

Conference call transcript

25 November 2019

HALF YEAR RESULTS

Operator

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

Eoin Ryan

Thanks Chris and hello everyone. Welcome to the first Prosus and Naspers interim earnings call. You can find our report and accompanying documents on the investor relations website for both Prosus and Naspers. On the call with me today is our CEO, Bob Van Dijk, and our Chief Financial Officer, Basil Sgourdos. Bob will give a quick strategic overview and Basil will hit the financial highlights before we open the call for Q&A. To kick things off I'll hand it over to Bob.

Bob Van Dijk

Thanks a lot, Eoin, and thanks everyone for joining and welcome to our 2019 half year results call, which will cover what I think have been a very busy six months indeed. So, I'll be relatively brief with my remarks today as we plan to provide an in-depth look inside our businesses at the capital markets day next week. And I would like to also make sure that we have ample room for Q&A today. So the last six months were transformational for the group and they reflect the work of many months of preparation. While we're keeping our focus on operations and driving continued solid results, we've also transformed the entire structure of the company into one which I believe will unlock substantial value over time. I'm very pleased with the progress that we've made and the ground that we've covered.

So if I can take you to slide four I will walk you through the highlights. So we're very happy to report a solid first set of Prosus results. So revenue grew 20% while trading profit and core headline earnings grew 7% and 10%, despite really stepping up our investment in food delivery. We saw strong execution across our three core segments. So in classifieds we delivered excellent results, particularly from Russia, from Europe, Brazil and India. So product and tech innovation is driving stronger user engagement that enables us to monetise better. [Unclear] grew 22% year on year. So classifieds remains profitable overall and traditional core increases margin as Basil will cover in more detail. In payments transaction volumes increased 30% and reached almost \$18 billion for the six months. India is now more than 50% of volumes and is growing really fast.

In the food delivery we've increased our investment substantially and the early indications are very positive. So iFood, Swiggy and Delivery Hero are growing very strongly and are ahead of our expectations. In total the number of our food orders increased a 110% year on year and GMV increased 81% year on year during the period. So as you'll know in September we successfully listed Prosus on the Euronext Amsterdam. So this is a significant step forward for the group and it provides easy access for a larger and deeper pool of international tech investors in our attractive portfolio. It also begins the process that will allow us to unlock substantial value in both Naspers and Prosus over time.

Finally, as an organisation we continue to get more fit. So we operate in an environment of continuous disruption and a lot of that is driven by new capabilities and artificial intelligence and machine learning. So during the period we continue to invest in our capabilities in both areas across our entire group.

So if you'll join me on slide five, let's spend one more minute on the outcome of the Prosus listing in September, which will continue to unlock value for shareholders. So the listing created the largest listed consumer internet company in Europe comprising all our internet interests outside South Africa. So Prosus is 74% owned by Naspers with a free float of 26%. So as Europe's largest listed consumer internet company by asset value Prosus gives global internet investors direct access to our attractive portfolio of international internet assets as well as a unique exposure to China, to India and other high-growth markets and to the global tech sector. At the time of the listing value unlock was approximately \$16 billion to the reduction of discount to the combined net asset value of Prosus and Naspers. So we have been included in a number of new indices and we expect to continue to be added to more, starting with the AX in December and potentially further inclusion into the stocks indices in the new year.

So it's certainly been a volatile couple of months since we listed Prosus, much of which was expected, and we recognised that the discount to the sum of our parts while roughly down 7% at this point since the announcement of Prosus earlier this year has widened over the last month. That said it's never served the company or its investors particularly well to focus on the short term. So I am really pleased with the value unlock to date and over the long term I believe we will make significant additional progress. My team and I remain very committed to the continued reduction of the consolidated discount in Naspers and Prosus. We'll do this by two things, first and foremost, by building bigger and more valuable businesses across our core segments that will generate substantial and sustainable cash flow, and also by continuing to take financial and structural steps where sensible.

You can turn to slide six. I am proud of the focus and execution that's exhibited by our operators during a period of significant noise and work flow, and I think this is illustrated well on this slide. Operationally our key segments are performing well. In classifieds the revenue grew 48% all in, 38% excluding the expansion into convenient transactions. In the core business paying listers grew 22% year on year and our convenient transactions offering is growing very rapidly with tangible synergies with the core. Payments and fintech continue to exhibit strong growth. The volumes processed in the payments business reached \$18 billion for the half year, up 30% year on year on the back of over 550 million transactions. Among PayU's major markets we have a leading position in India, which is a very large growth opportunity given the significant tailwinds of increasing ecommerce penetration and a shift from cash to alternative digital payments. Food delivery represents a massive opportunity. As I just mentioned order and GMV growth remains very strong as we invest to solidify our position and to grow the market. We'll take you through all our businesses in much more detail at the capital markets day next week.

