

Conference call transcript

27 June 2022

FY2022 RESULTS

Operator

Good day, ladies and gentlemen, and welcome to the Prosus financial results presentation. All participants will be in listen only mode, and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please also note that this event is being recorded. I would now like to turn the conference over to Eoin Ryan. Please go ahead.

Eoin Ryan

Great. Thanks, Chris, and everyone for joining the call today. As you have no doubt seen, we've a lot of news out there today and a lot to discuss on this call, so we may go a little bit beyond the hour. All of the materials for the buyback programme, our results, the annual report, the rem report are all on the website. And it's there that you will be able to find a replay which will be there quite shortly. On the call with me today I have our CEO, Bob Van Dijk, and our CFO, Basil Sgourdos. And I also have the CEOs of all of the segments.

We will walk through an update on the financials for the group for the year, and then we'll open the call for questions. Before I hand it over, I just want to reiterate that Prosus is a subsidiary of Naspers, and its financial results are almost completely accounted for in the Naspers results. So, to ensure that the shareholders of Prosus and Naspers are provided with the information simultaneously, we are having one results call focussing on Prosus' results, but where necessary we will highlight the impact on Naspers. With that, I'm going to hand the call over to Bob.

Bob Van Dijk

Thanks, Eoin, and thanks everyone for joining the call today. We have a lot of things to cover, so I'll jump right in. so, operationally FY2022 was a year where we delivered strong growth and scale across the businesses, and it positions them well for huge growth and value creation. When I look at our operational performance and our market trading performance, I actually see a very large disconnect. I think with that comes actually a big opportunity. And that's why we today announced a major step to unlock value for shareholders. And if we turn to slide three, it is summarised in some detail there.

The discount to NAV has risen to an unacceptable level. It is bad for you, our shareholders, and it distracts us from our strategic priorities. Now, we've taken steps in the last few years such as the Prosus listing and the share exchange last year. And while they have not resulted in a discount reduction, I am confident that over time they will be beneficial. Given where we are, today's action creates value for shareholders by making use of

the discount. What we are announcing today is the beginning of an open ended share repurchase programme of Prosus and Naspers shares. We have authorisation to begin this immediately, and we will. And we will be asking shareholders at our AGM in August for approval to increase the share repurchase authorisation up to 50% of the total issued share capital of Prosus.

This will give us the capacity to execute this programme at scale. Tencent has been supportive of the withdrawal of our voluntary lockup on our selling of Tencent shares, and we will be beginning selling small amounts of Tencent immediately and regularly in an orderly way while concurrently repurchasing shares of the group. So, we intend to buy back shares of Prosus and Naspers within regulatory limits, and we will do so in a balanced way over time. The execution of the programme will in fact result in the group increasing its exposure to Tencent on a per share basis as well as increasing overall NAV per share.

Importantly, we've designed the programme to manage the number of Prosus and Naspers shares that will be bought back and Tencent shares that will be sold on a daily basis. As such, we do not anticipate an overhang on Tencent, and it would also not be in our best interest. The amount sold per day will on average represent a small percentage of the daily traded volume of Tencent shares. For example, had we executed this programme over the last three months within European regulatory limits, the resulting Tencent shares that would have been sold on a daily basis would have been on average not more than 3% to 5% of daily traded Tencent volume.

I want to be very clear. We remain extremely bullish on Tencent. But at the current discount levels the Prosus and Naspers' boards believe that buying back our own shares and monetising some of our Tencent holdings in order to achieve this is in the best interests of our shareholders. Finally, I want to stress that this programme represents a lever that we will pull to create value. It in no way precludes us from taking further action to build on the benefits of previous actions to drive a greater degree of simplicity in the group. This is something we will continue to pursue.

The programme will result in substantial value creation at scale. Slide four illustrates this in a practical way. These examples of the potential impact of the programme are based on last week's closing prices and they assume no change in the underlying discount. First, selling shares in Tencent and immediately repurchasing shares of the group will enhance NAV per share for both Prosus and Naspers shareholders. We intend to buy back shares of Prosus and Naspers within EU regulatory limits, and based on today's prices and levels of liquidity, this would result in more than \$10 billion of shares brought back across the group, split between Prosus and Naspers by economic ownership of the free float.

So, the example on the right-hand side demonstrates that a \$10 billion buyback programme would enhance NAV per share by 9% at Prosus based on current prices and discounts. This is possible because we can sell Tencent shares at market price, and we buy back discounted Prosus. The actual enhancement will vary depending on how the discount changes over time and the overall size. The larger the programme, the greater the enhancement. As we show on the left, when we get to \$20 billion or \$30 billion, NAV per share improvement would be at around 20% to 40% respectively.

A further benefit of the programme is that it increases, not decreases our exposure to Tencent on a per share basis with no additional cash outlay, as we show in slide five. Currently based on market consensus, Tencent represents approximately €87 per Prosus share. The left-hand graph illustrates that a \$10 billion buyback increases the value of Tencent in each Prosus share by 7%. And that enhancement increases to 16% and 29% at a \$20 billion and \$30 billion scale.

Now, this value creation is made possible because the Prosus and Naspers share count will decline much faster than the NAV, and that results in a sizeable increase in Tencent exposure per remaining Prosus and Naspers shares. This applies even more so to our e-commerce segments where shareholders' exposure would increase at even larger percentages on a per share basis.

And finally, it's helpful to quantify what we're solving for. Every 10% improvement is worth about \$17 billion at today's prices. So, a 20% improvement would take the discount towards 40%. This equates to roughly \$34 billion in value creation at that level already. This highlights the scale of the opportunity and why we're making reducing the discount our number one priority. So, the board is aligned with this path and has also adjusted management incentives accordingly, as you will see from our remuneration report we published this morning.

Now, I'm sure you'll have plenty of questions about this announcement in the Q&A, but I now actually want to turn our attention to the results, to the highlights of a good year for the group. Those can be found on slide eight. First, we delivered a strong set of results with 51% underlying revenue growth in e-commerce despite already being at high scale. Second, we have continued to invest in scaling out adjacent opportunities in each of our segments while at the same time improving profitability at the core.

And third, while we're making good progress in building out our segments, we are very aware of how the world has fundamentally changed. Basil will discuss this in more detail. In the current environment you should expect us to prioritise organic investment over M&A. the bar for M&A is very high. We will focus that investment only in the areas of the highest return, and we will reduce corporate expenses across the organisation. Fourth, in addition to building substantial NAV, we are also committed to taking action to unlock shareholder value through restructuring and enhancing NAV per share. Over the last year we returned more than \$6 billion to shareholders, and we're committed to continue crystallisation in the future, as we have made very clear in today's announcement. And finally, fifth, we will continue to make progress on our sustainability initiatives. You will see more detail in our integrated annual report. Sustainability is firmly a part of everything we do.

So, our strategy, which you see summarised on slide nine, has been consistent. And it aims to create and crystallise significant value over time. From an invested capital base of about \$25 billion our total NAV is currently around \$170 billion. This is after a major drop in valuation for Tencent and growth assets globally over the last six months. A key ingredient for success has been our track record of identifying and investing in opportunities across segments to create meaningful value. We've done this many times across multiple segments. As our businesses are still young, we are focussed more on building rather than crystallising. Going

forward we will be more focussed on how best we crystallise value and make the progress systematic and repeatable. Again, today's announcement is a major step in that direction.

