Just Eat plc

2018 Interim Results

31 July 2018

Transcript

Peter Plumb: Well, welcome everyone to Just Eat Group's interim results on the 31st of July. I'm Peter Plumb, I'm the CEO of the Just Eat Group, and with me here today is Paul Harrison, you all know, CFO of Just Eat Group. We estimate the presentation today will take about 30/35 minutes and of course after our presentations, we'll open up the floor to your questions. I have been informed there are no scheduled fire alarms planned for today, so if you do hear a noise, please do leave the auditorium, I think through the doors at the back.

So let's start. Paul is of course going to go through the group's financial performance in much more detail, but I wanted to give you a summary of how the first half has gone for the group, and I think it's fair to say Just Eat is in good health, and our key metrics are all in really good growth. The key metrics are restaurants, which grew to 94000. That's up 14% from the end of last year. Active customers, so people using our website, grew to 24 million. That's up 12% from the end of last year, and those 24 million customers drove an order growth to 104 million. That's up 30% from the end of last year. When you look at those four metrics, all of those then added up to a really strong set of financial results for the group on the first half. Our revenues grew 45% to 358 million, and our EBITDA to 82.7 million. That's up 12%, remembering we've made investments in the first half of the year.

If you look at our marketplace business, it performed well growing 24%. The UK is in good health, growing 30% in the first half, helped of course from the Hungryhouse acquisition, which is now fully integrated into the business, particularly strengthening the choice of restaurants our London customers have to choose from. Our Australian business continues to work in a very tough market. The marketplace is in decline, but our plans to underpin that marketplace business with a delivery business are on track and we'll give you a little bit more colour on that.

At the Capital Markets Day I talked about delivery being the next wave of growth for the group, and grow it did. The delivery business grew 238% in the first half of the year, now making up around 23% of the group's revenues for the first half. Canada in particular was very strong, growing 227%, and along the way we've taken the opportunity to merge the Just Eat Canada business with the Skip the Dishes business to form one strong Canadian business. We're learning a great deal about delivery as we said we were going to do from the investments, and we're seeing some of our costs fall as we scale up the operation.

Importantly, I said at the prelims, this would be a year of investment in learning. At H1, we invested 24 million pounds of the planned 50 million pounds we earmarked at the beginning of the year. We intend, thanks to the confidence we have from the results of those investments to increase our investment on a full year basis to between 55 and 60 million pounds. So in summary, we're in good shape. Our marketplace is getting better for both customers and restaurant partners, our delivery skills and capabilities are growing by the day, and as the CEO of this exciting business, I'm really pleased with the progress we've made so far.

The agenda for today, having given you a snapshot of our first half results, I'll hand over to Paul, who will talk about the financials in much more detail, and then I'll come back to pick up on our progress against the operational goals and the strategic priorities I set this business at our prelims. I'll talk about our trading to date, and then our outlook, and then of course we'll open up the floor to your questions. So over to Paul.

Paul Harrison: Thanks, Peter. Good morning everybody. As Peter said, we're reporting a strong first half performance today. As always, there's important messages at a segmental level but for the group, as you see here, is up 30% to just over 104 million. Revenues up 358.4 million, up 45% or as you'll see in a moment, 46% on a currency neutral basis. Reflecting our planned investment in the business, underline EBITDA to 2.7 million, up 12% giving a margin of 23%.

What I'm going to do, obviously, in the next few minutes is break those numbers down. I'll start with group revenue. I'm going to return to the bridge that I first showed you back in March. Peter's already noted the 45% revenue growth for the group at a headline level. As you can see here, as I noted a moment ago, the currency movements have not been material in the half meeting, but a currency neutral revenue growth was 46%, so a little bit higher than reported growth.

As Peter referenced there, we completed the Hungryhouse transaction on the 31st of January. This is an inorganic effect clearly in these numbers. So what I've done, therefore, is I've excluded Hungryhouse's revenue up to the point at which we closed the platform, and de-integrated into the UK business, so in other words I've excluded here, I've pulled out here the revenue from the 31st of January acquisition date until 22nd of May, here. And that's around about 8 million of revenue. That gets us to a measure of organic currency neutral growth, which is a strong 42% for this first half, as this slide shows.

Clearly, what you'll note here, it is a significantly positive delta between organic order growth, which on that same basis is 27%, and revenue growth of 42%, so both measures excluding the Hungryhouse impact of orders through the Hungryhouse platform. And this slide is seeking to sort of reconcile the two of those. So we continue to see restaurant churn move our estate upwards towards our headline commission rates. That's been a feature of our financials for some time now, and that continues. We see delivery orders bringing, as they do, a higher all in average revenue per order, also having a positive impact on revenue growth. And then within booking fees we see the one-time benefit of the 50 pence fee applied to all transactions in the UK and Ireland. Now, we won't see that effect on growth as we go into 2019, and that does go to that broader point that I will just reiterate that I made at the Capital Markets Day, which is that over time we will start to see revenue and order growth converge.

Peter referenced the investment that we're making in the business, and as a reminder, on the left-hand side of this slide you see the breakdown I presented at the Capital Markets Day. As you know, a significant element of that investment is going faster with Skip, including the launch in Australia, and you've seen in these numbers the growth that Skip's delivered. At the Capital Markets Day you heard from Alistair Venn, our Australian country manager, about the early progress that we've made by taking Skip to Australia. There's still a lot to do there, but we've certainly made a good start in this period. In the UK we've been working with a smaller set of courier partners, opening up new zones to service quick service restaurants, and we see an improvement in delivery economics. In the second half of the year, we plan to launch a Skip in selected UK cities. And then finally, the final element, Mexico. We've seen accelerated order growth, in part due to further city activation.