So if I can take you to slide seven. It shows that we continue to invest across the business. So we invested just under \$400 million in M&A in the last six months. So to further strengthen the payments business outside India and increase our footprint in growth markets we acquired Red Dot Payment, which is Singapore's largest home-grown and trusted online payment solutions company. Also in payments we acquired Wibmo, which both enhances our partnership with leading banks for security and mobile payments as well as improving success rates on transactions. So in classifieds we merged our operations in the Philippines and we contributed an aggregate amount of cash, \$56 million for a 12% effective stake in Carousell. In ventures we invested \$80 million in Meesho, which is a leading social commerce online marketplace in India. In the period we also swapped our 43% in MakeMyTrip for a 5.6% stake in Ctrip. We've achieved an ROI of approximately 24% on the MakeMyTrip

investment over its lifetime, and more recently in October as you'll know we announced an offer to acquire Just Eat in an all cash deal, which is detailed on slide eight.

So we believe we've put together an attractive offer, but unfortunately we've not been able to reach agreement with the board of Just Eat to secure a recommended offer. So we've taken the offer to Just Eat shareholders. As you may know, Just Eat is also currently subject to an offer for an all share takeover by Takeaway. So we believe our offer provides compelling and certain value and is a fair cash offer for a business that's been underperforming and requires substantially more investment than the market expects. So we have already spoken to many of you and we're hopeful that the merits of the proposal will be recognised by the Just Eat shareholders and that we can engage further with Just Eat's board to progress to a recommended offer. We released our offer document on the 11th of November and that sets out our offer terms and the first closing date for the offer. We've lowered the acceptance condition from 90% to 75% to put it at parity with Takeaway's offer. So we expect to have a great degree of visibility on the outcome of this process by the end of December. It's very important to know that throughout this process we will, as always, remain highly disciplined as our overriding objective is to create value for our shareholders by delivering excellent returns. So I'll now hand over to Basil for the financial update.

Basil Sgourdos

Thanks, Bob. Hi everyone and thanks for joining us today. So as Bob mentioned, this has been a transformational six months for us. This is the first reporting period for the newly listed Prosus group. The Naspers results reflect that of Prosus almost entirely, as Naspers consolidates Prosus and then adds the Media24 and Takealot numbers. For the reason explained above we'll be focusing on the Prosus reported numbers. Before I dive in, following the listing of Prosus there are now new investors listening in. So I'll give you a quick reminder on how we report our numbers. First, revenue and trading profit are on an economic-interest basis, meaning they include our proportional share of results of our associates and joint ventures. Second, we report our associates, Tencent, mail.ru and Delivery Hero and others on a three-month lag basis. Third, free cash flow, core headline earnings are both consolidated numbers, and finally, as I work through the deck, I will focus on organic growth. Organic growth rates measure growth in local currency, excluding the impact of M&A.

So let's kick off with slide 10. We're happy to report a strong first set of Prosus results. We're representing progress for the group in line with our expectations. We saw continued strong growth from each of our core segments, classifieds, payments & fintech, and food delivery. Classifieds and the payments & fintech segments have reached profitability at their core. Revenue growth continued to flow nicely to the bottom line, even as these businesses invested in a number of strategic initiatives to drive future growth. Food delivery will continue to be the largest investment area for the group in the year ahead. We're very pleased with and encouraged by the business's impressive order in top line growth. Importantly we see strong underlining unit economics as we achieved increased scale. Our share of Tencent's revenue and trading profit grew 18% and 16%, respectively. Quarter two growth was significantly stronger than quarter one. Revenue accelerated by five percentage points and trading profit by 12 percentage points.

Finally, the first half was another six months of improved cash flow from the core profitable businesses and yet another period with a strong balance sheet. We now have approximately \$9 billion in gross cash, and should we need it, more liquidity to realise our ambitions. On the right-hand side of the slide you'll see the strong performance all around. We grew revenue 20%, trading profit increased at a slower rate of 7% entirely due to the significant step up in investment in food delivery. Meanwhile, core classifieds, payments & fintech and e-tail accelerated their profitability, and Tencent delivered a good performance. Free cash flow remained flat year on year when we exclude Prosus listing cost, despite the increased investment in food delivery. Core headline earnings increased 11% year on year, translating into \$1.05 per share.

Turning to slide 11, we're seeing encouraging progress across the segments as they are scaling well. Ecommerce revenue growth remains a strong 28% year on year, with meaningful contributions across the portfolio. Revenue in ecommerce for the first half totalled \$1.9 billion. As was the case in full year 19, the 28% growth is a faster growth than that which we saw in Tencent. Classifieds' revenue increased 38% year on year as the business scales its convenient transaction models, which is extending our presence in the cars vertical and deepening our relationship with both our users and the car dealers on our platform. Payments & fintech continue to exhibit strong growth, particularly in India. In the second quarter revenue growth accelerated three percentage points compared to the first quarter, driven by a better performance in India. India revenue growth accelerated from 29% in the first quarter to 39% in the second quarter. Food delivery grew gross revenues by a 107% year over year, 69% after netting customer acquisition costs off. This is meaningful and a very encouraging acceleration, but most encouraging is that we are seeing clear signs of improved efficiency in how the businesses are acquiring new customers, reactivating lapsed users and expanding into new cities.

