

Conference call transcript

23 November 2022

INTERIM RESULTS

Operator

Good day, ladies and gentlemen, and welcome to the Naspers and Prosus interim results presentation. All participants will be in listen only mode. There will be an opportunity to ask questions later during the conference. Should you need assistance during this call, please signal an operator by pressing * and then 0. I would now like to turn the conference over to the CEO, Mr Bob Van Dijk. Please go ahead, sir.

Bob Van Dijk

All right. Thank you. And thanks, everybody, for joining the call today. I'll be relatively brief with my remarks today because we will provide an in-depth look at our business when we get together for capital markets day on December 6th. Basil will come after me and will discuss our financial performance. And then after that, I have the rest of my management team on the lines as well. So, you can ask them any questions that you will have. So, let's start on slide five, with the key highlights of a tough but successful year.

We navigated a quite volatile environment. So, we drove solid execution with a strong balance sheet, which actually got progressively stronger through the period. So first, we delivered a strong set of results with just over 40% revenue growth across our e-commerce business. Second, times have fundamentally changed, and we are adapting quickly. As we told you we would, we invested in the future growth of our business during the period. This is fundamentally the right thing to do for the long term health of those businesses. Now that we have achieved scale across our portfolio, we will accelerate our path to profitability while maintaining our leading competitive positions. So, my ambition is for the consolidated e-commerce portfolio to reach profitability in H1 of financial year 2025. And this will require us to rethink priorities and adjust our investments accordingly.

Third, we launched an open ended buyback programme that is unlocking tremendous value. And I'll speak more about it shortly. Fourth, our financial position remains excellent. So, we sit in a net cash position with plenty of liquidity, and we have very attractive rates on our debt. And I believe this will be a strategic advantage for us, while many others may face funding issues. Finally, we continue to make significant progress on our sustainability initiatives, which are core to our strategy and our [break in audio]. All right. Sorry, folks. We had some audio issues here. Let me start again from slide six. I think this is one that you've probably seen before, but it's worth repeating, because it's really foundational to what you should expect from us as group.

So, we have a unique portfolio of consumer internet businesses that that are led by great entrepreneurs and great leaders. And some we own and operate like OLX, like iFood, PayU, and some are associates like Tencent or Delivery

Hero. And in volatile times like this, where the market struggles to form a consistent view on valuation, our position as an operator as well as an investor is actually an increasingly important advantage. We have a strong track record of identifying opportunities at an early stage, and then scaling that opportunity into really valuable and sustainable businesses. Going forward, as we drive our business to profitability, we will also be more structurally focused on how we best crystallise value and do this in a systematic and repeatable way.

We are focused on growing net asset value per share. And as valuations have dropped globally, we have aggressively repurchased shares. I'm very comfortable continuing to do this as long as our assets trade at a significant discount. The discount has created a unique opportunity for the group to leverage its returns in a low risk way. Longer term, we have grown our net asset value from a net invested capital base of around \$15 billion to over \$127 billion. And I'm confident we will continue to create and crystallise even more value over time.

Now, if we turn to slide seven, you will see strong execution across our segments with each delivering between 30% and 64% growth. And this is despite tough year on year comparisons and a clearly weaker macro backdrop. Core to all of this is leveraging our online platforms to make offline transactions more efficient. And we're building deeper ecosystems around our core products. All our large classifieds markets now operate fully integrated vertical service in real estate and autos. And in addition, we have well established pay and ship options. This takes us beyond the position of facilitator and right into the heart of the transaction, and we recorded over 100,000 auto transactions in the last six months.

We made similar progress in food delivery where iFood and Swiggy are expanding beyond restaurant delivery into groceries and convenience. And this helps our portfolio to drive \$4.5 billion of GMV for more than 400 million orders in the first half. So, our payments and edtech teams are also making excellent progress showing revenue growth of 57% and 30% respectively, with a clear strategy for scale and profitability.

As I mentioned a bit earlier, we're adapting to changing macro environment. You can see here on slide eight, that we have prioritised balance sheet strength and investments in our own business and stock over external M&A. So first, we deployed less capital overall. And we evolved our approach towards increased organic investments in areas of our business with highest potential, notably autos in OLX, convenience in food, and credit in payments.

And we will continue to look at all external opportunities, but the bar is high, and it will require great conviction and lower risk. And actually, a good example of this is our purchase of the remaining 33% of iFood. So, I'm really confident this will generate an exceptional return. And as you can see from today's results, iFood is firing on all cylinders. And finally, we are investing in Tencent and the rest of our businesses by buying back our stock every day. And this is constantly enhancing our net asset value per share.

We get often asked what we are investing in. And slide nine gives more detail on the specifics of this investment. At the capital markets day, we will dive into each of these initiatives in greater detail. So, today, I'll just make three important points. So first, the investment is mainly in businesses we own and operate, which is where we have strategic control, and the ability to calibrate spec. Second, in the past years, we invested to ramp up customers.

[Break in audio]. Sorry about that, but we are having some real connectivity issues here in Cape Town. We'll try to get it fixed. Hope it works now. I just lost you at slide eight. I think it's worth repeating, actually investing in Tencent and the rest of our business by buying back our stock every day. And I'm sure you notice, but this is actually constantly enhancing our net asset value per share.

Now, if you move to slide nine, we often get asked what we're investing in. And slide nine gives more detail on the specifics of this investment. And at capital markets day, we will dive into each of these initiatives in greater detail. So today, I'll just make three important points. So first, the investment is mainly in businesses we own and operate, which is where we have strategic control and the ability to calibrate spend.

Second, in the past year, we invested to ramp up customer adoption in relatively under penetrated markets. So that means that we invest in branding, we invest in incentives, we invest, for example, in marketing in our Indian credit business. We also have been setting up new dark stores at iFood and new inspections centres at OLX Autos. But as these businesses are gaining traction, you will see operating leverage.