So in the first six months, we've spent about 24 million pounds on these initiatives, and the results go to our growing confidence in the roll out of Skip. We're pleased, therefore, to be able to accelerate our investment in these, in particular the Skip-related initiatives in the second half. We therefore now expect to see that investment level go up to between 55 and 60 million for 2018. With our upgrade to revenue covering both delivery and marketplace, we're going to see the resultant increase in profit in marketplace cover this investment, and that's why you see no change to our guided EBITDA range for 2018.

I move now on to the new regional segments we talked first about at the Capital Markets Day. I want to summarise the UK performance. Here, as you can see, we show strong order growth coupled with a rising average revenue per order, which drove a 30% revenue growth. As I said a minute ago, this is partly a consequence of the estate moving towards a higher headline commission rate. It's also a consequence of that booking fee I referenced, and the delivery components as well.

As Peter has mentioned, we're very pleased with the integration of Hungryhouse, which enabled us to close that platform on the 22nd of May. Our UK business has made strong progress with its delivery initiatives, significantly improving the associated economics. It's this investment that dilutes the overall reported EBITDA margin from 52% to a still high 49% in this period.

If I move now to Canada, this slide shows a now combined Canadian business, and the momentum as you can see continues to be very strong here. While Skip's losses specifically accelerated as you'd expect as we open up new markets, on a per order basis loss is materially lower compared to the first half of 2017. We're encouraged by the progress Skip has enabled us to make in Australia, as I mentioned. There's more to do there, of course as I've said, but we've seen enough to enable us to go harder at the rollout of Skip, as I say, into the UK initiative in this second half. All in all a really good performance from Canada.

If I move now to Australia and New Zealand, I believe we've made very clear our challenges that we face in Australia, both at the March results and at the Capital Markets Day. It's clear to us, once again, that with the highly urbanised nature of this population that we needed a delivery service to complement our marketplace, so it's great to see the rapid deployment of that service in the half. As I say, still more to do to emulate the full customer restaurant experience that Skip customers enjoy in Canada. But we're up and running, as I say.

Similarly, with our re-platformed Menulog business on the Just Eat global platform, we'll start to see the benefits of the improvements that we're rolling out to the core platform to make that a world class marketplace, and you saw some of those, of course again, at our Capital Markets Day. Australia will benefit from those in due course. So we're going to continue to focus on our initiatives to return this business back to the frontward.

Our final fully owned, if you like, reporting segment is international, and this comprises our Continental European businesses and indeed our early stage business in Mexico, and again as you can see here, it's a pretty strong set of numbers I think. I'd call out France, our French business rebranding to Just Eat successfully in the first half, and it's continued what we internally refer to as this Blue Ocean Project, which is diversifying its order base out of greater Paris, and has made great progress there. Spain and Italy continue to deliver strong growth, supported by increased brand investment. And there's some encouraging early signs in Mexico in the form of order growth and the gain in that market's city activation, though clearly more time is needed to see this business established as a meaningful growth driver to Just Eat.

Then just to complete that overview of our business performance, I'll turn to Brazil. These numbers reflect full P&L of the Brazilian business. Again, a very strong set of results. Orders up 107%, revenue 97% on a like for like basis. You can see, therefore, why we're pleased once again to increase our investment in this business during the period. We're now at about 33% of our iFood business.

My final slide moves on to capture perhaps more relevant, right now at least, to net debt. Just to walk you through this, we start with the net cash we had at one January, which is 230 million pounds, to which we add the cash we generated in the period of 56 million pounds. And really, that cash has funded three principal investments in the period, obviously, most notably the acquisition of Hungryhouse on the 31st of January, but we've also paid the first of the Skip earn-out, as you notice from the slide, and as I just mentioned, a further investment that was further invested into the iFood business. So, if you like, it's this M&A related investment coupled with capex took us to a modest level of net debt at the end of the period. Clearly, though, it's great to see this highly cash generative business fund such substantial investment activity. On which note, I'll pass it back to Peter. Thank you.

Peter Plumb: Thank you, Paul. As Paul has walked you through the financial performance by region, I thought I'd take a few minutes to update you on the priorities I set for the team back at our prelims. I'll remind you of our strategic priorities, where we're going, I'll update you on the progress against what we said we would do, and I'll wrap up with an update on trading and outlook before taking your questions.

I do want to take a moment to remind you of the strategic priorities we described in detail at the Capital Markets Day, A Roadmap for Long Term Growth. My ambition is for this business to serve every customer's takeaway moment. And as we said to you at the Capital Markets Day, there's around an average of 30 takeaway moments per customer per year. As a reminder, the markets in which we play is an 83 billion pound market. It's broken down into three key components. The first is marketplace, the bedrock of this business. It's a 16 billion pound market and it's all the takeaway food delivered by the independent restaurants across our different countries. The new market our investment is all about opening up is delivery. It's a 41 billion pound market, and currently customers access that market by collecting the food themselves. And finally, and Paul has given you a glimpse into the emerging market of Latin America, that's another 26 billion market opportunity for this business.

