



2Q 2018 Xurpas Analyst Briefing

15 August 2018, 9:00 AM

Xurpas Inc. Attendees:

Raymond Racaza	President and Chief Executive Officer
Alexander 'Mar' Corpuz Officer	Chief Finance Officer and Chief Information
Jose Vicente 'JV' Colayco	Chief Operating Officer and Treasurer
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, our Chief Operating Officer and Treasurer. I am Erica Lim, Investor Relations Officer of Xurpas.

We will be discussing the earnings results for the first half 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 of Xurpas decreased by ₱599.29 million or 50%, from ₱1.21 billion in the first half of 2017 to ₱609.47 million for the comparable period in 2018. The net decrease was brought about by the 78% decrease in the mobile consumer revenues.

The Mobile Consumer Services segment is comprised of mobile value added services or VAS and digital advertising revenues. In the first half of 2018, Art of Click comprised of 45% of the ₱187.31 million revenues posted for this segment. After the VAS system migration of Globe last first quarter 2018, the revenues from this segment dropped significantly from its previous levels in 2017. As of the first half of 2018, Mobile Consumer Services was 31% of the total Group revenues.

Posting strong growth in the first half of 2018, Enterprise Services was at ₱379.42 million compared to ₱316.30 million in the first half of 2017. The increase in revenues was mainly from custom software development, software products, and recurring businesses from previous clients.

Out of the three business segments, Storm had the largest year-on-year increase at 27% to ₱42.74 million in first half 2018 from ₱33.76 million in first half 2017. The growth is attributable to sustained businesses with large corporate clients and Storm's larger employee base at 94,000 in 2Q2018 versus 66,000 in the last quarter of 2017.

As a result of the overall revenue decline, gross profit decreased from ₱411.17 million for the first half of 2017 to ₱96.74 million for the same period in 2018. Xurpas recorded a net loss of ₱143.65 million in the first six months of 2018, coming from earnings of ₱154.73 million for the same period in the previous year.

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

Mr. Raymond Racaza:



Thanks, Mar. Good morning, everyone.

The first half of the year brings us a mix of challenges and progress from the different segments of our Group.

Our blockchain initiatives have begun to show signs of progress in the last few months. Our 100% owned subsidiary, ODX Pte Ltd, has received commitments of over US\$60 million from its ongoing token sale.

ODX recently bagged a partnership with YouDeal, the world's largest peer-to-peer services marketplace. YouDeal has more than 50 million users and seven million sellers from over 300 industries in its platform, making US\$60 billion in trading volume. Through the free internet strategy of ODX, YouDeal plans to tap the rest of Southeast Asia.

ODX is a blockchain-based data marketplace backed by an impressive cast of crypto heavyweights, namely: Andromeda, Blocktower, DNA, Genesis, Hexa, Pantera and Strong Ventures. Through its data marketplace, ODX unites internet service providers and publishers from across the globe to offer consumers free internet access via sponsored data packages.

We expect to see the accretive value of our blockchain initiatives to come in the second half of this year. What you are seeing now in our first half results does not take into account the impact from ODX. ODX's token sale is still on-going and on-track. This should be completed by the end of this year.

For our other business segments, I am happy to report that significant improvements in the Enterprise and HR Technology Services have been recorded in our 1st half earnings. The 20% year-on-year growth on overall Enterprise Services is attributed to aggressive business development. Particularly, Yondu has delivered new clients for its Globe WiFi and Productized services. Seer Technologies has renewed interest from one of its largest clients such as EDC, to continue managed services and software development work for them.

In the first 6 months of the year, Storm was able to increase its employee userbase from 66k in the fourth quarter last year to 94k in the second quarter of this year. The company was able to on-board new clients such as SGV Philippines and JFC Group. When we purchased 23% of Microbenefits, this was with the intention of expanding the HR technology services of Storm with Microbenefits' capabilities. As of the second quarter this year, Storm has launched PocketHR – its version of Microbenefits' HR communications and training mobile application. Storm continues to build its client base across all its services – FlexBen, Ace, and PocketHR.

While our consumer business was significantly impacted by Globe's Value Added Services (VAS) systems refresh and Art of Click's challenges, we are still slowly rebuilding this business segment. Art of Click's traction was slower than expected, as well. This resulted in a 78% decline in our Mobile Consumer business.

We will continue to rebuild our core business, strengthen our enterprise services and drive higher-margin products, and innovate in our existing platforms such as in Storm.

