Tencent, Mail.ru, Delivery Hero and others, are reported on a three month lag basis. Importantly, free cash flow is a consolidated number as associates and JVs are fully funded via M&A. And finally, growth is in local currency excluding the impact of M&A. And with that I will turn the call over to Bob.

Bob Van Dijk

Thanks Eoin, and thanks everyone for joining the call today. So this has certainly been a busy period for the group and for all of you who follow us, and today I'm excited to share the progress that we have made and to take your questions. I will start by explaining how our strategy paid off in the results for the 2021 financial year, which was truly an exceptional year from an operating perspective and one in which we achieved a new level of scale which sets us up for future growth and value creation. Let's start with the highlights of the very strong year on slide four. First we delivered the strongest set of results since I became CEO with revenue and trading profit growth accelerating meaningfully. This in turn has translated into a period of positive free cash flow generation. It is an outstanding performance for the year, but importantly it is the outcome of a trend that has been in place now for many years.

Second, the results of 2021 further reinforced my faith in our strategy which has created outstanding value in the ecommerce segment, value which is becoming large and should continue to grow at some speed. We are disclosing the valuation of this portfolio for the first time today, and I hope you find it helpful. More important than a static number is its future potential, as our portfolio is very well positioned to benefit from the shifting consumer trend to digital consumption. Third, we closed a number of major transactions that will position the group well for continued growth now and in the future. So we invested further into Delivery Hero and iFood and we ramped up our exposure to Edtech. We raised \$20 billion through asset sales and new debt which gives us the financial flexibility to fund our ambitious M&A pipeline as well as invest \$5 billion in our stock.

Finally, in order to have this value more accurately reflected in our share price, it is vital to optimise our capital structure. The voluntary share exchange offer we announced last month addresses the risks and impacts of Naspers becoming too large for the JSE and right-sizes Prosus and Naspers for their respective exchanges. We have engaged extensively with our investors and taken on a lot of good feedback for which we are appreciative. I am confident the end result will better position both companies for future growth. Doing nothing really isn't an option.

Finally and importantly, I want to underline that our incentives are aligned, and you can see this clearly in the remuneration report released today. The board is steadfast and management remain committed and incentivised, to take action to address the discount to NAV at Naspers and Prosus. I now have that explicitly included in my goals for the coming year. I will also note that the proposed transaction maintains and in certain instances enhances our flexibility to unlock value versus our current structure.

So let's now talk about our strategy. It is aimed to benefit from consumers shifting online and transacting more online. And this secular trend has been accelerated exponentially in the past year, which drove exceptional performance and sets our businesses up for continued growth. In slide five you can see that the strategy we are following remains focused on developing our businesses from their root stages into scaled platforms with deep and engaged ecosystems, positioned for long term growth. So I am more convinced than ever that our approach is a real differentiator, particularly as the world normalizes with COVID-19.

We always take a long-term view which enables us to be very disciplined in our capital allocation, and that has again been the case this year. Our approach, our experience and our reputation has given us privileged access to outstanding investment opportunities in each of the segments. So over the last seven years, we have assembled one of the most unique and rare ecommerce portfolios which is only available to our investors. And finally, we have a responsibility to a broad set of stakeholders and, as I will come back to, we have made great strides in embedding a robust ESG strategy into everything we do.

We have been systematic in our approach and that has led to consistently strong performance across the portfolio. This you can see here on slide six. You can see it from the 5 year CAGRs for each of our segments as well as the ventures portfolio. Our segments have grown consistently and strongly over the last five years and growth accelerated over the last year. Core to this success is leveraging our online platforms to make offline transactions more efficient. We have invested deliberately in building deeper ecosystems with more touch points with our consumers. This will strengthen our growth over a sustained period of time, and make it more defensible.

All of our large classifieds markets now offer pay & ship options. And this takes us beyond a position of facilitator of transactions, now right into the heart of the transaction. We are doing the same in autos where,

through FCG and OLX, we are providing convenient transaction services to customers who value safety and certainty. The same is true in Food Delivery where we know the opportunity set continues to expand. iFood and Swiggy are rapidly expanding into groceries and other new verticals, and our Ventures team have made a number of investments into businesses enabling commerce such as Elasticrun, PharmEasy and Meesho in India. Our investments in Edtech are also proving to be prescient. We have now invested approximately \$3 billion on nine investments in the K12 supplemental, professional development and corporate learning space. This, as well as Food, most recently graduated from our Ventures portfolio to become its own segment. It clearly highlights the value of having a team focused on the next wave of growth for Prosus.

Our strategy is evident in the results we reported today with accelerated growth and improvement across all financial metrics as shown on slide seven. Basil will discuss this in more detail, so I will just highlight key points here. The group revenue grew 33% driven by both Tencent and an impressive 54% growth from our ecommerce portfolio, which accelerated from 23% in 2020 and 51% in the first half of 2021. And this acceleration in ecommerce growth was driven by a very strong performance across Food Delivery, Etail and Ventures as well as a strong recovery in the Classifieds and Payments segments in H2.

So trading profit and core headline earnings growth was also very strong. And importantly on trading profit, where we saw a significant improvement from businesses where we have been investing to scale ecosystems over the last few years. This is most notable in Food where losses reduced by almost \$270 million and in Etail which recorded its first year of profitability. These results are a reflection of the group's commitment to investing in our strategy for the long term. This is a strategy that has generated significant return and created tremendous value both through our listed investments and through our ecommerce portfolio as shown on slide eight.

We deliver returns in excess of 20%, and that's not just in one year, but over many years. So in recent years we have deployed close to \$16 billion of net investments and, based on market consensus valuations, that has delivered an IRR of 21% for our current portfolio. That is up from 19% a year ago. In fact, the momentum has accelerated. If we look at the businesses we acquired with the proceeds of the initial sale of Tencent in 2018, the IRR of those food assets, the Avito step up, and the Edtech portfolio is running at over 30%.