How are we going to grow into that market? Well, we have three key pillars that we're investing behind and focusing the team behind. The first is about building our marketplace business to world class. We have already built a great business, a very profitable marketplace business. But it has much more headroom in both the market and opportunity to improve our service to customers and restaurant partners. Secondly, is about engineering delivery services to complement our marketplace business. And yes, as many of you know, the economics are challenging for delivery, and there are strong competitors in that market. But we already know from the date that we shared it with you at the Capital Markets Day, that delivery is all about increasing the restaurant choice for customers, and by increasing choice for customers we know that frequency of use increases, and we earn greater loyalty from them.

And finally, my key challenge is about leading a world class digital global team supporting extraordinary local customer experts. It's worth remembering, food is a local business. But digital and technology are global skill sets. So bringing these two important ingredients together into a single organization is really what makes Just Eat as an organization both unique and stand out. For those who couldn't attend the Capital Markets Day four weeks ago, there's a one pager in the pack that you'll find, which is a summary of the way we view the market and the priorities as a group we are setting up for ourselves.

But for all of us here today, let's take a deeper dive into the progress we've made so far against two of these strategic priorities, or the first two of these strategic priorities. Let's start with building our marketplace to be world class. When I spoke to you at the beginning of the year, I set out three goals for the year. The first was about looking at our app. How do we build the app to be the best and the easiest way for a customer to get a takeaway? We must be easier and better to use than any of our competitors in any of our markets. Secondly, it was about brand. The target for this year was about growing up around awareness, particularly in Europe. After all, the more people that know us, the more people that like us, the more they will use us. And finally, it was about Orderpad. The ambition is to rollout Orderpads to 75% of our core restaurants. Our business is about helping restaurant owners run a better business, and the Orderpads are a key part of achieving that.

Progress so far? Our very early days is very encouraging. Let's take a closer look. Let's start with the app on the left-hand side of the screen. Those of you who are regular users of the Just Eat service, I hope will have seen noticeable improvements in the first half of the year. Customers tell us our ease of use score has grown 22%, thanks to the changes we have made. It is moving us from a follower to a leader in this category. The improvements you see on the app on the screen will be being rolled out to our other countries here on the Just Eat international platform starting in second half of this year. And yet, clearly, our multi-platform legacy has made development of tech more difficult for the group. You can see the rapid progress the technology team have made in the app you can see on the screen.

Secondly, turning to brands, many of you know I used to run a price comparison website business, and I learned a key lesson there. That building long-term brands trend is hugely valuable for any group for long term growth. As an example, we increased our marketing investment in the first half of the year by 15 million pounds. Our brands are now healthier and stronger. To give you a date to point, in Europe our spontaneous brand awareness for the Just Eat brand grew 60% from 15 to 24. On the other measures of prompted awareness and consideration, we've also seen significant improvement from the investment so far.

Turning to Orderpads, where we rolled out 11000 more Orderpads in the first half of the year. These devices really help our restaurant partners manage their business better. They're a bedrock for customer service, and I think of them as a digital bridge between customer service and I think of them as a digital bridge between our customers, our restaurant partners in the Just Eat Group. And to give you just one example, we've been using the order pads to trial customers automating missing items and cancelled orders, and within those trials we've seen the need for customers to call us for double digit in those trials. That's the step change these devices can give both our restaurants and our customers.

So yes, our marketplace is in good shape and making good progress. Our second priority; engineering delivery services to complement our marketplace business. This is about investing for growth this year, and investing to learn from the results of those experiments we're running around our different markets. And again at our prelims we talked about the three ambitions to be achieved in 2018. The first, as a reminder, was about using third parties to grow delivery and drive down delivery costs here in the UK. Our second was to invest in the Canadian business Skip, to go faster in both Canada, and to see how we can export their expertise to other markets. And thirdly, learn how to give customers a better choice. We call it hybrid, and it's about the best of both worlds. I think it's fair to say, here we are in July, and we've learnt a great deal.

So let's turn to UK delivery. Our UK delivery growth was 250% in the first half, and all of that growth has been powered by our partnerships with third party couriers. Our delivery costs are improving with scale, but yes, in the UK, as you can see in the chart on the left, they're still high versus what we view as Skip's costs, which we believe are world class, on the right-hand side of the chart. By partnering with a specific courier company here in the UK it's proving successful. We've expanded with them out of the heartland of London into new territories of Liverpool, Manchester, and Leeds, and resulting from that are increasingly attractive economics for our delivery models in these cities. And it's not only in the UK, in France we see similar success, both expanding coverage and reducing cost with partners.

Our second priority in the middle was Skip, invest to go faster. As Paul's already said, Canada's growth was 227%. It's really hard to imagine how Skip could go faster. In H1, as well as going fast with Skip, we've also been investing. So we've been building a multi-language version of Skip to be able to launch Skip into Quebec in the second half of the year. And as you heard at the capital markets day, a basic version of Skip was implemented, or transplanted into Menu Log, our Australian business, in the first half of the year. The couriers and the restaurants in that model are all being coordinated out of Winnipeg, and despite the time zone differences, that model is working well. Some great lessons have been learned, and there's still a lot more tech work to do, but we're making good progress.

