Half Year 2016 Results

JUST EAT Plc

David Buttress

Chief Executive Officer

Morning everyone. So welcome to the first half of 2016 results on behalf of all of the team in Just Eat, we're looking forward to taking you through our presentation. It will be around, I guess, 25 to 30 minutes and then we'll have obviously time at the end for Q&A. First of all, you've got to read this disclaimer, if you could just sign it electronically that would be great and then in terms of agenda firstly you've got me giving you an overview of our performance, David Buttress, and then I'll pass it over to Mike who's going to talk through the financial performance in some detail, and then lastly Adrian will come on and talk you through the operational performance in the first half of 2016 and then I'll come back and summarise where we're heading for the rest of the year.

So let's remind ourselves of what we're building. We think we're building one of the most exciting companies here in the UK and Europe which has a global opportunity to continue to expand for many years to come and the reason why that is because of this six buckets.

So first of all and foremost we're executing on our strategy. I think we've been laser focused the last few years on making sure we do exactly what we said we'd do when we IPO'd which was build clear market leaders and markets of scale and you'll see that starting to come through, not in terms just of financial performance but also in terms of the market positions we've built over the last few years, and that remains a very important part of what we do; that focus and discipline and execution, in a business model such as ours, you have to be relentless and you have to keep focused on that.

I think secondly coupled to that is this investing in driving long term growth because I think where we've done a really great job, the last few years, is making sure that we've fuelled our business not only on the technology side but also on the marketing and sales side, and the operations side, to continue to build a great company for the long term and that will continue going into the second half of this year and beyond.

We still see huge opportunities. To give you some context, in the first half of this year, over a billion pounds' worth of customer orders were processed on our platforms but if you actually look across the 15 markets we operate in, 24 billion pounds is consumed in the delivery food category in those markets, on an annual basis. So still a ton of growth left to shoot for and you'll see that in the organic growth rates that we'll talk through in a minute. So still a very long way to go.

And then if you jump over to the right here and we talk about scale and leadership, I think we've also been very consistent about the point that you have to build market leading positions with this business model and that's because if you don't get that, you don't get the operational leverage and network effects that build very compelling economics. So while revenues and orders are important, profits also creates sustainability and ability to continue to invest and what we now have across our countries is not only scale, and you'll start to see that this morning, we now have three markets that do more than a million orders a month, but we're also seeing margin evolution at a significant level, not just here in the UK but in multiple geographies around the world.

And that has led us to be able today to I think announce that we're going to upgrade our guidance again to 2016 to being a £368,000,000 worth of revenue and Mike will talk through that in a bit of detail later but also the EBITDA at £106,000,000 to £108,000,000 as a range for 2016 which I think reflects not only the momentum we have, and the performance we're creating, but also the confidence we have going into the second half of this year. And as you know, we should never forget the cash conversion of our business model is genuinely phenomenal. We have an amazing cash conversion. All that EBITDA into cash so we have a very robust financial position.

So in terms of that H1 performance you'll see here that, we're delighted to tell you actually, that we grew by 55% year on year in the first half of 2016. I think by any measure of success, a very, very strong set of results in terms of the order growth. That was around just under 65,000,000 orders processed across the world. And if you jump over to the revenues, I think what we are particularly pleased about in the first half was that the UK price increase was completely uneventful and has now been executed and we're back to doing what we do which is build great relationships with our restaurants and acquire more customers to help them to grow for the long term. But that uneventful price increase led to a 59% increase in revenues driven by that and also some growth in food inflation. So in a very strong financial performance I think both on their order growth line but also on the revenue line.

And if we can, let's just spend a few moments on this point around scale and leadership and the long term evolution of margin and why that's important. So at a group level you'll see the margin has gone up by 720 basis points year on year, so a really, really strong first half at group level. So we're now up to just over 31%, our group margins, and that's enabled us to do a few things; take a long term view on our positions but also continue to invest and be confident going to the second half that we can continue to evolve our positions. And then on the EBITDA line on the UK, you can really start to see what an absolute beast our UK business is, in terms of an operation, pushing through 50% margins now for the first time. In fact, 770 basis points, of course support as you'd expect by the price increase but nevertheless we continue to drive that business for growth as well. I think it's important to note that, still a long way to go in the UK.

And I think if we go to one of my favourite slides is establishing our market leadership positions across the world we operate in. So we told you at the full year results, back in March, that we're now profitable in 7 of our 13 markets that we operate in and you'll see in the last six months alone, we've evolved now to be profitable in 9 of 13 markets that we operate in. And the profitable geographies are in the green circles but if I can just spend a few moments maybe on one or two of them.

So the UK as you know, Australia as you know, New Zealand and now Brazil, are all more than 1,000,000 orders per month in their own right. Those markets for the scale point is existing. But really excitingly, if you look in the blue territories if you like, we describe as our investment or earlier stage markets, Spain and Italy if you combined them would be 1,000,000 orders. So not to be underestimated now the size and scale, and the growth still, of those blue territories. So Italy and Spain combined are already 1,000,000 orders and as you know from the developing segment, the developing segment is growing extremely quickly in triple digit but Michael will talk to that again in a moments time.

So I think establishing clear market leaders, making sure we stay disciplined around the execution but also on top of that the long term growth potential, of our markets outside of the UK, I think is incredibly exciting. Those markets are on a standalone basis now. If you exclude the UK from our portfolio, bigger than the company that we IPO'd a couple of years ago. So real substance to them.