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:

Mr. Eugene Lim, Capricorn:

It's Eugene at Capricorn.

Ms. Erica Lim:

Hi Eugene.

Mr. Eugene, Capricorn:

Hi guys. Hey, it's Eugene at Capricorn in London. Thank you very much for the run-through. I just wanted to get an idea from you. So basically, a lot of traditional equity investors have trouble understanding the value of ODX outside the idea of the token sale. So, like could you give us an idea of the revenue opportunities that you are looking for from ODX as a platform. Maybe in terms of revenue margins, potential profits. I know it's early date but it helps us to kind of put an equity value on the entire project, what the actual earning impact is going to be for your company.

Mr. JV Colayco:

Hi Eugene, can you hear me?

Mr. Eugene, Capricorn:

Yup.

Mr. JV Colayco:

This is JV. I'm going to try to answer your question. So, you're right. There's actually a number of different revenue streams for ODX. And you're right, it is at this early date. But I can take a stab at least in addressing and answer your question at a high level. Firstly, you're right. The obvious revenue stream for ODX is from the token sale and while final auditor decisions and the auditors' wrapping their heads around the treatment of our token sale if pending and we should be able to finalize this before the end of the year. First of all, we expect that proceeds from the token sale would be held as deferred revenue and the tokens which would be held in reserve to the extent of their increase in value over time, there would likely be some form of market-to-market approach. So that's the first point. So ODX will have an asset that would be increasing in value. That's the first one. Now, strictly from operations, right, there's at least two ways in which ODX could earn, moving forward. First is, ODX would receive, in effect, a percentage transaction fee from every purchase made on the ODX network by publishers. So let's say, a publisher wishes to make its service or its app, free for consumers to use in a given market or in certain given market. And they purchase a large block of data from ODX for this purpose. There would be a transaction fee charged by ODX for this and that represents a revenue stream for ODX. That would be the second one. And the third one is, ODX itself expects to be a very large buyer of bulk data from these various telcos and ISPs. This is also why our token sale is quite a large amount because we need a lot of dry powder in order to do this deal with the telcos. So the large data purchase would come at fairly hefty, in effect, volume or wholesale data discounts. And this data, this pool data capacity purchased by publishers also represents an opportunity for ODX to earn a margin on the transfer price of the ISP data cost to the publishers who buy these data. So bottom line, we would actually be making some sort of margin on the data packed on to the publishers. So, I think that's how we would reply to that as answer at this point. That there are these three revenue opportunities for ODX.

Mr. Eugene, Capricorn:

Ok, that's cool. Thanks very much.

Mr. Joseph Walsh, CFM:

Hi guys. This is Joseph Walsh from CFM. I was just wondering in terms of ODX. The scalability of the project and in terms of the different markets that look attractive to you, is this a project you're going to be launching just in the Philippines or are you going to be rolling out across many markets? And if so, which ones look attractive to you?



Mr. JV Colayco:

Right. Sorry can you say your name again please?

Mr. Joseph Walsh, CFM:

It's Joseph Walsh.

Mr. JV Colayco:

Ok. Hi Joseph.

The (first) short answer is, we do expect to roll out ODX outside the Philippines. Our first market would be the Philippines. Indonesia would likely be next. This is simply because we obviously have direct connections with the telcos already in both these markets, being present in both these markets. But we do expect to expand outside. If you take a look at some of the partners and the advisers who've come on board for ODX, they come from all over the world particularly from areas such as Africa and Eastern Europe. And they've participated in ODX's token sale because they believe in the potential to bring ODX to some of these other markets.

Mr. Joseph Walsh, CFM:

OK. Thank you.

Mr. Eugene, Capricorn:

(There's no one else asking) It's Eugene again. Just looking at your numbers, like comparing the business before the token sale and after, you basically are looking at a situation where you have almost as much cash as you have market cap. And clearly you got a quite a sizeable potential opportunity with ODX. Is there any plans from the management side to consider a stock buyback, maybe consider using the proceeds from your future token sale for buyback?

Mr. JV Colayco:

Actually, given both the size of the ODX project and the scale of the opportunity, the intent right now is that the proceeds from the token sale would be used to scale ODX and to ensure that we maximize that opportunity.

Mr. Eugene, Capricorn:

OK, got it.

