2Q 2017 Xurpas Analyst Briefing Transcript
11 August 2017, 9:00 AM

Xurpas Inc. Attendees:

Nico 'Nix' Jose Nolledo	Chairman and Chief Executive Officer, Xurpas
Alexander 'Mar' Corpuz	Chief Finance Officer and Chief Compliance Officer, Xurpas
Jose Vicente 'JV' Colayco	Chief Business Development Officer, Xurpas
Atty. Mark Gorriceta	Chief Legal Officer and Assistant Chief Compliance Officer, Xurpas
Erica Sarmiento	Investor Relations Manager, Xurpas

Mr. Alexander Corpuz:

Total revenues increased by 65% from ₱736 million in 1H2016 to ₱1.2 billion in 1H2017. The net increase of ₱479 million was mainly from mobile consumer services (which comprised 71% of our group revenues), growing at 116%. Our other major segment, enterprise services, grew by a modest 2% year-on-year, from ₱309 million to ₱316 million in the first 6 months of the year. Other services, which is refers to Storm, grew by 39% year on year in the same period, ending at ₱34 million in revenues compared to ₱24 million last year.

Gross profit for the group increased by 25% in the first half of 2017 to ₱459 million. Income before income tax also increased by 2% in the first half of the year and despite our on-going manpower ramp-up and expansion activities, overall, the net income for the group increased from ₱133 million for the first 6 months of 2016 to ₱155 million over the same period in 2017, which is an increase of 17%.

Now, just to cite some historical figures -- 2015 our revenues were ₱921 million; in 2016, we added more than a billion in revenues, and now we are at the 1st half of 2017, we have revenues of ₱1.2 billion for the first half, notwithstanding a down second quarter. Although revenues breached the ₱1 billion mark for the 1st half of 2017, as mentioned there has been a slowdown in company growth in the second quarter, primarily due to Art of Click. Quarter 2 revenues decreased by 39% versus Q1. However, the Company is implementing a recovery plan while continuing to develop its various platforms and aggressively push its enterprise and e-commerce services.

So at this point, I would like to pass on the discussion to our CEO, Mr. Nix Nolledo.

Mr. Nico Jose Nolledo:

Hi, good morning everyone. I'd like to start off with a more granular explanation of the Art of Click deal, as I believe there has been some confusion regarding what had transpired there. As you know, the original terms of the Art of Click transaction which completed last October of 2016 was for Xurpas to pay for the acquisition via a combination of cash and shares. An initial payment of US$2.7 million was made to Emmanuel Allix (the principal seller) upon signing, along with 53,298,242 unlisted Xurpas shares as first tranche payment. These shares were to be subsequently listed on the Philippine Stock Exchange.

However, the listing of the shares issued to Emmanuel Allix took longer than expected, and it was mutually agreed between the parties that the payment be made in cash instead of cash plus shares. This was disclosed last June 8. On July 19 we disclosed that Xurpas would buy-back the 53,298,242 Xurpas shares from Allix for Php 0.50 per share, pursuant to the agreement that we executed with him on June 7.

It is important to note that the PhP 0.50 "price" per share was built into the total cash consideration to be paid to Emmanuel Allix for Art of Click. Because the shares previously issued to (and subsequently recovered) from Allix are unlisted shares, they are not subject to any market price. This is the most tax-efficient and least costly way for us to get back the unlisted Xurpas shares from Allix.

As mentioned by Mar earlier moving on to Art of Click, Art of Click's business was weaker in the second quarter of 2017. This is a result of a combination of the loss of a couple of clients as well as some clients not running any campaigns for the 2nd quarter of 2017. Note though that Art of Click's business is seasonal in nature (historically, advertising across any industry is stronger in the fourth quarter which is the holiday season).