And in cases where we're not successful, we'll make sure that costs will rapidly be cut. Either way, we see a clear path to significantly lower spend over the next couple of years. Third, you can see we're generating great traction from this investment. So, OLX Autos has seen revenues triple over the last two years. PayU grew its credit revenue by close to three times. And iFood had more than double GMV on convenience orders.

So, as I mentioned earlier, I believe repurchasing our own stock is a great use of our capital right now. And you should expect the buyback programme to continue for the foreseeable future. Slide 10 shows you why. So, each day we sell a small amount of Tencent shares, and we immediately buy Tencent but also our own e-commerce assets back at effectively a 40% discount. That significantly improves our net asset value per share and creates permanent value which will compound over time. So, to date, we've invested \$5.8 billion buying back shares. And Prosus has sold 4% of its NAV and at the same time reduced its economic share count by 7%. That results in a 3% NAV per share uplift so far. That's a good start. And as long as the discount remains elevated, the impact will increase cumulatively, as we have shown on the left hand chart.

We are on pace to invest about \$13 billion by June 2023. And that would bring the accretion to 7% for the first 12 months. And if we run the programme at the same pace and discount level for another 24 months, the accretion will be close to 25%. Another important benefit is when conditions eventually improve and we start to grow NAV again, then the enhancement will be even greater. So, on the right hand side we show that for a portfolio generating 20% IRR for the next two years, the buyback programme will enhance this to over 29% as we are reducing share count at a faster pace than the NAV.

Finally, before I close off on the share repurchase programme, I want to be crystal clear on one thing. 100% of the value created by this programme is from us arbitraging the value of our assets against our market capitalisation. The bigger the discount, the bigger the benefit. And it has nothing to do with Tencent's prevailing valuation, as we sell and buy almost simultaneously. In fact, the key benefit is that to date we have increased our exposure to

Tencent of 1.4 on a per share basis, as you can see in slide 11. So, Tencent is a phenomenal business. It has a unique position in the China internet landscape. It's been led by a world-class leadership team, and it has a proven track record of operating through all types of environments. And from our perspective, we remain absolutely committed to being a very large shareholder for a long time. And we see still tremendous upside potential over the long term.

On November 16th, Tencent announced it will distribute Meituan shares to shareholders in March of next year. When we receive these shares, we'll consider them as held for sale and we will evaluate market conditions, timing and pricing to optimise value for shareholders to any transaction.

Now, in summary, I'm confident with our execution in a difficult environment and the steps we've taken to actually get the company ready for better times. And if Tencent regains ground, and we're confident that it will, Prosus should benefit in an accelerated fashion. And there are basically four initiatives that underlie that have become drivers of our valuation.

So first, the compounding effects and the continuation of the share repurchase programme. Second, a consistently improving profitability profile of our e-commerce portfolio while maintaining our scale and competitive position. And three, the crystallisation of assets over time, and four, further simplification of the group structure over time. So that's where I'll finish. I hope the call will be more stable from here and I'll turn it over to Basil.

Basil Sgourdos

Thank you, Bob. Hello, everyone, and thanks for joining us today. It's a pleasure for us to discuss. I'm going to get right into it. On slide 13, you'll see the highlights for the six months financial performance. First, I call up the stellar growth of 41% year on year of our e-commerce businesses. This is differentiated given the macro backdrop. We delivered increasing scale in the e-commerce extensions we are investing to build and progress their path to profitability. Our reported results in growth were materially impacted by negative foreign currency translation. Its impact on revenue was quite significant, 7% or \$1.2 billion, but less pronounced at 3% or \$93 million for trading profit.

To get a true operating view of the results, I'll speak to organic growth, excluding foreign exchange and M&A. Group revenue measured on an economic interest basis grew 9% to \$16.5 billion. The strong e-commerce growth of 41% was offset by lower growth from Tencent. We too were not spared the impacts of the sharp market correction. And we had to record impairments of \$1.5 billion on our listed assets and a few private investments too. Impairments are excluded from core headline earnings and trading profits. We remain confident in the long-term potential of Delivery Hero and other listed investees.

Trading profit of \$1.4 billion and lower core headline earnings capture a reduction in Tencent profits, the investment in the new e-commerce extensions, and higher losses from e-commerce associates. Investment was primarily to scale our newer extensions in e-commerce subsidiaries. They are autos in classifieds, convenience in food delivery, and then credit in PayU. The fast growth is evidence of the rapid path to reaching financial scale. As

they scale further, our focus and attention is on delivering an accelerated path to profitability, while prioritising the strongest opportunities and taking action fast where things don't work.

We are also very focused on driving efficiencies and cost reduction in our core consolidated businesses and driving margin expansion there. The benefits of these measures will be seen in the second half of this year and beyond. Finally, our balance sheet remains strong with excellent liquidity, which is another significant strength given the broader market backdrop. Slide 14 shows the e-commerce revenue growth of 41%, which is significant, given the market context and the scaled base that we've already built over the years. eMAG was the only business to decline year over year, pressured by a challenging macro environment in Eastern Europe as a result of the war in Ukraine. eMAG is scaling new initiatives to return the business to growth while simultaneously driving efficiencies to limit the impact of the macro environment on its profitability.

Turning to slide 15, we break up the consolidated revenue and revenue from associates. Both sets grew nicely during the period. Consolidated revenue grew 33% tempered by eMAG, as I mentioned earlier. Excluding eMAG though, consolidated revenue grew by a very strong 55% year on year. On slide 16, you can see the increased organic investment in our consolidated businesses and the higher losses in the associates. It's very important to understand that the cash needs of our business are only on the consolidated businesses. Associates and investees take care of their own funding via fund raises.