If you will join me now on slide 12, you'll see that we had some nice momentum to round out this half year. Given that we reported quarter one results as part of the Prosus listing in September, we can give you additional insight on the quarterly progress [?] on the core segments. In short, we saw an acceleration in revenue growth in every line across the ecommerce portfolio in the second quarter, with ecommerce revenues growing nine percentage points faster than that of the first quarter. So let's get into the detail of the segments and let's start with classifieds on slide 13.

So you'll see on that slide the classifieds revenue increased a strong 38% year on year to \$587 million. Our business is evolving to best meet the rapidly changing consumer environment. The most important development on the financials is our increased exposure to convenient transaction models, which deepen our market presence and enhance the consumer experience in the autos vertical. Due to the different models for revenue recognition we've also improved disclosure by now showing you revenues and costs for the core classified business and the convenient transaction model separately. So let's start with the core. Revenue on the core classified business increased 22% driven by Russia, Europe and Brazil, with group paying listers also increasing 22% year on year.

Avito continued its good momentum, increasing revenue 21% year on year and they also saw strong growth across the largest vertical of autos with growth at 42% year on year. The Polish business once again reported a very strong top line growth of 27%. Brazil also grew at 25% year on year. Classifieds convenient transactions revenue grew nearly fivefold compared to the previous year. Frontier Car Group, which was an associate in the previous period, is performing particularly well and driving the majority of the growth. We are optimistic about our investment in convenient transactions, which have tremendous synergies with core classifieds. You'll have seen that we plan to acquire control of the Frontier Car Group, which we will then fully consolidate. Overall, classifieds delivered a trading profit of \$37 million versus \$42 million in the first half of full year 2019.

The modest reduction in profitability was due entirely to the significant increased investment in these new convenient transaction models that are temporarily loss making. There was also added cost in further building out global tech infrastructure as seen at the end of full year 19. We continue to invest to build our tech backbone to provide world class customer experience by leveraging large hubs of concentrated engineering talent. Investment has increased meaningfully year on year. This is becoming increasingly important as classified has evolved from a marketing-led to a tech enable strategy. Profits were also impacted by share-based payment expenses driven by growth in employees and some increases in the underlying valuations on the back of fast top line growth and improved profitability. Stripping out the new costs for convenient transactions you can see that the core classified profits improved by a strong 36% year on year from \$37 million to \$63 million with trading

margins rising from 12 to 14%. We continue to expect strong growth year over year for the rest of the year, but remember that as in the past the first half tends to be seasonally stronger than in the second half. This is largely due to the timing of marketing spend, which is skewed to the seasonally stronger second half of the year. Overall we are very happy with the performance of the classifieds segment, which is well ahead of our plans. We believe the investment in convenient transactions, new products and our tech backbone will provide incremental benefits to grow and scale the business even further.

So folks, let's move on to payments & fintech, which is on slide 14. You'll see that PayU recorded another six months of good growth, driven by its core payments business. Revenue growth of 20% was supported by stronger growth in the core payment processing business, which grew faster at 23%, and that was partially offset by weaker results by some of the associates. Payment volumes reached a sizable \$18 billion, representing growth of 30% on the back of over 550 million transactions processed. India is still the fastest growing market. It grew volumes 35% and it now accounts for 53% of volumes processed. As mentioned earlier revenue growth in India was 39% for the second quarter. The online payment space is still nascent in India and we see significant further opportunity there for PayU. It is uniquely positioned to benefit from the country's transitioning online from the traditional cash on delivery model. Providing cashless payments together with our continued focus on innovative solutions has enabled the business to continue strengthening its merchant offering.

As I called out on the first quarter call the weaker performance reported by associates was driven by Luno, which was impacted by Bitcoin volatility and Kreditech. We have since reduced our holding in Kreditech to about 12% and we therefore no longer equity account it. The core payments business was profitable, enabling us to continue investing and integrating acquisitions, such as Zooz, which helps us better serve global merchants in various markets via a single API. This does, however, have a short-term impact on profitability. With our investments in Zooz and the acquisition of Red Dot and Iyziko and our drive to build a credit business in India we expect growth in payments to pick up over time.

On slide 15 I'd like to tell you more about the food delivery financial performance. Online food delivery revenue and order growth continue to grow rapidly, justifying our increased investment in this high potential sector. In the period all our online food delivery service assets continued their strong growth resulting in GMV growth of 81%. Combined contributions from the portfolio businesses saw reported segment revenues increasing 69% to \$306 million, with orders increasing a 110%. Reported revenues increased 69%. However, this rate was impacted by increased investment in customer acquisition costs, which are netted off against revenue under IFRS. Gross revenues before these discounts and other incentives grew by a much faster 107% year on year. In order to achieve these growth rates we have stepped up investment to grow the market and our position within it. Overall, our share of losses across the segment is \$283 million and we expect significant additional spend in the second half of the year. We will go into this in a lot more detail at the capital markets day next week, but we are incrementally more confident with the unit economics of food as well as our ability to scale it in an efficient manner.

