Interim chief executive's review

The power of technology is driving change in the world and Prosus is at the heart of this change.

Ervin Tu
Interim chief executive

Enhancing our strategy

Against the background of widespread uncertainty in recent years, and its impact on markets and valuations, we have refined our strategy to capitalise on what Prosus does best – build valuable businesses across the group. We have a long track record of being both operator and investor but elevated inflation, high interest rates, declining market multiples and geopolitical shocks have affected all companies. While these factors are outside our control, we have responded by focusing deeply on improving the performance of our consolidated businesses as we work on restoring returns across our portfolio.

At a strategic level, we believe that the most proactive approach to creating value lies in embracing our duality as operator and investor.

We have a rich heritage of building operating value through controlled businesses – payTV, ecommerce, classifieds, food delivery, and payments. In many areas, we have built great winners. The opportunity has been even greater for Prosus when there is potential to create strong ecosystems, for example iFood, eMAG, PayU India and OLX.

As investors, we look to back the next class of entrepreneurs building world-class companies.

We have tilted toward operator mode in the past 24 months as we worked to improve our execution and performance. At the same time, we embrace what we already are – a company that both operates and invests, because we believe that structure is the optimal long-term form to compete successfully in creating value in the technology industry.

To align with our refined strategy, we also simplified our operating structure as the next step in a journey to enhance our organisational effectiveness. Operators focus on operating. Investors focus on investing. While the full benefit of this will unfold in the new year, it has already enhanced morale as our people focus on doing what they do best in a truly integrated group.

Considering the evolution of technology businesses over the past two decades, we believe we are now facing a fascinating time of change, with continued opportunity in existing business models in the consumer internet arena and new opportunities, driven particularly by AI and B2B or business-to-business momentum. We are excited about the opportunity this presents for the group, given our ability to allocate capital fluidly during such transitional periods.

Performance

We detail our performance on pages 32 to 45, with our chief financial officer's review from page 14. We have come a long way since our peak losses just 12 months ago, and we aim to strengthen our execution across a number of fronts.

On an economic-interest basis, group revenue from continuing operations grew by 12% in local currency, excluding acquisitions and disposals, to US$31.7bn. This was driven by our ecommerce businesses achieving profitability six months ahead of our commitment. Consolidated revenue from continuing operations grew 11% (19%)[1] to US$5.5bn. Trading profit increased to US$5.8bn on an economic-interest basis, reflecting a higher share of profits from Tencent and lower organic investment to scale ecommerce extensions. As such, core headline earnings rose to US$5.0bn.

Within our portfolio, operations have improved meaningfully. We own a number of businesses, with long roads ahead for continued value creation, and we see great opportunity to profitably scale them further and build their growing ecosystems. Our FY24 results prove that we are making real and sustainable progress:

- We beat our target for consolidated profitability in our ecommerce businesses. Our profit trajectory has improved meaningfully, and we are outpacing peers on growth.
- We continue to invest in ourselves. The open-ended share-repurchase programme will continue at elevated discount levels and compound value over time, particularly as the portfolio reaches profitability.
- We have eliminated the crosshodling and greatly simplified our operations.
- We are working to better highlight the value of our ecommerce assets through growing, listing or selling our businesses, as appropriate.
- Core to our future is building sustainable businesses, and we are making meaningful progress.

1 *Percentages in brackets represent growth in local currency, excluding mergers and acquisitions (M&A).*

Interim chief executive's review

To summarise our results, beginning with the components of our Ecommerce segment:

- Our **Food Delivery** segment is now profitable and growing well. iFood's core food-delivery business more than doubled its trading profit, and its strong trading profit margin is 2x the peer average. iFood continues to build new parts to its already-strong ecosystem.
- **Classifieds'** revenue again grew strongly. The OLX core classifieds business maintains its position as one of the fastest-growing of its type globally while improving its trading profit margin substantially. For the year, we have received proceeds of US$181m as we progress our exit from OLX Autos.
- In **Payments and Fintech**, healthy growth was accompanied by a meaningful improvement in profitability. The segment delivered good results in its core PSP or payment service provider business, which is profitable in aggregate, and in its credit business. Indian PSP revenue growth, although good, was impacted by restrictions on onboarding new merchants while new licence applications were processed. We are selling Global Payments Organisations (GPO) but will retain ownership of Iyzico in Turkey and Red Dot in south-east Asia.
- **Edtech** delivered poorer revenue growth. Our enterprise platforms, Stack Overflow and GoodHabitz, recorded mixed results. Stack Overflow was affected by the rise and adoption of generative AI (GenAI) and ongoing macroeconomic downturn. It is evolving its product offering for a world of GenAI and launched OverflowAI while reducing costs to improve profitability. In contrast, GoodHabitz grew revenue significantly. This growth and efficiencies improved the trading loss by >100 percentage points.
- In our **Etail** segment, eMAG returned to growth, driven by higher growth in its food and grocery extensions in Romania. The same-day delivery and locker business, now a leading player in at-home deliveries, has shown promising growth. Headwinds in Hungary and Bulgaria are being addressed.
- Our **Ventures** arm adopted a prudent approach. While again investing less capital during the year, the team has built a healthy pipeline of prospects for coming years. We are developing our investment approach across two strategies: Ventures and Growth+. Ventures will pursue early-stage deals, while Growth+ will pursue larger situations, including control transactions of interest to the group.