Finally, it was about learning how to give our customers the best of both worlds, the hybrid model. It's worth remembering one reason for doing delivery is to offer our customers a better choice. So as a way of illustrating that for you, up on the chart on the right, you'll see the results for the UK, launching the delivery in London, expanding the choice for customers by 10%, and launching delivery in some of the suburbs of Sydney have increased customer choice by over 100%, and that's all about increasing choice to increase frequency, to earn customer loyalty. So I am really encouraged by the progress being made by the teams, and as Paul has already said, I'm pleased in the second hard of the year to be investing harder to go faster on delivery.

So, a good strong start to the year. It's worth at this point just acknowledging that UK comps will continue to be enhanced for a further six months by both the 50p service charge, and the Hungryhouse integration, which as we said to you, is now fully completed. And as Paul has said, we acknowledge that Australia's marketplace business is in decline, but deeper delivery services are being rolled out in the second half of the year. Our investments will continue through H2 at an increased rate, we'll be expanding our delivery capabilities further here in the UK, we'll be increasing our marketing spend in the second half of the year, we'll be increasing the group's engineering and development resource to continue pioneering our user experience by a further 70 engineers, and of course, as Paul has already said, we'll continue to invest in Skip to go harder and faster, both in and out of Canada.

So from where we stand today, the board is confident in the year ahead. Despite July being a slow start to quarter three, we expect full year revenues to increase to a range between 740 million and 770 million pounds. We are committed to investing for growth, and we have increased the levels of investment in the second half of the year, so full year investments will be between 55 and 60 million. That means, EBITDA will remain within the original guidance we gave you, at 165 million to 185 million, and at the moment we're in the midpoint of the range.

I believe this is a very exciting market, and that we are indeed investing in the right things. My ambition, as I shared with you at the capital markets day, is for this group to serve every customer's takeaway moment. From what I've learnt this year, there are plenty more customers and plenty more takeaway moments for this group to serve. So with that, I'd like to thank you, and I'd like to open up the floor to questions. We're doing it slightly different, in that we're going to have to point to someone, but the microphones are actually in the seat in front of you, or those on the front row, they're in the arms. So you'll press the button to be able to ask your question.

Where do we want to start?

Paul Harrison: John, do you want to go first?

John King: Okay. Great thanks, it's John King from Merrill Lynch. Two questions, if I can. Firstly, on the UK, the Hungryhouse integration, how did that go? And maybe, I guess overall the Q2 implied growth in the UK looks a little soft, I'm just wondering whether you call out how much of the orders that Hungryhouse was run rating at, how many of those really did end up dropping straight into the Just Eat brand? To give us a sense of how that went. And the second one would also be on the UK; in terms of, obviously there's still very high delivery costs you're seeing there. What are the key things that need to happen for that to come down?

Peter Plumb: Okay John, so you've got two questions. Firstly, Hungryhouse, how's the integration gone, and what's its visibility in the second half, and UK delivery numbers have dropped but what are we doing to bring them further down. I'm going to ask Paul about how to look at the numbers, but I think it's worth acknowledging that the team have done an amazing job. We didn't bring Hungryhouse into the business until the end of January, and to be sitting here in July with the business fully integrated, customers successfully migrated, and most importantly, a better choice of restaurants, particularly in London, for customers. I'm delighted with what the team have achieved. I never thought that would be so hard to say. As for orders, Paul, do you want to give a bit of a lens on how we think about it?

Paul Harrison: I think John, a couple of comments really on all the growth over the course of the half. I think first of all, on that same basis I described before, of taking Hungryhouse out from acquisition up to the 22nd of May. If you look at order growth in Q1 it was 18%, quarter two, 13%. I would remind you of the comments back at our first quarter at trading update, where we noted Easter fell wholly into the first quarter this year, and that had a bearing. So the delta, if you like, to growth is more like 17% Q1 and 14% in Q2, and therefore 15% for the overall half. And that early to mid-teens order growth is the way that we think about the UK business. So, as Peter said, I think we're happy with the performance. There are factors that will always, from time to time have a bearing, factors like weather etc., but we're not talking to any great degree about those today. But taking the half as a whole, we're satisfied with the performance.

I think on the delivery piece, do you want me to go into that Peter?

Peter Plumb: Keep doing it. Go for it.

Paul Harrison: Yeah, I'm half way there. On the delivery piece we have seen improved economics. If you look at for the year '18 we lost, there's still improvement, we lost about £18 an order in the UK, that's improved to about £13, so it's improved by about 30%. So still it's £13 an order, to be clear, but the trajectory is good. How do we continue to improve that? It's really with a point that I referenced in my presentation; working with a smaller number of partners, and working with them to move to a per drop basis, which is something they are willing to do, if they can see the associated volumes in a particular delivery zone. That's the trend we're starting now to see in the business, as we open up new delivery zones in certain markets. So I think we've seen a significant improvement, we've still got a way to go.

Peter Plumb: I think, John, we should just remember the UK is really a marketplace business. We have thousands of independent restaurants, and a broad range of cuisines here in the UK. So takeaway kebabs and Chinese in particular, are very much a marketplace business. Whereas when you look in Canada, it's very much a delivery business, so geographies are always going to be different. So when you look at our delivery costs, actually our economics are quite a broad spread, when you look in London, we're very competitive, and we're doing this model to build choice for customers. So as the CEO of this business, it's about getting the balance around choice for customers, and we all know from capital markets data, a delivery customer then goes on to buy marketplace restaurant food, and that's the key reason we're doing delivery. Do I want to be just a delivery business? No. It's the marketplace that is the bedrock of this business, and it's engineering solutions for customers, and unlocking that 29 UK takeaway orders that customers have that delivery is all about.