It is important to note that from a cash flow perspective trading losses in Delivery Hero and Swiggy do not impact cash flow as losses incurred by equity accounted investments are funded by the capital already raised by these companies. iFood continues to outperform the targets we set, driven by expansion of its product offering and logistics business. iFood grew GMV 92% with order growth being an impressive 122% year on year. iFood is investing in first party logistics, new cities as well as building out cloud kitchens and other models that enable us to scale very quickly. On a pre-unit basis iFood is realising cost efficiency as we scale and as we get better at optimising. In India Swiggy continues its impressive with orders up a 165% year on year and GMV up a 134% year on year. This is driven by its rapid expansion into new cities and roll out of cloud kitchens and private label food supply. Delivery Hero continues to also execute well. For its first six months ended 30 June, 2019 Delivery

Hero's GMV grew at 60% to 3.2 billion euro with order volumes climbing 61% to 269 million orders. Excluding the impact of Germany sales revenues grew by an extremely strong 76% year on year.

On slide 16 we unpack the increased contribution to central cash flows by our profitable internet businesses. This is an important slide and illustrates the cash flow generating ability of the group. On the right-hand side we illustrate the improved ecommerce profitability, particularly in our classifieds segment. The aggregate of free cash inflows generated by internet units that are free cash flow positive increased 17% to \$573 million. Tencent's increased dividends, of which our share was a sizable \$377 million, continues to be a significant underpin of our increased financial flexibility.

On slide 17 we walk you through our free cash flow results. Free cash flow for the six months was an inflow of \$40 million compared to \$96 million in the prior year. The decrease was primarily due to \$82 million one-time transaction costs incurred in the respect of listing of Prosus. Excluding these costs free cash flow was flat year on year and that's despite the increased investment in food delivery. The investment in food was compensated from profits in classified and in payments and then, of course, the increased dividend from Tencent.

Now moving to the balance sheet on slide 18 you'll see that we have a strong balance sheet and the financial flexibility to continue to execute on M&A to enhance our core segments. We have significant gross cash of almost \$8.6 billion and an undrawn \$2.5 billion revolver and the ability to raise additional debt should we need it. We have said we plan to fund the acquisition of Just Eat principally from new debt, which whilst we remain investment grade allows us to invest in other segments. As a reminder we have one bond that will mature in July 2020 and we are confident we can refinance that at a more attractive rate in the near term. We also have significant cash flows coming from profitable entities within the group.

On slide 19 we provide additional perspectives on our balance sheet. With a cash cushion of just under \$9 billion and a \$129 billion worth of listed assets we have the financial flexibility to fund all our growth ambitions. We will continue with the same discipline that has driven the returns so far. So in closing, folks, I'm very pleased with our first half year results and our position as we enter the second half of the year. All core segments made good progress against financial and strategic objectives. Our priorities for the rest of the year are driving profitability in our established ecommerce segments while accelerating investment through scale through delivery. We believe our financial progress will drive the growth of our core headline earnings into the future and last and most importantly we will remain disciplined in allocating our capital. With these remarks we will now open the call for Q&A.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touch-tone phone. You will hear a confirmation tone that you have joined the queue. If you wish to remove yourself from the queue, please press star and then two. Again, if you wish to ask a question please press star and then one. Our first question is from Will Packer of Exane BNP Paribas. Please go ahead.

Will Packer

Hi. It's Will Packer from Exane BNP Paribas. Many thanks for taking my questions. A couple from me please. Firstly, can you just talk us through the rationale of buyout of FCG and talk about some of the potential revenue, synergies that could be achieved, how things progressed and where can they go with that asset. Secondly, India classifieds looks a very competitive market. You talked to visitor growth of 30%. Could you just update us as to how things are progressing there, please? Thank you.

Bob van Dijk

Sure, Will. Martin is here with us. You'll hear it from the main man himself.

Martin Scheepbouwer

So first, thank you for your questions, and I'll give you the headline now and it will be much more detail at the capital markets day next week, but essentially FCG is quite a unique company that has built out infrastructure in many different countries that will allow us to deepen our platform and build true transaction oriented ecosystems in cars and since making the initial investment they have outperformed on all their plans. So we wanted to step up and accelerate. That's the long and the short of it, and we hope the deal will close imminently and then we can invest more and build that out, and one of the places we have done that is India. And as you say that is a very competitive market. But overall feeling of India is still that there is an immense growth potential considering the rapid inflow of new internet users. So we are today the market leader especially in cars. More than 70% of all used car trade in India happens over OLX. And now the question is how we can adjust our product so that the hundreds of millions of new internet users also find OLX.

Will Packer

Thanks Martin. Just one quick...

Bob Van Dijk

If I can add one point to that, I think there are two sets of synergies here. One is if you look at the instant cash for car model by far the biggest cost component is around lead generation. So how do you find people who are interested in selling their vehicle? Well, as Martin said before, those are the customers the group already has, right. So that drives an immense amount of synergy between the two groups. On the other side we typically have also the largest demand side for used vehicles as well. So when these vehicles need to be sold again, either by dealers or by others, actually we can do that in a very efficient way. So those are the two main sources of synergies.

