

### **3Q 2017 Xurpas Analyst Briefing**

13 November 2017, 9:00 AM

Xurpas Inc. Attendees:

Nico 'Nix' Jose Nollodo  
Alexander 'Mar' Corpuz  
Jose Vicente 'JV' Colayco  
Erica Sarmiento Lim

Chairman and Chief Executive Officer, Xurpas  
Chief Finance Officer and Chief Compliance Officer, Xurpas  
Chief Business Development Officer, Xurpas  
Investor Relations Manager, Xurpas

**Ms. Erica Sarmiento Lim**

Good morning, ladies and gentlemen. Thank you for taking time to call in for our analyst briefing today. With us are: Mr. Nix Nollodo, our Chairman and CEO, Mr. Mar Corpuz, our CFO and Chief Compliance Officer, Mr. JV Colayco, our Chief Business Development Officer. I am Erica Sarmiento Lim, Investor Relations Manager of Xurpas. We welcome you this morning.

We will be discussing the third quarter 2017 earnings results, as well as the general updates, plans, and prospects for the Xurpas Group. Please be reminded that this is a recorded briefing, and we will be uploading the recording as well as its transcript on our website soon after. All participants will be put on mute for the entire discussion, but the floor will be opened later for Q&A. With this, I would like to call on Mr. Mar Corpuz for the summary of our earnings results.

**Mr. Alexander Corpuz:**

Thank you, Erica. Good morning, everyone. Now for the earnings results:

Total revenues increased by 49% from ₱1.13 billion in the first nine months of 2016 to ₱1.68 billion in the same period in 2017. The net increase of ₱555 million was mainly from mobile consumer services (which comprised 67% of our group revenues), growing at 96%. Our other major segment, enterprise services, marginally declined by 2%, from ₱487 million to ₱479 million in the first 9 months of 2017 vis-à-vis 2016. Other services, which actually refers to Storm, grew by 43% YoY in the same period, ending at ₱64 million in revenues this year compared to ₱44 million last year.

In the first nine months of the year, the Xurpas Group continued to develop various products, services, and platforms. While some of these initiatives have been successfully launched, the group's earnings were also adversely affected in the third quarter. Art of Click's business further weakened in the third quarter of 2017, against a backdrop of challenges faced by the mobile advertising industry in the region. Likewise, earnings were impacted by non-recurring expenses amounting to ₱48 million related to the consolidation of Art of Click, as well as the on-going ramp-up of manpower and resources across Xurpas and its subsidiaries. Total Xurpas gross profit for January to September 2017 was at ₱545 million, a 1% decrease from the previous year, while income before income tax was at ₱173 million, a 38% decrease from the previous year. Net income declined 27% to ₱140 million from ₱193 million in the first 9 months of 2016. Xurpas is implementing a recovery plan to improve Art of Click's client mix and return to profitability. Our CEO will talk about that more later.

At this point, I would like to pass on the discussion to our CEO, Mr. Nix Nollodo.

**Mr. Nico Jose Nollodo:**

Hi, good morning everyone.

It's been a difficult third quarter for us this year.

Art of Click's business further weakened in the third quarter of 2017. A number of Art of Click's clients are venture- capital funded firms that have not resumed running their campaigns in the third quarter. At the moment, a number of Art of Click's clients are startups that implement pay-per-install performance marketing campaigns. When those startups encounter runway issues because of a slowdown in the venture

capital that they raise, the first budget they cut down is their customer acquisition budget, which directly impacts their advertising spend.

To address this, we have started to implement performance video products for Art of Click that will allow us to target an entirely new advertising segment - Traditional advertisers who are looking at performance branding campaigns via digital channels. We have also started to hire management talent who have more experience dealing with traditional advertisers in the FMCG, retail, and media spaces so that we can enter this category in a strong way. The impact of this will be much more stable revenues coming from a client base who has a more consistent advertising spend versus technology startups.