So we have heard you when you have asked for more disclosure around our ecommerce valuations. So this time, for the first time, we are disclosing the SAR scheme valuation for ecommerce as a whole in our remuneration report released early today. So this is a valuation performed by an independent auditor and actually the numbers tally closely with analyst consensus at around \$40 billion and shows substantial growth over the past five years. This is now a very large portfolio of fast-growing assets operating in fast-growing sectors and we have aspirations and expectations for continued strong growth.

So, now let's dig a little deeper now on each of our operating segments, starting with Classifieds on slide 9. First, we own and operate some of the best classifieds assets in the world that are only accessible to investors through Prosus or Naspers. Many of these businesses have reached scale and they continue to grow well ahead of global peers. And second, across all our platforms, there is significantly more upside potential as our strategy is to build out large ecosystems. There is a tremendous amount of innovation in the group and some of the initiatives we are working on are shown here, particularly in the auto transaction space, which had a strong recovery in the second half.

So I could have picked any of our focus markets, but I've highlighted Avito, which is a market leader in Russia. This is a company we have been operating for many years. Five years ago it was predominately a general classifieds platform with potential. But today, it is one of the largest and most-used commerce destinations in all the key verticals such as autos and real estate, and it has been investing in moving closer to the transaction and having more marketplace capabilities. It's very profitable and one of the best classifieds businesses in the world. In total in classifieds we have invested approximately \$6 billion in funding and M&A and this segment is now valued by the market at more than double that. We continue to grow the business and increase our opportunity set by expanding into transactions. And I believe we can significantly increase the value of this portfolio further in the coming years.

We are adopting a similar strategy in Food Delivery which, in terms of growth, led the way in 2021, particularly at iFood which I will focus on in slide number ten. iFood had a stellar year growing revenues more than 200%. Its revenue base today is close to 10 times larger than four years ago, and the trends we saw over the last year, confirm our view that Food delivery represents a massive opportunity that is still in its early stages. So iFood has evolved from a predominately 3P marketplace into a major food ecosystem which became essential to consumers and restaurants through the pandemic. In the last year the business added more than 100,000 new restaurants onto the platform, and that's an increase of 73% year on year. In addition iFood saw its market share increase.

By investing in the business, iFood has been able to innovate and create new services and capacity that enabled it to fulfil the extra demand. Its 1P delivery business now delivers 35% of total orders and it is now expanding into new convenience verticals like groceries. And this expansive strategy is also deployed in Delivery Hero and in Swiggy, both assets where we have allocated significant capital in recent months. So overall, our Food Delivery segment grew GMV by 70% and trading losses almost halved, which is an excellent outcome. And most notably, the market now values our Food Delivery segment at \$15 billion, again more than twice the value we invested in it and making it the largest in our portfolio with a long runway ahead for growth

So let's turn over to our Payment segment. This segment is strongly positioned to benefit from the platform effects of consumer activity and ecommerce migrating online. On slide 11 you can see that we have made a big bet in payments in India and that is paying off in terms of growth, in terms of profitability and perhaps most importantly, in terms of future opportunity. Our payments business is global, but today I will focus on India where PayU has almost doubled over the last two years and that is despite one of its largest categories – which is travel - has of course ground to a halt during the lockdowns. So I am encouraged by good growth in areas like financial services and ecommerce which saw increased rates of digital payment adoption. And this increased diversity in mix will benefit us in the long-term and particularly when travel and hospitality will recover.

As a leading online payment gateway and processor, PayU has become an important partner to leading online merchants in India across many sectors, and online penetration there is still low, but is rapidly increasing. This enabled transaction volumes to increase 59% in the second half of the year, which is more than double the rate of the first half. As with Classifieds and Food Delivery, PayU's ambitions are much bigger, and from this data-rich base, we have been investing into the broader fintech ecosystem notably remittances which are also moving online rapidly. We also are ready to accelerate our credit operations in India as the impact of the pandemic clarifies and we remain very optimistic about the credit opportunity in a more normalised environment. We also saw strong growth across our other markets in Latin America and Eastern Europe which grew over 50% last year, demonstrating the benefit of having leading positions in high-potential markets. Overall PayU surpassed \$50 billion in transaction volumes and we expect this to breach \$100 billion over the next couple of years.

And as our core segments flourish, we actually have a new segment, EdTech, which has emerged from the Ventures portfolio and is going to operate as its own segment from FY2022. On slide 12 you can see our portfolio as well as its return to date, which has been very impressive. So we first invested in EdTech five years ago and are well-positioned for future growth as the sector increasingly shifts online. Including the recent investments in Skillsoft, which actually went public last Monday, Stack Overflow and Good Habitz we have invested approximately \$3 billion in nine businesses and we are already seeing excellent returns.

We focused in on EdTech for very good reasons. First, it's a huge space. It's an addressable market of around \$300 billion and it's growing very quickly. Second, it also has a great overlap with our footprint. And third, it's ripe for disruption and there is an opportunity for technology to transform the sector. Over the last decade you have seen tech costs falling while education costs are consistently rising. This is a dichotomy that should not persist. And finally, the space is highly fragmented, and that is very important as there is lots of opportunity to consolidate markets.

On slide 13 we set out how we deployed \$7 billion of capital since the start of 2021 across the four segments and in Ventures. We have enhanced our position in all the segments and spent \$3 billion in Food alone, the majority to increase our position to 24.9% at Delivery Hero. In addition, we fully participated in the recent funding round at Swiggy to ensure it is well capitalised to execute its ambitious strategy. We also deployed \$3 billion in Edtech, as I mentioned before. We invested recently in Skillsoft, Stack Overflow and Good Habitz. These are three very exciting business in the corporate learning and digital markets.

So if I look forward, the pipeline is strong and we will deploy the majority of our capital in these areas whilst maintaining a high level of discipline on valuation. And finally, sustainability has always been core to who we are, what we do and the companies which we partner with. And on slide 14 we see that we make progress on what is most material to our businesses. So this year, we put in place a sustainability framework that allows us to focus our efforts in areas that matter most. This is both in terms of the risks that we need to mitigate and the opportunities where we can make the biggest positive impact.