Will Packer

Thanks. That's very helpful. Can I just ask one quick follow-up? On food delivery you've expressed a willingness to look at developed markets. In classifieds you have previously invested in LetGo. Should we think looking forward that developed market classifieds is a major potential use of capital, or would that be an incorrect interpretation? Thank you.

Bob Van Dijk

I can give you a general answer and then Martin can maybe comment specifically on classified. So as a result of our Prosus listing nothing changes in the way we do business. There is no change in strategy. We have always been a growth company. We are focussed on growth first and foremost, whether the growth exists in a growing market or in a more mature market. and over time if you've followed us for more than a few years you've seen that we always look for great business models that are run by great people, and they can be in earlier stage markets or in more developed markets. So I think when you see us make a move like investing in LetGo or pursuing an acquisition like Just Eat it's because we think the business opportunity is huge regardless of the stage of the market. Martin, maybe you want to add to that.

Martin Scheepbouwer

No, I think that's it. We saw the biggest growth opportunities historically outside Western Europe and North America. But then with LetGo we capitalised on quite a unique situation in the US where the market is very mature but classifieds is underdeveloped. And that's why we invested behind LetGo starting a few years back. And you continue to see us look for these growth opportunities, but as Bob said, regardless of whether they are in developed or developing world. And I believe that classifieds is transforming as per Basil's comment from

marketing led to more product, data and tech led. You will see platforms deepen towards more transaction based ecosystems which might or might not provide new opportunities also in developed markets.

Will Packer

Thank you very much.

Operator

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

Catherine O'Neill

Hi. On food delivery there has been some industry commentary that suggests maybe we're seeing more rationality especially from private funding or capital. Do you have a view on global consolidation and where we are in that process, and whether we could be heading towards market repair in some of the markets? Also on Just Eat, which I guess links to it, is this more an opportunistic chance that you're taking given the de-rating of that sector, is it an asset that you see as strategically valuable? And then the other question I had is on Avito or the draft law in Russia around foreign ownership. It may be that that draft law has been delayed. Can you maybe talk about the position of Avito there and how you think about the risk? And then finally I just wanted to get your view of a buyback of Naspers and whether that is something you would consider doing in the short term.

Bob Van Dijk

Thank you for your questions. I will start with the first two, and Larry, if you are on the line maybe you can chime in. I will speak to the Bill and then Basil can speak to buybacks. So I think if you look at the global food space what we see is essentially that the further growth opportunity is very significant. And I think we are probably less than 5% of the way there into what food delivery can be at scale. So we are pursuing that with our businesses. That is actually the core reason why we have increased our investment in the space in the last period. We see a bigger opportunity that we are pursuing. I think whether that will lead to global consolidation I think that's hard to speculate about. But I think the opportunity is frankly very large everywhere in both early stage markets but also in more developed markets. I think there is still very significant upside.

In many cases businesses are still what I would call in generation one food delivery which is just offering restaurants their existing delivery fleet. And actually if you look at what generation two and three can provide with dedicated delivery fleets and innovation in private label, cloud kitchens etc. I think there is just a lot of upside from there. And I think actually that's the same answer to the Just Eat question. We see that business traditionally has had a good development but I think has lost growth, has lost tremendous market share. But we think with the right investment and the right partner it can actually get back on that longer term trend of further opportunity. Then maybe Larry, if you're on the call maybe you can add to these points. You are close to it.

Larry Illg

I think you covered it well, Bob. I think the only thing I would add on consolidation is we're seeing it increasingly hard for the number three and number four players to compete. The leadership positions tend to perform quite well, and that seems to be playing out in the private markets.

Bob Van Dijk

Thanks Larry. Then I'll briefly talk to the [unclear] Bill. I think the sponsor of the Bill has publicly stated that the Bill is going to be withdrawn. It might be reintroduced later. I think that is uncertain. I think our view is that e-commerce businesses such as Avito should not be covered by the kind of businesses that the Bill is trying to address. But for the time being that Bill seems to be off the table. Maybe I can ask Basil to comment on potential buybacks.

Basil Sgourdos

Thanks. Hi Catherine. It's Basil here. I think Bob was very explicit in his comments when he went through his slides saying we've done this transaction, it has unlocked value, and we will remain committed to taking further action to continue to unlock value. And that's what we're going to do. I don't want to speculate now when and what time, but I think it is definitely something that is well on the radar. We are working hard at it. And when we're ready we will come back. And buybacks are definitely one of those options.

Catherine O'Neill

Okay. Thank you. Just one more question on food delivery. In India there are articles about Amazon who has entered the market around Diwali with a really low commission rate. We are also seeing signs of maybe Uber exiting. Could you talk about the market in India for food delivery, whether that is becoming more rational, whether there are signs of Amazon entering at all?

Bob Van Dijk

Larry, you are closest to that. Would you mind giving your views?