So, we've created substantial businesses and value over the long term. While our valuation has contracted along with the market, as you can see on slide ten, we have taken action along the way to lock in value for shareholders, growing NAV per share by 23% over the past two years as you can see from the right-hand side of this slide. There are good reasons for the valuation contraction with unprecedented volatility as we face higher rates of inflation and higher cost of capital. That said, over the last three years the IRR on our current portfolio has consistently been above 20%. It was there actually as recently as December, and I'm confident we can get back to those levels of return in time.

I say this because despite the volatility, our operations remain really strong, and we are building businesses at the forefront of innovation in their industries. They have significant runway ahead of them to grow profitably for many years to come. We are entering a period where great companies will differentiate themselves by balancing controlled investment to lay the tracks of future growth with profitable businesses and cost structures that are fit for purposes. So, in this period we will be extra careful how we allocate capital. We will set the bar high for M&A returns and we will ensure good liquidity in our balance sheet. Meanwhile, we will take action to manage expenses and free cash flow generation even as we invest across the portfolio for growth.

One of the key benefits of today's announcement is that it will increase shareholders' exposure to Tencent but also to our e-commerce portfolio on a per share basis. As you can see on slide 11, the portfolio had a strong year with great growth momentum. We will look at each sector in a moment, and Basil will take you through the financials. But before that, I'd like to make three observations. First, apart from eMAG which grew only 3% on the back of an exceptional year last year, we actually saw strong growth across all the segments. And that is despite the challenging environment.

Second, the scaled growth is impressive and it's further evidence that the investment that we've been making is bearing fruit. In classifieds, for example, we delivered close to a doubling in revenue. And third, and importantly, growth is being driven by growth in the core and new initiatives, but with a core of profitability at each of the segments. So, let's dig a little deeper now in each of our operating segments. We start with classifieds on slide 12.

OLX had a successful year, and it leveraged its base of more than 300 million engaged users to produce revenue growth of 93%. This was driven by OLX Autos and an outstanding performance from our platforms in Eastern Europe. The business grew revenue and profitability strongly at the core. The team added much more functionality and tools for car dealers and real estate agents. We also rolled out pay and ship products, which actually gained significant adoption as the year progressed. OLX Autos continued on its strong trajectory, and it sold close to 80% more cars year on year despite the business being impacted by some COVID restrictions and supply issues in some markets. We are now selling about 20,000 cars per month and we recently surpassed \$2 billion in total car transactions.

If I can take you to slide 13, we talk about food delivery. After an outstanding 2021 we continued to see strong growth in the business. During the year the strong momentum continued with restaurant delivery orders and GMV for the total segment up more than 50%. If you look at iFood only, orders in the last five years have grown at a 91% CAGR, which is driving the business to scale and enabling it to experiment with additional value products and services for customers but also for restaurant partners and for delivery personnel. As a result, iFood has grown tremendously in value, and we've transitioned the business from a profitable but only 3P business to a profitable 3P and 1P business, and that has a significantly larger opportunity set.

And the centre graph highlights how the core restaurant business in Brazil delivered profits after an investment of over \$200 million two years earlier. Leveraging the strength and relationship with the Brazilian customers, iFood is now rolling out convenience and grocery products across Brazil. The number of dark stores, for example, increased fivefold in the last six months to 90, and iFood is quickly becoming a significant player in Brazil's grocery industry. It's early days, but we have momentum, and we will build out this opportunity. We will do this in the same measured and metrics driven way that we built out the first party delivery business, and our iFood team has an excellent track record of diligently building great new businesses.

On slide 14 you can see PayU's core business is growing strongly across all our markets and especially in India. Our payments segment grew transaction value close to 50% as it benefits from the continued migration of consumer spending online. It's mainly in India, but also in its global platforms in Latin America, in Europe and in Turkey. The core business remains profitable, and we are ramping up our credit activities. While it is still quite early, the credit business is growing strongly and it is benefitting from access to consumers, to data and from capital at scale. That's a combination that very few others in the space have.

Issuances grew by more than 300% during the year and we issued about \$500 million worth of loans to 3 million customers while keeping delinquency rates below 3%. That really speaks to the strength of our data scoring capabilities. On a current trajectory profitability is actually in sight. Now, we're waiting for the regulatory process to finish for the acquisition of BillDesk. It's an important transaction, and if we're successful, the combined business will have a DBV of over \$100 billion from 4 billion transactions. And we'll have data on 300 million Indian customers, which is pretty much all of the consumers that are transacting online in India today.

Now let's turn to our newest segment, edtech, on slide 15 where we have now deployed close to \$4 billion on 12 excellent businesses. The edtech opportunity is huge globally and the market is ripe for disruption. I believe that our assets are extremely well positioned to benefit from this disruption, and I'm happy to say that the business grew revenues 55% on average in the last year. We closed the acquisition of Stack Overflow, and it is making good progress rolling out its new collaboration product which is called Stack Overflow for Teams. Teams is a product that leverages the unique level of engagement with the software and the developer communities.

Including our other edtech companies, we now reach 90% of the Fortune 100 across our corporate learning companies. In addition, we have very exciting opportunities in the K12 and supplemental space with companies

like BYJU'S, Brainly and Go Student. Education at all levels is ripe for disruption and we have now assembled a portfolio of assets that is growing strongly and that is positioned very well to benefit from this opportunity.

Finally, before I hand over to Basil, I would like to update you on the progress that we're making in our sustainability initiatives. That is shown here on slide 16. Last year we put in place a sustainability framework that focusses our efforts in areas that matter most, and we made real progress. We took a major step forward to become carbon neutral at the corporate level and our portfolio companies. We achieved carbon neutrality through both reductions and offsets from certified projects around the world, and this year we will take this further on our journey to net zero.

During the year we signed up to the UN Global Compact, committing to their principles which align very well with our strategy. The Naspers Prosus human rights statement was adopted by all companies where we have a controlling influence. We also pushed our on demand platform workers statement. This articulates minimum standards of fair pay, social protection, working conditions and flexibility across the platforms we invest in. And we improved our ESG reporting and transparency standards, and our effort have been acknowledged by prominent rating agencies. MSCI upgraded us to an AA rating, and Prosus was also recently included in the AEX ESG Index in Amsterdam. There is much more to come, and here again we have the board's full support. You will see this reflected in a meaningful increase in the weighting of ESG objectives in our short-term incentives. And with that, I'll hand over the call to Basil.

Basil Sgourdos

Thank you., Bob. Hello everyone and thank you for joining us today. We have a lot to discuss with the announced share repurchased programme and another year of strong results. Bob has already addressed the share repurchase programme extensively, so I'm focussing on the results. Today I'd like to be by discussing how we allocated capital during the year and how we adapted to the changing external conditions as the year progressed. Slide 18 covers that.

In the first half of the year, we deployed \$8 billion of capital. 64% or \$5.2 billion was allocated to external M&A with 3% or \$228 million invested organically in extending our ecosystems. In the first half we also deployed just over 30% or \$2.7 billion buying back our stock, which was immediately NAV per share accretive. In the second half of the year as we saw conditions changing, we modified our activity, reduced investment by 40% to \$5 billion, and focussed inwardly. The majority, \$3.5 billion, went to share buybacks, locking in permanent value for shareholders. Today's announcement significantly scales the ambition on buybacks generating sizeable shareholder value.