In this year's integrated report, which we published this morning, we continued to improve our disclosures to reflect the progress on the 11 most important issues our stakeholders have identified for our businesses and operations. And to ensure we live up to our sustainability commitment, we will continue to enhance reporting on the progress we are making. We have ambitious goals and targets and will refine our approach to make sure we keep contributing to positive change. We are a low carbon, high social impact business, and that we are proud of. So with that I will turn the call over to Basil. Basil, take it from here please.

Basil Sgourdos

Thank you, Bob. Hello everyone and thank you for joining us today. As Bob mentioned, we delivered excellent results for the year in a world filled with turmoil and challenges. The points Bob made about our strategy and its impact on our results underlines our confident ambitions for the future. Let's start, turning to slide 16. Our overall financial performance was very strong. We accelerated revenue growth and significantly improved profitability and cash generation, while continuing to grow our customer numbers. The full year results underscore the strength and resilience of our businesses and the opportunity ahead. Revenue for the period was \$28.8 billion, growing 33% year-over-year. Ecommerce revenues grew even faster at 54% year-over-year, supported by Food Delivery, Etail, EdTech and strong recoveries in the second half of the year by Classifieds and Payments & Fintech.

Trading profit grew 44% driven by improved scale and unit economics in Food Delivery, core Payments and by our Etail business. Our share of Tencent's revenue and trading profit grew 28% and 29% respectively, reflecting the strength of its diversified portfolio of products, businesses and investments, and the leadership team's prompt and focused management in response to the fast-changing environment. Core headline earnings were \$4.9 billion, growing 39% year-over-year driven by improved profitability from our ecommerce segments and Tencent. We reported a cash inflow of \$126 million, and that's a meaningful improvement from the prior year period's outflow of \$338 million. Finally, we continued to diversify our sources of funding and deployed capital smartly across our businesses and in our shares.

Turning to slide 17, you will see that ecommerce revenue accelerated 21 percentage points year-over-year. The chart on the right highlights the shape of growth amid the COVID-19 pandemic, Classifieds being most impacted by the mandated shutdowns in the first half of the year, but then rebounding strongly in the second half of the year. All of our businesses are now benefitting from the acceleration in consumer internet growth that Bob mentioned earlier. These are being delivered at some scale and in most cases well ahead of our global peers.

On slide 18 we show the performance of the business from a half year perspective. Classifieds and Payments and FinTech made a strong recovery in the second half of the year. Food Delivery and Etail grew strongly throughout. Classifieds' strong recovery in the second half of the year, and in many cases ahead of peers, underlines the quality of our assets and the opportunity ahead. In the first half, traffic volumes dropped and inspection centres were largely closed. As you can see this reversed strongly in the second half of the year and Classifieds regained good momentum. We have picked up investment in some key markets when others were cutting back, and that will deliver benefits over the long term.

In Payments, our global payments operations, mainly in Europe and Latin America, maintained the accelerated revenue growth rates it saw in the first half of the year. In India, digital payment adoption is increasing quickly and the business recovered strongly and the total payment value grew 59% in the second half of the year. There is significant opportunity ahead in that market. Etail continued to benefit from the tailwinds of the pandemic but more importantly from the strength of the platform it has built up over the years. eMAG reported 45% revenue growth in the second half of the year which is still very impressive. For Naspers, Takealot in South Africa also had a stellar year and grew revenue by 65%.

Turning to slide 19, you can see a healthy 11% improvement in trading margin versus the prior year, confirming the strength and resilience of our business model and the relevance of our market offerings. Aggregated trading losses reduced \$353 million or 46% to \$429 million. In Food Delivery, revenue growth remained very strong, customer acquisition remained lower and the business continued to benefit from increased scale on the platform. In Etail eMAG performed exceptionally well and reported a trading profit of \$68 million compared to a \$20 million loss in the prior period as it continued to provide customers with best-in class convenience, selection and value. For Naspers, Takealot improved profitability by 81% or \$36 million to a near breakeven position. In Classifieds, COVID-19 took its toll on trading profit. The team responded quickly to contain costs and keep the business profitable for the year, while at the same time continuing to invest in areas of the business that will drive growth into the future. We have defined a clear path for growth and we continue to execute our vision focusing on building deeper ecosystems, while still remaining profitable at the core of the operations.

Now let's dive a little bit deeper into the segments. Let's kick off with Classifieds on slide 20. Classifieds had a solid second half performance with good levels of revenue growth and user adoption across the portfolio. We

accelerated adoption of our transactional capabilities and this will be a strategic priority ahead. Classifieds revenue grew 18% to \$1.6 billion. This reflects the strong recovery in the second half of the year, where revenues in local currency excluding the impact of M&A grew 36%. Trading profit of \$9 million, as I mentioned earlier, decreased from the prior year as the segment felt the initial impacts of COVID-19 and continued to develop and invest in products and solutions and marketing that will drive long-term growth. This resulted in a 2% drop in trading margin compared to the prior year.

In our core traditional Classifieds business revenue grew 13% for the year representing growth of 23% in the second half. Russia and Europe remain the drivers of our Classifieds business. Avito in particular was a standout performer and grew revenue 30% in the second half of the year. Similarly, the transactions business continued to see strong momentum despite major disruptions at many inspections centres as a result of the pandemic. Transactions revenue grew 28% to \$626 million for the year, with the second half of the year growing even faster at 62%. Trading losses for transactions increased marginally to \$97 million, reflecting both our acquisition of a controlling stake in Frontier Car Group, as well as continued investment to facilitate end-to-end transactions with an ecosystem of online and offline solutions that enhance convenience and address trust and safety issues. Momentum in Classifieds segment is strong in our focus markets and we continue to outperform our peer group.