The consolidated trading losses increased by \$209 million to \$449 million. This increase is driven by investment in the earlier stage e-commerce growth extensions of autos, credit and convenient delivery. The extensions account for \$483 million of the consolidated loss, which means that our consolidated core businesses are therefore profitable in the aggregate. These extensions were all nascent businesses just a year ago and required investments to scale. They offer significant promise. They're growing very fast, and with that driving operating leverage. We are prioritising capital to the best opportunities.

Stepping back from the individual points, I'd like to conclude my comments on this slide by emphasising that financial flexibility, particularly during these times, is differentiated. Continued growth and cost action will yield benefits, which you will see in the second half of this year and in subsequent reporting periods. Now let's turn to each segment. I'll focus on our consolidated businesses, which we directly manage. Let's start with food delivery and iFood on slide 17.

iFood in Brazil continues to scale and is delivering profitable growth in the core and at significantly improved margins. Revenue grew 39% as orders grew 14% to more than 400 million orders. This order growth and the higher average order value grew the GMV by 22% to \$4.5 billion. This is healthy growth, and more notable for the fact that we're lapping COVID-19 tailwinds last year. Trading losses dropped by \$38 million to \$70 million as the core business became meaningfully more profitable. In the core restaurant food delivery business, iFood delivered trading profit of \$45 million, with a trading margin of 7%. So that's an 8% improvement year over year.

Reduced customer acquisition costs, larger average basket sizes and the benefits of introduction of new revenue streams drove this good improvement. In convenience, iFood operates hybrid model of grocery marketplace and quick commerce delivery. iFood's new initiatives grew orders by 152% to 46 million and GMV by 102% for \$715 million. Revenue grew to \$57 million as we invested to scale the business. Quick commerce now accounts for 9% of iFood's revenues. And that's essentially from nothing a year ago.

Trading losses for the new initiatives increased only by \$9 million to \$95 million, despite iFood increasing coverage to 55 cities and delivering around \$1.9 million. Scaling revenue and gross margin improvements enabled expansion of the footprint without increasing losses too much. There is still work to do to get to profitability. But we're getting there faster due to tighter investment approach. We're incredibly proud of what the iFood team have achieved and we expect significantly more most shareholder value to be involved in coming years. [Unclear] shareholder approval, which was obtained last week, we have subsequently concluded the 33% minority buyout of iFood.

Let's turn now to slide 18 where classifiers saw strong growth driven by OLX Autos. The graphs on the slide exclude the Avito, which was a discontinued operation due to its sale in October 2022 for \$2.4 billion. Classifieds overcame several significant challenges in the past six months, and demonstrated healthy growth of 54% year over year, with the revenue for consolidated segment totalling \$1.2 billion. Excluding Ukraine, the core classifieds business grew revenues by 20% to \$217 million. Trading profit of \$59 million represents a 9% improvement in margin to 27%. This was driven by strong execution, and by the team beginning to monetise our pay and ship initiatives.

Operating next metrics across our core classified business remained stable with 89 million active listings, 80 million monthly active app users, and 2.1 million paying listers. OLX Autos grew revenue by a very strong 84% to almost \$1 billion. The business benefited from an acceleration in OLX Autos, B2C, and consumer financing initiatives. During the first half of the year, OLX Autos supported 18,900 average monthly transactions. And that totalled 114,000 cars sold, up 60% year over year.

OLX Autos is still young business and reinvesting to scale it. Trading losses increased to \$206 million as we bought out our retail B2C infrastructure, scaled our consumer financing and positioned the brand in key markets and scaled the tech platform. We will go about seizing the opportunity as we're doing with everything else in a balanced and thoughtful manner, and will increase our efforts to improve productivity, efficiency and cut costs to build a sustainable long term business.

Moving to payments and fintech on slide 19 where we continue to deliver growth and are seeing very positive momentum in our credit initiatives. PayU revenue grew 57% to \$412 million driven by strong performance in the payments businesses in India and Turkey and the scaling credit business in India. Total number of transactions grew 70% year over year, and total payments value grew by more than 49% to \$46 billion. Trading profit was negatively impacted by once-off provision of \$18 million related to a Brazilian merchant facing financial difficulties. We have adopted additional controls to ensure such events don't reoccur.

Excluding this provision, the business reports a trading loss of \$7 million, compared to a trading profit of \$9 million in the prior period. This decline reflects a change in the payment mix and investment to build additional revenue streams. PayU is focused on driving future profitability by further diversifying its revenue streams and reducing costs. In credit and new initiatives, the business continued to scale quickly and reported revenue growth of 227%, which is significant, and it's also delivering an improved margin.

We see a fairly rapid path to profitability for this business. Metrics for the business remain strong, with loan issuances growing 290%, to a total of \$678 million on the back of robust demand for transactional credit and personal loan products. Meanwhile, the business also expanded our pre-approved base to 66 million users and 52,000 merchants. With a sharp focus on risk, delinquency rates remain low at 3.25%. Credit now accounts for 8% of total payments for FinTech revenues, up from 2% in the prior period. And we expect that to continue to scale from here.

So, let's turn to our edtech segment on slide 20. Here we are investing to expand our offerings. Stack Overflow and GoodHabitZ were acquired during the first half of full year 2022. The numbers in the prior year incorporate two and four months respectively of operating activities. Excluding the impact of M&A and foreign exchange, edtech revenue grew 50% to \$63 million and trading losses increased to \$68 million as we invested behind new products and expanded to more countries.

Stack Overflow's metrics remain very strong and averaged 200,000 new registrations to its community site every month. Total bookings growth was also very strong at 53%. The business grew revenue 33% to \$45 million driven by Stack Overflow for Teams, which contributed 49% of total revenue for the company. This compares to 32% in the prior year. Increase investment in engineering, product development, and sales and marketing initiatives, mainly to Stack Overflow for Teams, contributed to the trading loss of \$42 million.