In the second half we allocated just \$1 billion to external M&A as valuations continued to rise. In this changing environment we shifted focus inwards, investing more organically in business models we know well, and where we are seeing good customer adoption and a clear path to good economics and profitability. These ecosystem expansions we are pursuing can create significant value over time. As we've seen from the changes in the

second half of the last year, the macro environment is an important consideration in our capital allocation strategy.

In the current climate the bar for major M&A is very high and maintaining good liquidity is important. We will control costs at the centre and in profitable businesses. We've seen significant traction in the ecosystem extension we focussed on last year and must build on that momentum by continuing to invest to bring them to scale and profitability in years to come. While this will reduce trading profit in the year ahead, there is also focus on bringing e-commerce to profitability in subsequent years.

Turning now to slide 19, which provides a high level summary of the year. Group revenue grew 24% to \$35.6 billion and reportedly our e-commerce revenue grew even faster at 51% year over year. Group trading profit of \$5 billion reflects the investment to drive further value creation, which I will expand on later. Core headline earnings per share declined, reflecting a lower contribution by Tencent following the 2% trim of our stake in April of 2021, as well as increased investment by our associates and organic investment in our fast-growing consolidated businesses.

Finally, free cash flow declined due to the increased organic investment in the consolidated businesses just mentioned, which also required incremental investment in working capital. We also saw improved cash flows from our profitable businesses and from the Tencent dividends which continued in the year gone by. Our balance sheet remains strong, and we have flexibility to pursue our strategy while protecting our investment grade rating.

Turning to slide 20, I want to give you some insight as to where we are in the lifecycle of these businesses and their road to profitability. In each of our segments we have attractive, profitable core businesses. Leveraging this core, we are extending our ecosystems to auto transactions, credit and digital banking, quick commerce and grocery delivery. These are services sought after by consumers and significantly expand the addressable market. They leverage a strong and increasingly profitable core and have clear path to profitability themselves. They will ultimately enlarge our cash flow opportunity.

At the same time, we are driving profitability and cash generation in the more mature core businesses. The goal is to build a portfolio that will deliver sustainable value creation over the long term. We will take steps over time to crystallise this value that we create for our shareholders. It's important to highlight that while we report our results on an economic interest basis to illustrate our proportional ownership of the economics of non-consolidated businesses, we manage the business on a consolidated basis as we have shown on slide 21.

The associate businesses within our segments such as Delivery Hero, Swiggy, Skillsoft, minority venture investments, make up the majority of the e-commerce losses for the period, but they do not impact our free cash flow. You will see that minority investments account for 66% of the e-commerce losses and consolidated businesses only 34%. As I mentioned earlier, in the second half of the year we stepped up investment in our consolidated businesses from \$100 million to \$400 million to drive value creation across the segments. Organic

growth in consolidated businesses is strong at 39%, and in our minority portfolio stellar at 107%. Consolidated revenues account for 70% of e-commerce revenues. The opportunity is significant for each of our business segments, and we intend to invest to take advantage of it, scale the business, and then crystallise and return that value for shareholders.

The organic investment in the year ahead will be higher than last year's investment and will increase the e-commerce trading loss. We however plan to counterbalance that organic investment with a difference in the M&A ambition to the one we've had in the past. We are going to be squarely focussed on the current opportunity set in bringing it to profitability. In each instance we are investing off a profitable base. We will scale the extensions we are pursuing in our core segments to push and to deliver e-commerce profitability in the aggregate in the coming years.

Now turning to the segments, I want to start off with classifieds on slide 22 which demonstrated very good growth, well ahead of its peers, and improved profitability despite a difficult end to the financial year. OLX continues to perform with strong momentum. Revenue almost doubled to \$3 billion and trading profit rose to \$25 million from \$9 million last year. Please note that the consolidated view we show here is a pro forma view, removing assets which were previously consolidated but in which we now own a smaller stake. These include investments in LetGo/OfferUp and Dubizzle/EMPG. Our core consolidated classified revenues grew 40% to \$1.1 billion with a strong improvement in trading profit to \$219 million. This was driven by a 7% increase in monthly app users to 120 million users and an 11% increase in monthly paying listers.

Avito grew its revenues 55% and trading profits 32% to \$631 million and \$220 million respectively. Operating in Russia has become untenable, and we are in an active process to sell Avito. The remaining portfolio is robust and growing strongly. We will adjust the cost base of OLX to reflect its overall reduction in size. OLX Europe grew revenues 24% to \$432 million with Poland contributing 60% of that revenue. European trading profit reduced modestly to \$95 million to facilitate our investment in pay and ship services which have ramped up quickly, recording over 2 million delivery transactions each month during the second half of the financial year. Due to the onset of war, we recorded negligible revenues in Ukraine during March, but we continue to support the business and expect a slow recovery.

OLX Autos reported revenues of \$1.6 billion, up 173%, partly driven by higher prices but also by accelerating the business to consumer proposition and consumer financing. It's a young business and we're investing deliberately to scale it, but the team has delivered an 8% improvement in trading margin. As we can see on the slide, core classifieds business is solidly profitable after investment over the years. We expect the same with OLX Autos in time. We've already made substantial progress in that regard this year. The US autos business, which represents more than 35% of OLX Autos' revenues, more than tripled revenue and became profitable in the prior financial year.

Turning to food delivery on slide 23, despite investments trading margin remained flat year on year. Order, GMV and revenue growth remain very healthy, and the slower rate of growth is as a result of lapping very strong

COVID tailwinds. Trading losses rose to \$724 million primarily reflecting the increased investment in convenience and groceries from our associate investees.

As I mentioned earlier, much of this is already pre-funded given our investment in Delivery Hero and Swiggy. On a consolidated basis the level of investment is much more manageable. The consolidated investment reflects our investment in iFood which continues to drive growth off a very high base. Revenue grew 29% driven by 35% growth in orders to more than 730 million orders and 41% growth gross merchandise value to \$6.9 billion. iFood has performed very strongly and grown meaningfully in value over the past five years driven by well timed, well placed and disciplined investment.

In 2017 and 2018, we scaled the pure marketplace or 3P business to profitability. We then recognized early, and invested in, the 1P opportunity to grow the size of the market and our position in it. Profits dropped slightly year on year due to increased marketing spend early in the current year to reinvigorate the customer base as the market exited the pandemic lockdowns and restaurants opened. The core business is poised to deliver profit improvements in future. While the core scales in profitability, we are taking the same approach we took to investing in 1P with the quick commerce opportunity which presents us once again with the opportunity to grow the market as well as our share in it.

Folks, moving on to payments & fintech on slide 24, where we continue to deliver positive results across the business. Revenue grew 45% to \$796 million driven by a strong performance in the Indian and global payment business and a strong recovery in the credit business. The segment's overall trading loss margin improved 4% as trading losses reduced from \$68 million in the prior year to \$60 million and as we delivered good top line growth. Increased profitability at the core payment services was partially offset by investments in credit and new initiatives in India.