Turning to Food Delivery on slide 21, the pandemic corroborated the group's investment thesis in Food Delivery and acted as an accelerant for the exponential increase in customer adoption. While the pandemic differed by region, the combination of iFood and our share in Delivery Hero and Swiggy yielded impressive revenue growth of 127%, and a notable 60% reduction in trading margin as efficiency ratios improved meaningfully. Revenues almost doubled to \$1.5 billion. iFood grew its revenue by 205% year-over-year driven by increased customer engagement, an expanded restaurant base, higher order frequencies and the expansion into loyalty programmes. Strong order and revenue growth led to a meaningful improvement in trading losses, which decreased by \$204 million or 81% to \$43 million for the year.

Delivery Hero also continued to the strong results and executed very well. Our share of their revenue grew 99% for the year and our share of trading losses were \$195 million for the period and account for more than half of the losses recognised by the segment. While the pandemic accelerated the shift to online across the board, lockdowns and restrictions in India led to some different dynamics resulting in Swiggy experiencing some setbacks. Swiggy's revenue contribution grew a modest 3%, however due to the various proactive initiatives, our share of Swiggy's trading losses for the period improved by a meaningful 58%. Since then, a new wave of infection has hit India and new lockdowns restrictions have been imposed. However the impact has not been as extensive as at the onset of the pandemic.

Looking forward, we will drive growth by expanding our ecosystem further into last mile logistics opportunities. You will have seen we have already started to invest behind these opportunities. Given the high-frequency usage patterns, promising engagement metrics and growing importance of convenience in customers' everyday lives, we see the opportunity set is now broader sense than we had initially imagined.

Finally to Payments & Fintech on slide 22 where the accelerated consumer adoption of digital payment methods has positioned us very well for continued long-term growth. Our Payments & Fintech segment reported strong financial results, despite an initial setback in India in the early months of the pandemic. Revenue grew 36% to \$577 million and trading losses reduced from the prior year to \$68 million with increased profitability from the

payments service provider business which was partially offset by continued investment into the credit business. Trading profit in the Core PSP business grew to \$15 million.

Our European and LatAm business grew strongly throughout the pandemic and maintained revenue growth. In India, we had a tough start to the year, but recovered very strongly, growing total payment value by 59% in the second half of the year. We expect to see continued strong growth in digital adoption across our core payment markets and to benefit from the associated increase in transaction volume. Additionally, we will continue to invest in the broader fintech space, credit in particular. To that end, in the last financial year we stepped up our investment to a controlling stake in PaySense, and in so doing we increased our percentage ownership of the business and of course absorbed higher losses. We remain cautious following the pandemic's negative impact on the Indian economy and have prudently held back on originating new loans. But we know we are all going to recover from the pandemic, and then we see an exciting opportunity ahead.

Turning now to slide 23, where we unpack the increased contribution to central cash flows from our profitable ecommerce businesses. We are seeing the same acceleration in revenue and profitability in our profitable ecommerce businesses. Revenue from profitable businesses increased \$977 million or 39% to \$3.6 billion. More and more of our ecommerce businesses are profitable. From just 38% of ecommerce revenue's five years ago, now, over 60% of our ecommerce revenue comes from profitable businesses. With this good momentum, we will continue to push the broader portfolio towards profitably and you will see continued progress here. However, we will be mindful not to starve future growth. Consolidated trading profit from these businesses increased 37% year-over-year, driven by Etail and Payments & Fintech. This was partially offset by a lower contribution from Classifieds due to the effects of the pandemic. That said, Classifieds still managed to pay a dividend to the HoldCo of \$229 million during the period, mainly from Avito and the Polish business.

Now let's spend some time looking at the cash flow drivers on slide 24. Free cash flow for the year was an inflow of \$126 million, a significant improvement compared to the \$338 million in the prior year. The progress was driven by ecommerce's profitability due to lower losses from iFood totalling \$184 million, excellent working capital management and an \$81 million increase in dividends received from Tencent. Dividends from Tencent grew 21% to a sizable \$458 million. In the new financial year we have already received our dividend from Tencent, and that has increased by a further 33% to \$577 million. Naspers free cash flow was however an outflow of \$4 million, and this was largely due to a R1 billion donation we made in response to the COVID-19 crisis.

Now, slide 25. I will talk you through the dividend and how it will work this year. The board has recommended a 14 Euro cent distribution for Prosus shareholders. The ultimate dividend flow will depend on the outcome of the exchange offer. If the exchange offer proceeds, the distribution will be under the proposed cross-holding agreement between Naspers and Prosus which sees Prosus free float receiving 59.7% of the distribution and then Naspers shareholders receiving 40.3%. Prosus shareholders will receive a capital repayment under Dutch tax, which will be free of withholding taxes. Of course shareholders may also elect to receive a dividend instead. Naspers shareholders will receive a dividend and the requisite withholding taxes will be withheld and paid in South Africa. The exact amount of the Naspers dividend can only be determined once the exchange offer is completed. The timing of the payment will be the same as last year and will happen in November.

Moving now to the funding of the business on slide 26, where you can see that we have significantly strengthened our capital base. During the year, we raised \$5.7 billion on the debt markets, improving the term structure of our bond portfolio at a point in time when interest rates seemed to have reached their bottom. Our

balance sheet was further strengthened by the proceeds received from the disposal of a 2% stake on Tencent which raised \$14.6 billion in April 2021. While we have strengthened our balance sheet we have also been very active deploying capital. As Bob mentioned, we have invested \$7 billion in the last 16 months over our portfolio of core assets. We see great opportunities ahead and have flexibility to chase those. We will continue to work hard to increase our financial flexibility by building a portfolio of ecommerce assets with significant cash flow generating capabilities, increasing leverage responsibly, and remaining disciplined in capital allocation.

To conclude, I am very pleased with the performance of the group in the last financial year. It has been a year unlike any that we have seen before. Our businesses performed exceptionally well and the value of our portfolio continued to grow very strongly. We continued to allocate capital well to assets and investments and I am confident we will continue to deliver strong returns for the group over the long term. With that I will hand the call back over to Bob for closing remarks.