Overall, the nature of Xurpas' business model which is both b2b2c and b2b is such that in certain periods of time, we can lose business clients which can impact the short term performance of the company. The nature especially of Art of Click's business is driven by advertising campaign spending by some clients. A client may spend heavily on a campaign for one quarter, then pause the campaign for another. We are working, however, to broaden the base of advertisers for Art of Click. We are also working on integrating Art of Click's platform to a new publisher set: e-commerce companies, wifi hotspots, and a multitude of other channels to create a differentiated audience for advertisers in the region.

2017 has been a transition year for us. We made a strong shift to a platform strategy and not just a product strategy for us. That has resulted in an increase in cost related to the shift. We were banking on some of our Art of Click business to compensate for the short term revenues, but at the end of the day, it's very important for us to incur these costs as we invest in the development of the platforms that are necessary in our long term strategy.

Our mobile games business has also seen a shift to this mobile platform. When we soft-launched an Android 'app store' in the first half of this year with several hundred developer partners, we're actually developing another platform around commerce-type of transactions, we are not just stopping with an app store. Moving forward, we will be less focused on launching single titles but focused on the evolution of our mobile games and mobile consumer platform strategy as a whole.

For Xeleb, we continue to see very strong growth of our Xeleb business, which shows that celebrities and social media influencers are indeed a very strong channel to customers. Our IPO is still pending with the PSE and the SEC, as we comply with some of the additional requirements that they have been requesting. A major win for Xeleb is that we as per our disclosure we signed ABS CBN as a partner for the business.

One of our investees, Altitude Games, also had a very strong win for them in the first half of this year as they signed up with a big US mobile games developer, Big Fish Games, to co-develop and bring a couple of Altitude Games to the US market.

Another investee of ours, Zowdow, which is a mobile search business also had a couple of big wins for them. They signed with UC Browser which is owned by Alibaba, as well as Dolphin Browser. Combined, both these browsers have an audience reach of over 800 million mobile browser users in multiple markets. Zowdow is focused on the reach and usage of its search engine to improve the algorithm of its search results. Advertising monetization of these users come next year for Zowdow.

For Nemesis, we launched with a telecom operator here in the Philippines a platform called Globe Games with Friends, which is a multi-player Android games platform for casual games.

Storm has had a lot of traction recently. Storm closed the Jollibee group, HGS, Alorica, SGV, Johnson&Johnson (Philippines), Teletech, JP Morgan, Aboitiz Equity Ventures, and a multitude of other clients. Just this week, the association of all BPO's and call centers, IBPAP, has signed with Storm to use Storm as a platform for all of its users. Now Storm has three products: Storm Benefit, which is a flexible benefits platform, Storm Kudos, which is the performance benefits platform, Storm Squares, which is a platform for corporate communications for employees. Much stronger traction for Storm, but really investing on the integration of all products under Storm Squares for Storm.

For MicroBenefits, the group just recently got a new sales head, and in the second quarter alone, they closed Tesco, Disney, as well as other US-based clients that manufacture in China.

Our plans in the second half of the year is to strengthen our profitability despite the on-going development of our various products, platforms, and services across the group. While some of our platforms are near-completion or are already in soft launch, we don't expect them to significantly contribute to our topline this year.

What you can expect from us for the remainder of the year is more product and platform launches, especially from Xeleb Technologies. We've also been ramping up our sales group under Xurpas Enterprise to get more enterprise contracts, advertisers for Art of Click, as well as more HR departments to onboard for Storm.

As most of our business enjoy the seasonality effect of revenues towards the end of the year, we should expect total revenues to strengthen at the last quarter of the year compared to each of the other quarters. Our Storm business has experienced this in the last several years, where employees tend to use up their points in the marketplace as the holiday season approaches while for Art of Click, digital advertising has historically been stronger during the holiday season.