The core consolidated PSP business reported revenue of \$643 million, up 37%, and a trading profit of \$28 million. Total payments value grew 47% to \$79 billion as faster digitisation across markets continues to benefit PayU. India, our largest market, grew TPV by 66% to \$43.8 billion, representing a compounded annual growth rate of 54% over the past two years. The Indian PSP business has provided a strong valuable base off which we can build our credit business.

Following deliberate conservative issuances in the first half of the year, India has witnessed a strong recovery as we picked up momentum in personal loan dispersals in the second half of this financial year. We have a preapproved base of 62 million users and 45,000 active merchants. Transactional credit continued to see good traction while collections have maintained a strong trend across all our credit products.

Let's turn now to slide 25. There you will see Edtech's performance which remains on track, and we made substantial progress in expanding the portfolio. During the year, we acquired a stake in Skillsoft, which is now public, and Stack Overflow and GoodHabitZ. This positions us well within the key enterprise education market. Our share of Edtech revenues grew to \$425 million. After isolating the impact of M&A, this represented 55%

growth. Our share of trading losses increased to \$117 million reflecting the addition of Stack Overflow and increased investment at BYJU'S to expand its operations. We own just under 10% of BYJU'S. Education remains a significant and high-potential sector. We remain very excited about the potential for value creation in this segment.

On slide 26 we reflect core headline earnings which is an indicator of the operating performance of the group, as it adjusts for non-operational items. Core headline earnings decreased for three main reasons: First, due to lower contributions from associates. Tencent's contribution decreased as we trimmed our holding in April 2021 by 2% to 28.81%. And of course, we saw increased investment by our other associates that I spoke about earlier. Second, we increased investment in our consolidated businesses. And third, we raised incremental debt resulting in increased net finance costs.

Moving to Slide 27, the free cash flow decline reflects the investment across our consolidated businesses during the second half of the year. Working capital investment increased reflecting the very strong growth of our Credit and Autos businesses. Over time, we expect to generate substantial cash flow as we benefit from operational gearing from both of these businesses. Generally, we operate capex-light businesses. However, this year we invested to expand capacity at eMAG by investing in a new warehouse and installed lockers throughout Romania to enhance delivery. Finally, Tencent remains a meaningful contributor to our cash flow via a stable and increasing dividend stream. Dividends from Tencent grew 25% to a sizable \$571 million.

Moving to the balance sheet and funding of the business on slide 28. Investments have been funded from upstreamed dividends, asset sales and more efficient use of the group's balance sheet. We ended the year with a strong and liquid balance sheet comprising \$13.6 billion in gross cash. During the year, we raised \$9.25 billion in bonds at very attractive interest rates, further enhancing our financial position, improving our liquidity, and extending debt maturities. A part of those proceeds was used to settle \$1.6 billion 2025 and 2027 notes. The group has no debt maturities due until 2025, and 95% of our debt is due after five years and about 40% due after 10 years.

Following the unbundling of JD.com by Tencent, we received 4% effective interest in JD.com in March of 2022. As Bob mentioned, JD.com was not a strategic asset for us and we have therefore subsequently sold our stake for net proceeds of \$3.7 billion. We will retain the proceeds to strengthen our balance sheet and enhance liquidity, thereby improving our credit profile. Debt capital remains incredibly important to the business. We will continue with our ambition to manage the balance sheet within an investment grade rating. If it becomes necessary, we can consider taking action to reduce debt load.

In closing, it's clear we are going through a period of unprecedented volatility. Despite this our operations remain strong and on track to deliver sustainable revenues, profits and cash flows well into the future, generating significant value for our stakeholders. Our priority is investing in our existing business to scale them further and drive them to profitability in coming years. We will also continue to drive profitability at the core in our established ecommerce segments and take action to manage expenses here and at the centre.

Second, we will remain disciplined in our capital allocation decisions as there is now a higher bar set on investments. Third, we remain confident in the future return potential for Tencent. Today's announcement will actually increase our exposure to the company and tether us more closely to its future success. Fourth, our balance sheet remains strong even as we repurchase shares and we remain intent on managing the balance sheet within our investment grade rating. And finally, we are fully committed to taking action to bring down the discount. I will now hand back to Bob to go through our thoughts for the future

Bob Van Dijk

Thanks, Basil. Before we head to questions, I will summarise on slide 30 our key priorities. First, as you can see from today's announcement and the way we continue to scale our businesses, we are fundamentally committed to reducing the discount. We will continue to build NAV and take action to enhance NAV per share over time. Second, the fundamentals of our businesses remain strong and indeed are strengthening. We will continue to invest across our portfolio to build more valuable businesses.

Third, we have already adjusted to the new market realities, so we are setting even higher targets for M&A returns, we are preserving liquidity, and taking all action to manage expenses and free cash flow generation. Fourth, we will work towards the crystallization of value through a transparent, predictable, and repeatable process. And fifth, we will continue to drive sustainability initiatives within our businesses.

Our commitment to these priorities runs from the board through management and into the entire organisation and have been reflected in the remuneration policy of 2023. The policy prioritises value creation, discount reduction and sustainability. So, with that, I want to thank you for your time, and let us open up for questions, Chris.

Operator

Thank you very much, sir. Ladies and gentlemen, we will now proceed to the question and answer session. If you wish to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you wish to withdraw your question, please press * and then 2 to remove yourself from the question queue. Our first question is from Will Packer of BNP Paribas Exane. Please go ahead.

Will Packer

Hi Bob. Hi Basil. I really appreciate the opportunity to ask questions. Three please. Firstly, today's news of buybacks is very welcome, but you're selling down Tencent to finance it, and Tencent has been the major driver of valuation of Naspers and Prosus. What is Prosus' long-term holding in Tencent? Or perhaps to put it another way, what is the minimum holding you should have in Tencent considering the quality of the asset and your board seats etc.? Secondly, you're talking to an open ended buyback while the discount is elevated. What does 'elevated' mean? I'm sure you can't give us a number, but how should we think about the term 'elevated'? And then finally, how should we think about your appetite for larger M&A deals in the context of the discount? It

sounds like you're more focussed on your current footprint, and therefore more cautious, but it would be good to have some colour there.

Bob Van Dijk

Thanks, Will, for those questions. I think I will probably take all three of them. Let me start from the opposite order. I think the appetite for larger M&A deals, the way we said it is the way we think about it. I think the bar is high. So, for us to make a significant external transaction it has to look exceptional in terms of return and value creation. Having said that, we do look at opportunities that are out there. Just that the bar is substantially higher. Investing in our own business, which we know well, is something that we are more comfortable with.

Then your second question is around what is elevated. Basically, there are a few things to say about it. First of all, the current level of discount is unacceptable, and we want to reduce it meaningfully. Our intention is to keep this programme running at scale within MAR limits. And initially we won't even look very much at the level of the discount. Longer term I don't want to say what level is too high or just right. That's for the market to determine. But we give you an indication of how important it is for us and the level of value creation at certain levels of discount reduction. As I mentioned, the 20 point reduction would bring the discount down to about 40% and would result in \$34 billion of value creation.

Now, you can remember that is a level where we've taken action before, including buybacks to create further value. So, there is lots of room of value creation and the repurchase programme is a powerful way to create value. Ultimately a number of variables including market conditions will affect the decisions. Look, it is a unique transaction. There are not many precedents and it's a volatile market, so we will observe how things evolve.

