Just Eat Interim Results 2019

Presentation

Peter Duffy

Interim Chief Executive Officer

Welcome to our half-year 2019 results presentation. I think we're going to start off with a bit of a video. Can we play the film?

[Video playing]

My name is Peter Duffy, I'm the Interim CEO at Just Eat. This morning I'm joined by Paul Harrison, our CFO, by Mike Evans, our Chairman on the front row and by Chris and Natalia Dyett who run our Investor Relations team. Paul and I are going to spend the next half hour or so going through the first half results and after that, we'll be happy to answer any questions that you may have. But perhaps I should be clear right up front, unfortunately we're not going to be able to answer any questions about the proposed combination between Takeaway.com and Just Eat today. We don't have anything else to add to what has already been published.

So in keeping with the usual format, I'm going to start by giving an overview on numbers. Paul will then take you through a more detailed update of our financial performance in the first half. So I'm going to return and take you through some of the key operational highlights and at that point we'll then be happy to take questions. So let's get into it.

I'm pleased to report that we've delivered a solid performance for the first half and that we are reconfirming guidance for the year. When I spoke to you in March I promised you pace and to this end you'll be hearing about how we've built on our strong leadership position in the marketplace, with acquisitions that are going to deepen our restaurant relationships, enabling us to enter new segments of the market. We'll be talking about how we've aggressively scaled our delivery capability so it now covers 95% of the addressable population in Canada, 70% in Australia and 50% in the UK.

And you'll be hearing about how we've replatformed and integrated our data, product and marketing environments, which now tailor the experience to individual customers based on their different and individual behaviours. And how we've relaunched the brand globally, putting us front of mind in this ever more competitive and exciting market. This is a strong platform for future success.

So moving on to the numbers, revenue has gone up by, or grown by 30% to £464.5 million and we've served over 123 million orders to 27 million customers, that's 21% more orders than a year ago. We've added over two million customers in the half and we've continued to build on our position as the preferred food delivery app in many of our markets.

As a result of our investment in delivery and therefore as expected, underlying EBITDA declined 16% in the period to £72.4 million. For clarity, with the exception of the revenue number, all these numbers on the screen exclude our LATAM operations. After that there'll be more from me in a minute, but I'm now going to hand over to Paul, who's going to take you through the financial performance in greater detail.

Paul Harrison

Chief Financial Officer

Thank you, Peter and good morning. In my section of the presentation, as usual, I'm going to look back on our first half, share with you my reflections and the key drivers of our performance, both at a group level and an individual market level. I think we've delivered a solid first half. Orders, excluding Mexico, increased by 21% to £123.8 million and revenues grew 30% to £464.5 million. As we expected, our underlying EBITDA decreased by 16% and that reflects the rollout of delivery, which of course is most costly at launch. On the back of this, our underlying EBITDA margin therefore contracted 850 basis points year-on-year.

So we continued rolling out delivery at a fast pace. We've established new partnerships with a wide range of restaurant partners, branded restaurant partners, across all of our markets. Most of these relationships are non-exclusive, which allows a greater flexibility and a more selective approach to zone coverage.

If I take each market in turn, in Canada our restaurant estate now exceeds 20,500 partners by the end of the first half and we're working with 29 of the top 30 food service brands during the period and that includes McDonald's. A national delivery footprint in the UK has already reached a similar size to that of our main competitors and we continue to roll out delivery and backfill existing zones.

In Australia we added some 3,000 delivery restaurants to the platform in the first six months of the year alone. And as we flagged at the time of our full-year results in March, we continue to explore delivery opportunities in other markets and there will be a launch of our next Skip delivered enabled market in Europe scheduled for Q3 of this year.