GoodHabitZ revenue grew 27% to \$80 million, while its geographic expansion drove the trading loss higher to \$11 million. The business is now focusing on these existing markets and returning to profitability. Education remains a significant and high potential sector, and we remain very excited about the potential for value creation from here.

Across the group, we are managing our costs. On slide 21, I set out some of these initiatives. The first, we're focused solely on existing investments. We're not taking on new challenges or new business models. The focus is on solidifying our positions in the markets we already have leadership in and where we see the most potential to create value. On the back of good growth, we will drive profitability and cash flow generation. Second, we're optimising our already breakeven and profitable core businesses to grow their profits and expand their margins. We're driving efficiencies, improving productivity and reducing costs. For example, at iFood we are driving larger basket sizes via minimum order value, incorporating dynamic pricing for delivery fees and becoming more targeted in our discounting. Our artificial intelligence capabilities are strong and are delivering significant financial benefits for iFood but also our other businesses.

Third, while we already run a lean corporate structure, we're examining costs and have committed to reducing costs at the corporate level. Our operating units are also doing the same and reducing their costs. Fourth, we will exit underperforming businesses. We have closed operations where we believe profitable growth cannot be sustained. We have closed the food delivery business in Colombia, and OLX Auto's businesses in Peru and Ecuador, and the focus is on optimising our more successful businesses.

Folks, rolling all of this up, with the measures we've put in place, we expect core classifieds will sustain revenue growth and improve its profitability versus the first half. This will be different to prior years. In the past, you'll recall that seasonal trends drive lower profitability in the second half of the year. This will no longer be the case. iFood's core revenue and profitability will continue to expand in the second half of the year. And the core of PayU will return to profitability in the second half of the year. And as Bob mentioned, it's our ambition to reach aggregate consolidated e-commerce profitability in the first half of the financial year ending 2025.

On slide 22, we reflect core headline earnings, which is an indicator of the after tax operating performance of the group as it adjusts for non-operating items. Core headline earnings decreased for three reasons. First, due to lower contributions from Tencent. Secondly, due to the investment to scale our e-commerce extensions. And thirdly, due to increased investment from the e-commerce associates.

So, moving to slide 23 where we deal with free cash flow. The decline reflects the investment to scale e-commerce extensions. Working capital investment reflected scaled credit and auto businesses that we have built. Tax paid was lower, driven mainly by lower dividend taxes as no dividends were received from Avito. Increased capex reflects investment in eMAG's distribution centres in Romania and Hungary. Finally, Tencent remains a meaningful contributor to our cash flow with a dividend of \$565 million. Our efforts to accelerate profitability and added focus on lessening working capital investment will also improve free cash flow outlook in the coming years.

Moving to the balance sheet and funding of the business on slide 24, we have a very strong balance sheet comprising \$15.8 billion in gross cash. We're in a net cash position of just over \$600 million. We have financial flexibility and that positions us well through the current climate, but also over time to capture any excellent opportunities if they appear. Tencent's announcement on November 16th delivers a sizable \$5.4 billion investment in listed Meituan shares around March of 2023. As Bob mentioned earlier, we intend to classify them as held for sale and we'll evaluate our options based on market conditions to optimise value for you, our shareholders.

To conclude, I'd like to leave you with the following key messages. The period to end September 2022 represented the peak of investment. Moving to the second half of the year, we expect trading losses to reduce as we realise the benefits of our initiatives and of cost reductions. The opportunity for each of our business segments is significant, and we're investing in a focused manner. We will scale the early stage extensions and improve margins in these and in the core businesses. Our ambition is to deliver consolidated e-commerce profitability in the first half of 2025. These actions will be a catalyst to crystallise and return value to shareholders.

Our balance sheet is strong, and we are well positioned for the future. Over time, while the bar is high, we will capture any additional opportunities that might appear. Finally, as Bob underlined, we will continue with the buyback programme. It has created tremendous value. It's enhancing the NAV per share, and that will compound over time. With that, I look forward to seeing you at our capital market day in just under two weeks' time, where we'll dive more deeply into all our businesses and discussed our path to profitability. I had back to Bob to close us off on the presentation and open the Q&A.

Bob Van Dijk

Thanks, Bas. To summarise let's have a look at slide 26, our key priorities. So first, we will continue the buyback to take advantage of the discount and permanently unlock value for shareholders. And we're committed to reducing the discount and will continue to build NAV and NAV per share. Second, the fundamentals of our business remain strong, and we will continue to invest in a focused way to build more valuable businesses. At the same time, we're taking significant action to reduce costs across portfolio, and we have already passed the peak. So, you should expect a significant improvement at the end of next year.

Third, we have adjusted to new market realities by setting an even higher bar for M&A returns and preserving liquidity and taking all action on expenses and free cash flow generation. Fourth, we will work towards simplifying the group structure over time and crystallise value through a transparent, predictable and repeatable process. And fifth, we will continue to drive sustainability initiatives within our businesses. I'm excited about the prospects of our strategy. And I hope I will see many of you in two weeks at our capital markets day. We'll go into a lot of the meat of the business. We will talk about capital allocation strategy and give more information on path to profitability and talk about how we think about crystallisation. With that, we are done with this part, and we can open up the lines for questions.

Operator

Thank you, 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. To withdraw your question, please press * and then 2 to remove yourself from the queue. Our first question is from Cesar Tiron of Bank of America. Please go ahead.