So the economics are important, but they're not the sole reason for us doing it. Does that help answer your question?

John King: Yeah, thank you.

Peter Plumb: Okay, let's move on. Shall we go ... It's a novelty isn't it, this microphone.

Jo Barnet-Lamb: Hi, Jo Barnet-Lamb from Credit Suisse. Three from me. So first one just building on John. So if my understanding is correct, so it goes from 17% in Q1 in the UK, to 14% in Q2 for the UK, but that is then folding in the Hungryhouse consumers into the Just Eat platform as they convert. So could you help us a little bit on what that 14% in Q2 would have been, excluding those Hungryhouse consumers that have migrated to the Just Eat platform? So that's question one. Question one is on SkipTheDishes rollout in the UK. So you've sort of said a few cities you're going to rollout into, can you tell us a little bit more about where you're going to rollout into, and what the timeframes for that are? And then thirdly, could you help us either with the proportions or revenues from logistics by division? That would be great, thank you.

Peter Plumb: Okay Jo. So UK volumes, same question as we've already had about Hungryhouse, so you'll probably get the same answer. SkipTheDishes in the UK, and logistics by region. I'll ask Paul to do the first and the last one. Just SkipTheDishes UK, I'm not going to tell you where we're doing it. I mean, it's a competitive market, you wouldn't expect us to, and it's all part of that step back, what did we say we were going to do in 2018? We want to be in delivery to give our customers a broader choice, there's different ways of doing that. We're very happy with the third-party couriers we're using, but we will test Skip in a couple of regions as well to see if, in some regions that's a better model, and then we'll be able to compare the two of how we go faster in the UK. On UK volumes, Paul, you want to pick up?

Paul Harrison: Yeah. Post the 22nd of May, Jo, the Hungryhouse platform was closed, as you know, and the business deeply integrated. You can get into a, frankly academic exercise, around what for those remaining seven weeks of the period the HH customers contributed to the Just Eat platform, but there ends up being so many caveats, given that very deep integration, that I think it becomes a slightly fruitless exercise.

So around the margins, yes, some effect on the Q2 [inaudible 00:36:49], hopefully I've been clear on the methodology at least. I think in terms of the proportion by region that the delivery based business represents of orders at the minute, in the UK, still very early stage, for the reasons not least that Peter said about 1%. Australia, very small. It's just started, it's less than 100,000 absolute orders. Canada's 90%, they're still the legacy of the Just Eat marketplace business, of course. They will look at all of Canada, and our international business just under 5% by volume.

Peter Plumb: Shall we go here?

Silvia Cuneo: Good morning, it's Silvia Cuneo from Deutsche Bank. I have three questions as well. The first is on the UK margin. You mentioned in the release that in the second half we should expect some more marketing costs also related to the X Factor sponsorship. Just wondering why that's the case, given with all the price was pretty much in line with what you paid last year? Then second, on the increased target for investments for the full year. Just wondering how much of the increase in Australia is simply driven by higher delivery costs as you expand into the delivery logistics, and how much is brand building? And then, finally, in Australia, do you want to comment about when you expect the business to come back to growth, and then more broadly can you talk a little bit more about your Q3 comment on the slow start.

Peter Plumb: Sorry the, Silvia, Q3...

Silvia Cuneo: On the Q3 July slow start, for which markets is it relating to?

Peter Plumb: Okay. I'm going to ask Paul to pick up on margin in the UK. Let's just take your third point about July Q3 slow. We don't break it down by margin, I just wanted to flag where trading was. Pardon?

Silvia Cuneo: By market.

Paul Harrison: By market.

Silvia Cuneo: By market.

Peter Plumb: Yeah, but as I say, I'm not going to break it down by country. We don't do that, but do remember, a guidance has that baked into it. On UK marketing costs, as I say Paul will give you a steer on margin, we won't comment on the price of X Factor. We are doing X Factor, we're doing ITV movies, of course we'll do a marketing campaign in the second half. So I think our marketing activity is pretty strong. But my ambition for the year was just not marketing in the UK, it was about finding in Europe, which is really our growing market. So what we can do about spending more on the brands, and in marketing in those areas, which is why I was keen to share with you how the brand awareness in Europe had grown significantly from 15 to 24, and I expect us to continue to spend on marketing in Europe in the second half. Paul, do you want to say anything on UK margin?

Paul Harrison: Yeah. Look, I think as we approach a Q4, typically busy season for the business, we tend to ramp up marketing in the run in to that. So in addition to X Factor, we've got ITV movies now as part of the deal that we signed with ITV, so to Peter's point, this emphasis on above the line advertising will continue to accelerate in the second half. It's partly a mix shift as well. I think on the higher investment, again moving from 50, to 55, to 60, I'm not going to pinpoint the breakdown of that. Directionally I will say that it is in the main attributed to Skip and Skip related activities. So that is Skip in Canada going faster, but it's also, I mentioned we've still got quite a bit of work to do I think in Australia to emulate the Skip experience for customers and restaurant partners there, and then we've got the UK piece. So the reason I've put a range around that is if you think about the variables that underpin those initiatives, they're quite substantial, hence a 5 million range.

Peter Plumb: Silvia, on your Australian growth, I won't make any commitments. I think we're doing the right thing, these things take time to embed in, and we're learning as we go which investment is the best one for the Australian customers. So thank you. Shall we go to second row back?