In our early delivery markets we've focused on reaching gross profitability as soon as possible, so these next three slides I'm going to show you are an analysis of our zone cohorts, tracking their development and performance since we launched them. As many of you know, a typical playbook sees us at zone launch with a QSR anchor, with independent restaurant partners and chains added to raise Average Revenue Per Order and career utilisation. So whilst there are clearly differences in delivery market maturity and zones, our analysis demonstrates that the economics are trending positively across Canada, Australia and the UK, albeit from different start points.

In our more established delivery zones we see the transition to overall EBITDA profitability. Some examples of this in our portfolio include Denmark, Switzerland and most recently Canada and we're particularly pleased to reach overall EBITDA profitability in Canada in this first half of 2019. Clearly this is the most advanced of our Skip enabled delivery markets.

The chart here shows a stable and profitable zone cohort profile in Canada as delivery becomes more established. You're going to note there some of the lower gross profitability in some of the more recent zone cohorts and that includes markets such as Montreal and Vancouver, which are inherently more competitive but where growth has nonetheless been strong.

A similar slide, if we look now at Australia, where delivery really is rapidly becoming part of our Business As Usual. We've now made over two million deliveries, just 13 months since we launched the service, from over 50 zones in Australia. In gross profit terms we can see that the more recent cohorts are reaching profitability faster and moreover, 47 out of our 53 zones were gross profitable in June of this year.

And as I move to the UK, we're running a newer in-house delivery operation, which is why I've shown a monthly analysis here on the slide. We're seeing encouraging trends both in terms of profitability and frequency, with both new and existing customers offering more once they've tried delivery, ordering more once they've tried delivery. And as you can see from the table, we're seeing some impact on the profit performance from the period of increased promotional activity, which levelled out as we entered a more normalised pattern. And this really reflects these broader market dynamics in the UK. Just Eat's restaurant count is now a significant proportion of competitor delivery restaurant count with significant headroom for growth in the UK.

So let me now take you through the segmental performance and again, I'll start with the UK. The first six months were characterised, as you know, by a slower start, primarily on the back of unseasonal weather in quarter 1, but that was followed by recovery in our UK business in the second quarter, which saw order growth of 11.2% year-over-year. That improvement was driven by more targeted and personalised communications, a greater contribution, as you've seen, from our delivery initiatives and the hungryhouse inorganic effect dropping away as we proceeded into the period.

Total first half UK revenues increased by 13%, while orders grew 9.3% as delivery continued to drive revenue performance. Underlying EBITDA declined by 19% to £72.5 million, reflecting that investment in delivery. A step back from it, overall the UK is in good health. Over 1.4 million customers joined our platform in the past year, with existing customers continuing to place orders with us on average about 10 times a year.

If I turn now to Canada, the first half of the year saw good progress at SkipTheDishes. We've seen particularly strong momentum in revenue and order growth, revenue increasing 79% to £133.4 million on a constant currency basis and orders grown by 83% to £23.3 million in the period. Increased density continued to drive improved economics, Skip ending the period with positive underlying EBITDA as the business optimisation phase continued to gain traction. The margin you see here therefore, EBITDA margin therefore, at 0.7% compared to the -11.5% at constant currency for the first half of 2018.

1.4 million customers joined Skip since the first half of last year, with over 800,000 of those joining in the last six months. And we've continued to add occasions to the platform, such as breakfast and that's really reflected in that lower average order value number that you see here, which is a trend I talked to first full-year results back in March. So all in all, a very strong first half for our Canadian business.

Okay, the second quarter saw a welcome return of order and revenue growth in Australia, as we continued to scale our delivery business. And encouragingly, April was our first full month of gross profit in delivery. We've successfully returned to order growth in Canberra, Perth, Brisbane and Adelaide and as our teams reached out and visited some and optimised indeed some 820 marketplace restaurants, whilst also signing up delivery restaurants to the platform. Overall, we've ended up with 13,000 restaurants at the end of the period, which is up 28% year-on-year.