Then to your first question, the purpose of what we announced today is to basically make use of a discount in our share to create value for shareholders. The objective is not to reduce our holding in Tencent. There is not an objective to reduce Tencent at all. In fact, I think we've emphasised quite a bit the Tencent look-through per share actually goes up. So, there is no objective to reduce Tencent. Quite the opposite. If I look at the strength of the business, the strength of the leadership team, and the medium-term potential of the market, we're extremely bullish.

Will Packer

Thanks for the colour.

Operator

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

Basil Sgourdos

Lisa, just check that you're not muted.

Operator

My apologies, ladies and gentlemen.

Lisa Yang

Hi, can you hear me?

Operator

Yes. Please go ahead.

Lisa Yang

Hi. Sorry about that. Thanks for taking my questions. The first one is on the current operational trends. Can you comment on the trend seen so far since the end of March in terms of war, inflation, macro? Any update would be great. I'm also thinking many of the assets have never been through a true recession, so how do you think your various assets will perform in a much weaker environment? Which assets will be more vulnerable versus the most resilient? That's the first question.

The second one is on the competitive landscape. I'm just wondering if you've seen any major change yet in terms of behaviour from your competitors given increased difficulty to access capital. Do you expect to see at some point more consolidation and rationalisation, and how do you expect Prosus' competitive position to come out of all of this? And the third question is on the cross holding structure. I'm just wondering how you think that structure is going to evolve, especially after all these buybacks? Also, Prosus owns 49.5% of Naspers today and I think you need regulatory approval to go beyond 50%. So, how does that limit the ability to buy back Naspers stock? Any colour on timing and what you can do to simplify the structure would be great. Thank you.

Bob Van Dijk

All right. Thanks, Lisa, for those questions. I think the last question I will ask Ervin to answer, but I'll deal with your first two if that's okay. So, I think operationally the business has actually done well since the beginning of the year as turmoil started unfolding. You have seen three months of those results, and I would say we started the year well as well. If you look at the immediate problem of inflation, there is a lot to say about how we've been dealing with inflation.

First of all, as a company the western world is typically not so used to inflation. We are quite used to dealing with inflation. We have a strong presence in Turkey and in Argentina for many years, and those are markets that have been dealing with very significant inflation. And we have both a strong PayU and OLX business in both those markets that have done absolutely fine in many years of inflationary environment. So, I think those business models can operationally manage that quite well. And we probably have experience in a lot of companies in dealing with a high inflationary environment.

Then I think one other thing to think about with both inflation and economic pressure is that a lot of the business models we're in actually make effective use of providing an online service that is often more cost-effective than the offline alternative. And I think edtech is a good example where people can upskill themselves

typically at a much better price point than an offline education. So, if people feel the pinch, actually lower-priced alternatives will look better rather than more challenged. So, I think a lot of our online propositions typically will look better versus price increasing offline propositions.

I think the final thing to say, maybe turning to your second question, Lisa, is around if we see major change in behaviour or consolidation. In some parts of the business, we are. I would say, for example, in quick commerce we see some shake-out happening. People are rationalising. I think some of the intense competitive environment that we were in is somewhat more normalised. We see it in some places in the food business as well where competition has been extremely high in the past. Now more rationality has taken over. Whether it will actually lead to more consolidation in the market remains to be seen, but we are already seeing the competition that was at very elevated levels is now just good competition. So, I think that is a difference there. Maybe, Ervin, do you want to talk about the last point?

Ervin Tu

Sure, Bob. On simplification I think you heard Bob's comments earlier that today's programme, the important announcement today with respect to the share repurchase represents a lever to create value but doesn't preclude in any way further action. And simplification, put simply, is very much on our mind. I would just say today what we can share with you is that of course we are continuing to work on evaluating those levers. And when we have more, we will come back.

Lisa Yang

Great. Thank you.

Operator

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

Cesar Tiron

Hi everyone. Thanks for the call and the opportunity to ask questions. I have three if that's okay. The first one, can you please explain to us what has been the trigger for the board to approve this buyback scheme? Would that mean that the board is now willing to consider options that were not on the table in the past couple of years for future actions as to how the portfolio of the company will be managed in the future? I think it's an important question, and it's very difficult for us to assess that since we don't hear often from the board. So, I appreciate your help in providing any colour on it. The second question, today's announcement on buybacks, I think it is really also about capital allocation.

So, I would like to ask about BillDesk. Is the transaction still under regulatory review? And is there any timeline from a capital allocation standpoint it doesn't make sense to pursue the transaction, especially given changes to peers' valuations since the transaction was announced. And the final question is really a few technical on the buybacks. I just wanted to make sure that 100% of the Tencent sale proceeds will be used for buybacks and

nothing else. And also, if the proceeds will be split 60/40 between Prosus and Naspers. And if so, why does Naspers need to potentially sell Prosus shares to conduct its buyback? Thank you so much.

Bob Van Dijk

All right, Cesar. That's a mouthful. We will try to deal with the questions as well as we can. I will answer the first one and I'll start on the second one, and Laurent, who is on the call, can maybe add there. Then I will ask Ervin to talk to the third technical question on the buyback. So, what triggered the board? I think it's clear that we are in a different space today than where we were, right. So, the discount is at an extremely high level, and I think that is something that the board is extremely aware of. And I think it's important for us at these levels to really make sensible trade-offs between what kind of returns you would get on investing capital and M&A versus doing buybacks in your own shares.

I think we had excellent discussions with the board, and the board is very aware of how shareholders are thinking about this. And it's obvious that we are in a place with an unacceptable level of the discount. That I think convinced our board that this is the right thing to do for our shareholders at this point in time. As I said, it effectively results in the number of Tencent shares per share actually going up. So, this is something that makes use of the existence of a large discount while underlining our confidence in Tencent, which I think is also important for our board.

Then on BillDesk, Cesar, I think it's important to say we're in the approval process. And the business case that we had a discussion on with the team was always one that is driven by a long-term DCFU [?] and very substantial synergies. And those synergies are in a number of areas. They are in building out our credit business. They are also in cost effectiveness and the complementarity of the different businesses. Yes, the markets have shown change, but actually the business plan, the fundamentals that underpin the value creation that we signed up for when we did that acquisition have not changed at all. So, it was not a multiple based story, but it was a fundamental DCF driven business case with exceptionally strong synergies that are as solid today as they were then. Laurent, I know you're on the call. Anything to add?

Laurent Le Moal

Yes Bob. Thank you. Indeed, the strategic rationale has not changed. In fact, it is reinforced. Please remember that the proposed acquisition has been driven by the necessity to get to scale, and also increase the growth of the overall revenues, but also significantly change the profit profile of the overall combined entity. As of today, BillDesk continues to perform in line with our expectation. Therefore, we still continue to be very excited about the proposed combination of the two businesses. You mentioned something about the current approval. Yes, correct, this is still being considered and reviewed by the Competition Commission of India and we do expect a definitive answer from them during the summer.

Bob Van Dijk

Thanks, Laurent. Cesar, would you mind repeating your third question? I just want to make sure.

Cesar Tiron

Sorry about that. I wanted to understand if 100% of the proceeds from any shares you sell in Tencent will be used for buybacks and nothing else, and if the proceeds will be split 60/40 between Prosus and Naspers. And if so, why does Naspers potentially need to sell Prosus shares to conduct its own buyback? Thank you so much.