And I know you're all excited about the robot so we should maybe spend a moment on it but let's talk also about all of the other exciting stuff we're doing with technology because there's some real near term technology things that we as a management team in particular, are very, very focused on and excited about.

So first of all it's great to have a new team colleague, Fernando, who's had a massive impact on our business actually. He's done a phenomenal job, both at the leadership level but also I think leading our technology and product function. So we're really pleased to have a new and great Just Eat in our company.

I think on top of that, if I think about the execution, we now have 2,000 order pads and if we go back to a year ago, even only six months ago, we were talking about piloting and testing and rolling out, if we went back 12 months when we stood at this time, but now actually we now have 2,000 of these order pads now in use. These tablets are important because what these tablets do is enable us to deploy a technology piece of hardware into restaurant partners that gives them some additional tools to run their businesses. So for example if a restaurant has an order pad, when you place a Just Eat order now, if you do that, I hope you do, then you can get a push notification that your food is now ready and with the driver and on its way to you. So it's enabling a better consumer experience for those restaurant's customers and enabling those restaurants to manage their restaurant orders better because of course that prevents a phone call potentially coming to them at a very busy time saying 'Where's my food?'. They can just push a button and their customers now get a better experience than they did before.

And on top of that something I think is going to be very, very important is the partner centre. The partner centre was accessed 1.4million times in June and for those of you who wrote it down, in January we told you it was accessed 1.1million times, that's just the UK by the way. So you can see our partner centre app has been accessed more and more and more by our UK restaurant partners and that partner centre app is kind of a back end management tool for them around their Just Eat account. They can see orders, they can see their reviews and how they're performing, and I suspect over time we'll start to deploy more and more things in there to help them run their businesses.

And then longer term we should talk about the robot. So longer term the product research team, I think Fernando's been really important at and instrumental in driving a really clear long term broader vision around innovation opportunities that are truly scalable. And one of those things, of course you've seen us talk about, is our partnership with Starship Ventures that we have and we are looking, we are already piloting, here in London, the delivery of some of the orders with those robots and we'll continue that pilot in the second half of 2016. Of course that's a longer term thing but we do believe it will fulfil part of delivery for the restaurant industry in the long term, and other industries.

So in terms of our guidance, just to summarise where we've got to, so revenues; very strong performance in terms of revenues. We're really pleased with the performance in particular of our UK operation but also the developing segment in the first half of this year, up 59%. The underlying EBITDA as you know we had a very strong growth up 107%. You know about the cash conversion of the business model and that leads to that guidance that I spoke to at the top, growing now to 368,000,000 for the year and 106,000,000 to 108,000 EBITDA.

And so I'll now pass it over to Mike. Who'll talk to you in depth about our financial performance.

Mike Wroe

Chief Financial Officer

Thank you David. As David said I'll take you through the headline numbers. So as a group we delivered 59% revenue growth, underlying EBITDA was up 107% and our adjusted EPS was up 81% and I think it's important just again to reinforce we don't use underlying EBITDA as a measure to hide anything, it is genuinely the metric we use internally to measure our business and you can see that the fact that it flows through to the bottom line demonstrates that there's nothing hidden below that line. On a forex neutral basis, revenues were up 57%. If you look at the UK, as David said, this continues to be a really major driver of our growth. So the orders were up 37% year on year, revenue's up 44%. The difference between order growth and revenue growth reflecting partly food inflation but actually in this period, the commission rate increase that we put through in early April. That in itself has driven EBITDA up 69% with EBITDA margins now at 52%, so north of 50% for the year.

Looking forward into the second half, we expect sort of broadly similar margins in the second half. We will continue to invest heavily in marketing. We've got a rebrand, a launch of our campaign and there's been some notable disappointment from journalists this morning that our dreadful singing apps, singing adverts, are going to disappear. I think there was a small cheer at that point, from several of them, and be replaced from a new campaign that sort of highlights the choice that we have in Just Eat. Amazingly memorable not irritatingly…

So EBITDA in the second half, obviously you'll get the benefit of a full half of commission increase but that will be offset by the fact there'll be more marketing around the brand we launch.

So 70% …sorry nearly 80% now of our orders are made on a mobile, 46% on app up from 38% in the last half year.

Looking at Australia and New Zealand, Australia and New Zealand obviously we didn't own this business in the same period last year, we acquired at the end of June 2015. It's delivered 56% order growth and 77% revenue growth. One of the things we said at the time of the acquisition, that we felt we could bring to businesses like Menulog when we acquired them, was our knowledge around B2B revenue and how to scale that B2B revenue and I think you can see already in the first half of this year where we've introduced things like top placements and adjusted their charging structure slightly so that we're starting to see the benefit of Just Eats' experience, down in Australia to drive that revenue growth.

EBITDA we're seeing EBITDA margins evolve up 300 basis points. As we move forward, we would expect those to improve further in the second half. The business went through a period of significant change, Adrian will talk about this a little bit later on, including a rebranding during the last half of the…the last part of the half, and a new management team during this period.

The established markets; our established markets, as David said, our international business as a whole now is bigger than the whole group was at the time of the IPO and our international business now accounts for just over a third of total revenues. Within that you've got this group, the established markets, where we continue to see strong growth in places like France, Ireland, Canada and Switzerland, we've seen particularly strong growth and highlighting within that, France. France grows significantly faster than the group on a like for like basis and has delivered excellent results in the quarter.

We've seen margins in places like Ireland, and Switzerland, head into the high 20's toward 30% which overall means that the EBITDA margin in this group, is up 100 basis points.