In the same period, Xurpas disclosed that it entered into an agreement with one of the sellers of Art of Click which provided that this seller will receive consideration in cash, instead of Xurpas shares. As a result and in the same period, the Board of Directors of Xurpas approved the buy-back of 53,298,242 Xurpas shares from the seller. Xurpas had to re-acquire the unlisted shares previously issued to the seller to avoid double payment. This was done at the lowest price possible, and with the least costs and appropriate taxes that may be incurred for the buy-back. These taxes, specifically donors/capital gains tax, together with the professional fees and banking charges related to re-structuring the payment structure led to the ₱48.1 million non-recurring expense incurred in the third quarter of 2017.

Storm had a strong third quarter with revenues up 44 percent. The past few months have also seen them closing IBPAP, Rebisco, Greenwich, Chowking, WWF, Aboitiz, PJ Lhuillier, FWD, and J&J to name a few. Alorica, one of the three largest employers in the country has also become a Storm client this quarter. We can attribute this much stronger traction to a shift in our sales strategy for Storm that we implemented in mid 2016 when we invested in the resources to build Storm Kudos, our performance benefits product, as well as setup Xurpas Enterprise, a dedicated sales team for Xurpas' portfolio of products.

Storm also recently won first place at the Startup World Cup to be recognized as the number one startup in the Philippines. They will head over to Silicon Valley this coming May 2018, to compete with other country winners.

Still on the HR technology front, our China investee company, Microbenefits, recently inked deals with Disney, Puma, Gap, and Tesco continuing their strong run this year after a relatively weak 2016.

Next year, we are looking to finally launch Storm's products in Microbenefits' markets. Already, we are integrating Storm's Flexible Benefits product to Microbenefits' mobile platform called 'Company IQ.'

Altitude Games, another one of our affiliates, has three very promising games signed up for development and distribution in the US. One publisher is Big Fish Games who have signed Altitude Games for two titles. The other publisher who signed us for a games partnership is Pikpok Games out of New Zealand.

As we have transitioned to our platform play, only one of our four platforms is currently out in the market. Our mobile app store has started to generate some traction as we add more game publishers to our roster of products. W00T, as this app store is called, is an app store focused on games. We made a decision to spin off the non-games part of the app store into a separate platform called 'Basics' which we are looking at a full launch early next year. Basics is essentially a consolidated platform for multiple e-commerce players to transact directly with mobile consumers via a single mobile app.

Our two other platforms, for Storm and Xeleb will both be out in the market early next year. Our video platform for Xeleb is already available on the Android app store and is currently operating on beta while Storm's Squares platform is already implemented with a few test clients here in the Philippines.

As for the enterprise side of our business, a number of our engineers are currently focused on the development and deployment of our platforms. As our platforms move from development to deployment, we should be able to slowly transition our developers back to deploying third party services by around second quarter of next year. Our focus for our enterprise group will continue to be three-fold:

- 1.) Help clients migrate their technology infrastructure from on-premise to the cloud.

- 2.) Once on the cloud, provide clients with the ability to manage and develop applications around the data that they have there.
- 3.) Help client's secure their data by providing cloud data security solutions.

Overall, our migration to a platform play has been challenging but we believe that this decision we undertook in late 2016 will pay off in the medium to long term for us. The goal is to launch all of our platforms by early next year so that we can quickly start gaining traction for them. To manage expectations, there will be some early launch pains for sure, and a lot of learning as we get market data, but we have been cautious with our approach. Already today, we have all three platforms out in the market, but in a limited capacity so that we can validate some of the features we decided to implement.

At Xurpas, we continue to focus on the long term and we continue to invest in the infrastructure necessary to take advantage of the opportunities that a growing digital economy in Southeast Asia has to offer. Despite the recent hiccups, especially on the Art of Click side, we are confident with our strategy and our prospects for the future.

**Ms. Erica Sarmiento Lim:**

Thank you, Nix.

Please be reminded that this briefing is recorded. It will be uploaded in our website, as well the transcript of the recording. 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.

**Q&A Portion:**

*(No questions were raised.)*

**Ms. Erica Sarmiento Lim:**

If there are no additional questions or any other concerns, we can now end this briefing. For any other questions, please refer to our contact details in the disclosure of this analyst briefing.

Once again, we thank you for participating in our analyst briefing this morning and for listening to our growth story.