Revenues increased 29% to £27.3 million, with a negative EBITDA of £2.1 million recorded in the period. I should add whilst orders contracted 1.5% in the period, much of this reflects the winding down of the much smaller EatNow platform, which we plan to close in the second half of this year. So the Menulog brand showed order growth for the period of around about over 10%. So really encouraging progress in Australia for those of you who have followed the story for some time.

The first half of 2019 saw a good performance in our seven European markets, particularly strong performances were seen in Italy and Switzerland, with Ireland also delivering strong order growth. Italy incidentally now our third largest market by orders. France remains an attractive but fiercely competitive market. We've seen a strong performance in the tier 2, tier 3 cities, but Paris does remain highly competitive. And finally Spain, very solid performance in the period.

It's not often I write Stellar on a slide, but I think I can claim it for iFood. If I move onto iFood, the slide shows that yet again iFood's delivered a great set of results. Triple digit order growth achieved in the first six months, the business fulfilling nearly 19 million orders in the month of June alone. The increase in losses here was attributable to iFood pursuing a range of initiatives focused on seizing a mass market opportunity, catering for a wider range of occasions and price points. So this includes the mass market so-called loop initiative, driving multidrop lunchtime business by using virtual kitchens to mass produce specified dishes at a highly competitive price. This, combined with the ability to order ahead and subscription offers and multidrop delivery to economically address mass market demand. It's a really quite innovative approach to mass market lunchtime occasions.

Another great example of innovation in this vein was iFood Express, an economic delivery pricing experiment. So this enables customers to choose delivery pricing, with the economic option batched with other orders for cost effective delivery. So overall, iFood is progressing very well, the business retaining a strong market share despite well-funded competition. Indeed the business is nearly 17 times bigger than its largest competitor at the end of last month according to our estimates. As you know, we've invested £73.2 million in cash to support the growth plans in Brazil in the first half of this year.

Okay, so if I move on now to our cash reconciliation, as this slide shows we've made a number of investments in the first half which are non-recurring in nature. For example, second residual deferred consideration on hungryhouse and Skip. In addition to my previous slide, you see the investment in LATAM reflecting the plan that we outlined in March to follow our money and invest in, as I've described there, exciting expansion plans. And investment cash-wise in 2019 very much first half weighted.

The combination of all these investments and outflows meant that we ended the half with net debt of £117.6 million pre-IFRS 16 and a comfortable net debt EBITDA position of 0.7x. Overall, Just Eat remains an inherently cash generative business. We expect net debt in the second half to reduce, given the second half EBITDA weighting and lower cash LATAM investment as a non-repeated growth one-off deferred consideration payment.

If I move now to my final slide, we remain confident in delivering our 2019 revenue in the range of £1 billion to £1.1 billion and underlying EBITDA of between £185 million to £205 million. And as a reminder, this is before the impact of the £80 million to £100 million EBITDA losses in LATAM. So we're reiterating that guidance we talked about in March. For the second half, we expect to see a significant increase in EBITDA, this is going to be driven by the lower delivery rollout costs, targeted cost control and an increase in profits in Canada. We expect the impact of recent acquisitions of Flyt, Practi and City Pantry most recently to impact underlying EBITDA by between £10 million and £12 million in 2019. But despite this, we're reconfirming that underlying EBITDA guidance range. So with that, I'll pass back to Peter.

Peter Duffy

Interim Chief Executive Officer

Thank you, Paul. So now we've gone through our performance on a country by country basis, I'm going to draw out three underpinning themes which I think are at the heart of our strategy, which is all about building the leading hybrid marketplace. And that's how we're driving marketplace growth leverage, how we're accelerating delivery rollout and finally, how we're step changing the customer, restaurant and the career experience.

So let's begin with marketplace growth and we continue to expand the number of marketplace restaurants in many of our markets and particularly in Europe, where there is still a substantial supply headroom outside of our biggest city. Additionally, one of the more interesting initiatives we've rolled out across multiple geography is driving activation in these local marketplace restaurants, which has been particularly successful in Australia and in the UK. Typically, we send out a small swat team of a dozen or so individuals to help our marketplace restaurants. Not only to understand the profile of a delivery competitor that we're introducing onto the platform, but how they respond to that.