Larry Illg

I'm happy to. We've seen Amazon periodically pop up in several markets. I think the reality of the space is it's in the very early stages. So I think we'll see not just actual competitors competing harder, but there are potential entrants. And we list Amazon among that set in many markets, not just India. I think what gets us most excited is Swiggy's not just performance but potential. It's even bigger in terms of volumes than the number two and number three players in the market. And while there will be entrants over time we're happy with how the team executes.

Catherine O'Neill

Okay. Thank you.

Operator

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

Andrew Ross

Hi guys. I've just got one question. I should keep it quick. There is a slide in the analyst booklet – I think it is number 24 – that goes over how you guys define interest coverage, which I think is about 6x at the moment. Maybe it is one for Basil, but I wondered how low you think you could push that interest coverage and still maintain your investment grade rating. I guess another way of asking my question is how much debt do you think you could support right now and still have an investment grade rating? Obviously that's before you did any other M&A. Thanks.

Basil Sgourdos

Andrew, look, I think we clearly have quite a bit of financial flexibility as demonstrated by us saying that we will fund the Just Eat acquisition through debt. Is there more? Yes. But I think there is a long way to go before adding a lot more debt. We have...

[Break in recording – speakers disconnected].

Bob Van Dijk

I think, Andrew, we were still answering your question if I'm not mistaken. This was not our way to dodge your question by dropping off the line. We're still here. Basil, would you mind going through it again? We don't know exactly where we missed you.

Basil Sgourdos

Sure. Andrew, as I was saying, I think we have plenty of financial flexibility as demonstrated by our ability to fund the Just Eat acquisition with principally debt. Is there room beyond that? Yes. I don't want to speculate though because I think there is a long way to go before we need to do that. We have as I mentioned gross cash of about \$8.6 billion. We have an unutilised revolver. So we are quite comfortable with our financial flexibility. And then again I think what we do and how much more we do involves a continued constructive engagement with the rating agencies, and we have a good relationship there.

Andrew Ross

Very helpful. Thank you.

Operator

Thank you. The next question is from Aditya Buddhavarapu of Goldman Sachs. Please go ahead.

Lisa Yang

Hi. It's actually Lisa Yang from Goldman. I have a few questions please. Maybe the first one on payments. You gave us the figures for India which is at almost 40% and for [unclear] about 23%. So I just wondered if you can give us some colour on the other markets. It seems like the growth is quite slow there. I'm just wondering why it's not growing faster or if there is any seasonality between the first half and the second half. So that's the first question. The second one is on classifieds. I'm just wondering on Panamera. Can you give us indications of where you are in terms of migrating your different assets onto the backbone, and what impact or benefit have you seen so far from the assets that you move onto this platform? And maybe if you can share the long-term benefits that you would expect. And the third question is on food delivery. Obviously your growth is very impressive, up over 100%. Obviously you have a lot of discounting happening in the first half. So I'm just wondering given how the competitive landscape is evolving in both Brazil and India how should we think about discounting into the second half and the coming years? Thank you.

Bob Van Dijk

Thanks a lot. I will speak to payments and ask Basil to chime in, and Martin will cover Panamera, and I can give a first view on food, and Larry can chime in as well. I think on payments we are seeing very strong growth in India. I think the underlying drivers there are just an e-commerce environment that is growing fast. We have very strong market share, and also the country is digitising quite quickly. If you look at the rest of the portfolio it is really a mixed story. There are a few places in the world where we are migrating our platforms, and that leads to a certain level of slowdown. That is particularly the case in Latin America where we have done major tech migrations that typically lead to a setback. I would say Eastern Europe is growing well. We have there seen our biggest customer was Allegro, which has scaled back a little bit, but actually the other markets have grown very strongly. So I think it's a somewhat differentiated story with a lot of the core markets actually doing quite well.

Basil Sgourdos

Bob, what I'd add is of course Eastern Europe is a far more developed markets, so one needs to look at relative maturity. And we have very strong positions there, which then also drive improved margin and improved profitability. So a big chunk of that profit growth that you're seeing in payments is actually coming out of that part of the world. And then secondly, we did call out the investment in Red Dot which is Southeast Asia, and

lyziko which is in Turkey. And those are going to be incrementally fast growing opportunities. So that will continue to drive growth over the broader portfolio.

Bob Van Dijk

Thanks. Martin can talk about Panamera.

Martin Scheepbouwer

Sure. Thank you for that question. So as some of you know we have decided to consolidate our technology in OLX outside Europe. Historically we have had quite fragmented software development for propositions that were quite similar. So in order to reduce duplication and to reap benefits of scale from pockets of excellence around the group we decided to consolidate and converge platforms into a single one which is now live in Africa, in Pakistan, Indonesia and Latin America since last week. We see this very much as a necessary condition to continue to innovate fast and realise true customer engagement in the future and act as a starting point for what we then call deeper platforms facilitating transactions everywhere. So from here on development will continue and I see lots of long-term benefits around quality of products, customer engagement and the ability to innovate and adjust the platform to local needs.