Cesar Tiron

Hi. Good afternoon, everyone. Thanks for the call and the opportunity to ask questions. I have three questions if that's okay. The first one is really on operations. I just wanted to understand which of the verticals you expect to break even first if that's okay. And if you can just remind us of the key drivers. The second question is on M&A. So, obviously, the balance sheet of the company is much stronger than it was in early 2022. And it will be even stronger since you decided to put Meituan up for sale. I wanted to understand better the potential use of cash. Are you potentially going to take advantage of lower valuations for internet assets and accelerate M&A? And then linked to that question, do you see new verticals that could emerge in the Prosus portfolio? Or would any additional M&A be focused on the existing verticals? Thank you so much.

Bob Van Dijk

Yeah. Thanks, Cesar, for those questions. I will have a first go. And I'm sure Basil will complement in a few areas. So, if you look at the drive to profitability, there's a few things to mention there. First of all, it's around scale, right? So, I think important is to remember that our core e-commerce businesses are already profitable, or breakeven. So that's the starting point. And then we have a number of adjacent businesses that are still in the investment phase. They were small before, but they're getting actually quite sizable now. And as they scale, you will see operating leverage. I think that's the really key ingredient for us on our path to profitability.

But we're also very actively managing our cost. And it has a number of components. So, I think if you look at our history, and I know you follow us for a while, we've typically gone and invested in many more adjacencies and other businesses around our core. And our focus is now really to stay within the footprint where we are today. So, a lot of our further investments were always on branching out much further into other areas. And we're saying now quite deliberately that we want to focus on where we are and building out these business models and seeing the operating leverage come through.

Now, I think the other part is that we are obviously addressing costs at all levels in the group. We're focusing on seeing where we can reduce expenditure. And also, we have already taken action in recent months on some business we thought we're subscale, were not going to get there. For example, food in Colombia and a few other small examples. So, if you if you add that all up, then we start from a profitable core. We are getting operating leverage in our adjacencies and addressing cost and not branching out into further externalities or adjacencies. And we're confident that we are going to get there. I think those actually are the same drivers across all verticals if I think about it carefully. And where exactly you'll see the quickest impact, I think it's not that useful. But I think all of them are relatively close. That's fair to say.

On the second question, Basil, maybe you want to have a first go. I can start and then you can come in. So, what we've always done I think has been very deliberate and careful on capital allocation. You shouldn't expect that to change at all, even though we have a very strong cash position. And the bar is high for investment at this point in time. Capital is more expensive than it was before, and we have to act accordingly. So, I think what you can expect from us, a good example of something that fits a high return potential, relatively low risk opportunity is our buyout of the remainder of iFood. And think we did that at a price of \$1.5 billion while a year ago the asking price was about \$3 billion. So, I think that's an example of great returns. A business we know very well, which we do more of. So, the bar is high, but there may be things like that that fit that picture.

And maybe to your last question. I think, if you look at our history, I think we've rarely deployed a very significant amount of capital into new areas. We definitely make sure we build expertise and have a good view around what the drivers of value creation are before we deploy significant capital. So, I think that's also a way you should think about it in the future, Cesar.

Cesar Tiron

Thank you so much.

Operator

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

Will Packer

Hi Bob. Hi Basil. Thanks for taking my questions. Three for me, please. Firstly, as you flagged the very welcome news that Tencent have announced plans to distribute their Meituan stake, with the buyback at capacity, how should we think about the potential use of proceeds? Could you distribute yourself with a dividend? Or is it going to be more M&A focused? And I suppose this is particularly important considering other stakes like [unclear] which we could speculate could come in due course.

Secondly, within the OLX Auto business the GPPU was down notably in H1. Could you talk through the reasons behind that? Was it a mix of growth? The prices of vehicles sold is going down a little bit, it doesn't look sufficient to drive the entire move. And then finally, perhaps a bit of a wider question on the classified space. We have a big focus on the transaction opportunity, pay in ship and digital retailing in autos. Could we get an update on how advanced you are product wise and investment wise, as a kind of key growth priority for the future? Thank you.

Bob Van Dijk

Will, thanks for the questions. I got the first one and the third one. And I'm going to ask Romain to answer your third question if that's okay. Would you mind speaking a little bit louder and repeating a second question, because we didn't get it?

Will Packer

Sure. Absolutely. Within the OLX Autos business, the GPPU contracted sharply in the first half of the year. Could you talk through the reasons behind that? And was it the mix growth? Was it pricing? Could you just update us on the factors apply? Thank you.

Bob Van Dijk

Okay. Now I heard it. I didn't quite get it. But I think that question will also be for Romain. Let me talk a little bit about Meituan. So, the decision was announced by Tencent. The shares will be coming, I think, end of our first quarter, our first calendar quarter. I think what we what we said today is that we hold those shares as an asset for sale, and we will look for the best way to find and crystallise value for our shareholders over time. And no, we have not announced any specific purpose for what we might do with it. Romain, would you mind having a go at the two other questions?

Romain Voog

Yeah, OLX Autos GPPU. Indeed, GPPU has decreased this first semester versus last year. There are three main reasons for that decrease. One is mix of countries. The mix of countries has been unfavourable [?]. We used to have a bigger US business, and as our other business grew more strongly, and those are businesses where we have lower margin, we have a negative mix effect on our GPPU margin. That is one reason. The second one is as

you've seen the ISP has peaking [?] slightly in US Dollars. And finally, I would say FY22 was an exceptional year. And we called it out last year. And that is between the entire industry. So, we had much higher ISPs and actually much higher margin. And what we're seeing in this first part of the year, and we expect that to continue probably in the second part of the year, is a lower ISP and a contraction of demand which would pressure on our margin. So, if you put all of that together that would explain this GPPU decrease year over year.