How big do you think that profit could be once all of these projects are rolling out? You've got Philippines and potentially Indonesia, like you mentioned. What are we looking at (in terms of) for long term investors like we have been? What's the opportunities set that we are looking at?

Mr. JV Colayco:

I'm sorry. Could you ask the question again?

Mr. Eugene, Capricorn:

So basically, I'm just trying to understand the opportunities set that we are looking at for the project as the business overall. Because you got your existing business that's hopefully turning around. You got your new businesses that seem to be packed with quite a lot of outside opportunities, not only in the Philippines, (where) like you mentioned, there's Indonesia. I'm just trying to get an idea how big the company can get from where it is now.

Mr. JV Colayco:

Well, I guess the (first answer) first comment I have to make on that is, when we announced (sort of) a slight re-focus or a pivot to the blockchain opportunity, we've said before that these opportunities don't represent something completely different than what we've already been doing. It's simply that blockchain technology represents, in effect, a way to take many of these businesses to the next level. So, we've briefly touched on in the past that there are some other blockchain-related initiatives that would slot into some of our other businesses such as, for instance, our games and our HR technology business. We'll, of course, be discussing these in more detail as and when we're able to and the requisite disclosures would come. So that's the first comment. These businesses don't



represent something completely new. They simply take our existing businesses to the next level. Now with respect to the actual size of the business opportunity, well I guess, for example, in the case of ODX, it's really a global opportunity given that the pain point we're addressing is that emerging market consumers represent 80% of the consumers out there and these people don't have internet and ODX is trying to fix a very real and a very large problem. And again, this drives the size of the token sale. In order to address this problem, this requires a lot of dry powder. I'd say, this represents a lot of opportunity for the Group that we really haven't seen before. It's difficult to nail down at this point what exactly this opportunity represents in terms of a hard number. But if in the past, we were only looking at an opportunity in Southeast Asia, with ODX, we are looking at emerging market consumers in areas such as the African continent for instance.

Mr. Eugene, Capricorn:

Ok, cool. Thanks.

Mr. David, Cap UK:

Hi guys, this is David here from Cap UK. So in terms of the actual impact on the income statement, so you've taken us through some of the theory on how it will affect that. But just in terms of timeline, if it were successful in terms of the raise and obviously in terms of the business model, when will you start feeling some of the impact on the income statement?

Mr. JV Colayco:

Ok, with respect to the impact of ODX, again this is being finalized with the auditors at this time. Our expectations is that you will see some impact from ODX within this fiscal year. Basically, we expect to have an early version of ODX sometime before the end of the year.

Mr. David, Cap UK:

Ok, excellent. And then in terms of the actual token sale, there's been some releases to the exchange in terms of the amount that's been raised – is that on-going or is the amount has been confirmed and raised, will that reflect in 2018 revenues?

Mr. JV Colayco:

Ok, so two answers to that – First is, the token sale is on-going. The target was always to complete the token sale sometime in the fourth quarter. So the sale is on-going, it's on-track, and we expect it to finish sometime by the fourth quarter. It's really now a timing question. It's really about the treatment of the token sale and the timing of such treatment. This as I've mentioned is still in the process of being review and finalized by our auditors. However, we would expect that at least some portion of that should be recognized within this year. Again, subject to this on-going review by the auditors. It's just that we say this is our expectation because in many similar cases of token sales it's really been a timing question as to the recognition of such token sale as revenues.

Mr. David, Cap UK:

Ok, great. Thank you.

Ms. Erica Lim:

Are there any other questions from our guests?

Mr. Joseph Walsh, CFM:

Hi there, it's Joseph again. In terms of other blockchain initiatives you might be looking into, maybe you haven't communicated explicitly just yet, but areas you think are interesting to you, or areas where with cash from ODX you wish to reinvest – can you talk about these initiatives or not at this moment?

Mr. JV Colayco:

Well as you've mentioned, we've touched on them a bit before. We're not in a position at this point to really say much about them other than what's been touched on. For instance, we mentioned that we are looking into a blockchain initiative that would slot into the games space which



we're already in. A second area would be a blockchain initiative that would be in the HR benefits space, which is a business where Storm is already in. To the extent that we will have more, we will of course make disclosure as and when these will become appropriate. I would note that any token sale for these initiatives would be specific to these initiatives as opposed to a situation where there would be some kind of reinvestment from the ODX side.

Mr. Joseph Walsh, CFM:

Ok, thank you.

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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