Improving everyday life

Our group uses technology to improve daily life for billions of people. In doing so, we create sustainable value for our customers and communities, our many stakeholders and Prosus itself as we build companies that currently serve over two billion customers.

By capitalising on our multigenerational record of innovation, adaptation and reinvention, we deeply understand the opportunity and importance of solving day-to-day problems for our customers. Equally, we understand that local entrepreneurs are often best placed to do this.

Accordingly, we continue to identify and back innovative, ambitious local entrepreneurs. We nurture and support the companies we invest in, because our experience proves this is the most effective way to build sustainable businesses. Entrepreneurs also find this long-term approach attractive, along with access to our operating experience, insight and global scale. These are important criteria in an evolving and competitive world where available funding has almost halved since the peak of September 2021.

By aligning technology and data with key customer needs, we increase convenience, frequency of use, reliability and safety. We also understand that it takes ongoing investment to build the capabilities underpinning stronger relationships with customers across the ecosystems of our core segments.

This in turn requires a disciplined approach to capital allocation, grounded in future returns. Typically, we progressively grow our capital commitments as we learn and scale. But, as illustrated by recent corporate actions, we are disciplined about divesting from assets that no longer meet our rigorous return expectations.

AI is integral to our growth, innovation and competitiveness, reflecting our unwavering focus on capturing the value of future technological change. Across Prosus, AI is employed ethically and responsibly to improve the customer experience and our operational efficiency. We have fully embraced the potential of GenAI as a technology to improve all our businesses, and as a key factor in our investment decisions. Our central AI team is instrumental in becoming a leader in this field.

Responsible operator and investor

As a global technology group, we recognise the power of technology to create solutions for some of the world's most-pressing needs. We believe technology is the cornerstone of a successful transition to a green economy – one that is inclusive and leaves no one behind.

We are creating lasting value through strategies that improve material efficiency and drive a systemic transition to a circular economy and low-carbon growth.

At the same time, we are embedding our climate transition plan by setting and achieving absolute reduction targets on our net-zero journey. In line with our decarbonisation strategy, we have set groupwide, multiyear, science-based greenhouse gas emission-reduction targets to drive our plan.

A highlight in this regard was receiving validation of our climate targets from the Science Based Targets initiative (SBTi). This milestone reaffirms our commitment to a climate journey aligned with the Paris Agreement to limit global warming to 1.5°C. In addition to action at the corporate level, we will work with our portfolio companies as they progress their climate journeys.

Looking forward

We are focused on maximising value over time by growing net asset value per share and having that reflected in our share price. There is substantial opportunity in each of our segments, and we will look to enhance our returns by further improving their operational performance. At the same time, we aim to allocate capital effectively, to back exceptional growth companies and learn from past mistakes.

We believe this era will also give well-capitalised companies like Prosus the opportunity to invest in generation-defining businesses. AI will play a large role here, and we have real institutional knowledge. We are carefully assessing how we can play a winning role both by industry vertical and by geography.

Backing exceptional technology companies, whether through controlled or minority investment, remains core to our strategy. We will invest patiently and diligently, focused on both profit and generating strong returns. Given that a healthy liquidity profile is helpful in uncertain times, our ambition remains to manage the balance sheet within our investment-grade rating.

Finally, Tencent is a substantial part of our present and our future. We are committed to remaining a large shareholder for a long time. We believe the stock is undervalued across almost all metrics, and we see a clear trajectory for renewed revenue growth, accelerated profit growth and continued capital return. We like this about Tencent in the same way we like this about Prosus.

Ervin Tu
Interim chief executive

22 June 2024