3Q 2018 Xurpas Analyst Briefing
15 November 2018, 8:00 AM

Xurpas Inc. Attendees:

Raymond Racaza	President and Chief Executive Officer
Alexander 'Mar' Corpuz	Chief Finance Officer, Chief Information Officer
Jose Vicente 'JV' Colayco	Chief Operating Officer, ODX Pte Ltd.
Erica Lim	Investor Relations Officer

Ms. Erica Lim

Good morning, ladies and gentlemen. Thank you for taking time to call in our analyst briefing today. With us are: Mr. Raymond Racaza, our President and Chief Executive Officer, Mr. Mar Corpuz, our CFO and Chief Information Officer, Mr. JV Colayco, Chief Operating Officer of ODX Pte Ltd. I am Erica Lim, Investor Relations Officer of Xurpas.

We will be discussing the earnings results for the first nine months of 2018, 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 after this call. 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:

Good morning!

Total revenues decreased by ₱800.75 million or 48% for the nine-month period, from ₱1.67 billion in the first nine months of 2017 to ₱869.10 million for the comparable period in 2018. Group revenues were mainly driven by enterprise services, comprising 67% of the total revenues. Enterprise Services was at ₱582.3 million compared to ₱479.32 in the first nine months of 2017, a 21% increase. The increase in revenues was mainly from talent solutions, custom software development, software products, and recurring business from previous clients.

Since the first quarter of 2018, technical and business policy changes implemented by Globe Telecom have affected the Group's Mobile Consumer Services segment, particularly its Value Added Services (or VAS) business. However, Xurpas and Globe are working together to look for new products and business models for this segment. Likewise, while Art of Click (AoC) is continuing to implement a recovery plan for 2018 to address the 2017 drop in revenues, results have been concrete, but not yet significant. As discussed in a previous report, the recovery plan of AoC was hinged on transitioning from its previous "CPI" (Cost per Impression) business, to "Programmatic" and "Branded" advertising, which are more sustainable. As of September 2018, these segments now account for 47% of total AoC revenues; as compared to 3% at the start of the year. In total, the Mobile Consumer Services segment fell 80% in the first nine months of 2018 to ₱230.64 million from ₱1,127 million in first nine months of 2017. As of the first nine months of 2018, this segment was 27% of the total Group revenues.

On the other hand, the Other Services segment revenues slowed down in the 3rd quarter 2018 due to the effect of the new Philippine tax law to the sales of a major client. As a result, this segment decreased by ₱7.37 million or 12% in first nine months of 2018 vs 2017, ₱56.16 million vis-à-vis ₱63.53 million.

The blended cost of services decreased by 36% from ₱1.087 billion for the nine-month period ended September 30, 2017 to ₱700.31 million for the comparable period in 2018. The outsourced services cost of AoC was the largest component of the decrease, which resulted from the drop in its revenues. Segment fee/network costs, web hosting, and royalties also decreased due to lower VAS revenues. Cost of goods sold attributable to other services was ₱40.6 million for the nine-month period ended September 30, 2018 compared to ₱49.88 million in the same period in 2017, a decrease of 19% or ₱9.27 million. On the other hand, general and administrative expenses of the Group increased by 7%, from ₱324.83 million for the first nine months of 2017 to ₱347.55 million for the same period in 2018. The increase was mainly due to salaries and wages, rent, and outsourced services, which were partially offset by major decreases in taxes and licenses, professional fees, transportation and travel, advertising, marketing and promotions, and seminars/trainings, as part of cost cutting measures. Note that Yondu accounts for 90% of the increase in salaries and wages, a result of the continuing growth of its enterprise business.

The net income of the Group for the first nine-month period ended September 30, 2018, decreased by 236% (from ₱140.10 million in the first nine months of 2017 to a net loss of ₱190.41 million in the same period of 2018). Total comprehensive income over the same period decreased by 241% from ₱133.39 million as at September 30, 2017 to a net comprehensive loss of ₱187.85 million as at September 30, 2018.

At this point, here is the discussion of our CEO, Mr. Raymond Racaza.

Mr. Raymond Racaza:

Thanks, Mar. Good morning, everyone.

This year's ongoing challenges also give Xurpas an opportunity to refocus, as we rebuild the overall business. We are working to tirelessly turn things around next year, and that includes making tough decisions for clean-up and streamlining, in order to return to profitability.

Xurpas' subsidiary, Xeleb Inc., will be launching a major new mobile consumer project in the next quarter. This is the company's first major mobile consumer launch since the drop off in the segment's revenues earlier this year.

Continuing with our Mobile consumer segment, our Singapore-based digital advertising business, Art of Click, has shown promising signs of improvement post third quarter of the year. Our sales team has aggressively pushed for more profitable clients. Although we are still not reaching the same levels of sales as we did in 2016, we are optimistic that we can still strengthen this in the next coming months.

The Enterprise services segment has surpassed its ₱566 million revenues in the entirety of FY2017 with ₱582 million as of the first nine months of this year. Revenues from this segment came mostly from our subsidiary, Yondu Inc., which dramatically improved their higher-margin businesses such as Talent Solutions and has successfully diversified their client mix. Our Enterprise segment increased total revenues by 21%, and will continue to grow our total business.

Storm Technologies delivered ₱56 million in topline as of the first nine months of this year, lower by 12% compared to the same period last year. One of Storm's biggest clients was affected by the recent implementation of the TRAIN Law, which impacted the client's mid-year employee benefits conversion cycle. Nevertheless, Storm is expecting to recover this small setback in the fourth quarter, and is expected to have stronger sales in the holiday season. In the previous quarter, Storm's userbase was at 94,000 employees. Today, Storm finally exceeded the 100,000 mark.

Our blockchain initiatives are also bearing fruit. We are on track to launch the *alpha* application for ODX by the end of the year. ODX continues to build partnerships across various verticals in the tech space. Among 80+ partners that are already in collaboration with us, we have Lazada, the number 1 online shopping and selling destination in Southeast Asia, and Agoda, one of the fastest-growing travel booking websites in the world. Our chairman, Nix Nolledo, is carefully building the foundation of our blockchain platform. We will share more news and updates on ODX as we reach certain milestones along the way.

Apart from these significant developments, we are also taking the necessary steps to re-base the business through cost reduction measures across the organization.

Manpower cost is our largest cost driver across all our companies. We have streamlined our core businesses and trimmed down on excessive costs related to manpower, except for Yondu. Yondu's business model requires ramp-up of necessary talent for some of their growing high-margin services. For the rest of our core business, there has been noticeable reductions in expenses related to outsourced services and rent. We will continue to reduce costs as part of our strategy to refine our overall business and return to profitability.

Finally, we are aligning our new long term plans with the rest of the assets we have invested in or acquired in the last few years. We are exploring divesting some of these that are not performing as well as expected or no longer aligned with our goals. Expect to see some changes in our portfolio of companies in the next several months.

We are committed to executing on the blockchain opportunity, which continues to get good traction; and build on the foundation of our proven Enterprise business. Our management is dedicated to rebuild our mobile consumer segment together with our telco partners and our Art of Click team, while opportunistically looking for new business models for other mobile applications.

Ms. Erica Lim:

Thank you, Mar and Raymond for the message that you prepared for us.

Please be reminded that this briefing is recorded. It will be uploaded in our website, as well the transcript. I will now open the floor for Q&A. Please introduce yourself with your full name, and as well as the company or fund that you represent.

Q&A Portion:

No question was raised.

Ms. Erica Lim:

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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