The first question you had was around classified and it was a question around transaction pay and ship and our product, how we were progressing on product. So let me address first pay and ship, because that's a strategic enabler of our classified business and an amazing opportunity for us to access a larger profit pool and revenue pool. So, I'm very pleased to report that pay and ship has been showing very strong progress. And that progress we are measuring against two criteria. One is obviously the number of transactions we're able to conduct every month. And we are now at a stage where we conduct 2 million transactions through our pay and ship network every month, which is a 65% increase year over year, which is quite impressive.

The second thing I'll say when it comes to transactions is that when we look at the number of our customers who are actually using pay and ship now, in the category where it is eligible, we have now one customer out of two choosing pay and ship as the way to get their product home. The adoption rate in such a short timeframe. Lastly, we measure success on unit economics. It is critical for us that we can deliver that product at positive unit economics and positive margin. And I'm also very happy to report that we've done strong progress year over year, still working towards being profitable, but already have been able to triple the level of monetisation and reduce our losses by two in percentage of our revenue. So, very strong progress on improving our unit economics on pay and ship.

Product wise, it's a very long discussion, but I'll summarise maybe in one or two sentences. Our product are becoming more technology enabled. As our customers asking for more services and more category specific product, we are, as the rest of the industry, faced with the need to develop more and more tailored products to our customers. As we do so, it is critical for us to make sure we leverage the scale of single platforms. We are making our tech evolve into single platform. You might recall, we already have a single platform on auto.

We're also creating a single platform for our pay and ship across all three countries where we operate. So, we will have a unified single platform for pay and ship, which create tremendous leverage when it comes to pricing automation and experimentation. We are also very much advanced if not almost there on creating a single platform for real estate, and on the way of doing it for our auto vertical business. So, you can see on the product side, we're creating the technology that enables us to ship and deliver more product more efficiently and build for scale. I'll stop there because it's a very long topic. Thank you.

Will Packer

Thanks very much for the colour.

Operator

The next question is from Sylvia Cuneo of Deutsche Bank. Please go ahead.

Sylvia Cuneo

Good afternoon and thanks for taking my questions. I also have three. The first is regarding the trading profit growth we have seen in e-commerce. Should we assume that H1 was the peak loss for all core segments, so that they should all sequentially improve in terms of absolute loss from here? And are there ones that are going to grow more rapidly, perhaps, and why? Then second question is about your ambition of consolidating e-commerce profitability in H1 2025. Can you please discuss what [unclear] have you factored in terms of growth for the next two years, given the current macro environment? And then third, can you perhaps talk a bit more about the drivers of OLX performance in the core classifieds business for countries outside Ukraine? Maybe some colour by vertical would be helpful. Thank you.

Eoin Ryan

Could you repeat that please?

Sylvia Cuneo

Which one? A certain question, or all?

Bob Van Dijk

I heard Ukraine but I didn't get quite what you were asking.

Sylvia Cuneo

It's just some more colour about OLX core classified business performance outside Ukraine. So, for the other countries, perhaps in terms of vertical performance.

Bob Van Dijk

Okay, excellent. Then I have your questions. So, thanks for that. I'll ask Romain to answer that one. I will ask Basil to answer the first one, and I will take the second one. Basil, do you want to go?

Basil Sgourdos

Thanks. Hi Sylvia. So, your first question was whether the trading profit improvement in the second half of the year will be across each of the segments? And the answer is yes. We're looking to drive improvements in each of the core segments. I think you asked about the pace of improvement. And there, I can't give you specifics. So, we haven't put out a specific number for each. As you know, we don't historically give guidance. But we do expect the improvement to be meaningful across the board.

Bob Van Dijk

And I'll try to answer your very interesting question on our growth outlook for the segments in the next few years. Look, to be fair, I think there's a lot of uncertainty in the world today, right? So, we're looking at a heavily inflationary environment, an increasing rate environment. Predictability is relatively low. But what I think I can say

is that several of our business models have turned out to be relatively resilient for inflation. So, I can ask Laurent to come in. But actually, one of our most successful PayU markets is Turkey, where obviously inflation is a very significant issue in the market and has been for years now.

I think also in classifieds, even if there is a recessionary environment, typically people still need to trade, and they still need to exchange goods. So, while it does leave people worse off and the economy as a whole, often classifieds ends up doing quite okay in a more difficult trading environment. And maybe the third directional consideration is that most of our businesses grow a lot faster than the economies they operate in. So, as an example, e-commerce grew 40% while I think the average economic growth in the markets is probably 2% in the last half year.

So, most of our growth comes from increased adoption, better monetisation. And the market growth plus 2% or minus 2% is usually not devastating for our growth rates. So, I expect growth. Where it exactly pans out, it's extremely hard to say. But most of our models, I would say, are reasonably robust for inflation and at least mild recession. I hope that answers your question. And then, Romain, as I heard the question from Sylvia, can you talk not too much about the Ukraine business but about your other key markets in your core classifieds business?

Romain Voog

I understand the question was around our vision of how we could improve profitability. Is that correct?

Sylvia Cuneo

About the verticals performance. You talked about autos in the call. I was just wondering if you had any other [unclear] for the other verticals in the core classifieds.

Romain Voog

Oh, my apologies, but you're coming very hard to understand the question. I understand you want to understand the vertical as part of the core classified and how the profitability of those will improve?

Sylvia Cuneo

Yes.

Roman Voog

Okay, so the first thing... So, a couple of things I want to stress out. The first thing is really stress out the improvement in profitability we are seeing in the core classified when you exclude Ukraine and associates. We moved from 18% of trading profit last year to 27%, which is a strong improvement. I would comment in general, stating that we see a lot of opportunity for further improvement of our margin, as we strongly focused on profitability improvement coming both from a higher monetisation. We will share with you during the capital market day the fact that we are halfway into our monetisation journey in countries where we have a very strong position and are now in a great place to further monetise our platforms.