Within the group, and probably the last time we'll talk about Denmark as a standalone entity but the changes we made last year in Denmark around commission rates have done what we wanted them to do, we're back to year on year growth and we're now delivering 47% EBITDA margins in Denmark which is a great place to be to build for the future.

Looking at our developing markets; so these are our slightly earlier stage markets where we saw 164% year on year order growth. Now the way we define our like for like means that that technically, under our definition, is the like for like growth because we talk about new countries.

However even if you strip out the impact of the acquisitions we made in February and April, for Spain, that growth would still be 100% year on year. So it's not that these numbers are unnecessarily flattered by the acquisition, the acquisition helps, it builds us great position and will enable us, over the long term, to deliver margins like we've seen in Denmark and the UK and these countries, and it's helping us to drive the growth more quickly. You can see that although the absolute loss was very similar, as a percentage of revenues there's a significant improvement on the margin front.

All of these businesses, the integration of these businesses, are progressing well and we expect a slightly better result from the synergies. This year we guided towards 2million of benefit from the synergies, it's going to be sort of 10%, 10% or 15% better than that as we look forward.

So looking at the key metrics that drove our growth; our active users were up 45% so if you compare that to our order growth for 55% you can see therefore that there was an increase in frequency during the period. TR's across all of our segments continued to expand. We added just over 7,000 restaurants, of that only a few hundred came from acquisition because the acquisitions we made, because they're in countries in which we already operated, there was a large amount of overlap. So of that 7,000 growth, only a few hundred came from acquisition.

And average revenue per order; average revenue per order is driven by two things, obviously the cost of the food because we take a percentage, but also the percentage that we take. So that 4.7% growth is roughly equally split between UK commission increase driving part of that average revenue, but the balance being broadly food inflation sort of going through in the numbers.

Looking at the cost base; so you can see the operational leverage and scale benefits coming through in our employee costs which are down from 31% to 27% of revenues and in our overheads which are down from 11% to 8%.

We continue to keep our foot heavily on the marketing pedal and we continue to drive growth using sort of marketing and our technology and product improvement as we go forward. So you should expect marketing to remain broadly flat as a percentage of revenues for the full year. But you'll continue to see benefits of scaling elsewhere although there will be some additional tech spend in the second half.

In our overall EBITDA position, it's worth highlighting there's no particular impact from FX in our EBITDA position because our international profits are relatively small as a whole although the geography, our international geography as a whole, are now profitable, it's a small profit therefore the roughly 8% FX movement isn't a big number.

Just to reinforce what David said we mustn't lose sight the fact that this is a highly cash generative model. Our EBITDA converts at 97% into our operating cash flow. We are now focusing, as we said we would do at the year end on our cash, we also hold restaurant cash but we hold that separately so that we're always in a position to pay the restaurants on time which we now do weekly in the UK and Ireland, and we're running at weekly payments across our estate. And that means that at the period end, we had just under 97million of our own cash on the balance sheet which again a great result when you think actually during the period we invested 100million of cash on acquisitions. So despite 100million of investment and acquisitions, we still ended the year with just short of 100million of cash on the balance sheet.

Looking at the numbers below EBITDA a couple of items just to pull out, the exceptional item of 5.9million was flagged at the time of the acquisitions in February. They are predominantly sort of restructuring acquisition related costs. If you look in acquired amortisation that is a significantly higher number and that reflects that in the first half of last year, we didn't have any amortisation relating to Australia or to the acquisitions that we made in Spain, Italy and Mexico earlier this year. So that's just a reflection of the acquisitions that have been made.

So again looking through down to the adjusted EPS, that's up to 5.6p up 81% year on year.

Our tax continues to evolve as we said it would. Last year it was roughly 25% effective tax rate, that's trending downwards at roughly 1% a year so it's just slightly better than 24% as an effective tax rate this year.

So just to reiterate what David said. So revenues at 59%, underlying EBITDA up 107% and net operating cash flow 97% of that EBITDA number.

We're updating our guidance, 368 million up from 358 million. We tried in the statement to make this really clear as to where this upgrade is coming from so 7million of the 10million of upgrade is trading update and 3million is the benefit of FX in the second half, assuming exchange rates stay broadly where they are now.

Underlying EBITDA we've upped from a midpoint 103 to a midpoint 107. You can see that is therefore guiding to slightly improved group margins. So we're saying previously the guide was for 28% group EBITDA margins at the midpoint, we're now guiding to 29% group EBITDA at the midpoint. That would be a 500 basis point increase for the year in group margins.

Underlying EBITDA has a virtually nil impact of profit as a result of FX so that's…all of that upgrade as a result of a trading. So you can see trading upgrade a revenue of 7million, profit upgrade of 4million means that more than 50% of our revenue is now flowing through to a EBITDA upgrade.

With that I'll hand over to Adrian who will talk you through the operational piece.

Adrian Blair

Chief Operating Officer

Thanks a lot Mike. So I'm going to focus on the scale and the growth of our international markets. Just three quick points overall to note.

First, our international businesses collectively are now bigger than the UK was in terms of order numbers at the time of our IPO in 2014. So they're approaching real scale.

Second, look at the growth rates of these international markets, 104% in the first half of 2016.

And third, for the first time ever, all three components you see here, the UK, international and Brazil were profitable in the first half of 2016.