And we helped them remerchandise their stores, we advised them on minimum order values, on delivery fees, as well as attempting to sign up new partners that we don't already have on the platform. And we then additionally supplement this with local advertising MPR and the whole impact has been really very successful. For example, in Canberra, which is our first activation city, we saw more than a 20% growth in marketplace orders there in the half as a result of that activity.

In May we also relaunched the brand globally under the “Did Somebody Say Just Eat” platform. And whilst early days, this creative has been really, really well received by our customers. And once it's adopted consistently across all our markets and used over time, we should only expect this to begin to improve. Brand consideration, where it's played out, has risen significantly.

Our media has also been centralised and we've unlocked many, many millions of value for the next three years by buying it in a much more centralised way. And the combination of these two activities then combined with our one-to-one communication is really driving a step change in how we begin to market to our customers. I've spoken to you previously about the progress that we've made on data, which is now all stored in one database for all the countries in the group. And in the last three months we have now launched our CRM toolkit which essentially sits on top of that, which means we're now able to deliver personalised messages and campaigns both in and outside the app into multiple markets at a very limited cost.

And we're rolling out the capability for seamless customer journeys, which means that you're going to be able to target a customer, for example, with a voucher, they're going to be able to click on that voucher, go through in the app to that restaurant, they're going to fulfil that very simply as one journey all the way through. And whilst that isn't radical for a number of industries, that is something that Just Eat wasn't doing previously. So personalised one-to-one communication has been rolled out across all our markets from the start of May this year and we're really optimistic about the early results that we're starting to see.

Now, I talked before about the wealth of opportunities from data and advanced analytics, so I'd just also like to share another example, which is small today but illustrative about the opportunities that we're going to have tomorrow and that's dynamic pricing. Dynamic pricing means that we can change the delivery fee based on what we call live man signal. For example, the volumes of orders made by our customers, the weather, events, delivery distances and so forth. For the last few weeks we've been trialling this in Denmark, where we've rolled out to 400 restaurants nationally, in the UK where we've rolled out to 40 restaurants across three cities, in Australia where we've rolled out just one city at the moment but we can ramp that very quickly.

The system enables us to understand the relationship between delivery fee pricing and order volume at a hyper local level and the objective is for us to be able to flex delivery fees real time based on live man signal. So we not only optimise the delivery revenue, but we can also begin to optimise overall order volume as well. The platform is being developed so we can offer it to our marketplace restaurants as well as the managed service, which in turn is going to be able to help them optimise their own delivery economics. I think it's probably easy for you to see how this sort of thinking can then be extended into other areas like dynamic minimum order values, time-based vouchering, flexible delivery zones, it's very exciting.

I'd also like to just touch on City Pantry, which is an initiative that I'm personally very excited about, because it's the first time that we've gone into the B2B catering market. City Pantry not only allows us to increase the meal occasions we cater for, but it also importantly opens up a £10 billion a year corporate market for us and our partners. With an average order value of £300, City Pantry generates high value placed in advanced orders that are going to be incremental for many of our restaurants. And the business already has 1000 corporate customers and has significant UK and international growth opportunities, today it only operates really in London.

Now, moving on to delivery and drawing together a number of the points Paul has already touched on. We talked in the past about expanding our delivery offering and this now is really ramping up. So the UK, let's look at that first, because if we go back to the start of the year, we really needed to build scale around delivery quickly. I think at the end of 2018 we were in too few locations, we had zone densities that were subscale. That led to poorer delivery economics, inefficient driver calls and in turn that hurt the customer experience.