At the same time, we see a lot of opportunity for operating leverage in our cost. The mix of those two should lead us to be able to improve at an accelerated pace the type of profit we're seeing on core classified and bring us to the level of upper side of a range of peer companies within a couple of years' timeframe. Now, when it comes to verticals, this is always a very complicated question, because the reality of the way we operate is we really operate as an ecosystem. Customers come from horizontal. We cross sell them to our vertical. They come from our verticals; they end up shopping in horizontal. So, the way to look at the core classifieds is really a set of services and assets that really fuel each other.

Now, historically, I would say from a profit margin standpoint, vertical business such as specialised real estate or specialised categories have historically been more profitable because it's more geared toward business sellers. And hence it has a higher monetisation pool. Now, when you look at the overall profit margin and the absolute US Dollars, horizontal plays a very important role in delivering our bottom line profit. I would summarise by saying our vision and our strategy is that both businesses are complementary, and we look at profitability as a whole. And we believe that through better monetisation, better cross selling, stronger leverage of our operating cost and scaling of our technology on unique platforms, we will actually achieve upper end side of a range for peer company profitability in core classified.

Sylvia Cuneo

Thanks very much.

Operator

The next question is from Warwick Bam of Avior Capital Markets. Please go ahead.

Warwick Bam

Good evening, everyone. Thanks very much for the opportunity. Just two from me. Does your acquisition of the iFood minorities change the way you think about funding iFood's growth? And the second question, just around your ambition to reach profitability in the consolidated portfolio. Does it require material restructuring costs? And perhaps you can contextualise the answer, giving us an understanding of what it cost to close iFood Columbia, OLX Auto in Peru and Ecuador, and restructure eMAG's Hungarian operations? And then probably embedded within that answer, if you could just give us a sense of what percentage of revenue is at risk of rationalisation, sale or closure in these simplification plans. Thanks.

Bob Van Dijk

Yes, thanks. Thanks for those questions. Let me have a go at both. I think now that we have full ownership of iFood, I don't think we will think about changing anything in the way that business is funded. And very encouraging to see that both the 1P and the 3P food business is now profitable. We're still investing in the grocery sector, but also there we think that we are now getting to some meaningful scale, and we can get that business to profitability over a reasonable timeframe as well. So, I would say that won't change, and the trajectory the business is on is also such that there will not be an endless funding scenario.

The second question is around the cost that would go with any changes in cost reductions we would do. I don't expect them to be changing our trajectory, nor actually are we going to see a very meaningful impact on our revenue growth. And the examples that we gave, food Colombia and autos in Peru and Ecuador, are tiny compared to the overall. So, I don't think you should expect very significant revenue impact of it. And there may be some one-offs involved in it, but also, I don't think that will be transformational. Basil.

Basil Sgourdos

Warwick, to get there, our plans don't involve closing down businesses, to be clear, right. So, we've taken the action we need to take. We've got good businesses. And now it's about scaling them and driving those margin improvement and managing our costs well. And that's the path to getting there.

Warwick Bam

Thanks very much.

Operator

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

Lisa Yang

Good afternoon. Thanks for taking my questions. The first one is a follow up on the question on capital allocation. So, indeed, including Meituan you could end up with close to \$10 billion net cash. Your assets will soon turn to profitability and will also require less cash as well. And [inaudible] the Tencent sell down. So, I'm just wondering over the medium to long term at what point you would consider funding your buyback partly through your own cash as opposed to selling down Tencent. So, that's the first question.

Secondly, Bob, you mentioned how confident you still were in the outlook for Tencent. Could you maybe just give us a bit more colour in terms of what drives that confidence? What are you seeing on the ground today in China? What makes you optimistic? What do you think the market is missing today? And the third question. It looks like you're focusing more on consolidated profit as opposed to proportionate. Obviously, Tencent, you're basically selling it down gradually. What does this mean in terms of how you're thinking about your other associates over time? Are you aiming to do something with them, gaining control, selling them down? How should we be seeing the change in focus towards consolidated? Thank you.

Bob Van Dijk

Thanks, Lisa, for those questions. So, on the first one, I don't think I have a lot to add with what we said previously. Yes, we have a strong cash position. We have no intention of changing our buyback programmes. I can be very clear about that. We think it's the right thing to do and we intend to continue it undisturbed going forward. And look, we're in a period of relative uncertainty, and having a strong balance sheet we think is a real advantage if you don't know exactly what the world's going to do. So, if you look back in the last few years, we've picked up a lot of debt at very attractive rates. And that allows us to be in this position now. And we're very glad we did it at

the time. And a great compliment to Basil and the team for making the move at the time when it was possible to raise a lot of money at very attractive rates, which now shores up our balance sheet in a very nice way.

I think we mentioned on the call, we will look at the right opportunities. The bar is high. Maybe there are opportunities for us to deploy capital in something like the buyout of iFood. So, that much I can say. But will be diligent in capital allocation and we should be sure that we can manage the risks well in the current environment in anything we would do. Then on the on the second question, we are actually lucky enough to have Charles Searle here who is very close to it. And if I can give Charles an opportunity to answer.

Charles Searle

Thanks very much, Bob. Thank you for your question. I think as you say, we've stated this for many years, and this continues to be true. We are very strong believers in Tencent because of its management team, its ability to continue to innovate, to drive change, and to build growth throughout its long history. Nothing has changed with that at all. The way it is positioned in terms of particular growth opportunity that might come through would be around business services and smart industries where they have potentially a real opportunity in terms of assisting the digitisation of the offline world within China. Gaming we remain positive around, particularly international markets and global markets and in new genres.

And then within the existing formats, such as long and short form videos, they are incremental monetisation opportunities, which you've also heard about. All of this is taking place in a market which we are very firm believers in. China remains a massive opportunity. The management team have been taking actions, as you know, to position the company for a return to growth on the revenue side as the Chinese economy starts to return to growth. So, we think the company is very well positioned for the future and we remain very excited about the business.