Bob Van Dijk

Thanks. Now I've got it completely. Ervin, you can have a go and Basil and I can support as necessary.

Ervin Tu

Cesar, it's Ervin here. The answer to your first question is yes. In the initial phase we will be devoting 100% of proceeds to the buyback. And the answer to your second question is also yes. The buyback will be in accordance with the proportionate effective economic interest of the free float shareholders for each listed entity. In terms of why, you notice that we said we may need to sell Prosus shares to fund the Naspers buyback. That's a pretty technical question. It relates to something we need to work through in terms of how we can ultimately fund the Naspers portion of the buyback. I just say that there are some limitations on being able to do that, so we need to leave that channel open should we need to use it later to be able to effect the Naspers buyback. That's probably less specific than you want, but it's a pretty technical question.

Cesar Tiron

Thank you so much everyone. That's very helpful. Thank you.

Bob Van Dijk

Thanks, Cesar.

Operator

Thank you. The next question is from Miriam Josiah of Morgan Stanley. Please go ahead.

Miriam Josiah

Thanks for taking my question. Firstly, in the presentation you mentioned you're looking at systematic and repeatable ways to crystallise value. Can you just share more detail on what this means, specifically when it comes to things like IPOs or potentially monetising other listed non-core stakes? Could this become more of a priority, and which assets would you say are closest to crystallisation? Perhaps if you can share a timeline for that.

Then secondly just on funding, clearly a lot of discussion on that at the moment. Are there any businesses in your portfolio that need more cash imminently, and have your views on where to deploy that capital within your portfolio changed? Thinking about more capital intensive businesses like OLX, does that become a less attractive investment in this environment? Finally, just on your capital allocation priorities longer term, if you can talk about where this buyback fits in relative to M&A, given that that has historically been the priority. So, presuming

you get the discount to an acceptable level and interest rates settle, does the balance shift back to M&A, or is this still a priority? Just talk about longer term where this fits in. Thanks.

Bob Van Dijk

Thanks, Miriam, for those questions. Let me try to cover all three of them and other people can jump in as needed. I think, Larry, you may want to comment, and Martin Tschopp, if he is on the call, may also want to comment on funding needs we see. When it comes to systemic value crystallisation, I would say that we have as a company been quite good at identifying opportunities and growing them. But crystallising and returning value to our shareholders I think we've done less of over time. And I think we are mindful of that. We think that that is something that we want to prioritise much more going forward. An example is actually what we're doing with this programme today. We're using our Tencent investment to effectively create value for our shareholders.

But I think also going forward it can take the form of listing assets, sale of assets, or any other market transaction that would bring that value crystallisation to you, our shareholders. And look, I could go and speculate about each of our businesses. I think that's not the right thing to do here. I think many of our businesses, particularly given that they're profitable in the core, I think over time would be good candidates to think about what the right future may be. But I don't think I want to go into the specifics of individual assets here.

Then your second question was around funding. Are there any of our companies that need cash imminently? I would say particularly the ones that actually use quite a bit of cash, that are typically associates, you would know them in the food space. There are a number of them. I think they are typically well funded. Some of our controlled assets are investing, but we've actually made a number of careful decisions to make sure when we do invest our cash in our controlled businesses, we only prioritise those investments that we are absolutely convinced will get us an excellent return.

So, I think on the external side at least the bigger associates are largely well funded. On the internal side we've made a very strong prioritisation to invest in those initiatives that we're very confident of. And indeed, if there were areas where we were somewhat less confident, we have actually pared back our internal investment quite considerably already. I hope that answers your question. Maybe Larry, Martin, any comments on associates or venture businesses that need cash?

Larry Illg

Nothing really to add from there, Bob. I think you covered it well. Obviously, we paid close attention to the funding needs on the food and education side of the companies that consume a lot of cash, including modelling what might happen. I think one of the questions earlier was very close to what might happen should inflation increase, should we enter into a prolonged recession, see how that might impact capital needs. But by and large our cash consuming companies are well capitalised.

Basil Sgourdos

On the funding side, remember this open ended buyback is, as Ervin answered earlier, funded by Tencent sale of shares. So that is paid for, right. Then I did cover in my script that we have a very healthy balance sheet and we're preserving liquidity, right. So, we can pursue the strategy that we need to, and we have the balance sheet to do that.

Bob Van Dijk

And maybe, Miriam, on the last question around capital allocation, I think there are a few considerations here. First of all, given where the discount is, a buyback at scale makes a lot of sense. That's why the board approved it and that's why we're going to allocate this big bazooka programme as long as it takes. But I think the world has also changed in the sense that because of rate increases we see the cost of capital go up. That might come down over time, but I think that's a reality that just makes the bar higher particularly for external M&A. And that may normalise over time, but I think for the time being that's just the reality we're dealing with.

I think it also means that we need to control our costs, because spending money is more expensive than it was previously. I think the final thing that it means for us, and that may change over a number of years maybe, the way I see the next few years is a period to get our e-commerce business to profitability. That's the path we're on. And I think that's the path we're going to stay on, because I think that's how the market context looks at what they want from these businesses. And I know we can deliver on it, and that's what we're going to do.

Miriam Josiah

That's helpful. Thank you.

Operator

Thank you. The next question is from Jonathan Kennedy-Good of JP Morgan. Please go ahead.

Jonathan Kennedy-Good

Afternoon, Bob and Basil. Thanks for the opportunity for questions. The first question from me is related to the regulatory approvals Naspers may need to repurchase its own shares. Have those discussions commenced at the various levels with South African authorities? That's question number one. Then I noted that you have requested shareholders approve up to 50% repurchase of total share capital at the Prosus level. And it suggests there may be a very significant buyback in the short run. I'm just wondering if you can provide some colour on the 50% number and what the equivalent request at Naspers is in terms of buyback authorisation.

Bob Van Dijk

So, Basil, maybe you can cover the first question while I start on the second. We want to make sure we have sufficient headroom to buy back shares at Prosus level. I think the current approval is at 10% and we think we're going to run into that, and that's why we're going to ask for more approval. And we expect to run this programme at scale as long as the discount is wide, obviously within regulatory limits. That's the plan we have for which we need space to do that. I'm not entirely sure what the authorisation levels are at the Naspers level. I know they are higher. But maybe, Basil, you know that as well.

Basil Sgourdos

Yeah, so the changes we are making to the authorisation levels will allow us to continue, as Ervin outlined earlier, to buy the stocks in relation to the free float holding, so 58% towards the AEX free float and 42% towards the JSE free float. And we will sustain that, so don't read anything into it. It's not like we're looking to change that split. We want to sustain it through the programme. And then the regulatory approvals, it's a process that's ongoing. And I also don't expect there to be an issue where we can't buy back Naspers stock, but we have to go through the process. I can't pre-judge it. And once that is done, we will come back with clearer colour on that.

Jonathan Kennedy-Good

Great. Thank you. That's helpful.

Operator

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

Andrew Ross

Great. Good afternoon, everyone. Thank you for fitting me in. I've got three as well if that's okay. The first one is a quick update on Avito and where you are in the sale process for that asset. Could you give us a timeline? And ideally, if you are able to sell it, what should we be thinking about in terms of use of proceeds? Can you take money to the HoldCo level, and how do you think about using those proceeds?