So to go a bit more into the markets themselves, our biggest market outside the UK is of course Australia. We saw 77% revenue growth in H1 and we've seen particularly strong performance in Sydney and Melbourne. The business is still small in the remaining cities in Australia so because of that we think we've got significant potential for growth in places like Perth, Brisbane and Adelaide. And with a view to exploiting that potential, we've invested significantly in the brand which we've revamped. You can see on the slide the new look and feel of Menu log.

We've invested in the team. So at the end of H1 we added Alistair Venn to the team who is a successful exec from Groupon. So he's now in place in our office in Sydney. And we've revamped the technology. So to match the rebrand, we've improved how the product works and how the product looks, and we've got a lot more work to do in the second half.

Moving onto France which is our third biggest market by revenue. So our business in Paris was actually founded long before we bought it in 1998 so it's actually been around for longer than we think any other business in our sector, and yet Paris itself continues to grow faster than the overall group average so there's still, we think, a lot more growth to be had from Paris itself. And similar to Australia, we're still quite small in the regions so we think because of that there's a lot more potential for growth in other key cities. And again we're looking to invest to capture that growth. So the French business is profitable but there's a lot more we want to do around marketing and technology to exploit that growth potential that we think is there in the French market.

Moving onto Spain and Italy. So I joined about five and a half years ago, we were only doing at that time a couple of hundred orders in Spain. The business had literally only just launched; we didn't have any business in Italy. These are now our third and fourth largest markets by order numbers and collectively, across the two markets, we are already doing over a million orders and of course our aim is to get both markets over that million order a month threshold. We'll continue to grow very rapidly towards that point, triple digit year on year, and the acquisitions that we did from Rocket are progressing on track and we've got more work to do there with both of them in the second half.

In case any of you are wondering what the effect is of economic conditions on our business, just consider what was happening in Brazil in the first half of 2016. In that period, our team in Brazil delivered 157% growth in orders, present in all of the major cities across the market and we're actually now starting to expand into other key cities in Latin America in a controlled way. And of course the group numbers that you see, don't give us any credit for anything that we're doing in Brazil because we own 30% of the asset.

And finally I just wanted to say thank you and well done to our teams around the world, and of course our 66,000 restaurant partners because it's their hard work and their superb execution that have actually made all of these results possible. And with that I'll hand you back to David.

David Buttress

Chief Executive Officer

I always get the easy job, so let me sum up. So as you've seen this morning, we've had a great start to 2016 and beyond that actually, we have real momentum in our company. I can't tell you how excited we feel about the future prospects and growth still left to shoot for. There's so much still left to do and we're in such an incredible position I guess to start from going into the second half of this year.

I don't want to reiterate these points, there's just the two I'd like to pull in on. In terms of the guidance, you can look out and think why couldn't the second half be even better for example than the bottom line. Well there's a straight forward reason for that. We invest very aggressively in marketing in the second half. We have an amazing brand relaunch, Barnaby's doing a phenomenal job, we're all super pumped about what's coming in around our branding in the second half of this year and as we've always done, September's a key time because seasonality changes. people get back from holiday and the winters get dark and cold and wet which helps, so that's when we've always historically done our marketing. So there will be a significant investment in the second half coupled to that.

And as you've seen we're making some really, I think, important long term strategic investments from product and technology innovation which is doing a few things. One, it's putting us really deeper engrained with our restaurant partners. Second of all, it's giving a better customer experience which of course is important, and I think third of all, I think long term around the innovation piece will position us very well against our competitors. Real scalable solutions for the long term. So that's an important point to play.

I think the other thing I'd like to pull out and point to you is now the international robustness of this business. It really is an unrivalled portfolio of countries that we operate in. Our teams are phenomenal so huge credit to them, I think as rightly as Adrian says, who are doing all of the hard work every day.

And then on top of that if I think about that UK company that we still have, there's a lot of great things happen here in the UK around choice and consumers looking for more and more delivery food from different areas of the market which of course is helping us. The category is in very robust health I think it's fair to say which benefits, of course, everyone.

Then lastly I'd like to say to Mike, Mike's obviously leaving our company after eight years. He's definitely been the best CFO we ever had. Mike's been an important person in our company for a few reasons and I do want to say this. So first of all Mike's been a massive cultural contributor. I think that's an important thing that's driven a lot of that performance and execution of the years and the positions we've done. Building great companies is hard work, it's important you have to couple that with fun too when you're working as hard as you are to build these kind of companies. And I think the other thing I think Mike has done has been a great partner to many of us, including me, and also a good friend. So Mike obviously goes and leaves our company in a few months' time and we wish him all the best and a huge thanks and on behalf of everyone Mike, good job. And with that we'll pass it over to you guys for questions from the floor. So thanks everyone.

Question and Answer Section

John King Merrill Lynch

I guess Mike, given it's your last set of results, I better ask you a first few. Firstly, on the UK margin, obviously pretty good performance there, could you just update us your thoughts around the long term potential of that business in terms of margins? Then on Spain and Italy, I guess you made the acquisitions there at the start of the year. I think the original plan was to kind of pivot more towards profitability of those businesses and next year, so just what are you thinking in terms of profitability there? And then on the technology investment, how much of that is recurring versus…you know, is there any one off element to the technology investment you're flagging for the second half?

Mike Wroe

Yeah, I'll take them in turn. So UK long term margin, as you've seen we're already at 53% and that's in a period where we continue to invest quite hard. I think the guidance we've always gone with is that two to three percentage points a year of scale benefit is what you tend to see. So another couple of years of that implies we would be at the high 50's. And I think consistently David, Adrian and myself have always said that we see long term commission rates heading towards 14% over the long term and in fact we're already signing new restaurants in the UK at 14%.