So over the last six months we've scaled our delivery footprint from 94 to 166 cities, which as Paul has said is now in line with our two main delivery competitors in the UK and this is covering 50% of the addressable population. Importantly, we've also grown our own Skip-based delivery service from three cities at the start of the year, Glasgow, Aberdeen and Edinburgh, to 64 cities by the end of quarter 2. And we now have 5200 delivery restaurants on the platform which we're aiming to grow to over 8000 by the end of the year. And we've doubled the number of KFC, Subway, Burger King restaurants on the platform since the start of 2019.

So as marketplace this now takes us to over 34,000 restaurants, which in total is just way ahead of any other competitor. I'm also very excited about our trial with Greggs and ASDA and also our trials on Lunch Collection, all of which are enabling us to enter new segments of the market, enter new occasions. So this means our customers can order from Just Eat whenever and however they want, whether that's a Greggs breakfast, a midweek lunch collected from their local favourite, or a catered event delivered directly into the office, as well as of course the traditional Friday night treat.

So now moving on to Canada, which is perhaps our most competitive market globally. In the half we've grown our restaurant stake to over 20,500 restaurants, completed the rollout to all the geographies that we intend to cover and we're now serving 95% of the addressable population. As Paul said, we have 29 of the top 30 major chains of which 16 are exclusively available on Skip. Unlike in other markets, we're able to simply integrate restaurants' EPOS environments by using our newly acquired Flyt platform which, for example, has enabled us to roll out to almost 800 McDonald's restaurants nationwide in the last few months.

In Australia the story is similar and at the end of June we covered 70% of the addressable population through our 13,000 restaurants on the Menulog platform. We've added 3000 delivery restaurants in the half, taking the delivery stake to 5,700 restaurants and we now provide delivery to seven out of the nine largest domestic brands, including Hungry Jack's who we have exclusively and of course, KFC. And we've just added Guzman y Gomez and Nando's which are in the process of rolling out.

In Europe we already work with many of the leading chains, including McDonald's and KFC. We've signed up Domino's in France, Burger King in Ireland and Denmark during H1. In the next couple of weeks we're planning to roll out [Skip Belco] to another European market, which again we're very, very excited about.

Now, at the same time as growing this delivery footprint in each of our markets, we've also been reengineering our back office capabilities in Winnipeg, which is our global delivery hub. So over the last six months we've automated a number of our processes across customer operations and network logistics to provide a better experience for our customers, but also to do that at a lower cost.

So now moving on to experience. We had a substantial investment in our app, moving it on significantly in the last six months. The updates have not only included improving its look and feel, but also enhancing its functionality and addressing some of the historic text issues that we've faced. Not very long ago everybody had the same experience, which was based on your postcode. Now personalised offers and restaurant recommendations are based on individual customers' behaviours and we're rolling out a more visual approach for far better food imagery to help us provide an even better user experience. Customers can now search for their favourites by dish, follow the courier's ETA on a live map and these features while simple and intuitive, they're essentially really for providing a seamless customer journey.

We're very excited about the progress we've made. And I'm particularly pleased that we now display the official FSA food hygiene rating for all restaurants in the UK. This is a hugely important step for our customers. This update enables them to make more informed choices about the food they eat. We've also committed £1 million to a food safety improvement programme for our restaurant partners and we've removed all zero rated restaurants from the platform. I don't really believe that any other competitor or company in the sector is doing more than we are in terms of raising food standards.

And for our restaurant partners we believe we have a compelling offer, which is an important component of our defensible market position. However, we really can't stand still here. So our acquisition of Practi in April is an example of how we're going to be strengthening this, through a software solution that puts us right at the heart of our restaurant online and offline operations. This in turn is going to drive greater engagement and loyalty between Just Eat and our partners. We're currently trialling this with 27 UK partners and this is going to ramp up significantly in 2020.

So in summary, we are executing at pace across all our markets. We've seen an improved UK trading performance in quarter 2. Australia has returned to growth and delivery has broken even at a gross profit level. Momentum is continuing in Canada, Europe is performing well and we're seeing stellar iFood growth. And importantly, we're reiterating our full-year guidance.

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