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FY 2017 Xurpas Analyst Briefing
16 April 2018, 8:30 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
Erica Lim	Investor Relations Manager, Xurpas

Ms. Erica Lim

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

We will be discussing the full year 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 open 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:

Thanks, Erica.

From a service revenue of ₱ 378.32 million in 2014, when Xurpas had its IPO, the Group hit an all-time high revenue of ₱2.1 billion for full year 2017. Throughout the year, Xurpas concentrated on building its mobile consumer platform businesses, while aggressively pursuing new clients for its enterprise and other business segments. This was an increase of ₱ 156.4 million or 8%, from ₱ 1.95 billion revenue in 2016. Group revenues were still mainly driven by mobile consumer services, comprising 68% of the total revenues. The net income of the Group for the year ended December 31, 2017, however, decreased by 61% (from ₱ 264.8 million (as restated) in the year ended 2016 to ₱ 102.6 million in 2017). This was largely a result of significant one-off expenses and provision for impairment losses of a particular uncollected receivable. The Group's net income before taxes for period ended December 31, 2017 was 6% of total revenues or ₱ 122.04 million. The net income before taxes for the Group declined by 68% or ₱ 257.1 million from full year 2016, which posted a figure of ₱ 379.1 million.

The marked slowdown in the Group's revenue growth in 2017 was primarily due to the drop in revenues of Art of Click. As mentioned in a previous analyst briefing, in 2017, a number of Art of Click's clients were venture-capital funded firms that did not implement a regular full-year advertising campaign. The Group is executing a recovery plan specifically to improve the client mix of Art of Click and has fortified its management with a new chief revenue officer to grow the business in new industries and territories. The full effect of the consolidation of Art of Click's revenues, operational expenses, and net income was realized in the full twelve months of 2017. Likewise, in 2017, there were revisions in the Share Purchase Agreement between Xurpas and the former shareholders of Art of Click, with regard to the payment structure and other related changes for the acquisition of the Art of Click shares. This resulted in non-recurring expenses amounting to ₱48.1 million. While the other revisions of the agreement resulted in a net gain, the Group also recognized a one-time provision for impairment loss related to the certain receivable also of Art of Click which amounts to ₱121.7 million. Even as management is continuing discussions with the client for collection, it was deemed prudent and conservative to provide for such receivable, as it has passed Art of Click's usual tolerable collection period. Assuming the provision was not done, the net income of the Group would have been ₱203.6 million.

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

Mr. Nico Jose Nolledo:

Thanks, Mar. Good morning, everyone.

2017 has been a year of transition for us. Our transition to being a platform company didn't come with its share of challenges and adjustments.

First off, our mobile consumer service has been up 16% year on year as, despite our transition to being a platform company, we still continue to launch stand alone game products. In 2017, we saw a total of 10 new mobile games launched.

Art of Click also saw a slow down after a strong start out of the gates in early 2017. Most of Art of Click's clients in 2017 are venture capital backed startup firms who struggled with runway issues in the second half of the year as venture capital deployed in Southeast Asia last year was mostly directed and concentrated in four major e-commerce firms - Lazada, Shopee, Tokopedia, and Traveloca - who invested most of their venture capital on consumer subsidies (these are discounts and freebies to attract customers) and did not grow their paid advertising base substantially.

Our move to attract traditional advertisers has shown a lot of promise, however, as we hired a new department and management team in Art of Click to focus on this exciting new segment. Brand advertisers in the consumer packaged goods and traditional retail spaces focus more on branding campaigns that are driven by an entirely different set of performance metrics - brand safety, brand recall, and other online measurements. This new source of revenue for Art of Click should result in more consistent revenues moving forward.

Storm continued its growth in 2017 as its revenues climbed by 84 percent and added a number of new clients to be serviced this year. Most notable in its new client list is its partnership with IBPAP which will bring it closer to the BPO industry which has a massive employee population. Storm's growth has been recognized by technology industry luminaries as it won first place at the Startup World Cup and won the Judges award to be the top startup in the Philippines by E27, a top technology media platform covering Asia.

Storm has worked closely with our Hong Kong based investee, Microbenfits, to introduce its 'Company IQ' platform in the Philippines and has a number of clients already onboard for a 2018 implementation. Microbenefits has already reached over 3 million factory workers in aggregate over the past two years with Company IQ, and will soon be deployed across a number of Filipino employees this year.

On the enterprise front, Seer and Fluxion have both taken a hit, as a result of a number of both group's engineering resources focused on our platform development. At present, we bear the fully loaded costs of the product teams dedicated to our platforms, without generating client revenue to cover for these. We believe though that this is a necessary investment as we continue to develop these programs.

Some areas of our enterprise business, however, have experienced strong growth, particularly on the sourcing and staffing segments on the Yondu side. Growth has come from large new BPO clients segments such as Accenture and Alorica who have started to source engineering talent through our services, whereas in 2016, most of our sourcing business was heavily concentrated in the telecom sector.

2018 will be a major transition year for us. Some challenges exist for us this year mixed with a number of exciting initiatives that we have undertaken.

Some of the challenges we face include a new directive from the telecom companies to have stricter opt-in rules for mobile subscriptions. A re opt-in campaign will challenge our stand alone product revenues coming from our mobile games business on the Philippine front. Our platform initiatives, however, are starting to gain some ground and despite some delays, should be ready for full deployment this year.

The most exciting development for us this 2018 is how we plan to strongly leverage off blockchain technology. We have extended our platform launches due to this development, but expect these go live this year.

On the consumer side, we see blockchain impacting three core offerings:

- Mobile Games
- Mobile Data
- HR Benefits

The first of these three blockchain consumer initiatives had already had an initial launch this year via our Singapore investee company, Altitude Games. Via the Alto platform, we look into transforming mobile games' freemium model into an item first economy via the blockchain. Already Alto has a number of strong global advisers onboard and has several partnerships established with international game development firms. Expect more disclosures from us in the near future regarding this.

We also have a mobile data platform as well as an HR blockchain initiative around benefits in the works, of which both projects will launch within the next few months. Again, expect more disclosures from us in this space.

On the enterprise front, we see a lot of promising opportunities for blockchain as well. We have been investing in programs to train our workforce to provide development services along this front. With only 1 in 14 blockchain developer positions filled in the United States alone, and possibly even lesser ratios for the rest of the world, we see that the demand for blockchain development as a strong source of potential growth that Xurpas Enterprise can take advantage of.

This 2018, despite the challenges of last year, we continue to focus on the long term and we continue to invest heavily in our platform initiatives. We believe that it is still early days for the Southeast Asian digital economy and we are committed to seizing the opportunities that this region has to offer.

Ms. Erica Lim:

Thank you, Nix.

Please be reminded that this briefing is recorded. It will be uploaded in our website, as well as 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 question was raised.)

Ms. Erica Lim:

Are there any additional questions? For any other concerns, 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.

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