So if you take a couple of years of further scale benefit, and I'm not saying it stops in a couple of years I'm just trying to be relatively conservative here, plus a further commission increase let's say on a three-year time frame, then I think you can comfortably see a world where UK margins are north of 60%. I think beyond that we've got to be…continue to optimise, I think we've got to continue to drive scale benefits and then we've got to look at how…are there other revenue streams that we can extrapolate around data and the like.

Spain and Italy, yeah I mean we're on target to deliver the sort of 2million of synergy's and they've already sent from the acquisitions that we did in those countries and as a result, therefore very much on target to deliver sort of 10million of synergy's in 2018. Spain is firmly on track to profitability during 2017, whether it will be profitable for 2017 as a whole will be a matter of timing but towards the back end of '17, Spain will be into profitability and Italy should be about a year later. So that segment broadly should be break even or profitable sort of mid 2018 onwards is what it feels like at the moment. The only caveat around that is if Mexico turns out to be a bigger opportunity than we think, then we reserve the right obviously to invest a bit more in Mexico which would affect the overall segment result but not in a material way.

Tech investment, I mean broadly we are doing…the spend in the second half is sort of catch up on first half spend. So overall spend is going up slightly, it's going up by a few million pounds over where we originally had in plan but you can imagine within a business of 350million, that's well within the margins of what we operate. So it's not some sort of one off big spend, it will roll forward into '17 but actually the '17 tech spend is going to be no higher than you guys broadly have in your numbers. So there's no shock to margins coming as a result of increase tech spend. But without doubt what we're driving is a period of using more contractors to make things happen quicker.

John King Merrill Lynch

Got it, congrats on a job well done. Maybe one final follow up, perhaps for Adrian, we're obviously seeing strong growth at Just Eat but in many ways some of your competitors are also going pretty well, I mean Deliveroo's numbers are probably also growing quite strongly. Any sense around what the underlying industry growth rate is here? Is there a sense that actually you're seeing the takeaway industry per say accelerate giving the shift to online or what's your best view of that?

Adrian Blair

Yeah so we're really focusing on ourselves frankly and of course in all of our markets we're up against well-funded, strong competition. Frankly we always have been for the whole life of our business and I think the numbers speak for themselves in terms of our own growth. When you have this many players in the market, when it's becoming easier and easier to order food with technology, then yes I'm sure there are meal occasions that previously might have been happening in the supermarkets or wherever that are now shifting to this channel. It would be surprising if that wasn't the case.

Andrea Ferraz Morgan Stanley

Hi, Good Morning, Andrea Ferraz from Morgan Stanley. I have two questions please. Firstly, in Australia your order growth has moved from 81% in the second half of last year to 56% in the first half. Can you explain what has caused the step down. And then since you launched…since you did the brand relaunch there, has it driven acceleration in order growth? And related to Australia as well, your commission was 9.8% when you acquired it, where are you now, where are you going and do you need to wait until the competition commission investigation is done to put through commission increases? And then on the UK, since Q3 last year you've seen a step down in order growth of around five percentage points per quarter, do you see that continuing and where do you see revenue growth stabilising here? Thanks.

Mike Wroe

So Australia, I mean Australia, the 81% you quote was the full year not the half year. So in the second half it would have been about 74% year on year growth in the second half of Australia and yes it's stepped down to it, into 56. It's bang on plan for the first part of this year and the brand relaunch happened a few weeks ago so the simple answer is the brand relaunches driving more traffic and driving more people to the site. We will know more about the success of that towards the end of the Summer, which of course is their Winter so it's obviously an important period for them.

So, so far so good but it's early days on the brand relaunch. From a commission point of view, what happened was commission rates have started to drift up because Eat now about a year ago increased their commission rates to be broadly in line with Menu Log which was about 30% of the orders so that pushed the commission rates up towards just north of 10%.

Just to be clear on the ACCC point, we're not technically under investigation, they're investigating the industry as a whole, they want to understand it more. We are in the position where actually in August, so next week, the plan is that we will be putting through a commission increase in the Menu Log part of our business, so there'll be approximately 1 percentage point increase in commission rates in Australia. So the answer is no there won't be any further delay in commission rate increases there.

And in the UK I think number one it's important to say we had a fantastic first quarter to this year and the second quarter, as a result, looks slightly slower but actually we're really delighted with the performance in Q2. It's slightly ahead of the plan we put together in November last year, it continues to grow strongly. I think the 5% step down that you talk about is probably a little bit strong. We stressed at the end of Q1 that because of structural reasons around Easter and payday weekends, and partly because of our tough weather comp, Q2 and Q3 were always going to be tough comps but last year you didn't see a big difference in growth rates between Q1 and Q2 and I think we would expect something similar. So I think for the year, the guidance that's out there is for low to mid 30% growth rates for the year and I think we're still comfortable that that's an appropriate target for the year.

Questioner

Hi, Morning. I just wanted to follow up on that Australia point, so was that increase, that you said is going to go in next week, was that always part of the plan? So that was in the original guidance as well?

Mike Wroe

Yeah, it's slightly later than we originally planned and that's more to do with the fact the country manager started slightly later than we planned. As we demonstrated in the UK having a really strong plan when you put through a commission increase so that you can demonstrate value to your restaurant partners and be in a position to manage it well is important. So the commission re-increase was delayed slightly compared to the original plan but months not more than that in terms of delay, so it's slightly later than that and that's to do with the management.