Bob Van Dijk

Thanks a lot, Basil. While we focus on creating value, we will also continue to take steps to ensure that value is being realised, and slide 28 illustrates that. While the transaction we announced is quite complex, the structure post transaction is relatively simple. There will be two separate companies with distinct ownership of a very large and fast-growing set of internet assets. This portfolio today is worth more than \$250 billion and investors will have access to this portfolio through two stocks. And the split in economic ownership is codified by agreement. So Naspers will be entitled to 40% of the economics and Prosus will be entitled to 60%. As you can see from the NAV per share of each stock, there remains significant upside at both a Prosus and Naspers level and we are committed to ensure that is realised.

Before we head to questions, I'll summarise on slide 29 our key priorities. First, the fundamentals of our businesses are strong and are clearly strengthening. Second, we will continue to invest in the growth of our core segments and ventures, organically and through M&A. Third, we have proposed a share exchange offer that we believe better positions Naspers and Prosus for the future. Fourth, as we deploy capital, we will remain very disciplined and focused on continuing to generate strong risk adjusted returns well ahead of the market. And fifth, we remain committed to taking the right actions to unlock value for all our shareholders. With that I want to thank you for listening, thank you for your time so far, and I think we can open up for questions.

Operator

Thank you very much, sir. Ladies and gentlemen, if you wish to ask a question, please press * and then 1 on your telephone or on the touchpad 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. Our first question is from Cesar Tiron of Bank of America. Please go ahead.

Cesar Tiron

Hi everyone. Thanks for the question and thanks for the call as well. I just have four questions. Sorry about that. The first one is on online education. Can you please explain if there are any synergies across some of the businesses in which you invested, and if the end goal could see them being consolidated together? A second question on the cash burn of ecommerce. It was reduced very significantly in H2, so I wanted to understand if this trend would continue or if the investments in EdTech, for example, would offset further reduction of losses in ecommerce going forward. And then I have just a question for Bob and for Basil on the interviews you've done this morning. For Basil, I think Basil said in an interview that Prosus might consider to increase leverage if it sees investment opportunities. I just wanted to check if this means there is more appetite on leverage from your

side, or nothing has changed, and also to understand if investment opportunities include your own stock, the Prosus or the Naspers stock. And then a question from Bob's interview. I think, Bob, you said that the proposed exchange offer does not preclude other actions to help reduce the discount to NAV in the future. Would you be able to share some of these measures or the timeline for their implementation? Thank you so much.

Bob Van Dijk

Yes. Thanks, Cesar, for your four questions. I will ask Larry to answer the question on EdTech. I know he is on the call. And I'll ask Basil to obviously answer the question around leverage and the use of that leverage. And I can speak to the cash burn on ecommerce and finally I'll answer the question on other value-creating opportunities. Let me start – and I'll give Larry a chance right after – on ecommerce cash burn reduction. I think what you will have seen is indeed it is a very significant reduction. We are proud of it, and I think it is the result fundamentally of operating leverage in the business. So these businesses have scalable technology and the fixed cost that goes with that technology is fairly stable. And that means that with that very significantly accelerated growth we basically had to invest less because the fixed cost base stayed relatively stable.

I think that same dynamic is going to hold through going forward. So, that operating leverage dynamic that we've now clearly proven is one that will continue. But the aggregate of ecommerce cash burn is really hard to predict, Cesar, because there are also new investments that we do. Actually the EdTech businesses are generally not very cash consuming, but we are investing for example in food, in convenience delivery and in other things. So where exactly it will map out, that remains to be seen. It depends on the business mix. But I think that trend of operating leverage that reduces burn in the businesses that are becoming more established, that you should expect to continue. Maybe, Larry, you want to take the EdTech question.

Larry Illg

Happy to. On synergies in the EdTech space, if you look across the portfolio of assets that we've assembled, especially some of the ones we've added in the last several weeks, we touch north of half a billion users globally. We started with strength on the consumer side. And on the enterprise side where the money is made we touch over 70% of the global fortune 1000. So when it comes to synergies across the portfolio it's really just a matter of introducing the companies to each other and they find ways to work together, be it on content, product, enterprise relationships, you name it. And it takes no more than the initial PR announcement of an investment from us to get the companies connected, and then they're off to the races.

Basil Sgourdos

Cesar, it's Basil here. Let me deal with your balance sheet question. Indeed as our financial performance strengthens we will continue to add leverage to the balance sheet. But we want to do so responsibly. As you can see, we're a business that not only wants to build large and profitable ecommerce business, but we also want to invest in new opportunities into the future. And we need a balance sheet that can support that. In terms of capital allocation Bob has mentioned earlier that if you just look at the money we took from the initial Tencent trim that we took back in 2018, that has yielded an IRR north of 34%. So that's a very strong return. It's quite clear what we need to prioritise in terms of capital allocation. It is more opportunities like that that deliver a return. Now, if we can execute on the opportunities on the table and do well with them – and we have spare capital – of course it makes sense to invest in our stock too, particularly when you trade at a discount. But we can't do that at the expense of the long-term strategy. So our ambition is to continue to drive the core businesses, to find new opportunities, to improve our financial flexibility so that we can do these things at scale over the long term.

Bob Van Dijk

Cesar, maybe I can answer your last question which is around the share exchange and what is next. Maybe I think to take a step back, the results that we just announced were really strong, and the value of our ecommerce portfolio doubled in size, and we've seen very strong revenue growth. And I think as a result of that continued growth and our very significant outperformance versus the Johannesburg Stock Exchange as a whole, it is really clear that we need to do this transaction. So post the transaction Prosus will double in size and will become a top 20 Euro stocks company. And it is underpinned with a portfolio of some of the fastest growing assets. The Prosus free float will own 60% of the underlying net asset value.