Ian Wittaker: Ian Wittaker, Liberum. Just a couple of questions. First of all, just in terms of you mentioned a slow start to Q3, can you just talk us through how much the weather tends to impact your orders? You've heard some commentary from other players in the market, just in terms of that.

The second question just has to do with the growth in the UK, in terms of orders. Just wondered how you think you're doing with your direct peers? Not in terms of the market, because obviously telephone orders are going down, but people like Deliveroo or Uber Eats. If you don't have an idea of the order growth, maybe a proxy, such as app downloads might be quite useful just in terms of comparison.

And then third of all, just in terms of you made the reference that 70% of your orders are coming through, or 70% of your estate rather is coming through in tier two to tier five cities, which historically has been seen as a structural strength, given the issue of entrants coming into those markets. So typically, in terms of trends, what you see is trends start to start off in big cities, and then they flow down into smaller cities over time. So just wondering why we should actually think that should be a continued source of structural strength, or why we shouldn't just see it as a temporary factor, or essentially a road over time?

Peter Plumb: Wow. Just a few small questions. Slow start, quarter three weather. It's my first year as CEO, so I have no idea what normal trends are with weather etc. So Paul might have a view, but I don't have experience to know what weather does to the business. I don't know whether you want to say anything?

Paul Harrison: Nor do we like to overplay it. I think when I joined the business at the back end of Q3 '16 if you recall we'd had a long warm spell then, I think we'd put a, best we could calculate it, 200 to 300 basis points impact on growth then, but it is quite hard to be precise.

Peter Plumb: Order growth UK, 20% I think is a really strong first half, and you're seeing, you have to take yourself back to what we set out to do in the UK. We said we want to work out our delivery model, a lot of people were sceptical that third party couriers were the answer, but our expansion in regions, and our improvement in costs, and our- But our expansion in regions and our improvement in costs and our improvement in depth, I think, is all proving that's a good strategy for the UK. You've seen the improved app and user experience that's going out and, of course, deeper customer choice. I'm pleased we've put the right things in place for the UK and I'm pleased with 20% order growth in the first half. I don't comment on peers. I'm pleased our app, from a user experience, is coming out as easiest to use, and that's the most important thing, that we're engineering our service to be widest-choice, ease of use, best-loved, and most-known brand. Those are the three drivers of the UK growth going forwards.

Seventy percent of our estate: tier-two, tier-five cities. It depends what business you're in. Marketplace, as we said at the Capital Markets Day, is absolutely a model that is based and thrives in tier-two, three, four cities and Paul shared with you the tremendous growth we've had in international on the back of that, because those are the heartlands for independent restaurants that serve that range of cuisines that customers have. If you remember back to the Capital Markets Day, that frequency of use is driven by cuisine type. It's not somebody eating 29 of one restaurant food. Depth and breadth is the key to meeting and serving every customer's needs, and so tier-two, three, four cities, our experiences are that marketplace is the much more profitable model and delivery in those territories becomes ever more challenging economically. We'll see over time how that plays out, but that's certainly what the numbers say us, that's what our experiences are, and so that's the way we're playing the game.

Do you want to add anything to that, Paul?

Paul Harrison: No.

Peter Plumb: Does that answer your question then?

Ian Wittaker: Yeah, sure.

Peter Plumb: Okay, let's go to third row back. Sorry, can't tell with my glasses on. Is it Rob? Rob. Sorry, Rob.

Rob Joyce: Thanks very much. Rob Joyce, from Goldman Sachs. Sorry, three for me, as well. Firstly, on the revenue guidance for the year and the 38% growth, I'm wondering, can you give us a split of how you see that coming between marketplace and delivery. Second one, staying on delivery, just in terms of drops per hour you're achieving in the UK, I think you said you were getting close to one at year-end '17. Just wondering where that's running at now. Then, the final one, just in terms of the investment level you're putting into the business, revise that figure upwards. Is this now a level you would struggle to see opportunity beyond to extend that even further in 2019? Thanks very much.

Peter Plumb: Okay, Rob. You want revenue guidance split by delivery and market. [Shout out 00:47:02] if we do, but I'll ...

Paul Harrison: [inaudible 00:47:03]

Peter Plumb: Paul wants to [say anything 00:47:04] on that.

Paul Harrison: [inaudible 00:47:05]

Peter Plumb: Let me check. Delivery economics, progress on drops per hour, and investments, could you see us extending it further.

Rob Joyce: Yeah. Do we see as 2018, is that going to be the high watermark in terms of 60 million there? Thank you.

Peter Plumb: Okay. Do you want to help with the split?

Paul Harrison: Okay, revenue. Yeah, revenue guidance is split and Peter's right, I'm not going to put a precise number, but I will say that the majority of the uplift relates to delivery. A minority to marketplace, but such is the profitability of marketplace that is covers the losses on delivery. I'm not going press a precise split on it. I think the drops-per-hour point, particularly the UK, is really a quite rapidly evolving debate because, when we talked about delivery in the UK in 2017, we talked a lot about the productivity risk we had by virtue of procuring career drivers on a per-hour basis. In other words, if we didn't use them in extreme, they'd be set and we'd pay for an hour and there'd be no revenue. The important development is this move to paying on a per-drop basis with courier partners, which takes, if you like, the productivity risk away from us. It is a less relevant metric, but what I will say is that we still continue to see the cost per hour reduced quite significantly, that was implicit in the numbers I said earlier as a result of driving order density in zones.