Questioner

And apart from the UK increase, in H1 were there any increases outside of the UK in commission rates? Second question I have, can you just give us an idea of the split in marketing between sort of pay per click online and national advertising campaigns? And then finally just a question on cash usage, you know according to consensus you should have around £300,000,000 at the end of next year, what's the plan for that? Are you going to stay flexible for more acquisitions? You've obviously been very acquisitive in the past. Or are you going to give some of that back to shareholders?

Mike Wroe

To be fair I normally at this point make a joke about paying out as a CFO bonus but it's not relevant next year so…! So I think any of the price rises, yes we do for example in Ireland we put through a price rise earlier this year as well. We have, in all our geographies, the same discipline that we apply in the UK, so roughly every two to three years we expect a rolling programme of commission increases as we bring value to the restaurant sector. I mean you can imagine outside of the UK we don't talk about it particularly at this level because they're not material to the group results but Ireland definitely we did and I think it was the back end of last year we put through increases in Norway.

David Buttress

In terms of the cash I think what you've seen this morning and what continues to be the case, and I think we've said this now consistently for a year or so, you know we continue to drive this business for growth. We have a phenomenal opportunity to grow not just here in the UK but in multiple markets around the world. I think we're incredibly strong, strongly positioned, not just with our positions but also the balance sheet. So I think in the short term, I think we should retain that fire power because first and foremost there's a huge organic growth opportunity. We should continue to invest and I think that's why I pointed you at the second half of this year, particularly the marketing and also the technology and product, but I would also layer into as you've seen in the first half, by building the positions that we've built and by being that market leader we are able, and you are seeing this happening, starting to happen, competitors are getting squeezed, and we're able therefore to do M&A which strategically makes a ton of sense long term in terms of both position and margin evolution. So it would be completely the incorrect thing to do to talk right now about a dividend. I think what we should do is we need to focus to drive the business on those two parameters and at some point in time of course that becomes a logical thing but not now.

Mike Wroe

How are PPC's split between PPC and non-PPC?

David Buttress

In terms of what, the marketing budget? What do you mean?

Mike Wroe

I mean I can give some examples. It's not a number I have…

David Buttress

So why don't we pick it up offline and we can give the detail at a granular

Joe Barnet-Lamb - Credit Suisse

Thanks gents, Joe Barnet-Lamb from Credit Suisse. On slide 22 we can see the thoroughly impressive growth in international but you didn't really touch on Brazil where it looks like it's going great guns, it's an asset that everyone's getting pretty excited about. Could you update us both on the rationale with regards to folding your businesses in there, also with regards to performance and the medium term plan for that asset please?

David Buttress

You mean Mexico right? I get the point, yeah Joe. So first and foremost in terms of Brazil, important to note of course, just to remind everyone, there's nothing in our numbers that gives us any credit for Brazilian performance. So we talk about the position but of course because we have the 30% joint venture there's nothing in these numbers that are outlined or give us any credit for. The Brazilian position I think is you're right, it's a phenomenal company in our sector, the only company I think that Adrian and I were discussing that looked like this in terms of growth at scale was our UK company. And I include businesses in the US in that. So the only company that looked like the growth trajectory at scale, that this Brazilian company has, is the UK company of Just Eat. Without any question for sure, we're building an incredible company down there with our partners.

And I think that's important because I think it talks to our long term view because we want to make sure that not only do we build now a great company in Brazil but you're right, our management team in Sao Paulo have done a phenomenal job and we believe they're the right team, as you've seen, to expand with us as part of the JV group, which we entered into two years ago, to do all of Latam that's why Just Eat put JV in a position to do Mexico 12 months ago. We aggressively went into that market because we felt our team would be able to do that so we're now in Mexico as you know but also that team have now, in Sao Paulo, expanded into Columbia and Argentina in the last

6/8 weeks. So we will continue to support that team and their expansion plans around Latin America as you now know they have a phenomenal business in Brazil which is profitable which can help support that expansion and I think from a competitive position within Latin America, without any question, we're going to be the big winner I think in Latam, there's no question about that.

And then in terms of the long term position, I think it's a great question to ask, I think it's a JV partnership team, right now the next two or three years we'll continue to focus to build the business. At some point I suspect, of course, that does become something we'll have to work out but for the next two or three years just build a phenomenal company and we have a great partner in Naspers and I'm sure we'll be able to work something out.

Mike Wroe

It's worth saying technically we still own 66% of the Mexican business so we've not folded it into a 30%, and we've still earned 66%, we've just shared the management.

Carl Hazeley - Goldman Sachs

Morning, Carl Hazeley from Goldman Sachs. I've got a few but they're quite quick. Firstly, do you have a sense for where online penetration of the market is in the UK, I don't know if it's something you track bi-annually, and how that's evolved? Secondly, on your upgraded guidance, on the trading side of things so that's 7million, clearly the UK's an area that's outperforming but are there any other markets that are tracking ahead of plan that's driven the upgrade, that we should be aware of? Secondly, thinking about the re-branding, firstly with Menu Log, is the aim of that to attract new customers or to drive higher activity amongst the existing base and similarly when you re-brand the UK in September, what's the aim there? And finally, could you give some colour around the Coca-Cola partnership that you mentioned in the release?

Adrian Blair

So online penetration is around half we think although per my comment earlier, the industry itself is being expanded by movement from other places so it's hard on a sort of month to month basis to track that top line growth in the overall industry, that we think the overall industry is around 5.5billion pounds of delivered food in the UK market.