What is great is that the AEX doesn't have the same challenges as the JSE poses for us. That is both positive for Prosus shareholders but also for Naspers shareholders. One comment is that maintain the status quo is actually not an option. It is as a result of where we are and it has nothing to do with what index you follow. Basically we are so big that have the phenomenon of forced selling where the stock doesn't get its fair share in the South African market and it is actually a negative dynamic we need to do something about. In terms of next steps, without getting into the detail we have thought through very carefully that what we are proposing here doesn't in any way stop us from taking further next steps. We think this step is the right one. It is one that is necessary, and going forward it doesn't preclude us from any other value-creating steps.

Cesar Tiron

Thank you so much, Bob.

Operator

Thank you very much. The next question is from Will Packer of Exane. Please go ahead.

Will Packer

Hi Bob and Basil. Thanks a lot for taking my questions. Three please. Just to kick off on the exchange offer, there is a backdrop where there is some caution based on the complexity of new cross-holding structure and new share class. And you've argued it's the best structure to reduce the size of Naspers without crystallising tax issues. Could you confirm the size of the tax bill if you reduce the Naspers stake to create a similar 40% economic ownership via a less complex means? I'm just trying to get a flavour of how big the tax savings are from the proposed structure. Secondly, your release mentioned some progress in new products for the generalist segment for pay and ship in Poland and Brazil. Could you share any initial thoughts on the progress and in particular how you are overcoming some of the trust issues that have characterised ecommerce services for used goods? And then finally, the transaction side of your Classifieds segment is scaling very nicely. My understanding is it's a blend of a C2B style [unclear] style digital retailing business along the lines of Auto One. Could you provide some more details on the relatively size and growth of these two segments? Thanks very much.

Bob Van Dijk

Thanks, Will, for your questions. I'm actually happy to take a start on all three of them. Basil, I'm sure you can chime in. We also have Romain on the call who is the new leader for our Classifieds business. So I would like him to comment, but I'll answer initially on his behalf. So I think when we talk about the exchange offer I think the important thing to say is we are not saving tax with this. We are maintaining our tax structure as it is. We are staying within the South African tax remit and we maintain our tax grouping. If we had looked at other ways to reduce Naspers' size on the JSE, depending on how that would have been done, that would have resulted in a meaningful tax bill which will be an additional tax bill. But it's hard to say what the tax bill would be without

specifying exactly what it is that you were thinking about as an alternative. Maybe as a follow-on you can be a bit more specific on what it is you have in mind. We have looked at the tax impacts of a variety of alternatives and we may be specifically able to answer that question. Should we do that now or should we do that when we're done? We can go either way, Will.

Will Packer

Let's take it offline. I don't want to take up lots of time talking about very specific structures. The obvious structure is repeating what you did at IPO by distributing that way. Those are the kinds of things I had in mind. Those savings are a key characteristic for the advantage of the structure. So I just wondered if you had any specific numbers you could share.

Bob Van Dijk

We do, Will. It is probably best to indeed take those offline with the team. If you would have distributed another 20% of Prosus shares to Naspers I think that is in the order of billions of additional tax that would have occurred. I think the exact number is in the order of magnitude of \$5 billion. Basil, maybe you can chime in there.

Basil Sgourdos

Yes. Bob, indeed that's the right order of magnitude. I think there are some other important points to make about that, Will. First of all, Naspers can't unbundle up to 40%. That would not comply with the approvals. The approvals require that Naspers maintains a majority holding, a majority voting share in the structure. That's what creates the B shares and the control structure. Secondly, if we just did a straight unbundling like that we would be straight up at where we are within the next 18 months. So the difference between the idea that you put on the table and the one that we want to execute is that in the proposal that we've taken to our shareholder we need to create \$225 billion of value to get right back up. So in short we couldn't go as far because of the regulatory approvals in a straight unbundling. Two, there is a sizeable tax bill. But three, we would climb right back up very quickly, and that doesn't happen with this proposal.

Bob Van Dijk

Thanks Basil. Thanks for the question, Will. When it comes to pay and ship I think what we have designed in a number of cases is what is fundamentally an escrow model where we hold the payment until the buyer is satisfied that the seller has indeed shipped what was agreed upon. And we found particularly with more implementation of technology and a fair bit of machine learning we get really quite good at figuring out whether a seller is actually not sending what they're supposed to send, or maybe a buyer would be returning items that are not the same that he or she has received. So it's a combination of escrow plus machine learning that makes that pay and ship a much better experience compared to what it was in other businesses a decade ago.

Then in terms of the different sub-models of car transaction business, indeed we have different models where I think the starting point in many cases has been that we offer consumers that we can actually buy their car off them as a more convenient option to the simple classifieds selling process. But we also are increasingly then giving consumers the option to buy those cars as well. So in some cases they go into the dealer model and in other cases they go back directly to consumer. So we are engaged in both models and we actually don't separately disclose the numbers on both of them at this point in time. The consumer business is smaller and it is growing faster.

Will Packer

Many thanks for the colour.

Operator

Thank you. The next question is from John Kim of UBS. Please go ahead.

John Kim

Hi everybody. Two questions please. First, when you think about value creation and the portfolio and getting the market to ascribe credit to the share price through the discount to NAV, is it more of a focus of building critical mass? Are you looking to scale these businesses to a certain quantum or balance of the NAV, or is it more about catalysts and driving realisation of value? Effectively you have two measures that you're working against, but I'm trying to figure out what's more important as you invest into new areas. Secondly, an unrelated question. When you think about being too big for the JSE, what do your advisors tell you in terms of how much of the AUM is still benchmarked to SWIX versus Capped SWIX? Thanks.

Bob Van Dijk

I don't know if it was just me, but I had real trouble understanding the questions. Is it my connection?

John Kim

Is this better?

Bob Van Dijk

Now I can hear you.