The second question is you talked in the presentation about reducing the corporate footprint. Can you just give us a bit more colour in terms of what that means? I assume it doesn't mean leaving assets but more thinking about the central cost charge and perhaps some other areas of cost. But a bit more colour there would be helpful.

And then the third one is on Tencent. Obviously, you've announced today a series of small sales of Tencent going forward on a daily basis. Is there anything that has been agreed that would in theory prevent you from selling a bigger chunk of Tencent again like you did in 2018 and 2021? I appreciate the language of M&A is that big deals are unlikely right now, but that things can change and it's important to understand the theoretical funding position of the group. Thank you.

Bob Van Dijk

Andrew, let me start and see how far I get. On Avito what we communicated is that we're looking for an appropriate buyer. That process has kicked off. We're trying to do that in an expedited way. But obviously it takes a bit of time, so I can't give you a very precise timeline there. But the process is going. What happens with funds depends on who buys it, so I can't really comment too much on that either at this point in time.

In terms of reducing corporate costs, I think that will take a few directions. One, we are reducing the number of people we have in corporate positions. We are also making a number of remuneration changes that should make a real dent as well. So, it's more of that rather than getting out of businesses, which is not something we think is the right thing at this point in time.

And the last point I think is probably best answered by saying that we have a very strong balance sheet. If we want to do further M&A we can do so. If we wanted to do even further M&A, which I think is given where we are not likely, we can also find ways to fund that. So, I think we're in a position where I think we will do less large M&A rather than more. But if we are convinced, you're going to get an absolutely exceptional return, we have plenty of options to fund that.

Andrew Ross

Thank you.

Operator

Thank you very much. The next question is from Silvia Cuneo of Deutsche Bank. Please go ahead.

Silvia Cuneo

Good afternoon and thank you for taking the questions. I have just two. The first one is regarding the buyback. Are you in a position to comment more about the potential size you are thinking about in FY23? Based on the examples in the slide it looks like the starting point could be around \$10 billion. So, above the \$5 billion size we've seen you committing to the prior programmes. Then the second question is on the longer term outlook. We see in the slide you talk about how you aim to bring the e-commerce portfolio to profitability in aggregate. I'm wondering if you can talk a little bit about what timeline you are thinking about and if you could share any indication of start to break even for the different segments. Thank you.

Bob Van Dijk

Thanks, Silvia, for those questions. So, I wouldn't anchor on the \$10 billion. There is no end date on the proposed programme. There is also no size limit on the programme. So, I would not want to give you guidance on that. We're basically saying there's an elevated level of discount. It's very elevated now. Even if it comes down, it's still elevated. We need to structurally address it. That's why we come with an open ended programme and not a limited programme.

The intention is very much that this is a structural way to address this, not a limited size, limited time programme. So, that's very important. The fact that we give you examples, we also put a number of \$30 billion in there, I wouldn't anchor myself. The fundamental concept is that there is a dislocation in the market. As long as it exists, we will continue to make use of that to create value for shareholders at scale. That I think is what I could say around size.

Then on the longer term outlook, profitability, I think the most important point – I think Basil said it, I said it – is actually if you look at the core of our segments, they are profitable already today. That holds for OLX. That holds for PayU, and it holds for iFood. So, if we want to make these businesses profitable in its entirety, we could do so very quickly. The reality is we're also investing in some new growth areas that we think are extremely exciting and we're seeing a lot of progress. For example, in auto transaction we see excellent development of unit economics and frankly tremendous growth. And the team that is executing it is doing it in a very disciplined way.

Yes, we're in the investment mode, but we think it's an absolutely wonderful extension of what we're doing already. And very similar for grocery and food. We're growing, so it's costing some money, but the unit economics for stores that have been around for a while just look excellent. And the same in credit for PayU. And the exact path of how these segment adjacencies will get to profitability will be a bit different. But I think actually the fact that we're getting a more rational competitive environment should actually help them. So, this is not a many-year thing. It is a few-year thing where I think how exactly it will pan out depends a little bit on competition. It depends on a few things. But it looks extremely healthy for us to get there. And again, at the core we are already there.

Silvia Cuneo

Okay. Thank you very much.

Operator

Thank you. The next question is from Christopher Johnen of HSBC. Please go ahead.

Christopher Johnen

Thanks everyone for taking my questions. The big one for me on the slides, you used to have this \$100 billion target for the e-commerce segment by 2025. I haven't seen that yet. I just wanted to confirm whether this is still a goal for you to not and how you're thinking about it, whether the current market environment should see a delay of the 2025 target, or just your general views here.

Bob Van Dijk

Sure, Christopher. Yes, it is still a goal. Unfortunately, like most of the markets we've taken a step back on reaching that goal. We've seen obviously meaningful corrections like all of high growth technology. If I look at the fundamentals, Christopher – and I sometimes say this to smart shareholders I speak to – I have never seen a bigger discrepancy in my life between the scorecards I look at every morning and Bloomberg in the sense that the operational performance of virtually every business we're in is looking healthier than it did before. The unit economics are looking extremely healthy. The only thing that is not looking very healthy is the multiples and the market scorecard.

Now, when that reverses, it's frankly your guess and my guess. If we could predict it very carefully, we would probably be very rich. But the fact that we're seeing operational performance be so extremely strong gives me a

lot of confidence that we're on the path to achieve that. Exactly when, I guess the market plays a big role in that. And I think the market surprises me regularly, so I can't really say anything about that.

Christopher Johnen

One more follow-up. The sheer number of listed equity stakes in your holding has gone up quite a bit. Obviously, a number of IPOs. How are you thinking about the sheer amount of those investments in public listed equities?

Bob Van Dijk

So, I can say a few things about that. I think for me whether a company is listed or unlisted is not a deciding factor on whether we see the right value creation. So, Tencent has been a listed company for a long time, and it has been actually since listing one of the best investments ever done by any company. Many of our shareholders I think are very happy we held on to that public position. I think also we have a number of public positions that are extremely strategic where we learn a lot and we add real value. For example, in food delivery I think our Delivery Hero position is one where we learn a lot from what Nicholas does. And on the other hand, I think we can also be as a participant really helpful for him to shape his strategy.

We've been there from the pre-IPO days. We were there from before IPO. We see tremendous value creation potential in a business like that, probably having much closer understanding of where our businesses are being under-valued. And we feel good about actually using your capital to create value based on the deep understanding we have of these businesses. There are also some businesses that might be less strategic where obviously it's easier to monetise a position over time. And we look at that very carefully. Actually, Ervin has with Evelyn built a team that does specifically that, looks very closely at our public positions and makes sure we always make the right trade-offs. Is it strategic? Do we believe in substantial value creation? If not, should we be the long-term owner of that. We have become more disciplined and more programmatic about those, but the questions are really around strategic fit and value creation potential.

Christopher Johnen

Thanks a lot.

Operator

Thank you very much. The next question is from Warwick Bam of Avior Capital Markets. Please go ahead.