And then thinking about marketing and what we're trying to do with it in Australia and the UK, so it's a bit of both to be honest. I mean as I mentioned in the presentation, we're quite immature in a bunch of cities in Australia so obviously there we're very much in acquisition mode. There's still a… I mean if you think about frequency, in our most mature market, the UK, we're doing roughly give or take about one order per active user per month. Now how many times do you eat? Well you eat 90 times a month so there's clearly an awful lot to shoot for in terms of frequency both in the UK and Australia. So our marketing is geared towards both things. We're launching…we're getting increasingly sophisticated around CRM that's obviously with a view to increasing frequencies so there's a lot going on under the hood of those marketing numbers that you see.

Mike Wroe

And in terms of the UK where the outperformance came from, it's broadly based actually. I mean obviously the UK's the bigger part of it because it's 70% of our revenue base but actually on a percentage basis, I think all of the segments are contributing fairly equally to the outperformance. I mean I guess if you had to pick a star it would be the UK and then the developing markets in Spain and Italy who are particularly strong.

David Buttress

…long term category as well Carl, I guess the thing about long term; where does it get to? if you go back to our IPO documents, I think we said we felt the UK market were getting a 60% online. I think that looks very conservative now, two and a half, three years down the track, as you all know the growth of our company plus others plus dominos means by definition now at some point in time we'll go through half of the industry in the short term being ordered online and you've seen the growth numbers in our UK company alone. If you look at the dominos market data, it's quite interesting you know that we've spoke to this I think once or twice before, now 80 odd percent of dominos orders happen online, digitally, versus the telephone. In reality these are the same customers, they are the same people, living in the same market, with the same digital penetration with the same smartphones. So it feels kind of inconceivable to me therefore that this doesn't continue I think to a higher level in not just the UK but in other Western European and global markets. So yeah I think we feel pretty confident about where that gets to, that kind of growth rate level, it's going to get there, right.

Oh Coke, so yeah I think you shouldn't be surprised, right, because as the market leading business in this industry we have lots of great companies that want to work with us and partner with us and you'll see us continue to I think pick what we think are great partners to help our restaurant entrepreneurs run their businesses even better than they do today and connect them up to companies that in the past they probably couldn't connect to, as one single or two or three single outlets. So you saw us do the booker partnership of course at the capital markets day. Then of course today we're sharing Coca Cola, there are others that we are speaking to that we think are great potential partners to our restaurant industry and we'll continue to work hard internally to connect those up because we think for our restaurant partners, we think Just Eat…I think we've said before now is at a point where we really are being able to add and create a ton of value for them, not just from getting business, getting orders, having a great platform, having a great brand to partner with but also a great technology to partner with and coupled to that now, also helping them to run their businesses better and partner up with brands which really are very relevant to them in our segment. So yeah, Coke I think is a great one but there are others that we are talking to.

Carl Hazeley - Goldman Sachs

I appreciate you probably can't share the term of the coke deal but just in terms of the structure and shape of it, is it similar to the Booker deal? Or… I mean in the past you've talked about trying to upsell people with a can of coke and is it more of that sort of partnership?

David Buttress

So I think like all of our partnerships Carl, we've seen them as long term strategic partners and we wouldn't do it otherwise so I think it's all of those things potentially in the long term so there's a saving for our restaurant partners by buying coke through this deal which helps them of course, they sell a lot of soft drinks, it's very relevant to the food occasion that we're talking to. Ironically of course I think long term if we can connect drinks to food in a better way, that benefits Coke because it will increase the amount of food occasions that they get a soft drink served with a meal and they have a whole great suite of products, it isn't just Coke of course, they have a great set of brands we can partner with around different food types. And then on top of that of course our restaurants and us benefit from our higher average order value because if you now buy a 2L coke say with your pizza, or if you buy some juice with your Sushi, then of course that increases the basket size which we benefit from.

Rob Berg - Bere & Berg

Hi, thanks. It's Rob Berg from Bere & berg. Just a quick follow up first on Carl's question, on the deals you're talking about. Interested to hear if you've got any data on the Booker deal, on how many of your partners had taken up the deal, whether that's from Booker or from your partners themselves just trying to gain a sense of how important these kind of deals are to them. And the second question is on your delivery partnership plans. We saw the punch press release. You mentioned GBK at the capital markets day. How many more of these partnerships could we be seeing in the near future and do you have any kind of updates on how they're going? That would be great thanks.

Adrian Blair

Yeah so first on Booker, we don't disclose the exact number of restaurants at a given moment but it's in the thousands and the beauty of the deal is any restaurant who's on Just Eat, gets the benefit of this deal when they go into a Booker. It doesn't require a lot of extra work on their part and we see this as just…you know as David was saying, one part of the value that we can start to add for the sector in general. Historically, we've focused on giving them more business which is pretty important, just sending orders into the restaurant but of course there's so much more that we can start to do over time to help our restaurant owners expand. So we're very excited about the early uptake of that partnership.

And then thinking about delivery and our restaurant delivery service partnerships. So yes we're absolutely looking to do more of that and to expand those deals. We're looking to recruit additional partners; we're looking to take the ones we've already got into new parts of the country. We're already doing this extensively across our international markets so it's something we've been doing for a while and the point of it of course is we want to bring additional choice to our consumers, to capture all those extra dining occasions that they have in the course of a month so absolutely it's something we're looking to do more.

Questioner

Just brief questions. One on the cash flow, cash conversion, which was quite strong. I think you moved your policy of paying on a weekly basis and I thought that might have impacted half 1 cash conversion. Is that to come in the second half? And then the second question was around the established markets. I saw that margins only increased or improved by 1% yet I think obviously Denmark was within that and that saw a big improvement. So did some of the businesses go backwards?