John Kim

Brilliant. To rehash, when you think about value creation in the control portfolio are you looking to scale the businesses to a certain number, whether it's billions of Dollars or a percentage in the portfolio? Or are you focussed on crystallising value over time, whether it be through merger or sub-IPOs or what have you. It's kind of a [unclear] you have. I'm trying to figure out what the bigger lever is in your approach to building the portfolio and closing the discount to the NAV. The second question is unrelated. With your advisors do you have a sense of how much of the AUM in South Africa is still benchmarked to SWIX versus Capped SWIX? Thanks.

Bob Van Dijk

Basil, I hope you heard the second question because I only heard the first. Did you hear the second?

Basil Sgourdos

Yes, indeed.

Bob Van Dijk

Okay. Then I'll leave you to answer the second question. I'll answer the first, which I did hear. I think the answer to your question is really we want to do both. I think when you look at the results that we presented today it's clear that getting these businesses to scale is something that we're well on our way to doing. And if we continue at this pace, that will be hugely helpful in getting the full value ascribed to these businesses. I think the second question is also a fair one around crystallisation. I think we've shown in the past that we're quite willing when we think it's the best solution for a business to stand on its own feet or bring it to the market separately that we will do that. And I think we are going to do that again the future if the time is right and we think things are better off standing on their own. So the short answer to your question is both. Which of the one is the bigger lever? I think it's hard to say. They are both really important tools in the toolbox that we will absolutely use.

Basil Sgourdos

Hi John. It's Basil here. I hope you're doing well. Look, it's clear that the majority of assets under management are benchmarked to the Capped SWIX. But I think there is an important point to be made here. This size issue has got nothing to do with what benchmark you choose to measure your performance against. Here is a simple example that Bob has discussed with us internally and that I think is important that everyone understands. Today you're an investor on the JSE. You have R100, and you say I don't know how to pick these stocks. I want to apportion according to each company's contribution on the exchange. So of that R100 we should get R25. You should argue we should get more than R25 because we outperform the JSE. The JSE of the last five years excluding us delivered -11%. Including us it delivered 16%.

So we should probably get more than R25, but we don't get more than R25 for a couple of reasons. The first and most important is most funds can't own 25% of a company in their portfolio. Secondly – as your question implies – many benchmark to the SWIX. So what do they do? Instead of us getting R25 we get R10. So we are under-invested, under-indexed on the Johannesburg Stock Exchange. And that's incredibly important when of late, as we've seen over the last couple of years, it's local money that is driving that exchange. Now we take a step and we reduce our size. Our size goes from 25% to 13%. So we still get R10, but it is now measured against R13 and not R25. And that's a 60% improvement. That's an important dynamic for everyone to understand. Then of course when people are selling and there isn't enough buying, that adds to the pressure. So that's the problem we solve. And whether you benchmark to the SWIX or some other index is neither here nor there.

Bob Van Dijk

That's well put, Basil. I think maybe just to reiterate that, if our fair share is R25 and you get R10, you get 60% less than your fair share. But if you are 13% of the market and you get R10 instead of R13, that is 20% less than your fair share. So that pressure really goes down very materially because of this transaction, and it has nothing to do with whatever benchmark people use.

John Kim

All right. Thank you.

Operator

Thank you. The next question is from Ravi Jain of HSBC. Please go ahead.

Ravi Jain

Hi there. Thank you for taking my questions. Two from me. The first one is just on the overall pace of investment. It has obviously picked up a lot in the last 12 to 15 months. The question I had is do you see that as more opportunistic, what you have found in the last few months, or can you expect the pace going forward in the next two or three years to be much stronger than the \$1 billion to \$2 billion that you used to do, given what is happening to the consumer landscape? The second question is on food delivery. We have seen obviously an increasing competitive intensity in Europe and some other developed markets. I would love to hear your thoughts on your core markets which are actually even more penetrated today. Probably you can add that to the point of revenues, not the trading losses in your food delivery segment. That would be really helpful. Thank you.

Bob Van Dijk

Thanks Ravi. Let me answer the first question and I can make a quick start on the second, and I'm sure Larry will also correct me and say much wiser things. Indeed you are right. I think the pace of M&A has increased. And I think that basically stems from two reasons. One, indeed I think ecommerce and technology as a sector has gone through tremendous growth. So bigger businesses tend to command higher price tags. I think you mentioned that in your question, and I think that is correct. I think the other dimension is that actually in our core segments we also have built really exceptional leadership teams that are able to distinguish between good opportunities and less good opportunities really well by now. I think that also enables us to be decisive and when we see opportunities to go after them. I think both of those are structural.

On the other hand – and I hope you will have observed us doing that – we are very diligent when it comes to investing. And if we don't like the valuation, we think that there is a competitive pressure that leads to an unhealthy price, then we will walk away. Because in the end we don't do these investments for fun. We do them because they drive a great return for shareholders. Actually that good and improving track record is absolutely essential for us. What it certainly doesn't mean is we're becoming less critical or relaxing our objectives on returns. That is certainly not what is driving it. Some factors are indeed supporting a strong pace in M&A, but our diligence and our discipline most certainly has not changed and will not change.

Then in terms of competition – and again Larry can add – I would say our most important food markets, probably Brazil and India, have been very competitive for many years. And I think our teams have demonstrated to be able to compete well and deliver great customer business, and that's why they have done well. I think iFood in particular in Brazil has seen lots of competition, but it has still managed to outgrow and actually gain market share rather than suffer from it. I think it's because we have great operating expertise and great talent there. Larry, you may want to add.

Larry Illg

I think you've covered it well. The only part that I would add is as this segment continues to grow and expand into adjacencies it just attracts more and more entrants. And it requires that we and our teams focus more and more on consumer experience. But the competitive pressures if anything just intensify over time as the space gets bigger.

Ravi Jain

Thanks Bob. That's helpful. So how would you put that in the evolution of the trading losses for your food delivery segment? Historically you had said the watermark [?] was FY20. Do you still think that's the case? Do you see increasing competition maybe changing your path on that?