Rob Joyce: Okay, thanks. On that, Paul, then, would you be able to give us ... I think you were saying you were working out at sort of 14 pounds. Can you give us a basic, in short, the cost per drop you're paying now?

Paul Harrison: Yeah, well, I'll give you the ... In 2017, for the full year in the UK, we talked about losing about 18 pounds, 40 an hour [should be per delivery]. We're losing around about 13 pounds an hour [should be per delivery] in the first half '18. That 29% improvement in [profitability 00:48:56] is a reflection of the improved productivity, in the main, of drivers.

Peter Plumb: Your final question about investment [inaudible 00:49:07] into 2019.

Rob Joyce: Yeah.

Peter Plumb: We talked about it at the Capital Markets Day. I can't remember who asked me the question. We don't know until we finish these experiments, but if investment helps us grow fast to be a bigger business, I've certainly got the appetite to invest harder if I've got the data to say that's the right thing to do.

Where are we going to go now? Should we go up the back and middle?

Richard Stuber: Yeah, hi. Richard Stuber, Numis. Just a follow-up on that question about the cost of delivery. UK used four and a half times as much as Canada. How quickly do you think that can go down towards Canada? Obviously, there'd be structural reasons why it won't be on a equal cost per drop. I guess a follow-up is you're talking about moving from paying a courier on a per-hour basis to a drop basis. How quickly do you see that shift moving over, yeah, over the next year or so?

Peter Plumb: Okay, Richard. You asked about Canada economics, will other territories come down to it? And cost-per-drop basis, is that the model we'll roll out further? Is that right?

Richard Stuber: Yes.

Peter Plumb: Okay. Let's take the last one first. We have to remember, this is about using third-party courier companies. This isn't paying couriers cost per drop, so the courier company works their economics out on a cost-per-drop basis. The reason we like that model is that, by using third parties, we can share drivers with other businesses. In city centers, that's one of the strategies which is helping us get better economics in London, Liverpool, et cetera. By sharing drivers with other companies, that model is starting to work in the way we hoped it would at the beginning of the year, but it's companies we're paying, not individuals.

Yeah, Canada I think is world class. What is amazing, and we were asked the question earlier about drops, that whole team is about taking every second they can out of a delivery model so a courier is as productive and he or she can be. That's about reducing wait times, reducing cook times, mapping in the weather, and of course mapping in the journey to a customer's house and informing the customer when the food is coming. They are constantly taking seconds out of that journey. That's their DNA, so I think Skip are still innovating and engineering that model. Our ambition is to take their learnings to other parts of the world.

As we said, the first step to do that was Australia. There's two parts to Australia. One is implanting the tech, which we've got a light version in. The user experience is nowhere near where we want it to be, so that's work in progress in the second half of the year, but the operational nuts and bolts of coordinating restaurants, customers, and couriers is all done out of Winnipeg with the skills of the operational team there, who run pretty much a 24/7 operation now to coordinate people the other side of the world. That's working really well. I think we are developing a model that some of our countries can certainly leverage every single learning from our Skip team to really drive those efficiencies down.

The reason I wanted to show you it the way we showed you in the chart is to give you some idea of the headroom we have by taking the Skip learning to other parts of the world, because that really puts in perspective of how skilled that team are. Rich, does that help give you a better lens on where we're heading?

Richard Stuber: Yeah, to be able to see from that four and a half times [inaudible 00:52:58] twice [inaudible 00:52:59]?

Peter Plumb: I don't know.

Richard Stuber: [crosstalk 00:53:02]

Peter Plumb: It's already dropped considerably from where the UK was. There's pockets within that which are significantly lower, but clearly we show you the full picture. I think we'll update you as we learn, which is what we said we were going to do, and we've got a long way to learn, but you can see the skill set in the business. That's the main takeaway from this morning for you.

Paul Harrison: If I may add to that, I think success is not necessarily predicated on getting to the same level as Skip. I've got certainly some caution about whether we'll see non-Canadian delivery economics look as good, in the fullness of time, as Skip. There's a feature such as tipping, that sort of thing, that are relevant in the Canadian market. What we are seeing, as Peter said, we will continue to see, we think, is a convergence; a favourable convergence. If you go back to Capital Markets Day, where we talked about the halo effect that we are seeing so far in terms of doing delivery for our marketplace business, then, frankly, even if we got to break even on delivery, that is a highly compelling model when coupled with the marketplace model. We're less ... We certainly want to drive better economics and we're doing that. We haven't set ourselves, internally, a sort of KPI that says we want uniform unit economics across the piece.

Peter Plumb: We have time for five more minutes of questions, so that's probably going to be two. Do you want to pick this next one?

Paul Harrison: Oh, dear. That's a pressure. Gentleman with the beard, there, sorry.

Rob Berg: Hi, Rob Berg from Berenberg. Just one quick question on the Hungryhouse performance year on year. My understanding is maybe you did around four or five million orders in H1 [seven 00:54:53] ... Or, not you, but the business did four or five million orders, H1 '17, and then you mentioned, Paul, 2.2 is what you've taken out in H1 '18. Maybe there's a bit more, which you mentioned, of people that have gone to just eat, 2.5. How much of that drop is people that have left the platforms altogether and ... My point being are they potentially ones that you can get back or is this a customer that has gone to another platform and they're never going to come back? I'm just wondering, the drop in orders, what's happened to these people and are they potential targets to get back onto the platform?