Mike Wroe

So about half of the margin improvement came from Denmark and the other half of the margin improvement in the established markets came from everywhere else. I'm just running through my head, nowhere went backwards. France, we continued to invest heavily, as Adrian indicated earlier, outside of Paris, so that broadly stood still but actually nowhere went backwards. Then in terms of the cash conversion point, the number, the cash conversion point we're talking about now, we're now talking about cash conversion of our own cash. So we stripped out, at the beginning and at the end of the year, the restaurant cash piece. So you're right, if we'd have reported the number including restaurant cash, there would have been a bigger swing because of the one off impact but because this was only looking at our own cash, which is the only money we actually trade with so it felt like the right measure anyway, that's why we've got that strong cash conversion. So no there shouldn't be any…on that measure there shouldn't be any difference for the full year.

Questioner

Hi, could you give the impact from the Euros because you didn't mention that anywhere in the release this morning. That's European Championship or Brexit.

Mike Wroe

The simple sad fact is that we get more upside from the X-Factor final than we typically get from sporting finals in the UK.

David Buttress

We've always said that right?

Mike Wroe

Yeah I was just going to say we saw some benefit in France and in fact four years ago we saw some benefit in Spain but again Spain didn't last that long either this time, so…

David Buttress

Weather is a bigger variant on any given day rather than things like that.

Questioner

And just in terms of the different categories because you went to Dominos, so how's pizza by category in the UK done compared to the market leader?

Adrian Blair

It hasn't moved mainly for them, it's still up there in our top three cuisine types in the UK; Chinese, Indian and Pizza being our top three.

Mike Wroe

And without a doubt, our growth, I know Dominos reported today and it looks like they reported a great set of numbers but our growth as you would expect because we're driving channel shift within that segment, our pizza growth would have been stronger than Domino's pizza growth.

Andrea Ferraz

Just two quick ones, on the cost per click cost I realise you can't give us a figure but with Uber it's launching a few months ago and your competitors gaining in scale a little bit. Have you seen any increase in cost per click in London, in the areas where they're active, and how do you think about that cost going forward? And then can you just…in the context of commission increasing to 40% at some point, where are you outside of the UK on average, on the commission? Thanks.

Mike Wroe

Yeah so the average outside of the UK's just over 12% at the moment. So as you know we took Denmark to 12% last year which was the one big outlier, so it's a little bit over 12% outside of the UK and we're in that process of moving them over time. We're signing restaurants at 14% in Ireland now I think as well.

Adrian Blair

It's 14 for new restaurants across most of our markets.

Mike Wroe

And then the cost per click, we saw a transition at the back end of last year, so Hungry House which of course is our big competitor in London, still broadly the second biggest player in London, they became much less aggressive towards the end of last year and therefore we would have expected to see a drop in cost per click and you're right, both Deliveroo and Uber have stepped into that gap. So we haven't seen any material change in our cost per click because we've replaced Hungry House being aggressive with Deliveroo and Uber being aggressive.

Silvia Cuneo

Good Morning, it's Silvia Cuneo from Deutsche Bank. Just a quick question on the progress on digital penetration in markets like Italy and Spain where it's just around 3%, have you seen any improvement in there and then also another question on the overall food takeaway market size. Today you haven't given an update on the overall size of the pies so in the UK is it still around 5.5?

Adrian Blair

Yeah I can take this. So digital penetration in Spain and Italy well our business is growing close to triple digits so evidently the industry isn't growing that fast. So absolutely our penetration is increasing but from a very low base so there's still masses to shoot for, the overwhelming majority of takeaways still ordered over the telephone in both of those markets. We're not updating our guidance today about the market size so as I mentioned 5.5 is still the number that we have in our heads for the UK but frankly I mean what I should say is as the person operating the business across these markets, I honestly don't think about it in those terms. I mean I worked for a long time at Google and I promise you Larry and Sergey didn't start off by thinking how big is the paid search market and what share of it do you think we could get. They created that market and ended up building a massive company. So the terms in which I think are, I eat like most of you, 90 times a month, and even in our biggest market we have one out of 90 for about one in ten of the population. So how much room for growth is there? Well masses across all of our markets frankly.

JUST EAT

Alex Patterson Investec

Hi it's Alex Patterson from Investec. Two quick questions please. Apologies if you've given it somewhere in the release this morning, I didn't see it. Could you just say what the number of active customers are in the UK. I think you said sort of less than one in ten in the answer to the last question, so are we looking at six point something million or whatever? And then secondly, in the scale benefits you were talking about two to three percentage points a year in the UK, is that predominantly from people costs or do you think marketing costs would also drop over time as a percentage of revenue?

David Buttress

So marketing costs have been dropping as a percentage of revenue, year on year, consistently so that will continue. As a percentage of revenue, well we invest more, we continue to invest more. That's a scale benefit of our business and I think what we're saying here very clear on technology and product in particular, we will be investing more so there will be more people costs in that area and that we describe as Fernando's belly. So Fernando's belly will continue for another 12 or 18 months and then beyond that we think there's a scale, but that's within the existing plan so you shouldn't expect to see us coming out in 2017 and saying there's a margin impact on that, we're just aiming for the second half of this year, we're bringing that forward so we are going to invest. 8,500,000 actives in the UK.

Mike Wroe

Is that everything?

David Buttress

Thanks everyone, have a good day.