Bob Van Dijk

I can comment on it or Larry can. I think if I look at the core food business I think the same answer applies as to what Cesar asked. I think we see operating leverage in the business, and I don't expect that operating leverage to change because competition has been there all along. So the business model is a super healthy one, and as you grow you can make money, simply put. And that dynamic I really don't think is going to change. I think what does happen is we are investing in adjacencies like groceries which we see to be extremely promising. That will require a certain level of investment. But you should almost see that as a separate new business that we're building. But I think on the core there is a really healthy operating leverage dynamic.

Ravi Jain

Thank you so much. That's very helpful.

Operator

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

Andrew Ross

Great. Thanks for squeezing me in and good afternoon everyone. I've got three. The first one is just a follow-up on the question on food and to try and dive a bit into dark stores, which is obviously an area which is getting a lot of VC money and some of your own money. Can you just help us understand how you think about the economics of those dark store businesses in a steady state when compared to the core food delivery platform. And I'm interested both in how users are retained and their frequency trends but also how you think about the contribution margins. That's the first topic. The second one is I guess across your portfolio your businesses had big tailwinds from the pandemic but are now starting to cycle up against that tough comp. Can you tell us what you're learning in terms of how your profiles are trending, customer acquisition costs are trending etc.? I guess I'm particularly thinking on food but also on etail with eMAG and Takealot. And then the third question is a quick one. Is there any update on the latest position on the ownership of iFood and how you may get to 100% over time? Thank you.

Bob Van Dijk

Thanks for those questions. Maybe if you're okay then I'll ask Larry to answer the first one. I will start on the second one. Then on the third one the short answer is no. There is no update. On the tailwinds that came out of COVID and how they have developed as we're getting into more normalised territory, I think basically what happened because of COVID is that many people start trialling services like food delivery or etail for the first time that either have never used it or didn't really get fully known with the concept. So we acquired lots of new customers. And based on what we see in places where things are normalising those new customers are certainly not going to go away. So we see when people like a service they use it a few times. They actually become loyal customers and quite good retention levels.

And actually the retention curves are still looking extremely healthy in food delivery and etail and we see the people who started using these services during the pandemic play very similarly as people who joined them before the pandemic, which is encouraging. And you wouldn't necessarily know that in advance. The retention curves actually look very healthy, very similar. So I would say obviously there was a boost that led to very high growth numbers, and you get into more normalised territory. But you see existing customers retain their frequency and new customers stay. So we expect that most of what was triggered by COVID to be sustainable and will drive forward in growth in the future. Larry, would you mind talking to Andrew's first question around dark stores?

Larry Illg

Yeah, I'm happy to, and it actually ties nicely into the last question, the one prior. If you think about the core consumer of not just our online food delivery but even our etail transaction, it all centres around convenience. These are users that while we're seeing them now in dark stores we would have gone through the hard work of marketing to them, acquiring them and retaining them often in other contexts. If we were on this call a couple of years back we would have been talking about marketplace food delivery consumer. Will they consume first party food delivery? It turns out that it's largely the same consumer. So we've acquired those core users of food delivery that naturally translate into dark stores. Many of them are the same consumer set. It's just a different use case. To Bob's point earlier, because you don't have to go through weeding out the consumers your

effectiveness of marketing and retention goes up. So we feel like you're going to see much better margin from these users over time because you're just pushing more merchandise through the same channels.

Operator

Thank you sir. Then the next question is from Catherine O'Neill of Citi. Please go ahead.

Catherine O'Neill

Thank you. I had a question on Stack Overflow, which was a fairly sizeable investment. I wondered if you could give us more details on the asset, what the plan is, how the monetisation works, and what the longer term margin potential would be. And then actually back on EdTech, I noticed in the short-term incentive goals that EdTech is focussed on top line growth and organic trading losses at target. Are you able to give any sense of how we should think about the revenue and losses as this is split out into a separate vertical?

Bob Van Dijk

Yes. So maybe Larry has been driving the Stack Overflow acquisition together with Pat Kolek. I'm sure they can comment on our plan and our ideas around monetisation. I just want to make sure I fully understand the question, Catherine. I think the way we've positioned it today EdTech from this financial year on we will really start treating as a new segment. So it will have its objectives, its goals on revenue and bottom line like we set for our other segments. Is that what you were asking about, or did I not fully get it?

Catherine O'Neill

Yes, partly. I could see in your short-term incentive goals it's separated. I just wondered if you could give any more sense of how we should think about forecasting the revenue around the trading loss for FY20 going forward given that multiple assets are going to be pulled into that.

Bob Van Dijk

Yeah, so maybe we can take that last one offline, because indeed it is a new segment that consists of new assets. And new ones are coming in, and depending on when they close exactly it will have quite a bit of an impact on how that will develop. I think to give a very specific input would be a bit too detailed for here, but we can get you the information we can get you through our IR team. Larry, you can talk to the first point.

Larry Illg

Happy to. So on Stack, the company over its history has been really focussed on building out its community and driving engagement. And it has done a really phenomenal job at that. This is one of the most utilised properties on the global internet. It sits squarely in the developer workflow. And what they've done historically, like many community sites that we've seen over the years, is monetised through advertising. That continues to grow strongly, but the opportunities that we see for this business go beyond advertising. They have rolled out a corporate enterprise solution that they call Teams that has rolled out very nicely. And we think part of the reason why it fits within our EdTech portfolio is we think that there is a meaningful opportunity to connect software developers to more formal learning opportunities. As a result it's early in its monetisation journey but it's growing very nicely, revenue growth upwards of 50%. And we think at scale the monetisation will be commensurate with the user reach that it has today.

Catherine O'Neill

Okay. Thank you.

Operator

Thank you. Sir, we have no further questions in the queue.

Bob Van Dijk

All right. Well, then I basically just wanted to thank everybody for joining us here today. We are really excited about the momentum we have with the business. I hope you are as well. And if there are any questions going forward, you know how to find our IR team. Thanks for the time today.

Operator

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

END OF TRANSCRIPT