Warwick Bam

Thank you very much for the opportunity. Just two questions from me. I'm just trying to get a sense of demand and outlook for core classifieds based on the existing user adoption of pay and ship. Are you currently charging a fee for pay and ship which sufficiently covers the variable costs? Lastly, at an aggregate e-commerce portfolio level can you give us any steer as to what the absolute trading losses will directionally be in FY23, whether they will increase or decrease? Thank you.

Bob Van Dijk

All right. So, I will answer your second question and I'll ask Romain, who I believe is on the call, to cover your first question on the margin outlook for OLX. Look, you know we don't give guidance. And we don't give guidance for a reason, not because we're bad people who don't want to tell you anything. There is a fair amount of uncertainty, right. A very large chunk of our e-commerce trading result comes from associates that we don't control. And I think for many of those associates they are on a path to profitability. They may have accelerated in the last few months, maybe not. It's hard to say. And I think in our core business, the ones that we do fully control there are also three dynamics that are playing.

On the one hand we're investing in adjacencies we believe in. So, we'll do that investment. On the other hand, we have a core that is profitable where you will see more profitability come out. And third, there is the competitive environment where if the competitive environment forces you to invest hard, it's the wise thing to do. So, it's really quite difficult to give you an answer, not because we don't want to but because there are a lot of dependencies there. I think if you look not five years out, not anything like that, but in a relatively short number of years, then I can see a very clear path to profitability. That I can tell you. Exactly what happens in the next six months or 12 months, there is just a lot of dependencies that you don't necessarily have control of.

Warwick Bam

Thanks.

Romain Voog

And to your third question about margin outlook, the first thing is you will have noticed that the margin of OLX Europe decreased year on year to still very positive 22%. This margin decrease is due to several factors. One of them only is pay and ship. We all have to understand that pay and ship is at the beginning of a journey. The first focus we had was we need to scale a product that could be adopted massively by most of our customers. There are a couple of very interesting things we are seeing in pay and ship. First, a significant uplift in the retention and the use of our platform by people that have been exposed by pay and ship versus the ones who have not been exposed by pay and ship.

Secondly, an increase in our ability to monetise a population that previously were using our platform mainly for free. So, there is a clear monetisation aspect there. And the last thing I'll say is the growth adoption that you've seen in pay and ship that we shared with you, the three times type of multiple, has been a proof of concept for us that there is a strong demand. Now, this has come at a cost. And we wanted to make sure we could invest and scale quickly to make sure we were positioning ourselves very clearly in this market and creating a strong customer experience. We will keep on investing in pay and ship, but we have a clear path to profit when it comes to monetising that new product and making sure we can actually increase the overall profit of the platform. So, long story short, probably some time of investment, but a clear path to profit. Bear in mind that we've scaled it and we are just at the beginning of monetisation, so there is still a lot of upside to come.

Warwick Bam

Appreciate that. Thank you.

Operator

Thank you very much. Ladies and gentlemen, we have time for one more question. The question is from Richard Eary of UBS. Please go ahead.

Richard Eary

Hi everyone. Three questions if I may actually. The first one in terms of actually funding the buyback, I think within the accounts that you talked about an LTV of basically 10% but obviously you can expand that to 15%. I'm just trying to understand as we look at that to try and get the ratio of how much is funded through internal cash versus Tencent stock, how we should think about liquidity measures as a benchmark.

Just as a simple thing that I was doing on the first couple of slides in the deck when you discussed the NAV, which you mentioned was \$169 billion, down \$10 billion, that goes to \$159 billion. And then you do the \$159 billion over basically \$15.7 billion of existing gross debt plus whatever you sell, it implies if you don't go over 10% you have to sell quite a lot of Tencent stock to do that. So, I'm just trying to understand around that measure about whether it's 10% or 15% so we can get a better understanding of how that's funded.

The second question is just going back to your view that you wanted to maintain the same ratio. So, am I correct in thinking that you don't want to change the economic interest in Naspers in Prosus? Or is that something I'm mis-reading, and therefore there is a chance that you can reduce Naspers' stake in Prosus, which therefore increases your tax shield? That's the second question. And then the third one when you say precludes further action, can you just maybe outline what you mean by that statement and what you see as the ultimate structure for the group. They would be the three questions.

Bob Van Dijk

Thanks, Richard. On the third one I can answer that. Look, we spoke previously about the range of options that we looked at. I don't want to speculate on where we come out there. I don't think that would be wise at this point at all. We're on day one of one of the most significant transactions that we've announced. I think that is not ready for prime time. We will certainly want to talk to you about that later, but I don't think we can actually do that today. Basil, on the change in economic interest and the impact on the tax shield, I hope you have the answer because I don't.

Basil Sgourdos

I'll deal with the first two questions, Bob. Richard, thanks for your questions. Look, at the end of the day I think we've been very explicit. The buyback is funded solely from the sale of Tencent shares. So, 100% of the Tencent proceeds are going towards the buyback. I think your questions were related to our...

Richard Eary

Can I just be clear on that? So, you're saying that you will sell down Tencent stock to fund 100% of the buyback. You won't use any liquidity sitting on the balance sheet today to fund the buyback. All the buybacks will be funded by Tencent.

Basil Sgourdos

That is correct. That is correct. I just wanted to clarify. That's correct. And what we do is we preserve the balance sheet to fund our operations and have some flexibility. And the level of liquidity we have on the balance sheet also helps us with support towards our investment grade rating. Then on the second one, the reason why we want to buy at the respective free floats is that both sets of free floats benefit from this buyback. It's not driven by anything else other than that. And then what the tax implications are at different percentages, that can be a very long conversation and it does vary depending on who owns what. But it's not what drives that. What drives it is really just wanting to allow both sets of shareholders to benefit.

Richard Eary

Okay. Can I ask two follow-up quick questions? The one is in terms of the sensitivity that you gave in the deck – I think Silvia asked the question – between \$10 billion and \$30 billion, what was the rationale for those ranges that you put in there?

Basil Sgourdos

They are multiples of ten, Richard.

Richard Eary

Right. Okay.

Basil Sgourdos

It's just going up. And we just want to show you how the percentages change over time. So, don't read too much into it. Bob and Ervin also explained earlier that we have bought shares at a 40% discount.

Richard Eary

And maybe just a last question regarding the RemCo report. Obviously, it's nice to see the LTI is no linked to the discount reduction. But from reading that RemCo report it just says discount reduction. There is no emphasis in terms of the reduction to what or by what amount. Can you elaborate in terms of what that will be and how that will get voted on?

Bob Van Dijk

Yeah, so what I can say is that you should probably have a good look at the disclosures for the year that was. And then I think going forward the RemCo will evaluate whether the discount reduction is up to a standard that would warrant any payment at all. So, they are allowing themselves a certain level of discretion. Also, you could imagine that the discount reduces for the wrong reasons. Is that something you want to incentivise? So, the RemCo will make an assessment of that after the end of the year and then evaluate whether the outcome is

positive and whether that positive outcome is as a result of the right management actions. And then it will have to defend that choice to the shareholders.

Operator

Thank you very much, sir. Ladies and gentlemen, in the interests of time that is all the time we have for questions. Sir, if you would like to make some closing comments.

Bob Van Dijk

Yeah, closing comment is thanks everybody for listening. Sorry we went a bit over time, but there were many good questions. We appreciate your time and interest, and I hope to see you all very soon.

Operator

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

END OF TRANSCRIPT