Bob Van Dijk

Thanks Martin. Maybe on food I'll start, and Larry, maybe you can elaborate a bit more. I think there has been significant discounting in the market particularly in India. I think what we've seen that we feel really good about is that our market share is either stable or increasing. I think in India they are clearly increasing on the back of increased innovation and just a solid execution beyond discounting. And the thing that gives me a lot of confidence is the retention curves we see. When we see customer acquisition and see what percentage of customers are still around after a year it is still the healthiest customer retention that I've seen in any subsector of e-commerce. So that's a key driver for our levels of confidence that we're doing marketing but we're getting the right results for it. Larry, do you want to add?

Larry Illg

I think we are seeing some signs of rationalisation of discounting around the world including in India. The role of discounting and coupons remains the same. The sector is early and coupons when executed well and discounting drives consumer trial. And our companies continue to show good discipline there. The cohorts remain strong tied to that discipline. But we will go into that more in capital markets day next week.

Lisa Chang

Okay. Thank you. That's very helpful.

Operator

Thank you. The next question is from Charl Wolmarans of Avior Capital Markets. Please go ahead.

Charl Wolmarans

How is it, guys? Can you hear me well enough there?

Bob Van Dijk

Yeah, it's okay. Let's try.

Charl Wolmarans

Just while we're on the subject of food delivery I just want to get some colour around Swiggy and the cloud kitchens, any type of colour about how big that is. Obviously it is still nascent at this stage. And the second part

is just on Swiggy which you guys disclose is now in about 500 cities. Where do you think that can get to, and would you say that most of the core cities are already penetrated by now?

Bob Van Dijk

Thanks a lot. Larry, would you mind taking those questions?

Larry Illg

Yes. The first question on cloud kitchens, I think this is very much a local story. And in the case of India we have been surprised in some ways by the lack of classic restaurants. And the role the cloud kitchens play for Swiggy is not just introducing food delivery to the Indian consumer but bringing restaurant experience. And we've been surprised and impressed by the payback of these kitchens. We see a lot of further potential there. I missed the second part of the question. The number of cities for Swiggy. Is that correct?

Charl Wolmarans

Yeah. So Swiggy I think you disclosed is 500 cities by now. Would you say that most of your core cities have already been penetrated, and to what extent you think you can go?

Larry Illg

I think it's a very good question. Swiggy indeed is now in over 500 cities. That is quite a dramatic change versus the seven cities that they were in when we invested a couple of years ago. Two comments on that. I think the team has gotten quite efficient in terms of how it opens up a new city. And new cities are often compared to adding an additional neighbourhood in Bangalore or Delhi. And what we've seen is they have gone from 200, 300 to 500 cities. And the consumer behaviour holds up and the 500 cities tend to perform as well if not better than opening up a new neighbourhood in an existing large city, so we haven't yet seen a ceiling there yet. We are pleased with the progress.

Charl Wolmarans

Cool. Thanks guys.

Operator

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

John Kim

Hi everyone. A couple of questions first on food and then on online classifieds. Within food you've talked about your commitment and enthusiasm for the space. When you think about the segments what sort of IRR levels are you targeting here, and what sorts of assumptions are you making about the 1PL / 3PL splits on the models? If we were to compare and contrast classifieds with food, food adoption moves early but it seems like the fixed cost investment is sizeably higher. On online classifieds can you talk to us a little bit more about Panamera and convenience transactions? On the Panamera rollout how far along on the IT deployment are you in terms of spend or timeline? And on convenience transactions once the margins normalise what sort of margin range could we expect? Thank you.

Bob Van Dijk

Okay. So thanks for the questions. I will start with the IRR question and then Larry, maybe you can say a little bit more about our perspective on 1P and 3P if you don't mind. And then Martin can talk to Panamera of course. I think if you look at IRR so far our investments in the food space have had an exceptionally high IRR. Basil, you may have the number off the top of your head.

Basil Sgourdos

30%.

Bob Van Dijk

So they've been at 30% which is obviously exceptional. And I think going forward when we make investments we aim to achieve IRRs that are in line with what we've done before, and that is what we work hard to achieve. So far they are exceptional and the aim is for this to be a high return set of investments for us. If I think about it long term what we get really excited about is that it's just at the early stages today and there is a multiple in terms of market potential for later. Maybe, Larry, you can speak to the 1P/3P question. I also didn't quite hear that. Did you?

Larry Illg

I got it I think. The question is touching on what mix we expect between 3P and 1P long term. And this is really a market by market story, and not just at the country level but at the neighbourhood level what the right mix is. And across our portfolio we lead with the consumer and try to figure out what approach is best going to serve consumer needs in the market. In a market like India is actually speaks to the last set of questions. Just because there is a lack of not just food delivery infrastructure from existing restaurants but restaurant infrastructure the winner in India across the cities and in neighbourhoods is going to be a 1P player. That's very different from where our starting point was in Brazil. It was entirely third party marketplace and we realised that consumer needs increasing long-term were going to be served by a first party model. So the team has done a nice job of rolling that out on the back of the marketplace. And today those volumes account for a significant and growing chunk. So it really starts with the consumer lens to see what the right model is. We don't start with business model first and force it down on consumers.

John Kim

Okay. Helpful.