Paul Harrison: I think a couple of points. First of all, we've spoken before about the way the Hungryhouse business was run prior to our ownership. There was an awful lot of use of vouchering and discounting to drive orders. We typically do less of that or, be it, we use it as a technique and a migration strategy. We've done it in Canada and down in the UK. That does mean that there is a decline in absolute orders H1, proforma, H1 '17 to proforma H2 '17. It would be very hard to put a precise number on that 22nd of May to 30th of June point. In terms of the ... The way I would answer the question is also to say it was in our gift to close that platform on the 22nd of May and if hadn't been happy with the migration as of that day, we could have simply extended it. You can read into that, therefore, that we were pretty happy with the carryover.

Peter Plumb: Okay. One more question. Should we take [inaudible 00:56:37] ... Should we take it from here?

Bob Liao: Bob Liao at Macquarrie. Just wanted to ask two quick questions. One, on the slow start to the Q3, is there an assumption that there's a recovery in Q4? If so, what's driving that potential improvement and outlook? Secondly was a question on M and A, in terms of what you're looking at in the market. One, would you look at things like Grubhub did with respect to software for restaurants in order to bed down a bit deeper into those restaurants. Also, in terms of not just M and A, but partnerships, would you consider some of those partnerships that were done with the quick-service restaurants that Grubhub's done in the US?

Peter Plumb: Okay, so two questions. What's Q3 versus Q4? How do we think about it? And, M and A, are we looking at software for restaurants and partnerships? Q3, Q4 we haven't broken out at this stage, but you've gotten guidance. The increase we're expecting to deliver to you in the second half of the year. We've given you the range in which we're going to deliver, knowing what we know today. Really pleased to increase revenue guidance to that range.

On M and A, I don't know whether Paul wants to say anything. It's interesting, hearing your question about software for restaurants. We set out at the beginning of the year, our ambition is that our order pad is the gateway into restaurants to allow them to run better businesses. On average, we are between 20 and 30%, I think we said at the Capital Markets Day, of our restaurants' revenues. The biggest value you add to restaurants is by bringing new customers, new orders, and being a bigger part of their business. That's what we're doing in spades across all of our markets. That's the number one business connection. The order pads is our digital bridge. Once I've got all of our independent restaurants with great technology in it, you've already seen improving customer service works for both the restaurant and the customer. Cancelled and missing orders should be a press of a button, not several phone calls, and you've already seen what that does to our call-centre costs in our customer service.

Internally, we have engineering teams dedicated to making the order pad the leading piece of tech that we can possibly put into restaurants. If there is M and A of software that would make that even better, of course we'd be open to it. Don't underestimate what that kit in the tool set we're putting in place with our dedicated engineers is already doing and will do with our investment plan that we have in place across our different markets.

Partnerships, we talked about our Subway partnership. We are working pretty much every branded restaurant around the world that we could imagine. They're working well. We tend to work on a local level because food is local. Many of these businesses are run locally and we're pretty happy with the way that's going as we build our delivery capability. I don't know, Paul, whether you want to add anything to that.

Paul Harrison: No. No, I don't.

Peter Plumb: [inaudible 01:00:03] does that answer your question? That takes us very neatly to 10:30. Because of the tenacity at the back of the room, [inaudible 01:00:13] will take that last question before we wrap up.

Michael Goltsman: All right. Thank you very much. Michael Goltsman from Citi. I thought I would change continent to Australia for a moment. Two quick questions. In terms of the data, it seems like you acquired a lot of customers late in the half in Australia. Is there any difference in the behaviour of the cohorts you've acquired versus the original cohorts? Also, in terms of the marketplace decline this half, was there any difference between the Eat Now and the Menulog brands in Australia? Thanks.

Peter Plumb: Okay, so turn to Australia. Customer growth, any difference in customers we're acquiring versus those we had and what's happening in marketplace Eat Now versus Menulog? I really can't answer the question about different customer cohorts because I don't have the data in front of me, so you might be better informed than me. I can't comment granularity. I'm not seeing any difference in customer behaviours and so let me come back to you.

On marketplace, you're absolutely right to say that our focus in Australia is Menulog. For those that we're here for the acquisition, you will know our Australian business is two businesses, Eat Now and Menulog, that were put together. When I joined in September, Paul and I very much focused on saying, "Look, Menulog is the lead brand. In research, it came out as much more connection with Australians." It's an older brand, so we chose Menulog as the brand to lead the business and we worked pretty quickly to migrate that to the Just Eat international platform. As we've done that, we are now plugging in the core, basic Skip functionality into that Menulog platform.

That's our technology focus for the second half of the year. Eat Now is still running on its old platform. We are clearly in the background doing the migration of customers across from Eat Now to Menulog, but we will, into next year, keep running Eat Now as a separate platform because our priority, because of the market dynamics, is to get delivery integrated into the Menulog marketplace solution to give Menulog customers the full experience I would like to give them as the CEO. Eat Now will continue as a secondary platform at least into 2019 and beyond. Does that help answer your question?

Michael Goltsman: [inaudible 01:02:44]

Peter Plumb: Okay, thank you very much for the question. Thank you very much, everyone, for coming to see us today. I think we've had a very strong first half and I'm really pleased. People questioned the investments we were making, we are learning a lot and we are moving forward, so thank you very much for your support.

Paul Harrison: Thank you.

ENDS