Basil Sgourdos

On your question around consolidated, actually, it's laid out like that in response to feedback we've got from the analysts and shareholders asking us to put together the business that we manage and operate ourselves and the ones we invest behind. And you shouldn't read into that any change in strategy. We like to invest, and we like to operate, and our intention is to continue to do so.

Bob Van Dijk

I think what we did call out, Lisa – and I think it was in your part of the presentation, Basil – was that obviously we have a higher degree of control over our consolidated businesses. And I think that's also why people actually asked us to look at the business in this way.

Lisa Yang

Okay, thank you.

Operator

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

Catherine O'Neill

Thank you. Firstly, just coming back to cash usage, I know you said you raised debt on a good raise. I just wondered if that's trading at a discount, whether that's something you would consider in terms of buying back the debt. Secondly, I think in your concluding remarks you talked about simplifying the group structure as one of the opportunities you're looking at. I just wondered if you could just give any more detail on the options you have to endeavour to do that, or the level of progress you feel you're making there. And then finally, on private markets, or privately owned assets, I just wondered if you could give us any colour on what you've been seeing in terms of behaviour from some of those businesses where you compete. Any markets or verticals where you've seen a notable change, either to your advantage or disadvantage?

Bob Van Dijk

Would you mind repeating your last question, because I heard the beginning of it, but not the end. Just to make sure we answer properly.

Catherine O'Neill

Yeah, it's on privately owned businesses that you compete with across your various businesses. I just wondered if you're seeing much of a change in behaviour there and whether that's had any impact or created any advantage for some of your businesses in any of your verticals or markets in particular.

Bob Van Dijk

Okay. Now I got it. Thank you. Basil, do you want to take the first one. You can also take the second one, or I can take it.

Basil Sgourdos

You can start with the second. I will see if I can supp a bit. Catherine, we worked very hard to raise that debt. And that is an important position for us now. We have this cash on the balance sheet. Times are turbulent. And as we've emphasised throughout the call, that positions as well for the future. So, right now, we have a very healthy position. Our balance sheet is strong. Our investment grade rating is solid. So, our intention is to preserve the cash and see how things pan out over the medium and longer term. And so right now, no, there's no plans to buy back bonds.

Bob Van Dijk

Okay, so let me start on the second question. I think what we're thinking about as a group, and actually spending a fair amount of time on, is to see how we best set up the structure for the group where it can last for years and decades to come. I think it's important to stress that we want to be very considerate about doing that, make sure we think to many different aspects around that, and end up with a proposal that we think our shareholders will love. Again, we're spending time on it. But we want to do this work properly and come back to you when we have something that's done and dusted. And it will take some time. So, I can't tell you any more about that than that.

I think it's a good question you ask around do we see a difference in our competition, which is often privately funded. And I would say the short answer is yes. And I think one of the reasons why we're also comfortable on setting ourselves on an accelerated path to profitability is that we see that our investment goes a long way. Sometimes we even see it in the growth we deliver it now, which is far in excess of market growth. We are seeing indeed that some of our competitors in private markets are pulling back. They are being much more careful with spend. And I expect that situation to actually continue for a while. I think the funding climate in particularly late stage private market is still higher comparatively than to public markets. And I think a lot of companies are actually not attracting capital because they know their valuation would come down a lot. So, I think there's a real tightening of available funds. Eoin, do you want to comment on that?

Eoin Ryan

The reckoning in the private markets will happen later. It hasn't happened yet. I would just echo what Bob said. Our businesses are well positioned to take advantage of hesitancy that perhaps our competitors are expressing because they need funding, because they're trying to be more disciplined. So, we feel good on both dimensions. We feel good in terms of our businesses in place, our current portfolio because of that, and also, our ability over time, even when the bar is high, to perhaps pick up some good assets when prices do fall.

Catherine O'Neill

Great, thank you.

Operator

Thank you very much. The next question is from Chris Johnen of HSBC. Please go ahead.

Chris Johnen

Yeah. Thanks, everyone, for taking the time. Just one for me, but an important one, I'd like to think. On one of the slides, you suggest that you're trying to look at building a simpler group structure. I mean, the complexity of the group is a topic quite often. I'm just trying to pick your brain as to what sort of options you have. The exchange offer last year obviously created a bit of an issue. Just really an open question to pick your brain as to what you think you can do and over what period? Thank you.

Basil Sgourdos

Thanks for the questions. And we've discussed various options and various alternatives over the years, and we continue to work on those. So, I can't really get into specifics here because we don't have a final determined outcome. We're making progress. We're working together as a team. And at the right time, hopefully, it will be good news. And then we'll move on to the next thing. So, it's something that is important to this team and is getting lots of attention.

Bob Van Dijk

And maybe to add, we're looking really broadly at what the opportunities could be. We're leaving no stone unturned. And I think that is something you can expect from us. And that's what we're spending our time and energy on.

Operator

Thank you very much, sir. That concludes our Q&A session, and I would like to hand back to Mr Van Dijk for closing comments.

Bob Van Dijk

Thanks, everybody, for joining today. The connectivity was a little wobbly, but it got much better later. I hope to share my excitement about the path ahead. And I think we've really gotten the business in a place where we've gotten to scale, we are on the path to profitability, and we have a very strong balance sheet to weather the storm and deliver further value for shareholders. So, thanks for joining. Thanks for your questions. And I hope to speak to you soon. I hope to see all of you on December 6th in Amsterdam, where we go into a lot more detail on our segment businesses, on crystallisation, etc. So, I think it will be worth your while. Thank you.

Operator

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

END OF TRANSCRIPT