Martin Scheepbouwer

It's Martin here. Let me comment on the classifieds question. So with regards to Panamera we've pretty much reached the end of the line with regards to the consumer side migrations with Latin America last week. Going forward obviously we will continue to develop the platform as I mentioned before, also build out our shared services function together with our European platforms and OLX to improve the economies of scale on the technology and to reduce duplication and spend our resources more efficiently, which will allow us to build out infrastructure everywhere to get closer to the transaction, what we then call convenient transactions. With regards to margins it is really early days.

I mean convenient transactions come in very different forms or flavours. It is in jobs. It is in goods. It is in cars, potentially even in real estate. And to give you an example, what we saw in cars is price transparency, convenience, speed, safety concerns in many cases, and it demonstrated people were willing to pay for that depending on the market. Gross margins in buying cars and reselling can be 5% to 15%. But that's I think the entry point also to sell additional services around finance, insurance and many other things which will in the long run further bolster the margins on that line of business. So it is early days. We have seen lots of proof points that we fulfil real customer needs. And as per Bob's point there are true synergies with the horizontal platforms. We are building out the infrastructure to make that possible at a global level and then we will unlock further monetisation opportunities.

John Kim

Okay. Thank you.

Bob Van Dijk

Great. I think we have time for one more question please.

Operator

Thank you. The last question is from Masha Khan of HSBC. Please go ahead.

Masha Khan

Hi. Thanks for the opportunity to ask questions. I wanted to ask about the classifieds revenue. On my estimate it looks like all the revenue growth came from Avito and the convenient transactions. What is happening with the rest of the portfolio? I know the [unclear] growing, but why is the rest of the portfolio not growing? That's number one. Second, can you comment about LetGo versus OfferUp and their competitive position? And thirdly, can you please explain what drove the increase in share based compensation in the first half? Thank you.

Bob Van Dijk

It was a little bit hard to hear, so we will try to answer your questions as well as we can, but we may need a clarification. I think first you asked about the source of growth if I'm not mistaken. I think Basil can answer that. I think Martin can speak to LetGo and OfferUp and I think Basil can talk to share based compensation. And if we miss anything just let us know.

Basil Sgourdos

Let me deal with the first and the last and then let Martin deal with LetGo/OfferUp. As I said in my script, Masha, in fact we are seeing growth across the portfolio. Brazil is growing 25%. Poland is growing 27%. India is still very early days. We are not pushing monetisation yet. We are still pushing user acquisition and growth, but even there we are seeing good growth. So it is not just Avito. We are seeing growth across the portfolio. And that growth is in line with the plan. So we remain confident about the longer term growth which will then drive profitability and cash generation. On the share based compensation charge, first of all as Martin said we are building a tech enabled infrastructure behind Panamera that requires engineers. It requires people, so we have added more people. And they need short, medium and the long-term retention component. So it's more people. And then of course what you see in the business here is a business that's growing profits, it is growing top line, and that drives valuation up. So there is a little bit of that coming in. And it is a little bit more impactful in markets that were historically loss-making such as Brazil which is now profitable. So now you have more confidence, and of course that's an important milestone that drives valuation. Let me hand over to Martin to talk about LetGo and OfferUp.

Martin Scheepbouwer

So LetGo is in two markets, in the US and in Turkey. I think your question is specifically about the US, which is a huge market for classifieds with many different platforms competing for market share. LetGo is one of them. There is OfferUp, there is Craigslist, there is Facebook, there are several vertical offerings in every large category. So these are very competitive markets. But LetGo is to take advantage of this fragmentation to develop a sizeable business that captures our fair share of trade. As also shown next week, LetGo's revenues are growing quickly. Burn [?] is coming down. And it is about holding its ground against competitors like OfferUp. So we see this as something that can deliver us a handsome return in the medium to long term.

Masha Khan

Thanks for that. Are they the leader in the market or are they behind OfferUp now?

Martin Scheepbouwer

No, I will present some metrics next week, but basically they're both in the same ballpark. It depends a bit on what metric you look at.

Masha Khan

Thank you so much.

Bob Van Dijk

Great. Chris, I think we are running out of time so I'm going to close it off if you don't mind. So to conclude today's session I would like to remind you that as we mentioned a few times we are preparing for what we think will be an exciting capital markets day in Amsterdam next Tuesday, the 3rd. And we actually will go in depth in all our key operating segments and in particular do a deep dive into our food business. So if I look at our priorities going forward they are around driving further scale and profitability in classifieds, in payments, in fintech and in B2C. So we will continue to invest in food delivery to enhance the product, to invest in technology and delivery capabilities, and we intend to at least maintain our growth and defend our market positions. We intend to deliver a great return in everything we do, and we will maintain our disciplined approach to capital allocation. And operationally we will continue to build strong teams and we are very much focussed on embedding and operationalising artificial intelligence and machine learning to enhance our products and our service offerings. And finally, we are focussed on unlocking value for our shareholders and where sensible we will take further steps to address the discount. So with that thank you very much for your time and your great questions today, and thank you very much. Talk to you next time.

Operator

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

END OF TRANSCRIPT