At Xurpas, we are focused on the long term opportunity of our business. Our biggest strength really is also our largest weakness at this point. For reference, privately-held technology companies typically lose money for several years before they turn a profit. For us, we need to grow at the same pace as these privately-held companies, but at the same time show a quarter-on-quarter profit growth. This is very hard to balance and we have chosen to always calibrate for our long term potential and opportunity. For perspective, however, our first half revenues for 2017 is more than 300% larger than our entire 2014 which was the year we listed.

If you look at the Southeast Asian technology landscape, the overall opportunity we are chasing is very large. According to a Google-Temasek report in June of 2016, Southeast Asia is really the world's fastest growing internet region, and it will continue to experience a 5-year compounded annual growth rate of 14% between 2015 to 2020, with the userbase will grow from 260 million to 480 million users. And the spaces that we're in will also experience significant growth. Online games revenue, for example, is expected to become a US$9.6 billion market by 2025, whereas in 2015 that was at US$1.6 billion. Online advertising spend in Southeast Asia is expected to grow five times from where it is today to about $10 billion in 2025 which is a strong opportunity for both Art of Click and Zowdow. E-commerce will grow from a US$5.5 billion market in 2015 to an US$88 billion market by 2025. And then the enterprise side as well, this will be a US$62 billion industry by next year alone according to Gartner.

So as we chase the opportunities provided for by these different sectors in Southeast Asia we are continued to focus on the long term, and we are investing in the infrastructure to take advantage of the opportunities ahead for our business.

Ms. Erica Sarmiento:

Thank you, Nix. Please be reminded that this briefing is recorded. It will be uploaded into our website, so you can go back to it in case you missed something. I will now open the floor for Q&A. Please be reminded to introduce yourself, your full name, and as well as the company name or fund that you represent. I will now unmute everybody.

Please be reminded that if you have other questions, you can always reach out to any of us: Nix, Mar, JV, or myself. I think my e-mail is posted on the disclosure together with the announcement of the analyst briefing.

Paul Michael Angelo, Regina Capital Development Corporation:

Just a few questions regarding the HR solutions app. I recall that in the last time that we talked, there's a challenge in facing the finance, legal, and human relations background? How is it going right now?

Mr. Nico Jose Nolledo:

Thank you for the question, Paul. Just to reiterate for everyone, the question as I understood it – your question was, when last we met and spoke, we shared that Storm had its challenges when implementing its solution across the organization.

Paul Michael Angelo, Regina Capital Development Corporation:

Yes, yes.

Mr. Nico Jose Nolledo:

So that was true particularly for the earlier part of 2016, as well as 2015 and the months and years before that. What we calibrated and changed is we started going directly to the CEO's and COO's of the various companies that we've have been speaking to. The main challenge that HR departments were facing was for them to successfully implement Storm's products, they needed buy-in from their finance department, as well as their legal department. Finance department, because finance has to determine and figure out things like "what is the tax treatment if an employee has to convert a sick leave or a vacation leave into a laptop or smartphone from Storm's marketplace?" Legal has to be involved because items like "how does Storm's platform impact, for example, the collective bargaining agreement an organization may have with its unions?" Prior to the second half of 2016, HR departments had difficulty powering through and convincing both the legal and finance departments to get buy-ins for the implementation of Storm. But by going to the CEO's and higher-level executives in an organization, HR departments we found now have an easier time getting both their finance departments and legal departments to buy-in. As shared in my update for the first half of 2017, the number of new clients that have on-boarded for Storm for 2017 alone has been very strong.

Paul Michael Angelo, Regina Capital Development Corporation:

Thank you.

Mr. Nico Jose Nolledo:

Thank you, Paul.

Ms. Erica Sarmiento:

Are there any additional questions? OK, thank you for attending our analyst briefing. Again, we will be uploading the recorded version, as well as the transcript of the entire briefing. From Xurpas, we'd like to thank you again for taking your morning to listen to our growth story and as well as our earnings results. We look forward to engaging with you again, soon.

Nix, JV, Mar, Atty. Mark, Erica:

Thank you, thanks everybody.

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